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# EDITED TRANSCRIPT

- Q3 2013 First Data Corporation Earnings Conference Call

EVENT DATE/TIME: OCTOBER 29, 2013 / 2:00PM GMT



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## PRESENTATION

### Operator

Good morning, ladies and gentlemen. Welcome to the third-quarter 2013 First Data financial results conference call. My name is John, and I will be your operator for today's call. At this time, all participants are in a listen-only mode. Following the prepared remarks, there will be a question-and-answer session. (Operator Instructions). As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the presentation over to Mr. Chip Swearngan, Senior Vice President of Communications and Investor Relations of First Data. You may begin.

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### Chip Swearngan - *First Data Corporation - SVP Communications & IR*

Thank you, John, and good morning, everyone. Thank you for joining us for this financial results conference call. Our Chief Financial Officer, Ray Winborne, will lead the discussion of the third-quarter 2013 financial results.

Now, please turn to slide 2 for some important information about this call. Our comments today will include forward-looking statements, and we ask that you refer to the cautionary language in our Form 8-K that was filed today with the Securities and Exchange Commission for information concerning factors that could cause actual results to differ materially from those in the forward-looking statements.

We will also discuss items that do not conform to generally accepted accounting principles, and we reconcile those measures to GAAP measures in the appendix in this presentation and as part of our quarterly-results press release, which can be found on our website at [investor.firstdata.com](http://investor.firstdata.com). With that, I will hand the call over to Ray Winborne.

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### Ray Winborne - *First Data Corporation - EVP, CFO*

Good morning, everyone. Thanks for joining us today.

Things are changing at First Data. You are witnessing a Company in transformation in an industry that itself is evolving. From the launch of Clover workstation to taking another big step in refinancing the capital structure, it was a quarter of progress.



We are re-pivoting First Data to be a solutions provider, not just a processor. This has resulted in a newfound focus on innovative product, as well as partnerships with leading-edge technology companies.

As I previewed earlier this year, our third-quarter performance improved over the first half, bringing 3% EBITDA growth on a modest improvement in top line. We continue to see improvement in the issuing business, both domestically and internationally.

The macro environment remains fairly lackluster, and after a strong start to the quarter, we saw some softening in volume growth in September. Whether that's the impact of early back-to-school spending or the government shutdown is tough to discern.

The pace of change in retail is accelerating, with mobile commerce, e-commerce, and in-store commerce all converging. The promise of data will allow retailers to improve the shopping experience, leading to increased sales, and payments will play a key role in this solution.

First Data has a significant competitive advantage in this ongoing evolution -- an embedded base of over 6 million merchant locations and distribution through some of the best bank brands of the world.

A few weeks ago, we unveiled Clover Station, a point-of-sale and business management solution for merchants. It's got the security and reliability of a terminal, but so much more. It's dead simple to set up and operate and the design is absolutely stunning. More importantly, it's a flexible, open, cloud-based platform enabling nearly endless potential value-add to merchants, from loyalty to analytics to productivity tools all integrated at the point-of-sale.

Third-party developers will be attracted to this platform. It could be for the point-of-sale what smart phones were for the mobile consumer. And this isn't limited to the US. The opportunity is global.

Clover Station is just the beginning. This morning, we announced the acquisition of Perka, a mobile marketing and consumer loyalty platform designed specifically for small and medium businesses. And you will see more from us in the near future.

It's clear evidence that we are serious about refocusing our efforts towards innovative product solutions that not only help keep us relevant to our client base, but truly help our clients grow their businesses.

Now let's turn to the numbers, starting with the consolidated results on slide 4. For the third quarter, consolidated GAAP revenue rose to \$2.7 billion, up 1%, or \$38 million, over last year. Growth was driven primarily by a \$32 million increase in reimbursable debit network fees, postage, and other, the majority of which are margin-neutral pass-through fees.

For the third quarter, the net loss attributable to First Data was \$220 million, up slightly from a year ago. Improved operating profits and lower interest expense were more than offset by a nearly \$100 million unfavorable change in the provision for income taxes. As a result of a change in our US net deferred tax position earlier this year, we are no longer able to recognize a tax benefit on the current operating losses. The income tax provision does not affect cash taxes, and given our sizable net operating loss carryforwards, we don't expect to pay federal tax in the near future.

We manage the business using adjusted revenue, which excludes certain items, including debit network fees, and conforms the presentation for other items. We believe this presentation is more meaningful in terms of understanding our performance, margins, and related operating metrics.

Adjusted revenue for the third quarter was \$1.7 billion, up 1%, or \$14 million over last year. Adjusted EBITDA came in at \$627 million, up 3% compared to last year. Our acquiring business globally continued to be the primary driver of revenue growth, while EBITDA benefitted additionally from expense reductions taken earlier this year in the US issuing business. Margins were up 1 point year over year to 37%.

Now let's move into the segment performance, slide 5. Revenue for the quarter was \$917 million, up 1%, or \$6 million, compared to last year. This translated into EBITDA of \$410 million, flat year-over-year, although expenses this quarter included a \$5 million provision for an uncollectible receivable.

Margin was 45% in the quarter, steady versus last year. Looking at the revenue trend graph at the bottom of slide 5. The growth over the first three quarters of 2012 reflected tailwinds from the implementation of lower debit interchange rates and additional BAMS processing revenue instituted in late 2011. The growth over that period otherwise averaged closer to 3.5%.

Let's go to slide 6 for a closer look at the revenue drivers in this segment. In merchant services, which accounts for more than 70% of the RAS business, revenue was up 1%, primarily on volume growth. A year-to-date billing adjustment took about 1 point of growth off the year-over-year comparison.

From a macro point of view, same-store sales volumes grew 7%, a 100 basis-point improvement over last quarter, on growth in staples like groceries and petroleum. Volume improvement was relatively balanced across small and large merchants, but growing slightly slower than the overall average.

First Data's reported transactions were up 5% in the quarter, a slight deceleration relative to the second quarter. Yield compression on a per-transaction basis was a little under 5% versus a year ago. Normalizing for the loss of some low yield transactions, revenue per transaction was down 6%, including 1 percentage point related to the billing adjustment.

Revenue per transaction is an all-in yield. It can be affected by a combination of factors, including merchant mix, pricing plans, merchant attrition, annual pricing actions, and contract renewals. In the quarter, the net impact of these factors was partially offset by the benefit of network routing incentives.

Credit and signature debit mix remain stable at 72% of total transactions processed. As the chart shows, growth in PIN debit transactions continued to outpace credit and signature debit. This is occurring primarily in the large merchant space, and as a result, has a minimal impact to revenue given the modest rate differential in these transactions.

The chart on the bottom-right quadrant of the slide reflects total average ticket, a broad indicator of consumer spend and regional average ticket, a key indicator of revenue from spread-based transactions. While the regional average ticket increased 4% year over year to \$77 and change, overall volumes for spread-based transactions were down, offsetting the lift in rate. The industry is generally shifting towards interchange-plus pricing plans, with roughly 85% of our volume now priced on this method. As a result, changes in average ticket are not as impactful on overall merchant revenue growth.

Turning to product, revenue in the prepaid business was up 12% on continued strength in open loop processing and a lift in gift card shipments for the holiday season. Our Money Network payroll card continues to grow from both increased activity and usage, as well as the addition of new employer programs. And we are leveraging the product capabilities into new markets, including the launch this quarter of a transportation program with the Chicago Transit Authority.

Revenue in the point-of-sale equipment business was flat. Growth in interest income and fees on terminal leases were offset by lower sales in our own distribution channels, as well as a reduction in bulk sales to external third parties.

And finally, while we still process nearly \$40 billion in total check value annually, volumes declined year over year on the shift to electronic payments. A large portion of the costs in this business are directly variable to revenue, helping to hold margin steady.

Now turning to the results of the financial services segment on slide 7, the charts really tell the story in this business. Revenue growth is turning the corner, and we are continuing to see the benefit of cost-restructuring actions taken earlier this year. Absent the impact of the divestiture of two small nonstrategic businesses in the back half of last year, revenue was up 1% this quarter.

The benefits of new business brought on board and organic growth in volumes was partially offset by lost business and pricing. Expenses were down 7%, or \$14 million, of which about two-thirds are structural reductions in cost, achieved by changing the way we do business without impacting customer delivery.

EBITDA in the third quarter was \$163 million, up 9%, or \$13 million. And EBITDA margin improved 400 basis points to 47%.

Slide 8 provides more detail of the products and volumes for the financial services business. Processing revenue, which represents debit and credit card processing, plus network services, was down 1% in the quarter. Lost business and pricing pressure more than offset growth from new business and organic volume growth.

In the bottom left-hand corner of the slide, you will note that we've modified the active card accounts on file chart to reflect average volumes for the quarter, which better aligns with revenue generation.

Within bank card and retail processing, active card accounts on file were 148 million this quarter, up 10% year over year. We have boarded a couple of new portfolios, one early in the quarter and one later in the quarter, that contributed 4 points to that total growth.

Organic growth of 6% has continued to tick higher. At the end of the quarter, we had nearly 650 million cards on file, representing portfolios for some of the largest issuers in the United States.

Turning to debit volumes, on the chart in the bottom-right quadrant, transactions were down 4% year-over-year on a reported basis. Within that decline, gateway activity, which represents volumes we switch on behalf of other networks, has ebbed and flowed post-Durbin as merchants adjust routing to different networks. The average rate on these transactions is significantly lower than the overall average, and therefore has less of an impact to revenue.

Absent the noise of gateway, transactions increased a net 3% year over year. Growth from a secular shift from cash to debit was offset by attrition in the debit processing business and merchant-driven network routing decisions. From a revenue perspective, the benefit of net volume growth was more than offset by price compression and a changing mix of transactions.

Moving to the other product areas in this business, output services revenue was up 8% this quarter. Print volumes were up low single digits, but a better business mix drove 8% topline growth. Plastics volumes were up 14%, driven by periodic large reissuances of cards and organic growth. And other revenue was down 7%, resulting from the divestitures that I mentioned earlier.

Now to slide 9 for a review of international, revenue in our international business was \$432 million, up 1%, or \$5 million, versus a year ago. Absent currency headwinds and software license fees recognized last year, revenue from the underlying business was up 5% year over year.

Merchant acquiring revenues were up 9% on a constant-currency basis as volume growth continues to be resilient despite the difficult macroeconomic backdrop in Europe. Absent the grow over impact of the prior-year software license fee, issuing revenue grew for the first time in more than two years.

EBITDA was \$126 million, up 5%, or \$7 million, compared to last year, dampened by foreign currency impacts. On a constant-currency basis, segment EBITDA was up 9% as the benefits of revenue growth, improvements in the cost structure more than offset investments in the business. Margin for the third quarter improved to 29%, up 100 basis points versus a year ago.

Turning to slide 10. Looking at revenue growth on a constant-currency basis, revenue in EMEA, our largest region, was up \$10 million, or 4%, despite a 300 basis-point headwind from a software license fee in the prior year. Merchant acquiring related revenue was up 7% on growth in volumes, and issuing revenue was up 1% on growth in volumes and new business, including the addition of two new customer portfolios ordered late in the second quarter.

Asia-Pac revenue was down \$9 million, or 8%, on lower ATM volumes, a reduction in switching fees, and the loss of a large wholesale switching relationship in the fourth quarter of last year when that customer decided to take their volumes back in house. The acquiring business, albeit a small piece of the overall region, grew in the high single digits this quarter.

Latin America revenue was up \$10 million, or 18%, on growth in transaction volumes and terminal sales, as well as higher pricing associated with inflationary pressures in Argentina, home to our largest business in the region.

And lastly, revenue in Canada was up \$3 million, or 11%, on a true-up in association fees and higher acquiring volumes, partially offset by a de-emphasis of lower-margin bulk terminal sales.

Looking ahead to the year-over-year comparisons in the fourth quarter, keep in mind that we realized roughly \$14 million in software license fees in the fourth quarter of last year.

Slide 11 provides a rollforward of cash. We ended the quarter with \$359 million in cash and cash equivalents and \$1 billion in available liquidity. We had \$95 million in outstanding borrowings on the revolver at the end of the quarter.

Third-quarter cash flow from operations was \$23 million, or \$589 million before cash interest payments. Cash interest payments were \$566 million in the quarter, approximately \$66 million higher than last year, primarily due to the timing of coupon payments. You can find our projections of 2013 quarterly interest payments in the financial attachment to the press release.

Capital expenditure for the quarter totaled \$85 million, reflecting customer-related investments and further development of infrastructure, application, and information security assets. We will continue to invest in this business. Our capital plan in 2013 is targeted at approximately 5% of adjusted revenue.

Now I would like to take a few minutes on First Data's capital structure, on slide 12. We have got ample liquidity with cash on hand, our revolving credit facility, and cash generated from operations. We have no covenant issues and have plenty of headroom on our only financial covenant, which is the ratio of consolidated senior secured debt to consolidated EBITDA. The current ratio is 4.23 times, which is comfortably under the covenant limit of 6.25 times.

Using the current capital structure and forward curves, we're projecting cash interest payments of \$1.8 billion in both 2013 and 2014. We have a weighted average interest rate of 8% across the debt structure, and 83% of our debt is fixed rate or swapped to fixed rate, providing a measure of certainty as interest rates begin to rise.

As you can see on this slide, we have dramatically improved our maturity ladder and our liquidity profile. We have now refinanced over \$21 billion in debt maturities since August of 2010.

You may have seen that we announced plans to refinance all of the approximately \$2 billion 11.5% senior PIK notes due in 2016 at First Data Holdings. Existing noteholders will receive \$300 million in cash and \$1.4 billion in new 14.5% senior unsecured PIK notes due in 2019. That's a three-year extension on these notes. The \$300 million in cash is fresh capital from existing shareholders in the form of the new convertible preferred equity.

This agreement preserves the integrity of the operating company capital structure and doesn't result in any change in cash interest payments, given the new notes continue to be PIK. This is a significant step forward with the capital structure.

We've now effectively addressed, amended, or extended the majority of the debt maturities that originated in 2007. Continuing to strengthen the Company's capital structure and liquidity position paves the way for us to efficiently grow this business by serving our clients, employees, and our business partners.

I started this call speaking to the innovation taking place at First Data and the real progress that we are making. We are creating a culture of ownership by extending equity to all employees, but that's just the start. The addition of talent and leadership have brought a new level of intensity and drive to succeed. The recent addition of Joe Plumeri to the Board has provided a real spark for our sales and marketing organization.



We're engaging across the payments spectrum, connecting with all types of players, from our clients and bank partners to start-ups and disruptors, to collaborate on new product. And we are accelerating the pace of innovation, proving out new use cases being enabled by new technologies and mobile.

At the end of the day, our success is tied to enabling clients to grow their business and serve their customers better. We are focused on bringing the future of payments to our clients.

With that, I will turn it back to Chip and we will be glad to take your questions.

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**Chip Swearngan** - *First Data Corporation - SVP Communications & IR*

Thank you, Ray. We have two quick ground rules for the Q&A portion of this call. Please limit your questions to one question and one follow-up in order to be fair to all participants.

As we approach the end of our time this morning, I will let you know when we have time for one final question. With that, John, we are ready to take the first question for Ray.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Ana Goshko, Bank of America.

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**Ana Goshko** - *BofA Merrill Lynch - Analyst*

I wanted to ask you for some more color and information on the go-to-market strategy with the Clover product that you mentioned. And I am looking at a picture of it on my screen, and as you mentioned, it is quite sleek. So I wanted to understand a couple of points. One, how broadly available is this within your various sales groups and sales channels? Two, as it's being sold, do you expect higher attach rates on the revenue front from things like business management software? And three, is this really a small business product or is this something that is also envisioned for the national accounts?

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**Ray Winborne** - *First Data Corporation - EVP, CFO*

Good morning, Ana. Let me start with your last question first. I think the target market to begin with will be small and medium businesses, but we can absolutely see this going up market to even larger businesses, primarily in the franchise space, though, not your Walmarts or Targets.

As far as the specifics of the rollout, we will be rolling this out through our multiple channels. That's one of the great strengths that we've got is the distribution across both banks, as well as independent sales organizations in our direct channels.

The model, and you've hit it on the head, is not just (technical difficulty). It's a beautiful piece of equipment, but that's just the beginning. From a revenue perspective, we are absolutely looking at SaaS there. We have got targeted markets, to begin with, around restaurants and smaller retail, but we are continually adding to that functionality, as we speak.

As far as pricing, not ready to roll that out at this point. But I promise you it will be a compelling offer relative to what's in the market today. I think we've got a product here that is going to be superior to any of the product that you are seeing from a tablet perspective.



**Ana Goshko** - BofA Merrill Lynch - Analyst

Okay, and then just a follow-up on that, just to set expectations correctly, on the rollout timeline, when should we start bugging you about how you guys are doing on progress on this? In terms of when we should start seeing either point-of-sale revenue increasing or looking for per-customer revenue accretion?

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**Ray Winborne** - First Data Corporation - EVP, CFO

We are going to have relatively aggressive ramp plans on this, but you do have to step back with a little context and look at the fact in the US, we've got 4 million merchants. You are not going to see that kind of penetration on a quick basis.

So before it will start to become meaningful from a revenue perspective, it's probably going to be later in 2014. But we will give you stats as we continue to launch and roll this out. You should start to see a more robust rollout begin in the first quarter of 2014. We're putting the product out now, but it's been mostly in pilot. It will be in smaller pockets of the salesforce.

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**Ana Goshko** - BofA Merrill Lynch - Analyst

Okay, thanks very much for that, Ray.

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**Operator**

Arun Seshadri, Credit Suisse.

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**Arun Seshadri** - Credit Suisse - Analyst

First, I just wanted to finish off on Clover. Wanted to understand as far as your target is concerned, are you planning to -- when you roll it out, will merchants have an option to roll into Clover or is that -- or are you doing it as part of a technology upgrade, so everyone gets it?

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**Ray Winborne** - First Data Corporation - EVP, CFO

No, it will be specific rollouts. So if you look at it today, a lot of these merchants have a Sharp cash register and cash drawer and an FD-100 sitting side by it.

What this will provide them is a whole new set-up, so they will have the tablet with cash drawer, with printer, and the terminal is embedded there. So they will be able to accept payments there. They will have tracking software, the base tracking software, for point of sale.

But the exciting part about this is that, in fact, it is an open platform. We will then have a place where we can sell more into that on a much easier basis than you can do today. So think about add-ons like loyalty, analytics, even some base software for running a company, such as basic accounting or basic payroll.

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**Arun Seshadri** - Credit Suisse - Analyst

Okay, that's helpful. And then, in terms of the various components of RAS, I don't know, Ray, if you could talk about whether indirect alliances in RSA and national, talk qualitatively about whether they were all up or down on revenue terms for the quarter. Thanks.

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**Ray Winborne** - *First Data Corporation - EVP, CFO*

Yes, haven't seen a dramatic trend or change in trend than what we have been seeing over the last, call it, four or five quarters. The alliances continue to perform a little better than our direct channels.

I think some of that has got to do with the mix. But if you look within ISOs, there is some disruption going on there in the market. There is some consolidation taking place because they don't have the same level of product that the alliances do. I think that's probably the main difference you are seeing there.

Now, I am not talking about dramatic differences in performance in those two, but you would have to give an edge to the alliances versus direct right now.

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**Arun Seshadri** - *Credit Suisse - Analyst*

Okay, okay, thanks. Can I ask you one more thing? In terms of the run rate for corporate and other, if you could talk about what is the appropriate run-rate to use for the corporate and other expenses going forward. Thanks.

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**Ray Winborne** - *First Data Corporation - EVP, CFO*

Sure. I think we were only up a couple million dollars year-over-year in that segment, and that's primarily around just small changes in incentive compensation.

As far as run-rate, I would hesitate to give you exact numbers going out, but I don't see that rising. Let me just put that out there as far as a modeling direction. I think, if anything, you may see some declines there, given some of the compensation decisions that we have made relative to changing from a cash comp in our long term, for instance, to equity.

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**Arun Seshadri** - *Credit Suisse - Analyst*

Thank you.

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**Operator**

Jeff Harlib, Barclays.

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**Jeff Harlib** - *Barclays Capital - Analyst*

Can you just talk a little bit about the topline outlook in FS and international, given some of the put and takes. In FS, you talked about some new card-issuing business, plus you have anniversaried the Wells business. In international, you also talked about some new card-issuing business and you have been picking up share in merchant acquiring. Just a little bit on the outlook on those two.

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**Ray Winborne** - *First Data Corporation - EVP, CFO*

Yes. I actually have been pretty excited about what we have seen in both of those businesses.

If you look at the trend charts on the FS business, for instance, on revenue you can see that thing was mid-single digit negative not that long ago. The team has really stepped up, both on the cost side, as well as on the sales side. We have brought in a couple of nice portfolios, so that always



helps. That credit business, beyond the new business that we are bringing in, just the organic growth getting up to mid-single digits has been a nice contributor to revenue.

So that's going the right direction for us. Still not happy with 1% revenue growth. I think that needs to be in the 4% to 5% growth to be a really good business. And we have got plans to get it to that. Part of that's just continuing to mine the portfolio of customers we have today in getting a larger share of wallet, as well as trying to take additional share.

International, very similar story. Over the last, call it, 18 months, we have been growing through some specific customer losses. You are familiar with this business. It's all about scale, and a lot of when you're dealing with the financial institutions, in particular, it can be very helpful when you bring them on your platform. It can be very hurtful when they go off your platform.

And it's kind of what we were facing in international. As we were losing several of those large portfolios, it was creating a pretty strong headwind, that underneath that we were actually growing pretty well, certainly in the acquiring business and continuing to see some share gains there. They have slowed slightly in the last quarter, but that business is still growing high single-digit on the acquiring side.

But I am really particularly happy about the fact that the issuing business -- again, if you take out that year-over-year comp issue with licenses, it actually grew for the first time in two years. I see a lot of optimism there.

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**Jeff Harlib** - *Barclays Capital - Analyst*

Okay. And just my follow-up, just on the cost savings, just an update, and I see the LTM number, just the savings realized in the quarter, and how we generally should look at expense growth going forward, realizing you're taking out costs and reinvesting in a lot of new initiatives. And maybe on that, also, how the BAMS initiative is going?

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**Ray Winborne** - *First Data Corporation - EVP, CFO*

Sure. If you look at the cost savings this quarter in the EBITDA covenant calculation, they were down slightly from last quarter on a 12-month rolling basis.

Most of that reason it has gone down is just an achievement of the savings that we had put in in the past. If you look at what it's made up of today, about \$50 million of it relates to the compensation model changes that we announced last quarter. About \$40 million of it is workforce reductions that we have taken as far as restructuring the business. About \$40 million is operating efficiencies that we are getting in both the operations groups, as well as the technology groups. About \$30 million to \$40 million is procurement initiatives, where we have continued to go back to our vendors and get better and better value out of them.

And then, lastly, your question around BAMS. About \$20 million of the \$184 million relates to the BAMS alliance on both revenue and expense synergies, as well as the platform conversion.

We did hit another nice milestone at the end of this quarter with a significant piece of that proprietary platform moving into our environment, so making great progress there around that BAMS metric.

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**Jeff Harlib** - *Barclays Capital - Analyst*

Okay, thank you.

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**Operator**

Frank Jarman, Goldman Sachs.

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**Frank Jarman** - *Goldman Sachs - Analyst*

I just wanted to focus a little bit more on the RAS trajectory. I had expected a stronger growth given (technical difficulty) some volume momentum?

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**Ray Winborne** - *First Data Corporation - EVP, CFO*

Yes, Frank, I missed a little piece. You were breaking up. If I heard your question right, it's really around the momentum and what we saw.

I pointed out a couple of things in my commentary that were one time in nature. There was a one-time billing adjustment. There was about 1 point of growth there. And then, on your EBITDA line, a \$5 million uncollectible receivable. Those are fairly few and far between in this business, certainly of that magnitude. Just want to make sure you factored those in.

Beyond those two, still probably doesn't get you to where you were modeling it would be, and it is volume. We did see a slight deceleration in September -- or actually all the way through the quarter. When we saw July's volumes, it was actually very strong and very encouraging, but then in August/September, it ticked down both months, and that trend has continued into October.

So we have continued to see some weakness, certainly relative to what I would expect to see in the seasonal trends through the end of October.

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**Frank Jarman** - *Goldman Sachs - Analyst*

Got it, that's very helpful. I'm on a new headset, so hopefully this is a little bit better.

The second question I had is just about customer retention. I had seen that Vantiv noted on their call that they are providing some secondary merchant acquiring solutions to Walmart, and I think you guys had had this whole contract previously. So can you just help us understand what the financial impact might be, and why we shouldn't think this is a trend, especially after we heard about the Starbucks loss about a year ago or so?

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**Ray Winborne** - *First Data Corporation - EVP, CFO*

Yes, I would definitely not call this a trend. This is something that we've been working with Walmart on for well over a year, as most of these guys out there would like to have a redundant processor, just given the criticality to their business.

So that is what this is about. Walmart wants to be able to move volume back and forth between a processor to the extent something happens on either side. So that part is not a surprise to us. You never want to lose any volume in a scale business, but if you're going to lose volume, losing it at one of your largest retailers is probably the best place to lose it, given the rate differential versus the small guy.

As far as specific financial impacts on a particular customer, I'm not going to provide that kind of detail on a public call. But suffice to say when you looked at the impact from Starbucks, depending on how much volume moves over, obviously, there could be some financial impact there, but it's relative to the \$6.7 billion revenue stream or even the \$3.6 billion in RAS business line. It's not going to be something that is going to affect the financials.

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**Frank Jarman** - *Goldman Sachs - Analyst*

Got it, that's helpful. Just one quick housekeeping item, if I could, too. The new HoldCo PIK notes, are those mandatorily redeemable with the proceeds of an IPO?

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**Ray Winborne** - *First Data Corporation - EVP, CFO*

The convertibles are.

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**Frank Jarman** - *Goldman Sachs - Analyst*

The convertibles are? Okay.

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**Ray Winborne** - *First Data Corporation - EVP, CFO*

All the terms on the new PIK note mirror the terms on the old PIK note, with the exception of, obviously, the amount and the expiration date, or the maturity date.

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**Frank Jarman** - *Goldman Sachs - Analyst*

Okay, thanks so much.

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**Operator**

Manish Somaiya, Citi.

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**Manish Somaiya** - *Citigroup - Analyst*

Couple of things. First is, I guess with Frank and several key executives that have joined First Data, Ray, maybe, if you can just step back a bit and talk about the priorities that the new CEO, combined with the Board, have for the Company over the next 12 to 15 months, both operationally and financially.

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**Ray Winborne** - *First Data Corporation - EVP, CFO*

Yes, it's actually been a pretty exciting time here with having the new team on board, and when I say team, I can really emphasize that. That is the way Frank runs it. Everything is based off of a team. We will only win as a team, so everything we are attacking from an initiative or a project or a people issue, you name it, there is always a team on it. So it's been a really invigorating time for the last six months since he has walked in.

When you think about priorities, discipline is a big one. I mentioned this on the last call, and I have mentioned to you, several of you, on individual calls. Intensity level has really clicked up, and the operating discipline and the operating cadence is exactly what we need as a Company, given the number of priorities that we have.

But those top priorities really haven't changed. And it's, number one, driving the top-line. We have got to continue to drive innovation and that pace of innovation, and when you look at Guy Chiarello and what he's doing with that group, the connections he's got certainly on the west coast have been incredibly beneficial.



We are developing product with companies that two, three years ago might not have known who First Data was because we didn't have that kind of interconnectedness with some of these smaller start-ups. So that's been a big, big improvement, and it's going to really help us as we move forward on that top line.

Another thing that the new team has really brought to the table is their relationships with financial institutions. One of the easiest ways to grow your top-line is to increase the share of wallet with a customer that loves you today. So that's a big piece of our priority.

And then, exercising cost discipline. That's a hallmark of Frank's history. He is damn good at it. He has proven he can do it in multiple types of companies, in multiple types of situations, so it's a combination of maintaining discipline around our cost, while still investing in some of the areas for growth and getting the top-line.

And lastly, making this place a great place to work. And I don't just say that top of mind. It really is something that we are focused on doing here is making this a great company, a place that you are proud to work for.

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**Manish Somaiya** - Citigroup - Analyst

I guess related to that, Ray, what is the confidence level in seeing further expansion of margins in all the different segments in a flat revenue environment?

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**Ray Winborne** - First Data Corporation - EVP, CFO

You and I have gone back and forth on this a few times. When you look at the overall margins on this business, and really even divide it US versus international, in the US you're in mid-40s margins, which is a pretty attractive margin.

I think our question internally, the more we look at things and look at new deals, is do we give up some margin percentage for higher absolute growth? We haven't pulled that trigger, in many cases. That's obviously something that we look at as we evaluate each of the RFPs and deals that we go after, because it really is about growing this business. That's number one, not so much about expanding the margin on a quarterly basis.

Now, that being said, given the scale in this -- the operating leverage in this business and the scale that you get, as you grow that top-line, I think we can still squeak out more points of margin there.

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**Manish Somaiya** - Citigroup - Analyst

And then, just related to your primary strategy that you mentioned earlier, how many of these Perka-type acquisitions are there in the pipeline? And then, just as you look at the acquirers and merchant processors, everyone seems to be focused on data and analytics and loyalty programs, I guess. How is First Data trying to differentiate itself?

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**Ray Winborne** - First Data Corporation - EVP, CFO

Yes, when you look at the number of products out there, and you go out, and I think Ana said it earlier, it's on a website. You can see the product. You can see the functionality.

I think we've got a differentiated product there to begin with, but beyond that, what we have got that a lot of the others don't have today is the embedded base. And it's not just the US, as I mentioned, it's a global base of merchants that we can go after, as well as distribution through some of those largest banks. That is a key differentiator by itself, being able to put that product out into the space.



**Manish Somaiya** - Citigroup - Analyst

Thank you.

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**Operator**

Thomas Eagan, JPMorgan.

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**Thomas Eagan** - JPMorgan Chase & Co. - Analyst

I guess the first one is, Ray, you have done a pretty good job of refinancing over the last two years. It looks like by moving the PIK notes out of the way that you've removed the last obstacle for people to consider potentially extending their maturities on the 11-1/4 subordinated notes. Is that something that is on your radar screen? Maybe you could comment a little bit about that.

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**Ray Winborne** - First Data Corporation - EVP, CFO

You're only going to give us pretty good for \$21 billion?

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**Thomas Eagan** - JPMorgan Chase & Co. - Analyst

(laughter). I keep coming back.

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**Ray Winborne** - First Data Corporation - EVP, CFO

Obviously, we continually look at the capital structure. It's a weekly conversation for me. We watch how the bonds and the structure are trading. It's all trading pretty well right now.

And I think you can just look to the past and what we do. We're always balancing the cash interest costs, as well as looking opportunistically at how we can execute in the market and get the best deal for us.

And that's what we will continue to use. That's been successful for the last three years, and I think we will stick to that plan as we move forward.

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**Thomas Eagan** - JPMorgan Chase & Co. - Analyst

That sounds like a plan. And then, on Perka. I know that the press release didn't release any numbers, but there was some thought out there that it was somewhere around a little bit less than Clover. Could you maybe give us a bigger than a breadbox picture of what we should put into the models for costs, somewhere like maybe less than \$50 million? Would that be a fair amount?

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**Ray Winborne** - First Data Corporation - EVP, CFO

Yes, this is going to look a lot like Clover when you look at the structure that we have done in this deal, which I think was a really nice structure with Clover.

We pulled that template out and negotiated on this deal a very similar way. So a smallish upfront payment with earnouts based off of success on a unit basis. So when we win, the former owners of that business win. We win together.

**Thomas Eagan** - *JPMorgan Chase & Co. - Analyst*

Great, thank you.

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**Operator**

Guy Baron, RBC Capital Markets.

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**Guy Baron** - *RBC Capital Markets - Analyst*

A couple of things here. I guess as I look at the results that you posted this quarter, it looks like you broke the first half of 2013 trend of down year-over-year revenue, and you also have EBITDA growth year-over-year having picked up this quarter.

Can you talk to what you're thinking now on Q4 seasonality? And maybe just to sum up some of the other things you have touched on, where do you think the trajectory goes over the next few quarters? What is realistic here in light of all the points that you made and whether this Q3 pattern is sustainable?

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**Ray Winborne** - *First Data Corporation - EVP, CFO*

You can look at those trend charts and you can see a turn, for sure, in all three of those businesses. So, absolutely optimistic about what we have seen in the third quarter and what we can do with this Company. You heard some of the things I have outlined as far as our strategies and objectives.

Fourth quarter is always a seasonally high quarter for us, certainly in the US, but also abroad. So I think you will see a seasonal uptick there that you usually do.

As far as 2014, I will just leave it at we are incredibly optimistic about the opportunities to grow this business, not only on the top-line, but on EBITDA, because you will see us remain disciplined around the cost and the investments that we make.

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**Guy Baron** - *RBC Capital Markets - Analyst*

Okay. And then, just a quick clarification, how much of the benefit of switching on the comp side from cash to stock was reflected in this quarter? Was it about \$10 million? Did I get that right?

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**Ray Winborne** - *First Data Corporation - EVP, CFO*

It is probably a little light of \$10 million because the only thing affecting 2013 was really our shift from some of the incentive compensation -- short-term incentive compensation that managers are receiving moving over to equity, and that's a relatively small percentage.

So say if you had 100% short-term cash comp, we are moving, depending on level, somewhere between 10% and 20% of that to equity. That's the only impact of the compensation model changes that you are seeing this year. Most of the changes will occur in January 2014.

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**Guy Baron** - *RBC Capital Markets - Analyst*

Okay, great. And then, just second question I had. As I look at the revolver, you had a timing shift in interest expense here between Q3 and Q4, and you drew the revolver this quarter, which I think is -- I think you have only done once before, if I remember. Can you update your latest thinking

on revolver usage, why you felt comfortable letting the \$500 million or so of revolver expire, and, finally, does that expiration create any additional balance sheet or incur inflexibility?

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**Ray Winborne** - *First Data Corporation - EVP, CFO*

If you look at our quarterly cash interest payments, this quarter was about \$566 million or so. That is about \$100 million higher than it was in the first quarter and second quarter of this year. So this is a peak quarter from a cash interest perspective. That will drop down below \$300 million in the fourth quarter.

So you're right, Guy. That is one of the major drivers in being into the revolver in the third quarter, which is the peak interest payment.

As far as what the balance on the -- or the capacity of revolver, I am absolutely comfortable with \$1 billion. We do tap the revolver sometimes during the quarter. The way this business works, early in the month you are heavier into the revolver, and then by -- generally by workday seven, workday eight, you are back out because the cash flow starts to build.

But I am absolutely comfortable. We obviously never come close to borrowing anything close to the capacity of that revolver.

We do have the flexibility to go back and add to that at some point in time, if we feel like it is appropriate. But given the business model we have got today and the cash flow, the way it's rolling, I don't see a need to do that right now.

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**Guy Baron** - *RBC Capital Markets - Analyst*

Okay, got it. Thanks very much, Ray.

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**Operator**

This concludes our question-and-answer session. I would like to hand the call back to the speakers for any closing comments.

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**Chip Swearngan** - *First Data Corporation - SVP Communications & IR*

Thank you, John. Thanks, everyone, for joining us today. We appreciate your joining us for this update on the third quarter call. We look forward to speaking with you in the future.

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**Operator**

Thank you for your participation in today's call. This concludes the presentation. You may now disconnect.

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