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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the second-quarter 2014 First Data financial results conference call. (Operator Instructions). As a reminder, this conference is being recorded for replay purposes. I would now like to turn the presentation over to Mr. Rich Wilhelm, Director of Investor Relations of First Data. Sir, you may begin.

Rich Wilhelm - First Data Corporation - Director, IR

Thank you, Vanessa and good morning, everyone. I would like to welcome you to our second-quarter earnings call. Our Chairman and Chief Executive Officer, Frank Bisignano and Chief Financial Officer, Ray Winborne, will lead the discussion of the second-quarter 2014 financial results and answer your questions. Frank and Ray will be referencing a slide presentation during their prepared remarks. A copy of the slide presentation, as well as our earnings release and supplemental schedules, are available on our website at www.investor.firstdata.com.

I would like to remind you that any forward-looking statements made during today's call are subject to risk and uncertainty. Factors that could materially change our current forward-looking assumptions are described on slide 2 of today's presentation, in our press release and in our Form 10-K and subsequent reports on file with the SEC. We also will discuss items that do not conform to generally accepted accounting principles. We reconcile those measures to GAAP measures in the appendix in this presentation and as part of our quarterly results press release. With that, I will hand the call over to Frank Bisignano.

Frank Bisignano - First Data Corporation - Chairman & CEO

Good morning and good day, everybody. This was a very, very exciting quarter for First Data and a continuation of the transformation that we have talked to you about. I think it is important to reflect on what has occurred in this quarter. We've had a historic equity raise and we will talk about that. We have continued revenue momentum and continued EBITDA growth and we've rolled out the products that we've talked to you about and we continue in all of our business segments building new initiatives and building products for the future and we can talk about that. I think lastly, as you've heard us talk about since I've been at the Company, we've added new talent and we continue to add strength to run this 24,000 person enterprise.



First and foremost, it was a historic equity raise and I think the most important thing to think about in completing this equity raise is that we were able to save \$440 million of interest payments at holdings. I think it is hugely important, and when you talk about the transformation of this Company, you talk about the transformation of management, you talk about the transformation of the mission that we are in business to help our clients grow their business. You talk about the transformation of being a solutions company, a salesforce transformation led by Joe Plumeri who has converted our salesforce into business consulting and consultative selling as he's done and managed for years and legendary at it. But this \$3.5 billion equity raise, as you all know, transforms the capital structure of this Company and in many ways is a validation of this strategy. It brings great confidence by all to where we are going and a big, big vote for the business model, the future vision and the opportunities that we have with our one-of-a-kind client base and waterfront property franchise.

I think when we look at continued revenue growth, I am very, very delighted to talk about all of our businesses and Ray will walk you through it in detail, but the things going on in international, the significant turnaround in financial services and our continued emphasis on the merchant business and the products we are building out for the merchant business. I think what we find is that we feel very, very good about what we've done in these businesses, but we feel better about our investment in the future, both in people and in product and in innovation.

And to that end, you've heard me talk about Clover before and I think it is important you understand that what we have here is a global platform. It has been very, very well-received by our client base, small and medium size have commented very favorably and we are just beginning on that journey on Clover. But as we talk about it as a platform, you also saw the rollouts of products like Insightics, which is really an information product and we had talked about this as an information company, an information product for our clients to help them better run their business. And we recently launched Perka, a company that we acquired in October and put us in the loyalty business.

These are all targeted at the mantra of helping our clients grow their business. That is the mission we are on. And when you take these together and look at them, it begins to show the picture of how we will face off and build our business with our clients in that space. We've done a bunch of things inside financial services that we feel very good about and under John Elkins in international that we feel good about that has allowed us to begin the trajectory change.

So I think the transformation is about also the trajectory. I mean when you look at the earnings, we are capable of talking about our best revenue quarter since 2007 since going private. And you also can see us cutting our loss to the smallest quarterly loss that the Company has ever had, 82% down and we feel very, very good about the financial results. We feel good about the EBITDA growth and the continued. And as I talk about new product innovation, I believe right now we've put out a press release announcing an agreement to acquire Gyft, which is a leading player in the fast-growing virtual gift card space. They are the leading digital platform that enables consumers to buy, send, manage and redeem gift cards using mobile devices. And in addition to giving our national prepaid customers an innovative new distribution channel for their gift cards, it also provides the SMB merchants and best customers unparalleled and highly flexible virtual gift card capabilities.

So once again, you see us being able to operate with the Silicon Valley companies, partnering with them. We've spent a lot of time with the owners there and we feel very, very good about what we will be able to do with that platform. So you continue to see us investing in growth and moving it forward.

I think it is important to recognize that we are building a strong team and we continue to invest in people. We brought in a new Chief Information Officer, Chris Augustin, a world-class technologist both at Citi and at BofA who reports to Guy Chiarello, the President of the Company. We brought on Mike Neborak who will join us as the Director of Finance and I know you all share with me a thank you and a goodbye to Ray and a great job he has done for us. This is a historic quarter for us and I think given what Ray has done, it is appropriate if we were going to have him do his last earnings call with us, it would be this one. Although we continue to plan on greater trajectory as we go forward. And I think it's important to also recognize we've added Cindy Armine as our Chief Control Officer. So we continue to invest in people to help drive this business. It is important to our clients; we hear it from our clients. We are very focused on helping them grow their business and I think you can see the things that we have done over the past year and we have talked about. We continue the trajectory.

I think in closing I'd have to be remiss if I once again didn't thank Ray for everything he has done. I think he was instrumental in getting us to the point we are at today. I think the finance with Mike Neborak, who many of you know and we'll get to know as the Director of Finance and Himanshu



Patel overseeing the planning and analysis and the Investor Relations functions, that you all will be in very good hands going forward, but I thank Ray for everything and let me turn the platform over to him.

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

Good. Thanks for the kind words, Frank. I really appreciate that. Good morning, everyone. As Frank mentioned, we did deliver another solid quarter, continued acceleration of top-line growth and I would sum up the quarter by saying there is momentum building in this business. It is from sales, to operations, to product innovation and all of that together is translating into revenue growth, which we have always highlighted to you as the key to success in this business model.

I am going to start on slide 4 and work through the second-quarter results. Consolidated GAAP revenues were \$2.8 billion in the quarter. That is up 5% or \$128 million versus last year on higher revenue in merchant and card services and an increase in reimbursable debit network fees, postage and other, the majority of which are margin-neutral pass-through fees. The net loss attributable to First Data was \$35 million compared to a loss of \$189 million last year. That is an 82% improvement driven by a \$112 million increase in operating profit. So we are getting it the right way.

The quarter was favorably impacted by an \$80 million after-tax gain on the sale of Electronic Funds Source, or EFS, a business in which First Data had a minority interest. We managed 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 second quarter was \$1.8 billion, up 4% year over year with growth posted across all major business segments. Adjusted EBITDA was \$669 million. That is a great number considering the \$20 million of expense items weighing against it this quarter. It is up 6% compared to last year and 11% on a year-to-date basis.

Expenses in the quarter were up 2% departing from recent trends due to a tough comparable to the prior year. Expenses in the prior-year June quarter were the low point of the year. This was compounded by several unusual items negatively impacting the current quarter as you will see highlighted on slide 9. Despite the expense pressure, margins were 38%, up 100 basis points year over year.

Now let's move into the segment performance starting with merchant solutions on slide 5. Revenues were \$945 million, up 2% compared to last year, while EBITDA was up 6% to \$456 million on solid revenue flow-through and lower expenses. Margins were 48% in the quarter, that is a 2 point improvement over last year. I will go deeper into the revenue performance on the next slide.

As for expenses, we remain focused on operational efficiency and have been able to reduce the cost in this business and improve margins while at the same time continue to invest in the business primarily in our new suite of small merchant solutions where we have invested an incremental \$20 million this quarter relative to a year ago.

Let's go to slide 6 for a closer look at the revenue drivers in the segment. In core merchant acquiring, which accounts for more than 70% of the merchant solutions business, revenues were up 3%. It's a nice uptick since last quarter on volume growth and incremental network incentive payments of \$11 million, most of which were one-time in nature. And both of these increases were offset by a little lower revenue yield.

From a macro point of view, same-store sales volumes grew 3.8% as consumer spending growth rebounded in the second quarter after an unusually severe winter weather hindered consumer spending in the first quarter. Spending growth rates were higher in every category compared to last quarter as a slowly recovering economy and release of pent-up consumer demand encouraged increased spending.

Despite elevated food and gas prices, which have affected discretionary retail budgets, the retail spending growth rate was positive in the quarter and increased overall from slightly less than 1% in the first quarter to 1.4% in the second quarter. Retail spending growth remained modest due to consumer hesitancy to make bigger ticket purchases as a result of slower-than-expected economic recovery and weak employment numbers.



First Data's reported transactions were up 4% versus last year, down a point relative to growth posted in the first quarter. Transaction growth was negatively impacted by a couple of points as we began to see the Walmart volumes migrate due to their decision to adopt a dual processor strategy, something we have mentioned on previous earnings calls.

On a normalized basis, we experienced a nice rebound in transaction growth compared to the first quarter as consumer spending picked up after a tough winter. Yield compression on a per transaction basis was 1% versus a year ago, well below our historical average of 3% to 5%. This is attributable to, one, incremental network incentives and two, the loss of transactions related to Walmart and Chase deconversions, which are at yields well below the overall portfolio average. Normalizing for one-time routing incentives and the loss of lower yielding transactions, compression in the quarter was at 4%, which is on par with what we saw in the full year for 2013.

As I've said before, revenue per transaction is an all-in revenue yield. It could be affected by a combination of factors, including merchant mix, pricing plans, merchant attrition, annual pricing actions and contract renewals. Pricing plan type has been the most significant contributor to yield compression over the past few years. Overall volumes for spread-based transactions continue to decline as the industry is generally shifting towards interchange plus pricing plans. Roughly 87% of our volume is now priced on this method, continuing a similar trajectory of a 2 to 3 percentage point shift annually.

Credit and signature debit mix was 71% in the quarter. That is flat compared to first quarter and about a point below the comparable period last year. As the chart shows, growth in PIN debit transactions continues to outpace credit and signature debit. This is occurring primarily in the large merchant space and as a result has minimal impact to revenue given the modest rate differential we see in those transactions.

Turning to product, revenue in the prepaid business was up 5%, but that is being pressured by the sale of our stake in EFS in May. Absent that headwind, underlying new business and organic growth is up low double digits year over year. In the back half of the year, the sale will impact year-over-year revenue comparisons by about \$12 million per quarter.

Our money network payroll card continues to deliver strong growth in increased activity and usage, as well as the addition of new programs. We are leveraging the product capabilities in new market segments and continue to see significant opportunity for growth given the population of unbanked and underbanked consumers.

Another thing to keep in mind here is our prepaid platform and distribution are incredibly valuable assets as the world goes virtual through mobile. As Frank mentioned earlier, with our announced acquisition around Gyft, we think there is significant new opportunities for First Data to grow in this space. Revenue in the point-of-sale business was flat as growth in interest income and fees on terminal leases was offset by a reduction in bulk sales to external parties. A conscious decision we have made given the lower margins in that business.

And finally, while we still process nearly \$40 billion in total check value annually, volumes in the check processing business declined year over year on the secular shift to electronic payments. A large portion of the costs in this business are directly variable with revenue helping to mitigate the absolute dollar decline in EBITDA.

Now turning to the results of the financial services segment on slide 7. Financial services posted another strong quarter as revenue increased 6% versus last year. That is the best top-line growth in this business in six plus years. We are continuing to see the benefits of new business brought onboard and solid organic growth in volumes. Top-line growth combined with expense discipline is driving record margins and highlighting the strong operating leverage in this business.

Expenses were down \$12 million, or 7%, on a slightly easier comp to the prior year. As you will recall, we took actions early in the second quarter of last year to simplify and streamline the organization to reduce cost. You can see the benefit of these reductions in the steady improvement in EBITDA reflected in the chart on the bottom right of the slide. EBITDA in the second quarter was \$183 million, up 21% or \$32 million due to the combination of revenue growth in expense reductions. EBITDA margin improved to 51% in the quarter.



Slide 8 provides more detail on the products and volumes for the financial services business. Processing revenue, which represents debit and credit card processing plus network services under the STAR brand, was up 7% in the quarter. Cards on file topped \$770 million this quarter, representing portfolios for some of the largest card issuers in the United States.

Within credit card and retail processing, active card accounts on file were 161 million this quarter, up 15% reflecting the benefit of boarding a couple of new card portfolios in the back half of last year and another in the first quarter of this year. Organic growth continues to show topping 6% in the quarter on higher card issuance and credit utilization by consumers.

Turning to debit volumes on the chart in the bottom right quadrant, transactions were up 4% year over year. Growth from a secular shift from cash and check and volumes associated with the new PINless product we launched earlier this year drove 5 points of growth, which was partially offset by attrition and lower network volumes. Volumes had pretty much stabilized since early last year resulting in little easier comps and a return to growth. Revenue was up 4% across the debit businesses. In addition to the transaction growth, our new routing incentive program benefited the quarter by roughly \$3 million.

Output services revenues were up 6% versus last year. Print revenue growth was up 10% on higher volumes and ancillary fees while plastics revenue was down slightly on lower volumes. Meaningful volume related to EMV issuance has not yet materialized, but the pipeline is strong and growing, so we expect to ramp later this year through 2015 for this product. Other revenues were up 1% driven primarily by our remittance processing business.

Now to slide 9 for a review of international. Revenues for the quarter were up 5% continuing to show solid growth year over year. Good volume growth, new card portfolios and a significant improvement in revenue attrition have contributed to the improving trend line you see on the slide. Currency was only a point of headwind as weaker Latin and Asian currencies were offset by stronger European currencies.

Within the major businesses, on a constant currency basis, merchant acquiring revenues were up 7% on volume growth and terminal sales while issuing revenue grew 6% on new card portfolios and organic volume growth. EBITDA was \$111 million, down \$4 million or 4% compared to a year ago due to a \$27 million increase in expenses. The increase is almost entirely the result of the \$20 million in items highlighted on the slide. Given the nature and magnitude of these items, you shouldn't expect them to occur very often. There's also an incremental \$5 million of startup costs related to investments in new geographies and products as we work to grow this business. The remaining nominal increase in expense illustrates the continued improvement in operating leverage we are getting out of this business. Margin for the second quarter was 25%. That's down 200 basis points compared to the second quarter of 2013 due primarily to the items I just mentioned.

Turning to slide 10, looking at revenue growth on a constant currency basis in each of the four regions in our international business, revenue in EMEA, which is by far our largest region, was up \$17 million or 7%. Merchant acquiring revenue was up 7% on solid transaction growth and issuing revenue was up 6% on new card portfolios, as well as organic volume growth.

Asia-Pac revenues were down 2% as organic growth in acquiring was offset by a decline in our Australian ATM business. The ATM business is suffering from lower transaction volumes and a decline in active devices. Revenue from transaction growth of 16% in the acquiring business was tempered by yield compression and a prior-year favorable interchange true-up.

Revenue in the Latin America business was up \$14 million or 22%. About half of the growth is due to transaction volumes and terminal sales while price inflation accounted for the remaining growth. Volumes have continued to grow in Argentina despite the headline risk of devaluation. And we have launched our pilot in Brazil this month and are looking forward to a full acquiring product launch later this year. Lastly, revenue in Canada was down 7% as organic growth was offset by a client loss in the second quarter of 2013.

Slide 11 provides a roll-forward of cash. We ended the quarter with \$548 million in cash and cash equivalents. Available liquidity at the end of June stood at \$1.3 billion after accounting for offshore cash. We had no borrowings outstanding on the revolver at the end of the quarter. Cash interest payments were \$264 million. That is approximately \$180 million less than last year primarily due to the timing of coupon payments. You can find our projections of 2014 quarterly interest payments, which have been updated for the recent capital structure changes, in the financial attachments to the press release.

We continue to invest in infrastructure and product, improving our service capabilities and strengthening IT security. Our capital expenditures for the quarter totaled \$128 million reflecting customer-related investments, infrastructure, application development and security. And we will continue to invest in the business as we move forward. Our capital plan in 2014 is targeted at approximately 6% of adjusted revenue. And lastly, in May, we closed on the sale of our 30% interest in EFS, generating \$255 million in gross proceeds.

Now I'd like to take a couple of minutes on First Data's capital structure on slide 12. As Frank mentioned, the new equity raise was a gamechanger. The \$3.5 billion was priced at the current mark of \$4 a share and represented an 11.7 times multiple on trailing 12 months adjusted EBITDA. The proceeds are being used to redeem \$2.2 billion in bonds under equity claw provisions of the credit facility and the remaining proceeds plus an additional \$350 million we raised with the recent repricing of \$5.7 billion in term loans will be used to redeem \$1.25 billion of the 14.5% PIK notes at the parent company level.

With these actions, we will reduce total debt through the holdco by \$3.1 billion, improving net leverage by 1.2 turns, lowering annual cash interest payments by \$228 million and reducing annual pretax interest expense by nearly \$440 million through the holdco. And as a result of these actions, S&P upgraded our first lien senior secured debt rating and Moody's upgraded their outlook from stable to positive.

Slide 16 in the appendix gives you more details behind the capital structure changes. And as information, the third quarter will include a charge to the P&L of approximately \$260 million associated with the early redemption of the bonds.

Using the pro forma capital structure and forward interest curves, we are projecting cash interest payments of \$1.7 billion in 2014, a slight decline relative to 2013 due to the reduction in debt and the timing of coupon payments associated with refinancing activities. We have a weighted average interest rate of 7.4% across the debt structure, a 75 basis point improvement relative to status quo. As of June 30, 79% of our debt is fixed rate or swapped to fixed-rate, providing a measure of certainty as interest rates begin to rise. 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 business partners.

Before we move over to Q&A, I wanted to say thank you to our investors, clients, employees and coverage analysts. You guys have been critical to our success from growing EBITDA by \$600 million since 2010 to refinancing over \$20 billion in debt to the latest accomplishment of raising \$3.5 billion in new equity. We could not have done it without you guys and I very much appreciate your support and have enjoyed our many interactions over my tenure.

And I would be remiss if I didn't thank the incredible finance team here at First Data. It is an incredibly wonderful group of devoted professionals that really care about what they are doing and work hard every day to move this business forward. I am honored to have served alongside of you and I will miss all of you.

Under Frank's leadership, you can really feel the momentum building here and you can see the transformation taking place right in front of your eyes. It is happening every day and I am confident in the future success of this Company, so much so that I am going to remain an equity investor in the Company.

I am also confident in the new leadership of finance with Michael Neborak coming onboard and Himanshu Patel and that they will take this finance organization to ever higher places. So with that, I'll hand it back to Rich and we will be happy to take your questions.

Rich Wilhelm - First Data Corporation - Director, 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 additional 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. So we will now go to Vanessa for our first question.



QUESTIONS AND ANSWERS

Operator

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

Ana Goshko - Bank of America Merrill Lynch - Analyst

Hi, thanks very much. And again, great job for the debtholders in particular on the equity raise. So I wanted to ask you now on the strategy going forward with regards to your free cash flow because, as a result of the debt reduction and interest expense savings, as well as the improvements in EBITDA, you should begin to have some more material free cash flow. And over the past many years, there has been very minimal free cash flow so the Company has not had the ability to really reduce debt and/or look at making strategic acquisitions. So on those two fronts, I wanted to understand your thinking now on the uses of what is hopefully going to be an improving free cash flow.

Ray Winborne - First Data Corporation - EVP & CFO

Frank, do you want to take that one?

Frank Bisignano - First Data Corporation - Chairman & CEO

Happy to. This capital raise was designed to allow this Company to grow. This Company would have grown anyway, but I think there was a unique opportunity. I think you would consider a \$3.5 billion private placement at the current mark a unique opportunity. You look at a company here with a \$2.9 billion tax loss carryforward. That is a large creation of net income for a little bit of time here. And I think what we are going to do is run this Company the right way. You are going to see us add salespeople. You are going to see us grow out our business. You've noticed the type of acquisitions we've done over the past period, including today's Gyft, which have all been strategic, Silicon Valley, accretive, product addition, good for our clients and have smart economics to it.

We are going to be very, very scrappy on how we run the place and we always were and always will be. So it is not really about what are you going to do with the cash. I think it is the right way to run the Company and you will continue to see us work on building a capital structure that this Company should have and we feel great about where we are. We would have been able to do it without this, but I think this is a defining moment that we saw as a great opportunity.

I would highlight to you that KKR is this incredible, incredible partner for us and their investment is a real statement to the way their investment occurred. But more importantly even before if there was something to do, KKR would have been there and I was very clear about that from the minute I got here. And they were very clear about it. But it is a unique situation, a unique partnership and I think we are really about how to grow the business and that will be investing in the front end of the business.

I think the salesforce transformation under Joe Plumeri, there is nobody better in the world to transform the salesforce than Joe Plumeri and the ability to add more coverage. But I wouldn't consider that what this money was about or the equity raise about, the equity raise was a smart thing to do. I think you would say that for every aspect of the capital structure and we completely transformed the balance sheet of this Company.

Ana Goshko - Bank of America Merrill Lynch - Analyst

Okay. Thanks for that. And then as a follow-up, I wanted to understand how you guys think about benchmarks for a potential IPO. Clearly, you have talked about there is obviously more work to do and there is momentum, but there is also timing and there is projections that we could be facing a correction in the equity market at some point in time. So I'm wondering you do have revenue growth now. EBITDA is growing. When you think about sort of the benchmarks for an IPO, is there a leverage number you are looking at? Is there sort of a sustained revenue growth rate? What are the hurdles in the Company's strategy or Board's strategy for that?



Frank Bisignano - *First Data Corporation - Chairman & CEO*

You might be surprised to hear that we are not focused on an IPO; we are focused on building out a great company. We are focused on being in business to help our clients grow their business. What we just did now was a statement about us saying, hey, we are going to invest in our business and when I say just did now, it could mean Gyft, it could mean Clover, it could mean a bunch of investments in geographies, a bunch of investments in product in FS, in talent and also in the capital raise. So we don't -- honestly, we don't sit around and talk about IPO; we sit around and talk about building our business, a great client franchise business to help our clients grow. I know that maybe seems odd because of how this Company talked about things in the past, but I think we talk about everything different today than we did in the past in terms of what we want the future to be and we want to be there to serve our clients and grow revenue for our clients and with that, we will grow a great company.

Ana Goshko - *Bank of America Merrill Lynch - Analyst*

Okay, and Ray, as always, thank you so much for everything that you've done for the Company and for helping us on the buy side and sell side. Best of luck.

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

Thanks, I appreciate it.

Operator

Arun Seshardri, Credit Suisse.

Dilip Rao - *Credit Suisse - Analyst*

Good morning, everyone. This is actually [Dilip Rao] stepping in for Arun. Congrats again on the equity raise and the great quarter. Just a couple of quick questions for you guys. In the merchant solutions, the merchant acquiring, transaction growth was generally in line with Q1, but revenue per transaction was only down 1% versus down 4% in Q1. What were the drivers of this? And also, it looks like prepaid grew pretty nicely this quarter. Is it realistic to expect these levels of prepaid revenue growth going forward in 2014?

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

As I mentioned in the call comments, if you look at the yield compression, it was favorably impacted by some one-time network incentive payments, as well as perversely the loss of transactions. If you look at the transactions that went off the platform during the quarter, they were at a much lower yielding rate than the overall average portfolio, which, when you do the math, that generates less yield compression.

Dilip Rao - *Credit Suisse - Analyst*

And is that the Walmart impact?

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

Yes, it's Walmart. We have also had continuing deconversions related to Chase. On your prepaid answer, if you look at the growth of 5% in the quarter, it was actually much better than that underneath, call it 11%, 12% growth in the core prepaid business. You are going to see headwinds the rest of the year given the sale of EFS, about \$12 million in top-line pressure, but underneath we expect great things out of that business. It has

continued to grow very nice. There are fluctuations from quarter to quarter because, within that business, we have got a payroll card that is pretty steady where you just have activity and new card programs added every quarter, but we also have a closed loop product in there that's a little more variable depending on customer demand.

Dilip Rao - *Credit Suisse - Analyst*

Got it, thank you. And just a couple small other questions. There is some pretty good growth in the financial services area and there was acceleration growth from Q1 to Q2. It looks like it was mainly driven by improved debit transactions growth. How do your conversion pipelines look and what are the prospects for further acceleration growth here? And also if you could give some color on the \$2 million sequential decline in card accounts on file for the international segment?

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

Yes, when you look at the FS business, we're obviously seeing some really nice improvement there both on top line, as well as expense discipline and it has led to great EBITDA growth. Sequentially, you will continue to see some nice growth there. From a conversion standpoint, we don't have a significant number of cards yet to be converted. The growth we have gotten is off the new card portfolios and the sales pipeline is continuing to grow. We are working it. Don't have any large conversions to announce at this point, but rest assured we are out working the streets in order to bring on more business in that place.

With respect to international, you've got continual cleanup. Some of our issuers will purge accounts, inactive accounts and then there is pluses and minuses across the board. So the 2 million is nothing unusual.

Dilip Rao - *Credit Suisse - Analyst*

Okay, got it. And then on the corporate and other expense line and EBITDA, what should we expect to see for the balance of the year?

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

Yes, similar to the overall expense trajectory we saw in the quarter, the sequential increase, expenses in that corporate and other segment increased. I think they were about \$20 million, \$22 million. About half of that is labor-related where Frank highlighted we have continued to add leadership resources. We are investing in the customer experience, building teams that are serving our customers in a much different way, a much more hands-on way and we have increased our development resources in IT to meet a lot of the infrastructure and security project demand that we have got going.

About 20% of that increase was an investment in the marketing organization. We are building up a lot of support around the new product launches. You've seen more new product come out of this Company in the last 12 months than likely in the last five years. So it takes a lot of extra support to get that stuff out there in the initial stages. And the remaining increase I would call mostly one-time in nature, either allocations out from the corporate and other segment into other segments or one-time period transitory costs.

If you look back at the segment over the last call it six quarters, the EBITDA dilution has averaged around \$70 million. Year-to-date 2014 is also about \$70 million on average. So you see a little bit of timing impact Q1, Q2 in addition to some pressure. So I would, for modeling purposes, probably plug in a dilution in that \$70 million range going forward. And there is always --

Dilip Rao - *Credit Suisse - Analyst*

Okay, got it.



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

-- going to be a little variability there.

Dilip Rao - *Credit Suisse - Analyst*

Got it. That's helpful. And what are your plans regarding the remaining outstanding \$200 million plus balance of the PIKs, the 14.5 PIKs? I assume these are going to be retired when the call steps down in December?

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

We will continue to review the capital structure and liquidity needs and we will make the right decisions for the equityholders and debtholders as those decision points come along. But you have got a good guess there when you look at the stepdown in the call premium in December.

Operator

Jeff Harlib, Barclays.

Jeff Harlib - *Barclays Capital - Analyst*

Hi, good morning. Can you just talk a little bit -- the Company has been taking out expenses, it has been a big driver of margin improvement and now you are increasingly focused on growth initiatives. Just generally, as we look at the expense structure over the next 12 months, can you talk about the puts and takes on cost-reduction actions versus investment?

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

Yes, Jeff, I don't know if I was looking at these financials and the improving results on a trended basis, a lot of it is really more revenue. Again, it is not 10% revenue growth, but as we've mentioned numerous times, it doesn't take 10% revenue growth. That would be fantastic, but if you can get mid-single digit revenue growth in this business, the flow-through is significant. There is a heavy mix of fixed costs in this business model and top line translates nicely into bottom line.

So the expense reduction, while we are always going to be disciplined around expenses, the focus, I will be honest with you, has been more around investing, looking at the products, looking at resource gaps in different areas of the Company, making sure those are filled so that we are serving our customers, launching products and looking for new products while at the same time going through function by function -- Frank brought in Christine Larsen as our COO last year. She has got a full dedicated team that is going into every area of the business doing efficiency and effectiveness reviews. So we will anticipate continuing to see productivity increases coming out across the business that will offset a lot of that investment in talent, product launches and enhancements to the customer experience over time.

Jeff Harlib - *Barclays Capital - Analyst*

Okay, that's helpful. And can you provide a little more detail on the rollout of Clover Station? I know you are rolling it out through additional distribution and just a little bit on the revenue traction there and what we should look at over the next few quarters.

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

Yes, Frank, do you want to give Jeff a quick update where we are on Clover?

Frank Bisignano - *First Data Corporation - Chairman & CEO*

Yes, what I would say about Clover is we announced it, we rolled it out in a vertical. I would put it in the too early to tell category from what the number is, but in the well-received fully functional enterprise scale value and there's great demand I think internationally along within the US. So what we find is that this is a brand-new platform. We feel very good about the daily volumes of this and we feel very good most importantly about its enterprise scalability and its client receptivity. We have been careful about the rollout. The last thing you want to do is roll out to all verticals and have a rollout. We grew up building large enterprise systems and large enterprise companies and we've been very, very controlled in it. But where we have brought it to market, client receptivity is tremendous around it. And we feel very, very good about it. I think when we get to next quarter, we could talk better to you about what it looks like in terms of what to expect through year-end.

Jeff Harlib - *Barclays Capital - Analyst*

Great. And just a few final ones. Just are you disclosing the purchase price of Gyft and the revenues? What are the current shares outstanding and then I will just -- thanks again, Ray, for all your help and good luck.

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

Good, thanks, Jeff. The purchase price and some of the specifics around Gyft will be in the 10-Q disclosures.

Jeff Harlib - *Barclays Capital - Analyst*

And the shares?

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

Shares, we have not previously disclosed outstanding shares because it is at the holdco. Obviously our parent company owns First Data, so the shares outstanding are nominal.

Jeff Harlib - *Barclays Capital - Analyst*

Right. But that 11.7 multiple is on your LTM EBITDA?

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

That's right.

Jeff Harlib - *Barclays Capital - Analyst*

Okay, thank you.

Operator

Frank Jarman, Goldman Sachs.

Frank Jarman - Goldman Sachs - Analyst

Great, thanks so much for taking my questions and thanks again, Ray, for all your help over the years. I want to wish you the best in the future.

I guess the first question I had was just on the equity transaction. Thanks for the confirmation on the multiple, but can you now tell us what percent of the equity is owned by the \$2 billion of new investors in the structure, what percent is owned by KKR, as well as any other silent partners and how does this impact the strategic direction from an equity level standpoint?

Ray Winborne - First Data Corporation - EVP & CFO

No, Frank, we hadn't disclosed the specifics around how the ownership percentage has changed, but rest assured -- you saw KKR stepped up to the plate and put a lot of new money in as well. So they were not significantly diluted to this transaction.

Frank Jarman - Goldman Sachs - Analyst

Okay. And I guess just along those lines, the \$2 billion of new equity capital was obviously a real positive for the story. Is there anything you guys can share with regards to the thesis that the new equity buyers were attracted to? The First Data story has been a very steady growth story over the past few years, but it has been a low single digit top-line growth story. And when I think about new equity capital coming in, what were they focused on? Is there an expectation that the growth trajectory potentially could change meaningfully going forward as you think about new technologies or scalability or leveraging your merchant base or the international growth story? How do we think about what attracted the new equity buyers?

Frank Bisignano - First Data Corporation - Chairman & CEO

I think if you think about this Company, you've heard us talk about it, and I've been on two calls now talking about a transformation, a client-centric business driven to help clients grow their business. This is waterfront property, I said it to you in closing, I say it to you in beginning last time and I say it now, 6.1 million merchants, a debit network, a technology infrastructure unparalleled, 35 countries with operations in it. So I think they see the opportunity in all of that very clearly. And you do have a much different management system and management team. You go from Joe Plumeri to Guy Chiarello to Himanshu Patel, Christine Larsen. I think it is all of the above; it is not one item. It is that this is a growth opportunity market. You see everybody flocking to payments and people generally think this is a very large payments company. Well, it is actually a large solutions company with incredible clients, fabulous partnerships, the best partnerships in the industry. I have been traveling around Europe here seeing these great clients we have right now and the opportunity to do more. So I think it is all of the above; it is not one item. And none of those should at all be in the surprise category because we have been working our way and talking about them as we've been going.

Frank Jarman - Goldman Sachs - Analyst

Okay, thanks. The last question I had was also more of a strategic question. I think a little over a year ago there were some press articles that First Data was considering divesting financial services. I think, Frank, you took the approach that it's a core business and that has clearly been the right call. The recovery there is playing out nicely. Today, now well into a year of your tenure, how do you characterize your commitment to financial services? What do you think about that as an overall piece of the pie?

Frank Bisignano - *First Data Corporation - Chairman & CEO*

Well, one of the first things I did was work on financial services when I got here because you are correct; it was, like many things in the Company, thought about a way to deleverage the Company if you sold it. Maybe even make the Company some might think less complicated. I think it is critical to the long-term success of the Company. I know a little bit about financial services, as do most of the management team here. That maybe gives us a strategic advantage in terms of this space. I think it is a growth opportunity and I think our clients like us in this business, want us to grow this business and it has as much opportunity as everything else we have inside the Company.

And I think I've said it the first day I got here and I think we probably went there first if you had something on the market and you took it off the market, you should go pay attention to it really quickly to figure out if that was the right decision. I think we've invested time, energy, technology, focused on our clients' needs and that is the output that you see this quarter and you saw in the previous quarters, it is a better growth story too.

Frank Jarman - *Goldman Sachs - Analyst*

So is that something you are more committed to today or do you think it could potentially come back into the market?

Frank Bisignano - *First Data Corporation - Chairman & CEO*

I thought I was pretty clear with my answer. Maybe I didn't do that good a job of talking about it. If you are committed, I don't know what means more or less. We are in the business and we are staying in the business. I don't know how deeper to say it.

Frank Jarman - *Goldman Sachs - Analyst*

Great, that's helpful. Thank you very much.

Operator

(Operator Instructions). Guy Baron, RBC Capital.

Guy Baron - *RBC Capital Markets - Analyst*

Hi, good morning. Frank, just to follow up on what is obviously the big theme here and not to beat a dead horse and maybe I'll try to ask it a different way, but how has this deal changed the dialogue that you are having with clients? And when do you expect to start to see the sort of tangible financial impact tied specifically to this? So you have reinvigorated growth here, which we are now seeing, but the real benefit tied specifically to this transaction. So where and when do you think we start to see that in the numbers?

Frank Bisignano - *First Data Corporation - Chairman & CEO*

Somebody asked about dilution before. I treat this as total accretion, first of all. If you think about \$440 million of income savings inside a company, I think -- and you think about the value creation of that in a company with a \$2.9 billion tax loss carryforward, you guys actually are better than most at calculating whether it is accretive or dilutive. Yes, more shares were issued, but that is a numeric; I think you have got to look at the total picture to decide what is accretion and dilution and I think when you do the math, you will see what it does for value creation.

And then the question about when are you going to see it in the numbers, I mean I think you are going to see it directly in the numbers in a way just by economics of the P&L. And then thirdly I think this is very obvious to everyone of you, the risk reduction in the profile of this Company I think has changed dramatically and I think that is recognized in kind of what has happened to ratings. And of course, when you get a \$3.5 billion

vote of confidence by some fabulous investors that you are in business with going forward and KKR, who you are in business with, likes the property so much they have it on their balance sheet, kind of the who's who in equity investing in it gives your customers great confidence in your ability.

Having said that, our customers had good confidence in us, so your answer when you just say in numbers, we are in the numbers already. I think we just announced our best revenue since the Company went private. And if you look at sequential revenue growth on a quarter by quarter basis, even inclusive of what would be the seasonally highest fourth quarter, this had the largest absolute dollar growth in revenue of any quarter ever for this Company. So it is the beginning, not the end, but I know that was a long answer, but hopefully you can process all that and it makes sense to you.

Guy Baron - *RBC Capital Markets - Analyst*

Yes, no, that's great. That's great. And then I guess to follow up on that, as you look out to the second half of the year and given the growth rate that you are running at and looking at that, the sustainability of that, how much of what you see in the second half of this year and kind of into early 2015 is growth that's, I guess for lack of a better word, kind of in the bag or you have got very high confidence in versus actual further execution across a whole bunch of other initiatives?

Frank Bisignano - *First Data Corporation - Chairman & CEO*

This is a very large company that has brought in a whole bunch of talent, has developed new product, more new product than -- Ray said it -- more new product in one year than the six years prior to it, concluded that deleveraging could occur in a different way, not selling assets of the Company, which would have been viewed as a way to delever it, but instead pounding it out every day. So there is nothing in the bag in this business as in any business I have ever been in my whole career, but I think you have got to look at the amount of investments we've got and the amount of talent we have and the things that we are just introducing, whether it is Insightics, whether it is Clover or Perka and Gyft today. And I think you have to think about that we are investing in them for future growth and that if FS and international needed turnarounds, you could see the trajectory turnarounds in those and we will continue to invest, that all of our major businesses are core to us and we are going to continue to build it out. So I think you are going to -- we love working our tail off on this.

Guy Baron - *RBC Capital Markets - Analyst*

All right, that is great. Thank you very much.

Rich Wilhelm - *First Data Corporation - Director, IR*

Vanessa, we have time for one final question.

Operator

Thomas Egan, JPMorgan.

Thomas Egan - *JPMorgan Chase - Analyst*

Great, thanks for taking my question and a special thanks to Ray for all the help over the years. Maybe could you shift gears just a little bit and talk about some cost savings? I know that cost savings has always been a way of life for the Company, but sometimes when you get the additional free cash flow that you guys will now have after the equity infusion, sometimes you have a little bit more room to do cost savings that maybe you couldn't have afforded to do before, some process changes that you couldn't have afforded to do before because of the thin margins. And Frank, you talked about some of the talent that you brought in. Some of that talent has a pretty good reputation for some strong process improvements.



So I wondered if you could talk a little bit about whether or not the new freedom of the additional cash flow allows you to do any process improvements that you might not have been able to do otherwise and if there is anything in the works that we should think about that we might see coming down the pike?

Frank Bisignano - *First Data Corporation - Chairman & CEO*

Well, Ray referred to it before that when Christine Larsen joined us, one of the things that her and I had done for 20 years was we've always done operational effectiveness reviews. And that is a way of life and even after you have looked at a process, you come back two years later and look at it. This Company was, as you said, always focused on expenses. We've spent a lot of time on process improvement. We've spent a lot of time on how to in fact increase capacity in the Company focused on increased productivity. And that will be a way of life. So you should expect that we are always working on it. We don't announce these things. I don't find -- we've gotten out of leases, we've changed -- we don't make announcements about these type of things, whether it be real estate savings or process improvements. We think that's actually fundamental to being a world-class company.

And so you probably hear way less than is actually happening because it's not something that I think is necessarily the things that we go around and talk about when we talk about running the place because I feel like it's in our hygiene. So you should expect us, like I said before, to be as scrappy as possible. I am sitting now and in a phone call in an office in London that is in the center of London. You will see this office change to Canary Wharf and we will save a fair amount of money and have more people in the space. So this is what we do for a living, along with building product, engineering new solutions and helping our clients grow their business. So you should just take it as regular hygiene for us.

Thomas Egan - *JPMorgan Chase - Analyst*

Great, thanks. I appreciate that.

Operator

Thank you. This concludes our question-and-answer session. I'd like to hand the call back to the speakers for closing remarks.

Frank Bisignano - *First Data Corporation - Chairman & CEO*

I would just like to thank everybody for their time. I mean as I said last call and as I say at this call, this is a fabulous waterfront property that we are able to continue to build on. It has tremendous assets inside this Company. I think this is a very historic quarter. It is historic from revenue growth. It's historic from absolute numbers. The first half saw 11% EBITDA growth driven by revenue growth and then there is the capital raise, which is I think if you look at in terms of everything, I don't know how many, if any, \$3.5 billion private placements at current mark you are able to find, but I think it's at the top of the heap and that is a statement about the future. I know we are all going to miss Ray. You all have Himanshu and Mike Neborak working with you and I look forward to future calls with you and I thank you for your time today.

Operator

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



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