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FDC - Q4 2011 FIRST DATA CORPORATION EARNINGS CONFERENCE CALL

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PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the fourth-quarter and full-year 2011 First Data financial results conference call. My name is Derek, and I'll be your coordinator for today. 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. Please proceed, sir.

Chip Swearngan - *First Data Corp - SVP, Communications and IR*

Thank you, Derek, and good morning, everyone. My name Chip Swearngan. Thank you for joining us for this financial results conference call. Today's call will be focused on First Data's fourth-quarter and full-year 2011 financial results. Ray Winborne, First Data's Chief Financial Officer, will be leading our call. And joining Ray to answer your questions will be our CEO, Jon Judge; Ed Labry, President of First Data North America; and John Elkins, President of First Data International Regions.

Now please turn to slide 2 for some important information about this call. Our comments today 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 also will 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 www.investor.firstdata.com.

So with that, I will now hand the call over to First Data's Chief Financial Officer Ray Winborne.

Ray Winborne - *First Data Corp - CFO*

Thanks, Chip. Good morning, and thanks for joining us. The sun is shining here in Atlanta. This morning we released our fourth quarter results, delivering adjusted EBITDA growth of 16% over last year, our best quarterly results of 2011. Good flow-through from top-line growth, along with cost reductions, led to double-digit growth for the full year as well.

The holiday shopping center was strong early on, but moderated some in December. Same-store sales volumes were up 7.8% over last year, after about an 80 basis points of drop versus the third quarter. The small businesses still aren't benefiting at that same rate, lagging growth and national same-store sales volume by 200 basis points. Economic conditions in the UK and Europe are impacting growth rates in acquiring volumes, compared to what we were experiencing earlier in the year, but we continue to outperform the competition.

Headlines and key indicators are pointing to continued moderate recovery here in the US, with key drivers of First Data's business -- employment levels, consumption, disposable income, and bankruptcy rates all trending better. Until resolution of the sovereign debt crisis is put in place, the situation is expected to weigh on growth prospects in the UK and Europe. And while uncertainty seems to be the new normal, we've got good momentum in our business, and we'll continue to execute our strategy, managing those elements that are within our control and bringing new innovative products to market.

Now, a quick update on a hot topic with investors. The last measure provision of the debit interchange legislation goes into effect on April 1, requiring financial institutions over $10 billion in assets to have at least two networks on their debit cards. As expected, the STAR Network is winning in the market. We have more than 20 commitments in various stages of contracting.

On the downside, the additional time provided by the extended deadlines created an extremely competitive environment, especially as the very largest financial institutions took the opportunity to revisit their overall debit product strategy. The changes have also led to new dialogue with merchants and financial institutions regarding transaction routing that could lead to new opportunities for us in the future. While getting on the card is a critical first step, given the complexities of multiple PIN networks on a card, and evolving strategies of financial institutions, merchants and networks, there's a lot yet to play out with the respect to actual flow share of transactions leading to revenue. We'll provide further color as the year progresses and the benefits are more quantifiable.

Our liquidity remains strong. We ended the quarter with $1.7 billion in available cash and capacity on the revolver, and cash continues to grow. We generated nearly $2.6 billion in operating cash flow before interest payments during 2011. That's an increase of just over $300 million compared to the prior year. And while we have nearly three years of runway before our first debt maturities, rest assured we'll continue to be proactive stewards of the balance sheet, refinancing well ahead of 2014.

Let's take a look at First Data's consolidated results starting on Slide 4. Consolidated GAAP revenue for the fourth quarter was $2.7 billion, that's down $43 million or 2% compared to a year ago, on $115 million decline in debit network fees. The vast majority of debit network fees relate to interchange, so the reduction in rates mandated by Durbin led to this decline. Because of the pass-through nature of these fees, expense declined by that same amount, so there's no impact to our operating income. Full year consolidated GAAP revenue was $10.7 billion in 2011, up 3% versus the prior year.

The net loss attributable to First Data improved by $110 million versus last year, and was largely driven by a $171 million improvement in operating income. For the full year, the net loss of $516 million was cut in half compared to last year, as operating income increased $425 million. We manage the business using adjusted revenue, which excludes reimbursables and other items. On this basis, revenue for the fourth quarter was $1.7 billion, that's up 3% versus last year. For the full year, adjusted revenue was $6.6 billion, up 2%. Adjusted EBITDA was $655 million in the quarter, that's up $91 million or 16% compared to a year ago, on revenue growth, good flow-through, and a reduction in adjusted expenses. Overall EBITDA margin improved to 38% in the quarter, up nearly 4 percentage points versus last year.

Now, let's move into the segment performance starting with Retail and Alliance Services on Slide 5. Retail and Alliance Services revenue was up 6%, driven by the benefit of lower debit interchange and additional processing revenue from our merchant-acquiring alliance with Bank of America. As we announced last quarter, beginning on October 1, the Bank's legacy settlement platform and operational support for the legacy bank merchants was transferred to First Data. EBITDA benefited from good revenue flow-through and grew $43 million or 12% compared to last year, while margin improved to 45% for the quarter.

Let's go to Slide 6 for a closer look at the revenue drivers in this segment. In Merchant Services, which accounts for about 70% of the RAS business, revenue was up 9%, primarily driven by lower debit interchange, additional BAMS processing revenues, and volume growth in the business. Transaction growth of 3% was negatively impacted by the customer loss I mentioned in the third quarter, and continued customer deconversions related to our former Chase Payment tech alliance. These were low-yield transactions, so the loss actually improved our overall revenue per transaction. Adjusted for these two items, transaction growth was in the mid-7% range, which is consistent with the same measure for the third quarter.

Revenue per transaction benefited from lower debit interchange and the BAMS processing benefits. Setting these two factors aside, revenue per transaction continue to be affected by a combination of factors, including merchant mix, pricing plans, attrition, and contract renewals. Credit and signature debit mix was stable at 72%, and has been in a fairly tight range for the past two years. As I've mentioned before, roughly 80% of our transactions are interchange plus fees, and the rest are spread based or a percentage of the ticket. A key measure of spread-based transactions is regional average ticket. As you can see in the bottom-right quadrant of the slide, it has hovered around the $69 to $70 level for the past two years.

Turning to product. Revenue in the Prepaid business grew 14%, driven by continued growth in our open- and closed-loop programs, as well as normal holiday shipments of prepaid cards. Money Network revenue, our open-loop payroll product card, grew nearly 38% as we continue to penetrate the fast-growing segment of underbanked and unbanked consumers. Electronic payroll distribution helps our customers reduce paper use and costs associated with payroll processing, and also increases electronic transactions.

Revenue in our point of sale business declined 1% on challenging year-over-year comparisons. Last year, revenue in this line of business was up 16%, and 20% in the fourth quarter. Equipment volumes had a tailwind throughout 2010 as PCI compliance deadlines drove above-average level of equipment refreshes. The mix of terminals has also shifted to lower-cost, proprietary models over time, impacting revenue but improving margins. At the same time, we continue to see really good growth in our leasing business, and in the fourth quarter that revenue was up 20% as we activated new leases.

And finally, check processing revenue declined 10% year-over-year, on 8% lower check volumes and lower revenue per check, as a larger share of the portfolio is now comprised of national customers. On a positive note, the larger base of credit rating data has helped us lower warranty exposure across the portfolio, and maintain dollar margins in the quarter. For the full year, we improved margin by almost 4 percentage points despite a double-digit decline in revenue in that business.

Now, turning to the results of the Financial Services segment on Slide 7. Although the Financial Services top line declined 1% compared to a year ago, that headline is impacted by a $9 million termination fee in the prior year. Absent the grow-over impact, revenues were actually up 1% on improving underlying volumes. EBITDA improved $17 million or 12% in the fourth quarter, driven by a $22 million reduction in expenses primarily attributable to lower technology and operations costs. EBITDA margin improved to 45%.

A closer look at Financial Services on Slide 8 shows that processing revenue, which accounts for about two-thirds of the revenue in this segment, was down 2%, or $4 million year-over-year. Processing related revenue, which includes credit, debit, and network services, was up excluding the prior year $9 million WAMU termination fee, as benefits of new business and volume growth more than offset lost business and pricing compression.

The fundamentals of this business continue to show improvement. The consumer credit environment continues to improve, active card accounts on file were up 4% -- that's the highest growth rate since 2008 on both organic growth in the portfolio, as well as new business. Credit and retail transactions grew 10% over the prior year. Organic growth in the card portfolios we service was up 6%, and private label card portfolios are back in favor -- all positive signs for the future of this business.

Total debit issuer transactions, which include signature debit, PIN debit, and ATM transactions on the STAR Network, increased 7% excluding Washington Mutual and Wells transactions. Outside the deconversion of the Wells signature debit processing, we expect market volumes to grow as the economy continues to recover, and as the use of checks and cash shifts to debit. Now, as I said earlier, we expect to see additional STAR Network volumes from new signed business, and we'll have better visibility into that after the April 1 deadline.

Output services revenue is flat, as lower print and plastic volumes were offset by ancillary product revenue. And other revenue was down 1%, as growth in our e-payments business was offset by declines in remittance and Information Services.

A quick update on the pipeline. We continue to expect the boarding of Kohl's card portfolio to be completed towards the end of March, with revenue to start booking in the second quarter. This will partially offset the loss of Wells signature debit processing ATM business for the full year of 2012.

Let's move to Slide 9 for a review of International. Eighteen months ago, margins in our International business were below 20%. At that time, we committed to take actions to improve those margins by focusing on the higher growth acquiring business, investing in reliability and customer satisfaction, exiting low margin contracts, and rationalizing the cost structure in response to customer losses on the issuance side of the business. As you can see, we continue to make progress, achieving 30% margins in this quarter, and 26% for the full year. While we expect to see seasonal moderation in margins in the first quarter, we remain committed to producing margins in the 30% range in this business.

Revenue for the fourth quarter was $441 million, flat compared to the prior year on a reported basis. Currency flipped from a tailwind earlier in the year to a slight headwind in the fourth quarter, as the dollar bounced back against the basket of currencies affecting us. On a constant-currency basis, revenues were up 2%. Merchant acquiring grew 3% on higher transaction volumes in Europe, Latin America, and Asia. Underlying growth was roughly double that, as decisions to shed low return revenue impacted year-over-year top-line growth. Issuing revenue was up 1%, benefiting from an $8 million contract termination fee in the prior year -- in current year, volume growth in Latin America, and pricing increases in Asia. These benefits were largely offset by lost business, and exiting some low-margin businesses.

EBITDA in the quarter was $131 million, that's up $35 million or 36% versus a year ago. Of that $35 million in growth, roughly two-thirds came from revenue flow-through and structural cost reductions we've taken. The remaining one-third relates to the combined effect of noise in both periods, roughly $7 million unfavorable last year, and $5 million favorable this year, including the $8 million termination fee I referenced. Changes in foreign currency exchange rates had an unfavorable $2 million impact on EBITDA this quarter.

Turn to Slide 10 for further discussion of International. Our International business is comprised of four regions, roughly 60% of the business is in Europe, the Middle East, and Africa. On a constant-currency basis, total EMEA revenues were down 1%. Merchant acquiring revenue on a constant-currency basis was flat despite 12% underlying revenue growth in European bank alliances and our direct channel in the UK, as lower volumes and terminal revenues across the rest of the region offset those increases.

While not significantly impacting the revenue growth rate in the fourth quarter, you can see on the bottom-left chart the transaction growth is off-trend. The growth rate was impacted by Chase moving transactions we've previously processed back to their own platform. Transaction growth absent these volumes was 12%, in line with recent trends, and reflective of the underlying revenue growth in merchant acquiring. Issuing revenue in EMEA on a constant-currency basis was down 3%, as the contract termination fee I mentioned earlier was offset by lost business and lower revenue in Greece due to a combination of exiting low-margin businesses there and continued economic pressure on volumes in the region.

Revenue in Latin America grew $6 million or 11% on a constant-currency basis on growth in transaction volumes, pricing, and higher terminal sales. Revenue continues to benefit from inflationary increases in Argentina, home to our largest business in the region.

Asia Pacific revenue was up $3 million or 3% on a constant-currency basis, including the benefit of higher acquiring transaction volumes from our alliance with ICICI in India. The loss of a single customer in Asia-Pac is the primary reason for the decline in accounts on file shown in the chart in the bottom-right side of the slide. The revenue from this customer represented about 2% of 2011 revenue for the region.

Slide 11 provides a roll forward of cash. We ended the quarter with $486 million in cash and cash equivalents on the balance sheet, plus $1.5 billion in available liquidity on the revolver. We did not draw on the revolver at the end of the year. For the year, cash flows from operations was $1.1 billion, or $2.6 billion before interest payments. Embedded within that, we had another great year of progress improving our cash efficiency contributing to positive working capital for the full year despite our growth. Cash interest payments in 2011 were $1.4 billion, and I'll provide more color on our future expectations of cash interest in just a moment.

We continue to invest in infrastructure and product, improving our service capabilities and strengthening security. Our capital expenditures for 2011, consisting primarily of equipment, capitalized software development, and customer conversion cost, totaled $405 million. That's up nearly 10% compared to last year, and we'll continue to invest for growth. Our capital plan in 2012 is targeted at 6% to 7% of adjusted revenue.

As previously disclosed, we invested $160 million in our Merchant Services alliance with Wells Fargo. The payment represents contingent consideration for merchant referrals from bank branches contributed to the alliance by Wells Fargo. This was called for by the agreement that extended the term of our alliance back in 2008.

Now, I'd like to take a few minutes on First Data's capital structure on Slide 12. First Data generates significant EBITDA and cash flow. We have no covenant issues, and we have plenty of headroom on our only financial covenant, which is the ratio of consolidated senior secured debt to consolidated EBITDA. Our current ratio is 4.3 times, which is comfortably under the covenant requirement of 6.5 times. We have ample liquidity sources with cash on hand, a $1.5 billion revolver, and cash generated from operations. We have no significant debt maturities until September 2014, and a weighted average interest rate of 8% across the debt structure.

Currently, 70% of our debt is fixed rate or swap to fixed rate. We have swaps expiring in September of 2012 on $5 billion of our term loans at an average fixed rate of almost 5%, which is well above current LIBOR rates. In order to lock in the benefit of current lower LIBOR curve, we've executed forward-starting step-up swaps that will replace the $5 billion in expiring swaps this year. The weighted average fixed rate over the four-year life of these new swaps is 1.3%, starting at 59 basis points in the fourth quarter of 2012, and moving up with the curve from there. The rate differential on these swaps versus the old ones will result in a roughly $160 million year-over-year decline in cash interest payments in 2013.

While cash interest payments are expected to increase in 2012, largely due to the timing of coupon payments, it represents a peak year. Using the current capital structure and forward curve, we're projecting cash interest payments to decline to $1.6 billion in 2013. This benefit, along with growth in EBITDA over the next two years, will provide improved cash coverage as we look to address upcoming maturities.

Finally, despite long runways before maturity dates, we have proactively managed the balance sheet to reduce risk and provide time to execute against our business plan. And while debt markets have been volatile, we have the flexibility to be patient for windows to open in addressing the remaining maturities from 2014 to 2016.

Now, I'll turn the call over to Jon Judge for his comments on the quarter. Jon

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Jon Judge - *First Data Corp - CEO*

Thanks, Ray, and good morning, everyone. Thanks again for spending time with us today. I'll just make a couple of comments, in some cases reinforcing some of the things that Ray said, and in other cases making some observations. And then Ray and I would be happy to take your questions.

To begin with, we're obviously pleased with our fourth-quarter and full-year results, and we'll again see EBITDA strength in our North American business, and continued merchant acquiring revenue across our International regions. And we're especially proud to see EBITDA growth across all three of our business segments, particularly given the noise in the US and world economies.

When I reflect on the year, these are the headlines for First Data that come to my mind. First, we stabilized our Financial Services segment, achieving the first year of EBITDA growth in three years, at 7% EBITDA growth versus two years of negative 14% growth. Second, in 2011 we turned around the performance of our International segment, with 9% revenue growth and up 38% increase in EBITDA, which resulted in a margin increase of 5 percentage points to 26% for the full year.

Third, we drove 4 points of spread on revenue versus expense, and expenses for the year were actually down 2% versus 2010. This is something we've ingrained in our culture and embedded in our strategic plan -- the notion that we will grow expenses at half the rate of our revenue. Finally, we grew year-over-year total EBITDA by 11% on only 2% top-line growth, creating great leverage in the business. By the way, the 11% EBITDA growth also followed two years of decline in EBITDA, similar to the point I made earlier about our US Financial Services business.

During the fourth quarter, we finalized our 2012 budget and three-year strategic plan, which we presented to our Board at the end of November. Our plans are led by our commitment to driving top-line revenue growth. In 2012, our focus will be to accelerate our merchant acquiring opportunities in our International regions, and to continue to grow both our acquiring and issuing businesses in North America. Cross-selling more of our products into our merchant base is key to that strategy.

We'll continue our focus on product innovation, which includes opportunities to grow our business in mobile payments and Information Services. We'll exercise cost discipline across the business by capitalizing on productivity improvements and technology leadership. And finally, we'll continue to make First Data a great place to work, with actions to attract, develop, and retain the right talent to grow our business with a focus on putting our customers first.

We kicked off 2012 with several events that will help reinforce these objectives. During the second week of January, we gathered our North American sales force of over a 1,000 individuals for a large sales kickoff meeting that also provided training on cross-selling First Data solutions to our clients.

In the third week of January, at the National Retail Federation Big Show in New York, we debuted Universal Commerce. It's our perspective on the next generation of payments evolution, where smart mobile devices will converge with the ability for merchants and manufactures to market directly to consumers. Those consumers will be more empowered with relevant information prior to making a purchase, which we believe will increasingly be delivered over mobile platforms. Information about First Data's U-commerce solutions, including instructive videos, are available on our website.

Last week, we brought our top-150 global leaders to Atlanta for a senior management summit focused on the 2012 budget and three-year strategic plan. They're now empowered to drive the initiatives throughout our organization.

At this point in 2012, I can tell you -- we are better aligned as a global enterprise than at any point in our recent past. The organizational changes we made last year to focus our markets in North America and on our International regions have served us well, and the results are evident in both our financial performance and in the cohesiveness of our senior management team. Our ability to execute our strategy depends on this broader leadership team, and we're confident that together we're going to be successful.

I'd like to close my comments with a few observations on the economy. As you know, we're one of the nations largest payment processors, and as such, we have a unique perspective on transaction trends in the US. First Data's macroeconomic SpendTrend report for December showed consumers' willingness to spend was based largely on their ability to find bargains. Merchants used steep discounting to drive traffic. The resulting decline in average ticket values was offset by a strong transaction growth.

On Friday, the Commerce Department released the first estimate of GDP for the fourth quarter of '11. GDP increased 2.8% in the fourth quarter. This figure is a bit under expectations, but it did mark the fastest growth since the second quarter of 2010. The government reported that consumer spending, which makes up more than two-thirds of GDP, rose 2% in the fourth quarter compared with 1.7% in the third and 0.7% in the second. Those numbers appear to suggest modest growth, and our preliminary January SpendTrend data show that growth has continued into '12. Overall dollar volume and transaction growth showed healthy increases in January, both on a year-to-year basis, as well as compared to December. After strong promotional activity kept average tickets down in December, average tickets did improve slightly in January.

End of season clearance sales kept average ticket values down as well, but the mild weather nationwide spurred increases in consumer traffic and transaction growth. Most retail categories saw improved dollar volume and transaction growth in January, while the consumer use of credit also returned in January. Consumers have begun to show a preference for credit during much of 2011, although that waned towards the end of the year as PIN debit led all other payment types in December. Gradually improving fundamentals, including lower unemployment, are also aiding consumer sentiment at the start of the New Year. As we said last quarter, we continue to remain hopeful but cautious in our outlooks for the US economy.

With that I'll turn it back to Ray and Chip, and we will be happy to take your questions.

Chip Swearngan - *First Data Corp - SVP, Communications and IR*

Thank you, Jon. 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'll let you know when we have time for one final question. Participating in the Q&A are Jon Judge, Ray Winborne, Ed Labry, and John Elkins.

So, we'll now go to the operator for our first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

And also, please state your name and company before the questions. Ana Goshko, Bank of America.

Ana Goshko - *BofA Merrill Lynch - Analyst*

Hi. Thanks very much for taking the question. First one is on the positive impact in core Merchant Services revenue of the lower debit interchange rates, would like more color on really what you saw, what the mechanics of that was, and what channels, and I think most importantly, if you believe that's sustainable. Should we expect to see the same kind of year over year positive impacts in the coming quarters?

Ray Winborne - *First Data Corp - CFO*

Good morning, Ana, how are you?

Ana Goshko - *BofA Merrill Lynch - Analyst*

Great. Thank you.

Ray Winborne - *First Data Corp - CFO*

Looking at your question, the benefit of the lower interchange rates was in the range of our expectations. Of course the distribution channels do control that pricing and to answer your question, we did see that benefit across all of those channels where that was recognized. They did hold some of that benefit. We do still anticipate this being a transitory benefit though that will be competed out over time, but it's holding up to what we thought it would so far and we'll continue to expect to see that benefit certainly through the rest of 2012 but at a diminishing return. The Durbin benefit aside though, the revenue growth and margin and RAS business was still solid this quarter and we'll continue to grow it going forward.

Ana Goshko - *BofA Merrill Lynch - Analyst*

Okay, thanks for that and then the second question is also on the second positive trend you mentioned in RAS, which was the additional BAMS processing revenue. Wondering if you could tell us what the inorganic impact of that was on a year over year basis in terms of revenue and EBITDA and I know that you had mentioned that there were going to be additional costs so want to make sure all those costs are reflected in the quarter, or are there still costs to come on in the first or second quarter?

Ray Winborne - *First Data Corp - CFO*

Got you. Yes, as I mentioned on the last quarter we took over responsibility for that platform as well as the operational support for some of the other processing platforms. The annual revenue we expect off of that business in '12 is the $65 million to $70 million range so you'd be safe to take about a quarter of that since we started this transition October 1 of 2011. Very little in the way of cost or capital in the fourth quarter but we continue to expect transition costs to be in roughly that $75 million range in 2012. And that won't be linear. It will really kind of tie to the transition and the re-platforming within our data centers.

Operator

Jeff Harlib, Barclays Capital.

Jeff Harlib - *Barclays Capital - Analyst*

Hi, good morning. Just continuing with RAS, can you talk about the revenue per transaction which was up decently? I know there was some benefit from some deconversions but that seems to be tracking better than it has been and given the environment, somewhat surprising, if you can talk about that. And also how you're looking at pricing pressure, the historical 3% to 5% in that business going forward.

Ray Winborne - *First Data Corp - CFO*

Yes, I think if you look at that revenue per transaction up underneath the benefits of the lower debit interchange and the new processing revenue we get off of BAMS, which of course that processing revenue we already had those transactions so that's helping that positive year over year growth in revenue per transaction. Underneath those two, the trend is still down and it's actually I'd say it's probably slightly better than what we saw in the first half of 2011 but it's still in that 5% to 6% range so we're continuing to see that the same pressures we had seen. I'd tell you they are not getting any worse nor are they really getting any better.

Jeff Harlib - *Barclays Capital - Analyst*

Okay, and on the overall pricing, the 3% to 5% model?

Ray Winborne - *First Data Corp - CFO*

And on that compression, the way we started to talk about it with you guys is on the revenue per transaction. That's a better view of price compression in my view because it mixes in the rest of the factors that can affect your revenue. Pure price compression I think was a limited subset that really focused on contract renewals, but if that's your specific question around price pressure we're seeing in the markets, I haven't seen any increase in that. It's kind of still running on a blended basis in that 3% to 5%, much heavier on the national end where the volumes are and again on the lower end we're still seeing price increases just the way the revenue model works in the industry.

Jeff Harlib - *Barclays Capital - Analyst*

Okay, and then my follow-up just on the cost savings. Can you just quantify? I know you talk the individual segments but what was the overall year over year cost savings realization in the quarter and then the increase in the LTM cost savings add back if you have that break down?

Ray Winborne - *First Data Corp - CFO*

Yes, if you look at the cost savings I assume you're talking about what we disclosed in the covenant EBITDA calculation.

Jeff Harlib - *Barclays Capital - Analyst*

Right.

Ray Winborne - *First Data Corp - CFO*

The $177 million there in large buckets about $40 million of that relates to BAMS of our Bank of America merchant processing, about $10 million is overhead and workforce reductions that we've got in process, about $10 million is continued benefits of data center consolidation. About $15 million in procurement savings and then $100 million in operating efficiencies. And that's mainly in our operations and technology groups and we're getting that from productivity, moves to low cost locations, infrastructure changes that save us on maintenance, software savings, and labor efficiencies, and then some service delivery improvements we're also making which include off shoring and near shoring. If you think about that $100 million it represents mid single digit productivity rate on the base of expenses within that group.

Jeff Harlib - *Barclays Capital - Analyst*

Thank you.

Ray Winborne - *First Data Corp - CFO*

And as far as achieved savings, we achieved about $75 million. That's a year over year full year type impact and we added about $90 million in new initiatives for the forward-looking 12 month period and then there was about $20 million of the difference is changes in estimates of future savings.

Operator

Manish Somaiya, Citigroup.

Ray Winborne - *First Data Corp - CFO*

Hi, Manish.

Manish Somaiya - *Citigroup - Analyst*

Hi, good morning and congratulations.

Ray Winborne - *First Data Corp - CFO*

Thanks. Good quarter.

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Manish Somaiya - *Citigroup - Analyst*

A couple of questions. One, Ray maybe if you can talk about your incremental $1 billion EBITDA target by '13, clearly we're into 12 months into that plan since you disclosed that to the market and I guess if you look at the global GDP growth forecast clearly they are much lower than where they were about a year ago. So maybe if you can balance the fact that global economy is expected to grow less than what was forecasted a year ago and you still have that $1 billion target coming up. Obviously you've done a great job on cost savings, so maybe a little bit on what the potential of that is.

Ray Winborne - *First Data Corp - CFO*

You know, Manish, you've seen the results. We made great progress in the past year, we've increased EBITDA to $2.25 billion in 2011. Our longer term goal continues to be that $3 billion plus of EBITDA and our strategic plan still drives to that goal. But to your point given the weight that the macroeconomic conditions have in our business, the timing of achieving that goal could be different from our plan. We will continue to look at cost and other levers that we've got to continue to grow the business but that is an unknown. We have to factor that into our plans and we put it back together and I'll tell you as a management team, we have not relaxed our objectives whatsoever.

Manish Somaiya - *Citigroup - Analyst*

So, Ray, can you give us more of an understanding on perhaps the different buckets pertaining to that plan just so that we have a better visibility and transparency?

Ray Winborne - *First Data Corp - CFO*

Yes, I could give you the large buckets again, Manish. Where we're driving and you don't always know when you're looking ahead three years exactly where things come from, but where we are focused is top line growth. I mean, that is key to this model. It's a fixed cost structure and it's leveraging the power of the distribution that we've got, so we're very focused on expanding merchant acquiring. You'll see that we've finally turned the issuing business around in the states so that's going to start growing so that's a big help. And product innovation is a key piece of this, as I mentioned taking those 4 million locations in the US on the acquiring side and pushing more and more product to those merchants, and you heard some of Jon's comments around that in new ways that we think we'll make money in adjacent markets to pure acquiring. Beyond that, it's cross-selling the other products between prepaid, that business is still growing very strong. We think we will see a large terminal refresh over the next couple, three years as mobile takes hold, and then lastly, it's going to be cost discipline. You've seen us do it in 2011. We're continuously looking at increasing our productivity and getting more with less, just getting better and better around process, and there's still opportunity there, while we've done a lot in the last two to three years, we've got places where we can get better and we think that will help contribute to that growth.

Manish Somaiya - *Citigroup - Analyst*

Okay, and then just my follow-up on the capital structure, I think Ray, you mentioned that you will be opportunistic but I think at one point, you said that 2014 was a focus point as far as terming that out. Maybe if you can just kind of help us as to how you look at these maturities, the 14, 15 and 16 and how you kind of prioritize them?

Ray Winborne - *First Data Corp - CFO*

Yes, we've gotten a lot already accomplished by getting that credit facility amended, getting $12 billion of debt moved out, you've got the $1 billion extension on the revolver so that does provide us with a lot of flexibility on what we do next. Clearly we're looking at the nearest term maturity in 2014 but there's really no preference on how we go about that to be honest, Manish. We're looking at all of the options and we think we've got the flexibility to balance the market conditions, what interest costs we think we'll have to take on depending on which tranche we look at there as well as the improving Company performance.

Manish Somaiya - *Citigroup - Analyst*

Thank you so much.

Ray Winborne - *First Data Corp - CFO*

Sure.

Operator

Franklin Jarman, Goldman Sachs.

Franklin Jarman - *Goldman Sachs - Analyst*

Thanks for taking my questions guys and congrats on the quarter. The first question I had was just with regards to the April 1 network exclusivity deadline, can you provide some more clarity around how you think that's going to drive transaction volumes as well as maybe pricing? And how should we be thinking about any potential incremental cost associated with that? Thank you.

Jon Judge - *First Data Corp - CEO*

Good morning, Frank.

Franklin Jarman - *Goldman Sachs - Analyst*

Good morning.

Ray Winborne - *First Data Corp - CFO*

Let me ask you your last question first as far as cost goes. That is the infrastructure is in. We've made the investment looking at that additional volume and so the incremental cost on that business is actually pretty small, so you won't see so you won't see a significant jump in cost there. On your question around volumes, I think we're all sitting here waiting to see what those are going to be. We've been pretty successful in the first phase of the journey here which is getting on the back of the card. The next step is routing the transactions, and as I mentioned in my comments, it has been extremely competitive, the networks have all really gone after this business, everyone saw an opportunity to go after share, but the routing rules are important as well. Lots of the merchants are really looking at their options there and what they can do driving price, so I think there's still a lot to play out yet that I don't have all of the answers to right now, but we continue to expect this to be a benefit to us for the full year. But more to come as we start to see those transactions flow after that April 1 date.

Franklin Jarman - *Goldman Sachs - Analyst*

Okay, great. And as a follow-up, I wanted to follow-up to Ana's question earlier, just going back to the revenue per transaction number, I mean it was obviously a pretty phenomenal performance in the quarter driven I think you know by the BAMS processing fees as well as the lower debit interchange. Is there a way for you to quantify what you think that one-time opportunity in terms of growth should be over the next year or maybe as I think about revenue per transaction growth over the next three quarters, three or four quarters or so, is 1.5% to 2% or a positive number something that you guys historically haven't really posted? Is that something that you think is achievable? Thank you.

Ray Winborne - *First Data Corp - CFO*

Yes, Frank. I think if you're looking at your model, the processing from BAMS obviously stepped up effective October 1 so that business is now flowing through First Data's results and then the RAS segment so the growth beyond that step up will be organic growth in volumes that process across BAMS, so you'll see a step down. We'll have that benefit certainly for the next three quarters until we lap the implementation there in the fourth quarter next year. Regarding the lower debit interchange rates, I think a good way to look at that is the average merchant contract that this would apply to is a three year contract and you've got a half life anywhere along that line, so 18 months I would expect that to compete away and it will be its highest point in the first month and it should go down from that point. So that's why we keep highlighting that it is a transitory benefit, so to sum up, we will continue to see growth off of that right up through the fourth quarter of 2012 but at a diminishing return.

Franklin Jarman - *Goldman Sachs - Analyst*

If I could just follow-up, is there any sort of quantification you can actually give to that benefit with regards to the debit interchange, maybe what you saw in terms of the first month as we think about how it should shake out over the next 18 months?

Ray Winborne - *First Data Corp - CFO*

Frank, you know I try real hard to be very transparent with our disclosures, but there's certain items that we just can't disclose specific amounts around.

Franklin Jarman - *Goldman Sachs - Analyst*

Fair enough. Thanks so much.

Ray Winborne - *First Data Corp - CFO*

Thanks.

Operator

Guy Baron, Deutsche Bank.

Guy Baron - *Deutsche Bank - Analyst*

Hi, good morning.

Ray Winborne - *First Data Corp - CFO*

Good morning, Guy.

Guy Baron - *Deutsche Bank - Analyst*

Just a couple quick ones on some of the same topics. You talked a lot, Ray about the general drivers within the segments this last quarter. Relative to gross margins, can you maybe quantify the improvement that was tied to seasonality versus mix, pricing, regulation, you talked a lot about regulation, the impact going forward. What I'm really wondering is as I look at the gross margin this quarter, what do you see as the trajectory or the sustainability of those margins as we go through the year?

Ray Winborne - *First Data Corp - CFO*

That's a deep question, Guy. I don't have all of the specific answers around each of those elements but you're dead on. Fourth quarter seasonality always has an impact. If you go back over time and look at the results in this Company, that is the highest quarter of the year so we did get a bump from just normal volumes there but if you heard my comments, it probably wasn't the strength of the seasonal bump we usually experience. The same-store sales volumes Q3 to Q4 were actually down about 80 basis points, so while we did see some bump in our revenue there, the seasonal impact was not quite as large as it usually is. As far as looking forward, if you look back over time, same thing first quarter, it is the seasonal low point each year as consumer spending activity affects revenue. And given that it's a fixed cost business that revenue impact also affects EBITDA from the flow through. But there's no one-time items of any significance back in the first quarter of 2011 as you look forward.

Guy Baron - *Deutsche Bank - Analyst*

Okay, and then as you do look to '12, you talked about puts and takes but how concerned are you right now relative to what's going on in Europe and then I guess tied to that, do you expect to be free cash positive in 2012?

Ray Winborne - *First Data Corp - CFO*

Yes, obviously looking at the situation in Europe, we've got concerns. We've got, we operated in Ireland or in the UK, Germany, Greece, Poland, are our main spots there. We really don't have a lot of exposure in some of the other countries that are struggling between Spain, Portugal, Italy, but that is a concern so we are pulling back on the reins as far as spending, really trying to control costs where we control them but at the same time we're growing. We are going to go after merchant acquiring because that's where the growth is and despite the lower consumer spending that you saw across Europe, our numbers are actually up there because we are a smaller player in several of those markets and we're taking share, so from that perspective, I still feel okay as far as where our plans in 2012 and how we'll execute there. In the US, our plans are calling for moderate GDP growth here in the 2% to 2.5% range and if it's different than that, we will adjust. Just like you saw us adjust in 2011. Now I wouldn't tell you that we could do a repeat of that kind of expense reduction but you will see a repeat of that kind of focus and discipline around cost if the top line is not growing because of the economy.

Guy Baron - *Deutsche Bank - Analyst*

Okay, and then just on the meaningful free cash generation this year, do you think that's likely?

Ray Winborne - *First Data Corp - CFO*

Yes, I think it's going to be tight. You see the disclosure around the interest and you heard me say that we will continue to invest in the business for growth. So between capital and the interest payments in 2012, free cash flow is going to be a squeaker.

Guy Baron - *Deutsche Bank - Analyst*

Okay. And then just a very quick follow-up. Maybe I'm over-analyzing your comments but there was some suggestion I think of there potentially being different timing to achieve the $3 billion target that you've laid out. I don't know if I heard that right but does that suggest any wavering at all around the target that you've laid out there for '14?

Jon Judge - *First Data Corp - CEO*

This is Jon, Guy. On that question, what Ray was saying was that he was acknowledging that there was some headwinds that continue in the economy but in terms of our plans, all of our plans, our three year strategic plan, our '12 plan and so on, has us still focused on that $ 1 billion and has us focused by the end of '13. Obviously the comments that you all have made are relevant comments and we'll see how it plays out but we made very good progress in '11. We've got very solid plans to make another significant year of progress in '12 and we've got two years between now and the end of '13 and quite frankly don't know what all of the puts and takes are going to be relative to the economies and so on. But we are focused on that $1 billion at the end of '13 and I think all Ray was saying was, is if it happens that it doesn't come at the end of '13 it's going to come and maybe it will flop in a little bit of '14 but all of our focus remains on hitting that $1 billion by the end of '13.

Guy Baron - *Deutsche Bank - Analyst*

Understood, thank you.

Jon Judge - *First Data Corp - CEO*

Yes.

Operator

Arun Seshadri, Credit Suisse.

Arun Seshadri - *Credit Suisse - Analyst*

Good morning, everyone. Glad to hear the sun is shining in Atlanta. Just want to start off, on the merchant side of things, do you have an opportunity to try and offset with the benefit from Durbin, do you have an opportunity to try and offset merchant pricing over the medium term, so try and lock in merchants so that your traditional 3% to 5% pricing you see better than that going forward?

Ray Winborne - *First Data Corp - CFO*

Good morning, Arun. Actually, we're running a lot of plays in there and Ed is on the line with us so I'm going to let him take that one and tell you some of the things we're doing to manage pricing in RAS.

Ed Labry - *First Data Corp - President, First Data North America*

Yes, I think, number one, I think there's a couple of different factors that are putting some pressure on pricing, definitely have the economy and the mix of transactions. And I think we've moved to more with a different interchange classifications that Visa and MasterCard have put out in merchant segments, you're beginning to see a shift more to interchange plus pricing, so more competition there as well. So as Ray talked about running plays I think that this isn't one thing we're going out and saying all merchants across all different portfolios are looked at differently, so definitely we're doing some things as it relates to adding product bundles associated with different merchant groups and so forth, and prepaid and check and some of these emerging technologies that are out there. So I feel pretty good that as Ray said earlier about what we achieved on that and looking forward we've got a pretty good strategy for pricing and growth in the merchant segment.

Arun Seshadri - *Credit Suisse - Analyst*

Okay, appreciate that. And then a quick follow-up. On the terminal refresh opportunity that you alluded to, Ray, is there any way for you to size that at least in terms of how many terminals you have out there, what these new terminals you know to enable mobile are likely to cost and sort of what, any way for us to try and at least get a ballpark in terms of what that could mean going forward?

Ray Winborne - *First Data Corp - CFO*

That's another business near and dear to Ed's heart. Ed you want to take that one and talk about the volume we've got out there?

Ed Labry - *First Data Corp - President, First Data North America*

Yes, I think this is something that's not just going to happen overnight. I think when Jon talked earlier about our announcement of Universal Commerce, it's more, this is just a lot more than just traditional payments that it's a whole population of the handsets, you saw Visa's V.me announcement yesterday with their earnings. It's a whole ecosystem of collaboration and merchants and the networks and handset providers and what I think it's going to do is allow for this terminal refresh. But there's many terminals out there that you can just simply add an NFC device that it's a modular device that could be added to a port. So I think that the longer term you're going to see new revenue streams, new recurring revenue streams on different transaction types as this takes place and I think that the terminal refresh won't be overnight. It will be over the period of three years as this new types of transaction emerge.

Arun Seshadri - *Credit Suisse - Analyst*

That was a great answer without telling us a whole lot. Well done. Just wanted to get a sense is there any way you could size that at all like in the number of terminals you have or sort of any way to size that at all?

Ed Labry - *First Data Corp - President, First Data North America*

Well, I mean, you have roughly 8 million merchants in the United States and you have to assume there's a terminal or multiple terminals at each location. So I think when you start looking at that, there's going to be some places might not ever be involved in this new, if you have extremely high average tickets you might not ever need a re-terminalization, so definitely the lower average tickets, the faster lanes where these types of activities are going to be more relevant. So you could have anywhere from a modular $50 device to anywhere from a $300, $400 device as a complete refresh, so you can multiply the number. So it's a big opportunity in the terminal industry. I think that if you look at First Data in just the percentage of revenue that's come from the terminal side versus the recurring revenue side, I think that yet there's some good news there, but the better news is in the creation of the new revenue streams, the greater transaction caused by this movement.

Arun Seshadri - *Credit Suisse - Analyst*

That's super helpful color, thank you very much.

Chip Swearngan - *First Data Corp - SVP, Communications and IR*

Operator we have time for about two more questions.

Operator

Jake Kemeny, Morgan Stanley.

Jake Kemeny - *Morgan Stanley - Analyst*

Hi, good morning. Ray, could you give us your sense of how much incremental secured debt capacity you currently have?

Ray Winborne - *First Data Corp - CFO*

Jake, we generally don't disclose that. If you look at that credit agreement which I'm sure you have, it's a pretty complex document with the multiple indentures, so I could give you an answer but it could be interpreted in multiple different ways, so I'd generally ask folks to go back, look at that document and interpret it the way they read it. Sorry for the non-answer but if I gave you an answer, it would be wrong.

Jake Kemeny - *Morgan Stanley - Analyst*

Okay, maybe we could circle back offline on that one. And then another one on the incremental EBITDA targets. So back in '07 and '08 the business on the whole used to do about 30% EBITDA margins and this last quarter you achieved 24%. Should we think of the mid 20%s as now kind of the new baseline for the business and do you think that you can get back to 30% EBITDA margins?

Ray Winborne - *First Data Corp - CFO*

I'm sorry I missed the first piece of your question. You're talking about the International business?

Jake Kemeny - *Morgan Stanley - Analyst*

No, on a consolidated business back in '07 and '08 the business used to do about 30% EBITDA margins.

Ray Winborne - *First Data Corp - CFO*

Yes, it's a different business than it was in 2007 in many ways but we're absolutely improving margins. If you've seen it the last two years across the business, if you look in RAS and FS in the US, those are both very strong mid 40%s type margins. As far as going a lot further north of that, I think it will depend on the new revenue streams from new products that are yet to hit the street. From an International perspective, yes, you will continue to see margin expansion there. I think for full year 2011 we were in the mid 20%s and longer term, we'll push that up into the 30%s.

Jake Kemeny - *Morgan Stanley - Analyst*

Great. Thank you.

Operator

Thomas Egan, JPMorgan.

Thomas Egan - *JPMorgan - Analyst*

Good morning. Guess I made it under the wire. So two questions. On the two network legislations, you talked before about having 20 commitments in various stages. How should we think about that as an upside for our models for the coming year? Is that, if you got all of those commitments and locked in but nobody chose to route over your network, in other words they chose to route over whatever other existing network they might have, is there still revenue upside for you in that model?

Ray Winborne - *First Data Corp - CFO*

Good morning, Thomas. No. That's the point. I think when you looked at the original thoughts as this legislation was moving through and the two network designation came in, the thoughts were, well there would be one network on the front, one network on the back. The way it ended up working in the end is there were multiple networks on the back in a lot of cases, so there will be, when the card is presented at a merchant or retailer there's going to be a choice on which network is used and retailers will have the choice to force it over PIN, over sig debit. They can encourage use either way and they will also have a choice under the new legislation on which network to choose, so you've got to see the transaction. One, you've got to be on the card which is what I was saying earlier. That's where we're checking the box. We're getting on to the back of the cards in these new FIs that we didn't have before, but that second step is to get the transaction and actually to see it and so that's why I can't give you 100% clarity. Now, when you look at the amount of transactions that we acquired naturally, just given our scale, you'd have to say we're going to see a fair amount of transactions, but no guarantees until we start to see the flow after April 1.

Thomas Egan - *JPMorgan - Analyst*

I understand, so I guess from our perspective the way to think about it is there's some upside to what -- theoretically there's upside to what we've seen so far, right?

Ray Winborne - *First Data Corp - CFO*

Yes, because you're really not seeing anything so far.

Thomas Egan - *JPMorgan - Analyst*

Right. Okay. And then just one last follow-up, and it's small, but on the new legacy settlement revenue that you got from BAMS, does that EBITDA come in at a margin similar to, less than, greater than existing margins?

Ray Winborne - *First Data Corp - CFO*

You know, we don't disclose specific customer margins but it's similar in that range of the RAS business, for similar size contracts, so it would be lower than the average but a good margin nonetheless.

Thomas Egan - *JPMorgan - Analyst*

Great. Thank you so much.

Chip Swearngan - *First Data Corp - SVP, Communications and IR*

Operator, thank you very much. Thank you, everyone for joining us for today's fourth quarter financial results call. We look forward to speaking with you in the future.

Operator

Thank you for your participation in today's conference. Ladies and gentlemen, this concludes the presentation. You may now disconnect. Have a great day.