THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

- Q1 2012 First Data Corporation Earnings Conference Call

EVENT DATE/TIME: MAY 02, 2012 / 2:00PM GMT

CORPORATE PARTICIPANTS

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

Ray Winborne *First Data Corporation - CFO*

Jon Judge *First Data Corporation - CEO*

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

CONFERENCE CALL PARTICIPANTS

Jeff Harlib *Barclays Capital - Analyst*

Manish Somaiya *Citigroup - Analyst*

Frank Jarman *Goldman Sachs - Analyst*

Arun Seshadri *Credit Suisse - Analyst*

Thomas Egan *JPMorgan - Analyst*

Guy Baron *Deutsche Bank - Analyst*

David Koning *Robert W. Baird & Co. - Analyst*

Jake Kemeny *Morgan Stanley - Analyst*

PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the First Quarter 2012 First Data Financial Results Conference Call. My name is Fab 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 Corporation - SVP, Communications & IR*

Thank you, Operator. Good morning, everyone. My name is Chip Swearngan. Thank you for joining us for this financial results conference call. Today's call will be focused on First Data's first quarter 2012 financial results. Ray Winborne, First Data's Chief Financial Officer, will be leading our call. 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.

Please turn to slide 2 for some important information about this call. Our comments today include Forward-looking statements and we ask you refer to the cautionary language in our Form 8-K, which was filed today with the Securities and Exchange Commission for information concerning factors that could cause actual results to differ materially from those in the Forward-looking statements. We will also discuss items that do not conform to generally accepted accounting principles and we reconcile those measures to GAAP measures in the Appendix in this presentation and as part of our quarterly results Press Release, which can be found on our website at investor.firstdata.com.

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

Ray Winborne - *First Data Corporation - CFO*

Thanks, Chip. Good morning and thanks for joining us today. As you can see from the results we released this morning, the strong momentum from the fourth quarter carried into 2012 with segments of the business even accelerating. For the first quarter, we delivered year-over-year top line growth of 5%. That's the highest we've seen in a couple of years now. That, along with continued focus on costs, led to adjusted EBITDA growth of 18%, demonstrating the operating leverage in this business model. The US economy has steadily grown over the past four to five months and the key macroeconomic indicators that correlate to First Data's business; employment levels, personal consumption, and bankruptcy rates have all improved versus a year ago.

Improvements in the economy, unseasonably warm weather here in the US, an extra shopping day from Leap Year, and when Easter fell on the calendar contributed to strong retail sales growth in the first quarter. Same-store sales volumes were up 9.5% over last year. That's about a 170 basis point increase compared to what we saw in the fourth quarter. Finally, I just mentioned that the first quarter last year was particularly weak, making it a little easier year-over-year comparison. In the US business, the economy began to strengthen in the second quarter, so I don't expect the comps to be as easy the rest of the year. The biggest threat we see in continued growth in consumer spending is rising fuel prices, which have historically been a drag on discretionary spending.

Internationally, the sovereign debt crisis and related economic woe's continue to weigh on growth prospects in Europe, where we have our largest international presence. But we've maintained solid volume growth in the acquiring business. We continue to make great progress on the capital structure this quarter, extending maturities on more than $3 billion in term loans and gaining additional flexibility in the credit facility to address the remaining maturities in 2014 through 2016. On the liquidity front, we ended the quarter with $1.5 billion in available cash and capacity on the revolver and we generated more than $2.5 billion in operating cash flow before interest payments over the last 12 months.

Let's take a look at First Data's consolidated results starting on slide 4. Due to the timing of holidays and consumer spending patterns, historically the first quarter is the lowest of the year in terms of volumes and revenue and this year is no different. Consolidated GAAP revenue for the first quarter was $2.6 billion; that's up $20 million or 1% compared to a year ago, despite a $71 million decline in debit network fees. The vast majority of debit network fees relate to interchange. The reduction in rates mandated by Durbin was the driving factor that led to this decline. Because of the pass-through nature of these fees, expense declined by that same amount, so there's no impact on our operating income.

The net loss attributable to First Data improved by $65 million versus last year, as operating profit doubled to $217 million. We manage the business using adjusted revenue, which excludes reimbursables and other items. We believe this is more meaningful in terms of understanding our performance. Adjusted revenue for the first quarter was $1.6 billion; that's up 5% versus last year. Adjusted EBITDA was $551 million in the quarter. That's up $83 million or 18% compared to last year. That was driven off of revenue growth and good flow-through as adjusted expenses were essentially flat to prior year. Overall EBITDA margin improved to 34% in the quarter; that's up nearly 4 percentage points versus last year.

Let's move into the segment performance, starting with Retail and Alliance services on slide 5. Retail and Alliance services revenue was up 11% in the quarter, driven by Merchant Services as product revenue was down slightly. EBITDA grew $66 million or 23%, benefiting from the top line growth, while expenses were up only 3% in the quarter. Margins improved to 42%, that's up from 37% a year ago. It's a nice margin expansion.

Let's go to slide 6 for a look closer at revenue drivers. In Merchant Services, which accounts for more than 70% of the RAS business, revenue was up $90 million or 17%, driven by lower debit interchange, additional processing revenue from our merchant acquiring alliance with Bank of America, and strong volume growth in the quarter. Lower debit interchange generated approximately $26 million of the year-over-year growth in the quarter. We continue to believe this will be a transitory benefit, given the highly competitive nature of merchant acquiring. Increased consumer spending drove same-store comps up in the mid-9% range and normalized transaction growth was 8%, which is 60 to 70 basis points better than what we were seeing in the back half of 2011. Revenue per transaction is an all in revenue yield that could be affected by a combination of factors, including merchant mix, pricing plans, attrition, new merchant sign ups, and contract renewals. This quarter, revenue per transaction was up 11%, benefiting from the lower debit interchange, additional BAMS processing revenue, and the loss of some relatively low yield transactions.

Absent the benefit of these favorable items, the year-over-year change was roughly flat, which is much better than the trend of down 4% to 6% we saw in 2011. Part of this improvement versus the trend is due to the timing of price increases in selected channels. We're also seeing improvement due to the overlapping of some price compression in national merchants last year. Lastly, we're seeing some overlap of the unfavorable merchant mix shift that we experienced in 2011 relative to 2010. I wouldn't say that, that's gotten better, but it hasn't gotten worse either.

Credit and signature debit mix was down slightly, but still relatively stable at 72%. The chart shows a pick up in the growth rate on PIN debit transactions, which being driven in the large merchant space. Consequently, we saw a slight negative impact to revenue. As I 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 is hovering around the $69 to $70 level, despite increased penetration in lower ticket industries, such as quick service restaurants.

Turning to product, revenue with the prepaid business was flat, as continued growth in open loop was offset by the disposal of a small ATM business last year and lower shipments of prepaid cards, most of which is timing-related and expected to catch up in the second quarter. Revenue from our Money Network payroll card grew nearly 26% in the quarter as we continued to penetrate the fast-growing segment of under-banked and un-banked consumers, while increasing electronic transactions. While volumes were up, revenue in the point-of-sale business declined 1% for lower equipment revenue due in part to a $4 million bulk sale in the first quarter last year. The mix of terminals in this business has also shifted to lower cost, proprietary models over time, impacting the top line, but actually improving our margins. Partially offsetting the decline in equipment revenue, the leasing business continues to grow at a double-digit clip on growth in new originations and lease renewals.

Finally, check processing revenue declined 8% year-over-year. Half of that decline is on lower check volumes, driven by the secular shift to electronic payments and the remainder is lower rate, as a larger share of the portfolio is now comprised of national customers. We continue to benefit from the larger base of credit rating data, which helping us lower warranty exposure across the portfolio and maintain our margins in this product. Turning to the results of the Financial Services Segment on slide 7, revenue grew 2% compared to a year ago, as new business and improved volumes more than offset lost business and pricing compression in this business. EBITDA improved $20 million or 15% the first quarter, driven by revenue flow-through and a $12 million reduction in expenses, primarily attributable to lower technology and operations costs. EBITDA margin improved to 46%, up 500 basis points versus a year ago.

Let's take a closer look at the Financial Services business on slide 8. Processing revenue, which accounts for about two-thirds of the total was up 3% or $7 million year-over-year, as the benefits of new business and underlying fundamental volume growth more than offset any lost business in the period. We saw a nice increase in active card accounts on file in the quarter, as we completed the conversion of the Kohl's portfolio in March. Even without this new business, active accounts were up 4%, reflecting a steadily improving consumer credit environment. Activity continues to climb with credit and retail transactions growing 14% over the prior year. Organic growth in the card portfolios we service was up 6% and private label card portfolios are back in favor with issuers. All positive signs for the future of this business.

Total debit issuer transactions, which include STAR network activity, increased 12%, excluding the transactions related to Wells, which is being reconverted with our from our platforms. The growth is being driven by the ongoing shift from cash and checks to debit and impacts from the implementation of the Durbin routing and exclusivity rules. The last major provision of the Durbin Amendment went into effect April 1, requiring all financial institutions to have at least two unaffiliated networks on their debit cards. As I've said before, getting on the cards is a critical first step. We've signed up over 35 new financial institutions to STAR, as a result of this effort. That represents over 25 million cards and we've started to see volumes beginning in March. But we're still in the early innings here and given the complexities of multiple thin networks on a card and the evolving strategies of financial institutions, merchants, and other networks, there's a lot yet to play out with respect to actual flow share of transactions. We'll provide further color next quarter after we've seen a few months of activity. Our Output Services revenue was up 2% as new print and plastic businesses offset some price compression and other revenue was flat as growth in our e-payments business was offset by declines in information and voice services.

Let's move to slide 9 for review of International. In the International segment, we continue to execute against our commitment to improve 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 issuing side of the business. While we typically see seasonal moderation in margins in the first quarter, our full-year revenue plan calls for year-over-year margin expansion in this business. Revenue for the fourth quarter was $405 million; that's down 3% compared to prior year on a reported basis. Currency was a $10 million headwind in the first quarter, as the dollar strengthened relative to the prior year against the basket of currencies affecting us.

On a constant currency basis, revenues were flat. Merchant acquiring grew 3% on higher transaction volumes and terminal sales and the issuing revenue was down 3%, impacted by lost business in EMEA and Asia Pacific, as well as exiting some low margin businesses. International results showed year-over-year improvement in EBITDA on continue cost structure reductions. EBITDA in the quarter was $95 million, that's up 4% versus a year ago, including an unfavorable foreign currency impact of $2 million.

Turning to slide 10, our International business is comprised of four regions; more than half the business is in Europe, the Middle East, and Africa. On a constant currency basis, total EMEA revenues were down 6%. Looking at merchant acquiring revenue on a constant currency basis, revenues were flat. While we saw good transaction growth in our bank alliances and our direct channel in the UK, revenue reflects the impact of the loss of Chase processing as they moved volumes back to their own platform and lower terminal revenues as we dial back on lower margin equipment sales. Issuing revenue in EMEA on a constant currency basis was down 11%. With that said, we're talking about $14 million; $5 million of which is lower revenue in Greece due to a combination of exiting low margin businesses and continued economic pressures on volumes there. The remainder is due primarily to business lost in prior periods across the region.

Asia Pacific revenue was down 1% on a constant currency basis. Modest growth in the merchant acquiring business was offset by the loss of a single issuing customer, disclosed last quarter. You can see the impact of that customer loss on accounts on file on the bottom right side of the slide. Revenue in Latin America continues to grow very strong; 19% on a constant currency basis on growth and transaction volumes, terminal sales, as well as higher pricing. Revenue continues to benefit from inflationary increases in Argentina; home to our largest business in the region. Lastly, the growth in Canada is attributable to both new issuing business, as well as higher acquiring volumes in that region.

Slide 11 provides a roll-forward of cash. We ended the quarter with $329 million in cash and cash equivalents on the balance sheet, plus $1.4 billion in available liquidity on the revolver, after borrowing $79 million at the end of the quarter to fund working capital needs and interest payments. Cash interest payments were $142 million higher this year, primarily due to the timing of coupon payments. You can find our quarterly projections for cash interest in the financial attachments to the press release. We continue to invest in infrastructure and product, improving our service capabilities, and strengthening security. Our capital expenditures, consisting primarily of equipment, capitalized software development, and customer conversion costs totaled $102 million in the first quarter and we'll continue to invest for future growth. Our capital plan in 2012 is targeted at 6% to 7% of adjusted revenue.

I would like to take a couple of minutes on First Data's capital structure on slide 12. We generated significant cash flow, over $2.5 billion before interest payments, over the last 12 months. We have no covenant issues and we have plenty of headroom in 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 limit of 6.5 times. We have ample liquidity sources with cash on hand, $1.5 billion revolver, and cash generated from operations. We have no significant debt maturities until September of 2014 and a weighted average interest rate of 8.5% across the debt structure.

As you can see on this slide, our maturity ladder and liquidity profile has improved dramatically over the past two years. We continue to make progress on the capital structure, successfully closing another amend and extend in March, bringing total maturity extensions to over $15 billion since we began this journey in June of 2010.

Currently, 74% of our debt is fixed rate or swap to fix rate. We have swaps expiring in September this year on $5 billion of our term loans and an average fixed rate of almost 5%, which is well above current LIBOR rates. In order to lock in the benefit of the lower LIBOR curve, we executed four starting step up swaps that will replace the $5 billion of expiring swaps this year. The weighted average rate over the four-year life of these new swaps is 1.3%. That starts on 59 basis points in the fourth quarter of '12, moving up the curve from there. The reason I mentioned this is 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. Cash interest payments will increase in '12, largely due to the timing of coupon payments. But using the current capital structure and forward curve, we're projecting cash interest payments to decline to $1.7 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 this balance sheet to reduce our risk and provide time to execute against the business plan. The recent amendment provides us additional flexibility to address remaining maturities in 2014 to 2016 in a thoughtful and opportunistic way.

I'm going to turn the call over to Jon Judge for his comments on the quarter. Jon?

Jon Judge - *First Data Corporation - CEO*

Thanks, Ray, and good morning, everyone. Let me add my thanks to Ray's for your joining us today. We really do appreciate your interest in our Company. I'll make a few comments on our quarter's results and business activity and close with some observations about the economy and then Ray and I'd be happy to take your questions.

To begin with, we're obviously very pleased with our first quarter performance and to again, see strong results in our EBITDA with an 18% increase in the quarter and an EBITDA margin improvement of 4 points compared to a year ago. We had a busy first quarter. We spent time aligning our employees and sales teams around our 2012 strategy by conducting a series of meetings at key operating locations around the world. As a result, our sales teams are better trained and prepared to cross-sell First Data solutions than ever before.

Earlier this week, we hosted our customers at a similar conference in New Orleans, so they could hear how we're driving product innovations, which include some pretty exciting developments in mobile payments and information services. We are also pleased to bring the Kohl's credit card customer base onto our system during the quarter. It's one of the largest conversions in the history of our Company and in the industry. We established this business relationship in 2010 and after careful planning and joint implementation activities with Kohl's, we converted their accounts onto our system just following the 2011 holiday season. We were also pleased in January to sign a long-term contract renewal for our merchant services alliance with SunTrust Bank. Based on the bank's 1,650 locations throughout the Southeast and Mid-Atlantic regions, SunTrust Merchant Services serves over 67,000 merchants and contributes significantly to the breadth of our distribution capability in the United States, which counts over 24,000 bank branches in all.

Also in the quarter, we debuted Universal Commerce at the National Retail Federation Big Show in New York. It's our perspective on the next generation of payments, where smart mobile devices will converge with the ability for merchants and manufacturers to market directly to consumers and for consumers to provision their phones with credit cards, debit cards, store cards, or prepaid cards to handle payments. We believe consumers will be increasingly empowered with relevant information and coupons prior to making a purchase, which will likely be delivered over mobile platforms. In February, continuing our build out of First Data's Universal Commerce Solutions, we announced the pilot of OfferWise product, the new open platform that simplifies the redemption process for consumers and merchants. The First Data OfferWise solution allows publishers to electronically attach offers such as deals, e-coupons and loyalty programs to a consumer's payment card or mobile wallet to enable streamlined and automatic redemptions of the offer at the point of sale. We debuted the service in Austin, Texas during the South by Southwest Festival, where a publisher called WhaleShark allowed consumers to load offers for mobile food vendors to their payment cards. Since then, we've been piloting the OfferWise Solution with selected merchants and we expect its general availability to occur this quarter in order to serve our base of more than 4 million US merchants.

Also during the quarter, we were extremely pleased to receive our investor's support of the credit amendment we sought and the resulting extension of $3.2 billion of the senior secured term loans, previously expiring in 2014, now to 2017. Thanks to our investors, we've now successfully extended over $15 billion of our debt from the 2014/15 timeframe to 2017 and beyond which gives First Data even greater flexibility surrounding its capital structure.

Let me say thank you to those investor's whom have supported us in these endeavors. Let me close my comments with some observations on the economy. From our perspective as the nation's largest payment processor, we're uniquely positioned to look at payment transaction trends in the US. First Data's macroeconomic SpendTrend report showed a surge in spending in March. Mild weather across much of the nation encouraged retailers to promote sales of spring merchandise, providing an additional catalyst to customer traffic. Discretionary spending remains strong despite a rise in gasoline prices. Year-over-year dollar volume growth was 8.7% in March compared to February's 8.9%. In April, however, preliminary results indicate that card spending growth has eased somewhat. We believe this was largely caused by an early Easter, causing many consumers to make their Easter holiday-related purchases in March this year. Last year, Easter was in late April, which resulted in those purchases being made in April. In addition, cooler weather in April likely contributed to less foot traffic and therefore fewer sales.

Recent consumer preference for PIN debit continued in April. This was, in part, influenced by a higher percentage of taxpayers electing to have their tax refunds electronically deposited into their bank accounts and shifting more discretionary purchases to PIN debit cards instead of credit cards. The full April data will be available with the publishing of our spend trend on May 9.

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

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

Thank you, Jon. Two quick ground rules for the Q&A portion of this call. Please limit your question 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.

Operator, we're ready to take the first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Jeff Harlib, Barclays.

Jeff Harlib - *Barclays Capital - Analyst*

First Ray, with the RAS, can you talk about, obviously a very, very strong merchant services growth. You mentioned adjusted for the additional BAMS revenues and lower debit interchange, it was revenue per transaction was flat. Given some of the trends in average ticket and what you're seeing with strong PIN debit, are you looking at that as being able to be maintained or are you still looking at 4% to 6% as a normal revenue per transaction? And any other color on some of the comments you made on the timing of price increases, et cetera?

Ray Winborne - *First Data Corporation - CFO*

Yes, Jeff, it's a good question. It's one we've been studying. Obviously, we were very pleased with that result; both on reported and a quote-unquote normalized basis. I want to careful about providing any specific guidance going forward, but to give you a little more color on how we're thinking about it, throughout the rest of '12, those tailwinds should carry through with a couple of exceptions. The timing of pricing adjustments could take that back closer to historical norm of 4% to 6% that we saw last year.

Of course, post third quarter, we'll grow over those two benefits that I just mentioned. I would expect, beyond that point, we'd probably start to revert back closer to the historical norm, just due to the natural price compression in this aggregated business and some of the industry pricing trends with interchange plus. I am still optimistic that we can bend the curve with new product introductions and cross sale to minimize that. But I don't know that I'd take a ruler out and say that on a normalized basis, in '13-'14 we're going to get to zero price compression or even expansion at this point.

Jeff Harlib - *Barclays Capital - Analyst*

Okay. The follow-up on cash flow, it looked like working capital was $149 million usage in the quarter. Is that something that should reverse? What does that relate to? Also on the cash flow attributable to non-controlling interest was somewhat lower than it's been, can you just talk about the outlook on that line?

Ray Winborne - *First Data Corporation - CFO*

Sure. When you look at the working capital, like most companies, the first quarter is when we pay our incentive payments out related to the prior year on bonus and that was about $100 million of that drag that you saw in working capital. There was another $50 million that it's timing as well, related to pre-funding out on sig debit. Depending on where the quarter ends, on what particular day, we can end up with a spike in funding there that turns around and reverses the next day. If you're looking out beyond the first quarter, I would expect that use of working capital to decline significantly for the full year.

First quarter does not reflect much in the way at all of working capital improvements and we do have additional planned improvements for the rest of the year. With respect to the minority interest, that should be closer to the norm that you're going to see going forward. You saw a higher number last year, generally related to our alliance with Bank of America, where we were continuing to accelerate cash distributions, both from working capital initiatives, as well as changes in the way that we fund interchange in that business. That 15 net I think was the number for the quarter, will be more close to the norm on a quarterly basis. Obviously, it should grow as earnings grow, but you're not going to see huge spikes there.

Jeff Harlib - *Barclays Capital - Analyst*

Great, thank you.

Operator

Manish Somaiya, Citi.

Manish Somaiya - *Citigroup - Analyst*

Just to talk about spend trends, perhaps if you can just give us some color on what you're seeing in Europe and perhaps correlate that with Q1 margin performance in international? I thought the international margins looked a bit light vis a vis what we saw in 2011.

Ray Winborne - *First Data Corporation - CFO*

Yes, Manish. One, I'll repeat what we talked about in the last couple of quarters with respect to international. There was a significant amount of effort around cost reductions, structural cost changes in that EMEA, business, so I don't expect that kind of performance to repeat on a year in, year out basis. Certainly not until we start getting a lot more revenue growth out of there. With respect to the austerity and some of the economic pressures in Europe, it is obviously impacting volumes there, although not to the extent that you might expect.

Certainly in our business, I can tell you it still feels like we're gaining some share there if you look at our transaction growth relative to same-store transaction growth in several of those markets. I don't have as good of data in Europe as I've got here in the states, because obviously we don't have quite the share there that we have here, so the same-store data is not quite as representative as I tell you it is here in the states. But the data we do have says that our process transactions are growing faster than the market, which means share.

Manish Somaiya - *Citigroup - Analyst*

Got you. What about the 30% margin target? You guys still pretty comfortable achieving that in 2012 for the international segment?

THOMSON REUTERS

Ray Winborne - *First Data Corporation - CFO*

Yes, we posted 26% margins for the full year 2011. We are absolutely committed to getting those margins to 30% over the longer term. Whether we hit that full year goal in '12 or not, yet to be seen, depends on some of the top line, but we will certainly expand that margin above the 26%.

Manish Somaiya - *Citigroup - Analyst*

Got you. Is it fair to assume that we should think about sequential improvements in margin in International?

Ray Winborne - *First Data Corporation - CFO*

Yes. I think you'll see expansion for the rest of the year.

Manish Somaiya - *Citigroup - Analyst*

Turning to Ed Labry, one of the peers in the industry had some security breach issues and wanted to get a sense as to what that means for First Data's security-related spending.

Jon Judge - *First Data Corporation - CEO*

Manish, this is Jon. First and foremost, those types of situations are difficult for everyone in the industry, not just the one who it hits. As you know, the bad guys, if you will, are continuing to put more money and more pressure into this world. It causes all of us to be extremely vigilant. We view that as to be one of the significant risks to our business and as such, we do a tremendous amount of planning around security. We do a tremendous amount of spend around security. It's one of the areas that we literally will not cut any corners.

We have a very sophisticated, very complicated approach to in-depth security in our business. It's a multi-level security. It's combined with management systems and measurement systems and education of our people and so on. I would say that there's not really anything that happens to us relative to the breach because we had been so much on alert before that particular breach you're mentioning happened. We did talk with the company. We do encourage them to share with us anything that they know as we would do with all the other players in the industry because this is essentially a war against the hackers and the bad guys.

To the extent that we can learn from each other's incidents, then we'll all be stronger for it. There is nothing in particular that I can tell you we are doing different, other than making sure that we know as much as we possibly can about this incident and where it came from and to ensure that we are well guarded against it, if it's a new variety. But not a whole lot more than that, because, as I said earlier, this is something we're completely focused on, because we believe it to be one of the significant risks to our business and our industry.

Manish Somaiya - *Citigroup - Analyst*

Thank you, Jon, and thank you, Ray. Congratulations on a strong quarter.

Operator

Frank Jarman, Goldman Sachs.

Frank Jarman - *Goldman Sachs - Analyst*

The first question I had was just with regards to the Durbin exclusivity effects. You mentioned that you'd signed 35 new financial institutions in the quarter. Can you comment or help us think about how pricing compared, maybe to these new contracts versus some of your existing contracts?

Ray Winborne - *First Data Corporation - CFO*

Good morning, Frank. I'm going to put that one over to Ed and let him talk a little bit about that.

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

Yes I think that really the law in itself or the rules and regulation in itself actually helped us there a little bit on the pricing for contracts. Because you really couldn't get in a situation where there's many components on the revenue on a PIN-based transaction that comes from about three different sources and what the regulation eliminated is where the bank would be in a less than zero situation. This allowed us to come into regulated banks in a good, profitable situation and I think that definitely, this has got to play out a little bit further. Yes, April 1 brought the banks and their BIN files to the system and I think there's a couple of different things to play out, which will actually take away from some of the profitability of the contract. Those come in the form of retailers and the routing mechanisms that they're going to use and the incentives you have to pay to get those transactions routed to you in a priority. The second thing will be receiving transactions from third party processors. Even though the first part of this has played out and the BIN files ran, the second and third pieces have to play out.

Frank Jarman - *Goldman Sachs - Analyst*

Got it. Thank you. The follow-up question I had was just on the credit versus debit mix info that you guys provided for the quarter, it looks like it's remaining relatively stable here. As I think about the interchange impact from Durbin, do you have any read into origination shifts between credit or debit? More importantly, I guess, sig debit versus PIN debit when we think about the origination side from the bank's perspective? How should we think about that potentially having an impact packet on credit versus debit mix going forward?

Ray Winborne - *First Data Corporation - CFO*

Yes, Frank, I don't know much insight I can give to you going forward. But looking at the quarter, we definitely saw a shift to sig debit. It was about a 6% shift quarter versus quarter, sequentially, from credit to sig debit and you also saw the PIN debit is growing faster this quarter as well. You did see a mix shift there from credit to debit.

Frank Jarman - *Goldman Sachs - Analyst*

Okay, great. Thanks very much. Nice quarter.

Operator

Arun Seshadri, Credit Suisse.

Arun Seshadri - *Credit Suisse - Analyst*

First, on the additional question on the non-exclusivity side -- can you talk about whether there was incremental volume through STAR for the first few weeks that the non-exclusivity has been in place?

Ray Winborne - *First Data Corporation - CFO*

Yes, you saw, on the chart, the debit issuer transaction -- that included STAR activity. If you look at the normalized borrowing, Arun, it's up 12% this quarter versus 7% last quarter. A piece of that, most of that growth is coming off of the exclusivity and some of the early boarding of some of our new FIs on there. There's also increases in transactions related to routing. Some of the routing that merchants are putting in creates additional volume for us, as well, when we route to other networks.

Arun Seshadri - *Credit Suisse - Analyst*

Okay, that's helpful. Basically, what you're saying, Ray, is that there is definitely some benefit to your EBITDA that you are already seeing from these incremental transactions?

Ray Winborne - *First Data Corporation - CFO*

Yes, there's definitely benefit there. But don't forget, Arun, this is not a huge business within the context of First Data. You're talking about $6.5 billion revenue stream, the STAR network is a very relatively small piece of the pie. But growing nonetheless, so I'm not going to discount it. But when you think about those transactions, that was about a month's worth of activity we saw and some of that really even boarded toward the end of the month. I think we're just going to have to see volumes for the next three to four months and see how share starts to shake.

Arun Seshadri - *Credit Suisse - Analyst*

Okay. Appreciate it. One additional question for you -- obviously, you have seen your competitor Vantiv come to market with an IPO which has traded pretty well. It trades at a pretty nice multiple, which would possibly imply equity value at First Data. What are your thoughts in terms of potentially pursuing an IPO this year to try to take advantage of some of the trends that you're seeing in the payment processing space, generally?

Ray Winborne - *First Data Corporation - CFO*

I think we've always had equity value here at First Data. I do like the rate that, that thing is trading at right now. It's probably somewhere between 10 and 12, depending on what you believe about future EBITDA. But yes, it's obviously one of the primary delevering events that we've got on the list and it is all going to be dictated by timing of growing EBITDA. Where we are right now is heads down, focused on generating more and more EBITDA, getting to the right level where an IPO might make sense for the equity holders, but that is the obvious path to delever here.

Arun Seshadri - *Credit Suisse - Analyst*

Thank you.

Operator

Thomas Egan, JPMorgan.

Thomas Egan - *JPMorgan - Analyst*

I just wanted to follow-up a little bit on some of the pricing comments that you made to Jeff earlier. I think one of the CEOs of a competitor of yours, arguably one of the more aggressive on price, said something yesterday to the effect of that there's probably less pricing pressure right now than he had ever seen in his career. The first part of the question is do you think that, that lack of pricing, first of all, are you seeing that lack of pricing pressure? Are you seeing that as well? Second, if you are, is that directly related to the Durbin regulatory effect? And if it is, does it fade at the same time?

Ray Winborne - *First Data Corporation - CFO*

No, I'll tell you, based off my comments, if you look at our revenue per transaction, which is that all in measure reported basis up 11. If you strip out some of the interchange impacts, the favorable items that are in there that are timing-based, you're still at roughly flat, which is much better than the trend of 4% to 6% down that we saw last year. I would tell you based off of that, we did see less pricing pressure overall in the portfolio. Now, again, to my comments to Jeff, I think we continue to see some tailwind until that trails off. I'm optimistic that we do hang in this area. But one quarter doesn't make a trend.

Thomas Egan - *JPMorgan - Analyst*

True. Thanks. Second question is, you guys bought the 30% of OmniPay that you didn't own. I wonder if you could just comment a little bit on what was the trigger for deciding to do that? Was it the other tax issues that you were considering? Is it just that FEXCO was looking to sell? What caused you to do the transaction when you did?

Jon Judge - *First Data Corporation - CEO*

This is Jon Judge. The short answer to that is it fell out of our strategic planning. When we were going through our three-year plan and then going through all the various businesses that we have, the ones that were in, the ones that were not in, and trying to decide whether they were attractive businesses for us, looking at all the different platforms that we have in the company, the thing that became obvious to us, relative to OmniPay was this was a platform that had two really attractive features to it. One, it was extremely, functionally rich and two, it was a relatively low footprint cost. As we looked at the different opportunities around the world, and what this particular platform could potentially hold for us, it became an investment decision that we wanted to make relative to investing in this platform and then driving the sale of this platform into more markets than it was in today.

As a consequence, it made a lot more sense, if we were going to put that investment in that we would want to have 100% of the company as opposed to 70%. Our relationship with FEXCO and the owner of FEXCO is extremely good. Our relationship with them survives this transaction. We will be their largest agent selling their DCC product around the world. We've had a very good history with them, we expect we are going to have a very good future with them and who knows?

They haven't stopped developing products. They may bring some other products into play that we could be a great distribution arm for them. The main driver though, was, it became obvious to us that this was a really good platform for some of the growth areas that we saw in the world. Given the fact that we were going to make significant investments or investments into it, it made more sense for us to try and see if we could get complete control of the company. That's really the background on it.

Thomas Egan - *JPMorgan - Analyst*

Great. Thank you.

Operator

Guy Baron, Deutsche Bank.

Guy Baron - *Deutsche Bank - Analyst*

How much of the Q2 results specifically in R&A would you attribute to timing impacts, Easter, Leap Year, weather, et cetera? Do you see typical Q2 seasonal trends of up mid to high single digits holding this year as well?

Ray Winborne - *First Data Corporation - CFO*

Good question. I wish I knew the answer. That is why I highlighted a lot of those guys. When you look at, it's very difficult. I think that's been pretty consistent with a lot of companies to parse out how much of this is some pull-forward spending. We're just going to have to wait and see second quarter to see how the volumes shake out. When you look at April, we did see a decline off of that high single digit rate. Whether that's a trend that continues the next quarter, not sure, but it's still growing pretty healthy despite that.

Guy Baron - *Deutsche Bank - Analyst*

Okay. Relative to the balance sheet, Ray, at this point, you talked about a lot of the work that's been done so far. How willing would you be, at this point, to stretch liquidity and tap the revolver to take advantage of current market conditions?

Ray Winborne - *First Data Corporation - CFO*

Probably not very likely. We've got the flexibility at this point, given what we've gotten accomplished. Right now, I'm balancing market conditions at cash interest costs and then our performance. You've seen our performance, the last five quarters, we've averaged 12% growth. That's continuing to perform that will help as we go back to market again. We're going to focus on those closest in maturities with an eye toward getting the most cost effective trade that we can get. All that being said, I probably still wouldn't lean too much on the revolver in order to do that.

Guy Baron - *Deutsche Bank - Analyst*

Okay. Then just a real quick housekeeping question -- the benefits from lower interchange that you talked about and identified, is that 100% benefit to EBITDA?

Ray Winborne - *First Data Corporation - CFO*

Pretty close. That's a pricing mechanism.

Guy Baron - *Deutsche Bank - Analyst*

Okay. Great. Thank you.

Operator

David Koning, Robert W. Baird.

David Koning - *Robert W. Baird & Co. - Analyst*

Great job on the merchant services yield. My question is, I know a lot of different things are contributing to the improvement, Durbin, maybe a mix shift to smaller merchants and various other things. If we just isolate the large national account, is revenue per transaction also up there or are these more than normal flat to down a little bit?

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

Ed Labry. The national space has always been competitive and we're seeing good transaction growth in those guys. Definitely price compression and the competitive nature of the business has always been there. The great thing about the national space, you are already in a sub 2 cent environment in a lot of, most places so there is not much room downward from there. That's just environment we all live in if you're going to participate in that space.

David Koning - *Robert W. Baird & Co. - Analyst*

Okay. Great. Just my follow-up, I believe you're the second largest processor of PIN transactions after Vantiv. Have you seen any benefits starting in April 1 from routing incentives? If so, are these more ongoing than maybe the more transitory Durbin interchange benefits?

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

What we saw on April 1, I don't want to be repetitious, but I think that it was the mad dash to get the contracts done and the BIN files in. I think there's been some regulatory changes by the card associations in the form of their PIN mandates and then their bpap requirements, from a Visa/Mastercard perspective. The chess moves will be, on the competitive front, or the initiation of VPPs and then other incentive programs that people put in place. Like the fan fees that are being charged by Visa and how that will be and how they incent transactions.

I don't think those things have quite played out. Definitely we are a little disappointed, probably in the BIN files we received, because we didn't receive any of the top four. I think we talked about that last time. But the 20 or so top banks we did get, they're on and we have the volume that we anticipated and now it'll be our goal to hang on to it long-term.

David Koning - *Robert W. Baird & Co. - Analyst*

Okay, great. Thank you.

Operator

Jake Kemeny, Morgan Stanley.

Jake Kemeny - *Morgan Stanley - Analyst*

I was wondering if the drawings under the revolver had been repaid subsequent to the end of the quarter? And if you expected to have to continue to use revolver draws to fund the coupons this year?

Ray Winborne - *First Data Corporation - CFO*

No, we're still in the revolver right now as of yesterday. But it is a seasonality thing. We had the coupon payments on the March coupon payments, sorry, carried over into the second quarter because of the end of the day of the month that the quarter ended on. That is really what's got us there. But I would expect us to continue to use it sparingly throughout the year, mostly around interest payments.

Jake Kemeny - *Morgan Stanley - Analyst*

Okay. As you think about the cap structure, you mentioned a couple of times increased flexibility to address the maturities through 2016. I was wondering if you could just elaborate a little bit on what you think that flexibility includes? And some different kind of strategies you guys are thinking about in terms of addressing the front part of the maturity profile?

Ray Winborne - *First Data Corporation - CFO*

The main thing I'm referring to there is the fact, in this last amendment, we did get the ability to take out the 14 maturities, with secured bonds. We didn't have that ability before and now we are getting now to a point with that 14 maturity ladder or tranche that if some of those guys can't extend due to personal situations, so that's the flexibility I'm speaking to there. As far as where we're looking, I think we've executed pretty well to-date and I expect we'll continue to improve upon what we've done in the past, but no specifics, really, on structure or timing at this point.

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

Operator, if there are no final questions, we can conclude today's call. I would like to thank everyone for participating in this first quarter financial results call. We look forward to speaking with you in the future.

Operator

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

THOMSON REUTERS