THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

- Q2 2015 First Data Corp Earnings Call

EVENT DATE/TIME: JULY 29, 2015 / 9:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Glenn Fodor *First Data Corporation - SVP, IR*

Himanshu Patel *First Data Corporation - EVP, Strategy, Planning & Business Development*

Mike Neborak *First Data Corporation - EVP, Director of Finance*

PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Welcome to the second quarter 2015 First Data financial results conference call. My name is Vanessa and I will be your operator for today's call.

Please note that this call has been prerecorded and there will be no question and answer session for today's call. All participants are in a listen-only mode. (Operator instructions.) As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the presentation over to Mr. Glenn Fodor, Senior Vice President, Investor Relations. You may begin, sir.

Glenn Fodor - *First Data Corporation - SVP, IR*

Thank you, operator, and good afternoon, everyone. I would like to welcome you to our second quarter earnings call.

Our Executive Vice President of Strategy, Planning, and Business Development, Himanshu Patel, and Executive Vice President and Director of Finance, Michael Neborak, will lead the discussion of our second quarter 2015 financial results.

Himanshu and Michael will be referencing a slide presentation during their prepared remarks. A copy of the slide presentation, as well as our earnings release and supplemental schedules, are available on our website at Investor.firstdata.com.

I would like to remind you that any forward-looking statements made during today's call are subject to risk and uncertainty. Factors that could materially change our current forward-looking assumptions (inaudible -- technical difficulties) SEC filings.

We also will discuss items that do not conform to generally accepted accounting principles. We reconcile those measures to GAAP measures in the appendix in the presentation and as part of our quarterly results press release. With that, I will hand the call over to Himanshu Patel.

Himanshu Patel - *First Data Corporation - EVP, Strategy, Planning & Business Development*

Thank you, Glenn. Good afternoon, everyone. I'd like to give a summary of our financials, then provide an update on the business, including our segment realignment and our strategic expense management initiative that we announced this past May. I'll then turn it over to Mike to go through the details of the numbers.

First, let me cover Q2 at a high level. Segment revenue, which modifies consolidated revenue for such items as the exclusion of pass-through debit network fees and postage, was $1.8 billion. This is up 1% on a reported basis, with segment revenue up 5% excluding the impact of foreign exchange.

Adjusted net income was $150 million, an improvement of $63 million versus last year, aided by a reduction in interest expense. As a reminder, adjusted net income is a new measure we introduced last quarter and is intended to approximate recurring cash earnings.

Adjusted EBITDA for the quarter was $702 million, up 5% excluding the impact of foreign exchange. Adjusted expenses were flat on a reported basis in Q2, or up 4% on a constant currency basis, primarily driven by investments in technology and sales force expansion, as well as revenue related costs. Our pace of year-over-year expense growth has begun to slow.

This quarter we have realigned our operating units into three reportable segments; global business solutions, global financial solutions, and network and security solutions.

We have global clients and we intend to further globalize our solutions, and this new segment structure is intended to truly support our global aspirations. Underlying this new structure are four regions; North America, which is comprised of the US and Canada, EMEA, Latin America, and APAC.

Also during the quarter we made notable enhancements to our capital structure. In June, we completed a new five year $1.25 billion revolving credit facility, replacing the $1 billion facility that was due to mature in September 2016. The new revolver has a principal interest rate of LIBOR plus 350 basis points, a reduction of 50 basis points from the rate on the previous facility.

And in early July, we closed on new term loans totaling approximately $1 billion, 725 million in dollar denominated loans and 250 million in euro denominated loans, with an interest rate of LIBOR plus 375 basis points.

The proceeds of these term loans were used to repay outstanding senior secured first lien notes and pay breakage costs and related fees and expenses. These actions strengthen our capital structure, reduce our ongoing interest expense, and reflect the continued endorsement of our transformation by the lending community.

The recent launches of Clover Mobile and Clover Mini are off to a great start. We have received positive feedback from our clients and sales teams on the sleek design, ease of use, and overall functionality of the two new devices.

In addition, the Clover App Market recently rolled out its 100th app, allowing our business clients to harness the creativity of the growing third party development community on Clover. Our goal with Clover is to create the largest open architecture platform of commerce-enabling solutions and applications for business owners.

Also during the quarter, we acquired Transaction Wireless, a leading digital gift card distribution platform, that provides our gift card clients, distributors, partners, and resellers a suite of fully integrated, comprehensive physical and digital gift card capabilities.

Transaction Wireless's cloud-based distribution platform provides program management of open and closed loop prepaid and store branded gift cards in addition to end-to-end card management and B2B, B2C distribution solutions for retailers, distributors, and resellers.

This proprietary technology allows business owners to migrate from traditional plastic or paper gift cards to digital gift cards via multiple format options, including mobile, social, e-mail, and digital wallets. The acquisition complements Gyft, our consumer-facing digital platform, helping our clients expand and accelerate their gift card programs.

We incurred $19 million in restructuring costs during the quarter to fund part of our recently announced strategic expense management initiative, and remain focused on achieving our objective of $200 million in annualized savings by mid 2016.

With that, let me turn it over to Mike to cover the financials in greater detail.

Mike Neborak - *First Data Corporation - EVP, Director of Finance*

Thanks, Himanshu, and good afternoon, everyone. I'm going to cover Q2 results with specific focus on segment performance, expenses, and recent improvements to our capital structure.

Before I discuss those results, I'd like to provide a little more color around our segment realignment that reflects changes to our business structure. As Himanshu mentioned, our new structure includes three global lines of business; global business solutions, global financial solutions, and network and security solutions.

Global business solutions provides business clients around the world large and small, with a broad range of commerce solutions to help them grow their enterprises, including acquiring, e-commerce, mobile commerce, analytics, and many other related hardware and software solutions.

Global financial solutions provides our large national and global financial institutions' clients with a broad range of credit solutions and output services that allow them to facilitate payments for millions of customers around the world. Our solutions include credit card and loan processing, card production and personalization, and a number of related supporting services.

Network and security solutions provide a range of technology solutions to businesses and financial institution clients. Our network solutions include EFT network services such as STAR and debit processing and stored value network services, which are basically our open loop and closed loop prepaid businesses. Our security and fraud solutions include TransArmor, TeleCheck, and our suite of fraud prevention solutions.

I also want to point out a few changes we made to our slide presentation. Most notably is the segment detail provided on slide five, which captures the financial results by segment using both reported currency rates and constant currency. Please note we now have two segments that can be meaningfully impacted by currency movements.

Slide five is also a good place to talk about adjusted expenses, which grew $45 million, or 4%, year-over-year in Q2 using constant currency.

Those figures compare to year-over-year growth in Q1 of $115 million, or 11%, supporting Himanshu's earlier comment that our pace of expense growth began to slow in Q2. Sequentially, adjusted expenses declined $24 million in Q2 versus Q1.

We also added slide nine that provides detail on free cash flow. I will come back to that slide later. Now let's review the segment financials starting with global business solutions on slide six.

Global business solutions represents approximately 60% of First Data's total segment revenue. Approximately 75% of that revenue is generated in North America, which we define as the US and Canada. Revenues in Q2 were $1.1 billion, up 2% compared to the prior year period, while EBITDA was up 1% to $454 million.

Excluding currency impacts of $36 million, primarily in EMEA, revenues were up 5%. EBITDA was up 2% after excluding currency impacts.

Now looking at revenue growth on a constant currency basis in each of our four regions for the global business solutions segment, in North America revenues were up 3% due to hardware sales and increased revenue from our merchant suite of products.

EMEA revenues increased 11% due to solid transaction growth and yield expansion. APAC revenues were down 4% from the continued decline in our ATM business in Australia, partially offset by transaction growth across the region, most notably in India, Korea, and Singapore.

And finally, in Latin America revenues were up 32%, driven by inflation and increased revenue from hardware sales and Brazil acquiring.

Now turning to the results of the global financial solutions segment on slide seven, global financial solutions revenue represents approximately 20% of total segment revenue, with close to 55% generated in North America and 33% generated in EMEA.

Revenue for the quarter declined 3%, impacted by $22 million of currency headwinds, particularly in Europe. Absent currency, revenues were up 3%. EBITDA was $124 million, down 2% but up 4% using constant currency.

Looking at revenue growth on a constant currency basis in each of the four geographies, first in North America, revenue was up 5% due to growth from existing clients and EMV card production. Our EMV production has picked up from the first quarter as the liability shift in October moves closer.

EMEA revenue declined 2% as new business and portfolio growth was offset by yield pressure on renewed contracts.

In the APAC region, revenue was flat versus the prior year. And Latin America revenue was up 14%, driven by inflation in Argentina.

Now to slide eight for a look at network and security solutions, which also accounts for approximately 20% of First Data's segment revenue. All but 1% of that revenue is generated in North America.

Revenues for the quarter were up 6% to $356 million, while EBITDA increased 2% to $156 million. Q2 2015 revenue and EBITDA growth was negatively impacted by the sale of EFS, which reduced revenue by $8 million and EBITDA by $4 million.

Adjusted expenses increased $16 million, or 9%, versus the prior year due to investments, primarily in our stored value and EFT networks and from revenue related costs.

Revenue in EFT network solutions, which includes our STAR network and debit processing, was up 6% on strong year-over-year growth in network transactions, driven primarily by new business wins.

Security and fraud revenues were up 7%. Security solutions grew low double digits, driven by an increase in the number of businesses using our TransArmor solution, which protects their sensitive payment information, partially offset by declines in our TeleCheck business as check volumes continue to decline.

Stored value network revenue declined 1% versus the prior year and was meaningfully impacted by the sale of EFS last year. Stored value network revenue, excluding the impact from the sale of EFS, was up 10% as transaction growth in both open and closed loop cards drove increased revenue.

We now have fully lapped the EFS sale, which closed in May 2014, so quarterly results going forward no longer will be impacted.

Moving to cash flow on slide nine, we generated $316 million of free cash flow for the quarter, an improvement of $100 million over the same period in the prior year. A reduction in cash interest payments made up a significant portion of the year-over-year increase, along with higher adjusted EBITDA.

Partially offsetting these increases were capital expenditures, which grew $11 million as we continue to strengthen our cybersecurity and infrastructure.

We ended the quarter with $348 million in cash, an $8 million increase from the end of Q1. And at the end of the quarter, we had $204 million drawn on the revolver, a reduction of $177 million from the first quarter.

Now I'd like to take a few minutes to discuss First Data's capital structure on slide 10. As Himanshu highlighted in his earlier remarks, we have strengthened our capital structure with a new $1.25 billion revolving credit facility that matures in 2020.

This new revolver has expanded capacity and enjoys a principal interest rate that is 50 basis points lower than the old revolver. Importantly, all these positive changes came with few modifications to the covenant agreement.

And in early July, we issued new term loans totaling approximately $1 billion that were used to redeem $955 million of our 7 and 3/8ths percent senior secured first lien notes due in 2019.

As of June 30, we had $21 billion of debt outstanding. That debt had a weighted average interest rate of 7.6% across the portfolio and approximately 82% was fixed or swapped to fixed rate, providing a measure of protection if interest rates begin to rise.

So, in summary, we saw constant currency revenue growth of 5% in Q2, progress on expenses, and further improvements to our capital structure.

And with that, I want to thank you for joining us. Have a good evening.

Operator

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