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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the third quarter 2015 First Data financial results conference call. My name is Paulette and I will be your operator for today's call. At this time, all participants are in a listen only mode. Following the prepared remarks, there will be a question and answer session. (Operator Instructions)

As a reminder, this conference is being recorded for replay purposes. I would now like to turn the presentation over to Mr. Peter Poillon, Senior Vice President of Investor Relations. You may begin, sir.

Peter Poillon - *First Data Corp - SVP, Investor Relations*

Thank you, Paulette and good morning or good afternoon everyone and welcome to First Data's third quarter 2015 earnings conference call. Our call today is being hosted by Frank Bisignano, Chairman and Chief Executive Officer of First Data. Joining Frank on the call will be Himanshu Patel, Chief Financial Officer. Himanshu will be referencing a slide presentation during his 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 risks and uncertainty. Factors that could materially change our current forward looking assumptions are described in today's presentation and in our prospectus filed on October 14 and subsequent 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 of the presentation and as part of the quarterly results press release.



With that, I'll hand the call over to Frank.

Frank Bisignano - *First Data Corp - Chairman and CEO*

Thank you and good morning to everyone on the call. It is a great pleasure to be on this call today as it marks the first earnings conference call as a publicly traded company. I'd like to start the call off with a few comments before Himanshu provides a more detailed overview of the quarter. As you know, we completed our deal a couple of weeks ago and started trading on the New York Stock Exchange on October 15. It was the biggest IPO of the year and a validation of the market of the significant transformation that this Company has been going through over the past two and a half years.

For new shareholders of First Data, on behalf of all of First Data, I thank you for the confidence you are demonstrating in this management team and this Company. Our balance sheet had made significant progress. With the IPO and the private placement from last summer, we raised over \$6 billion of new equity capital in the past year and a half.

As for Q3 results, let me give you the key highlights before handing it over to Himanshu. This was a quarter that saw continued revenue growth, positive operating leverage and further balance sheet improvements. Segment revenue grew 7% on a constant currency basis or 4% on a reported basis, driven by improvements in each of our three business units. EBITDA grew 7% on a reported basis and EBITDA margins expanded 130 basis points to 39.1%.

We posted adjusted net income of \$191 million. Overall, we were pleased with the quarter, but obviously a lot of work is still ahead for us. The transformation of our Company will not happen in a single quarter but rather it's a journey where we invest in technology, in people, in innovative solutions to help our clients grow their business. We have laid a great foundation and will continue to invest and build on it.

I would now like to turn this call over to Himanshu to discuss the financial results for the quarter.

Himanshu Patel - *First Data Corp - CFO*

Thank you, Frank. Good morning, good afternoon everyone. I'm going to start on slide 4 of the presentation. I'll focus on the non-GAAP financial metrics, which more closely reflect how we manage our business. Segment revenue, which modifies consolidated revenue for such items as the exclusion of pass through pin debit fees and postage was \$1.8 billion in the quarter. This is up 4% on a reported basis or up 7% excluding the impact of foreign exchange. Note that Q3 of this year marks the first quarter this year where the year-over-year growth rate was not adversely impacted by the EFS divestiture, which occurred in the middle of 2014.

Adjusted EBITDA for the quarter was \$703 million, up 7% versus \$656 million in the year ago period. Note this is a reported rate figure and includes the impact of foreign exchange. Third quarter EBITDA margins expanded to 39.1% versus 37.8% in the year ago period, primarily due to better fixed cost leverage and more favorable geographic mix. Adjusted net income, a measure that is intended to approximate recurring cash earnings was \$191 million, an improvement of \$5 million year-over-year. Underlying the \$5 million year-over-year improvement was improved operating results that were largely offset by the non-recurrence of unusual year ago tax benefits.

Turning to slide 5, we show here an overview of segment details. On the left two-thirds of the slide, all figures are shown on a reported FX rate basis. On the right one-third of the slide, under the constant currency heading, we show year-over-year segment revenue and adjusted expense, change figures adjusted for estimated currency translation impacts.

You can see that third quarter segment revenue at \$1.8 billion grew 4% on a reported basis, and as previously discussed, 7% on a constant currency basis. This was driven by all three of our segments with GFS and NSS growing 9% and GBS growing 6%. I'll also get into some of the major drivers of the growth by segment shortly, but it's fair to say that the growth is being driven by moderately improved performance in many of our core businesses.

Adjusted expense for the quarter of \$1.1 billion grew 1% on a reported basis but similar to revenue, it's helpful to look at this on a constant currency basis where you will see 6% year-over-year expense growth. On a constant FX basis, NSS expenses grew 10%, driven by investments in our network business and digital gift, while GBS and GFS expenses grew mid-single digit.

Adjusted EBITDA at \$703 million grew 7% on a reported basis and EBITDA margins expanded 130 basis points to 39.1%. Margins were aided by higher volumes, investment costs which are starting to face easier year ago comparisons and favorable geographic mix. During the quarter, we incurred \$20 million of expenses associated with our previously announced strategic expense initiative that we expect will generate gross annualized savings of \$200 million by the middle of next year. So far this year, we've incurred about \$40 million in restructuring charges related to this initiative. As previously disclosed, we expected total restructuring costs related to this initiative to be \$75 million. To be clear, these costs are excluded from adjusted EBITDA.

Now, let's review the segments in a bit of detail starting on slide 6 for Global Business Solutions, or what we call our GBS division. At \$1 billion, GBS Q3 revenue was up 2% on a reported basis or up 6% on a constant currency basis. North American GBS revenue was up 4%, aided by growth in product sales such as hardware and security software, plus mid-single digit transaction growth, which was offset by a reduction in blended yield.

We are starting to see increased demand from smaller and mid-sized US merchants for EMV compliant hardware at the point of sale, which is helping sales of Clover and our FD branded line of devices. Security software sales have also been running at a healthy clip this year, but note that this will start facing stronger year ago comparisons in the fourth quarter.

EMEA GBS revenue grew 6% on a constant currency basis, primarily driven by transaction growth. And Latin America constant currency revenue grew strongly off a relatively small base, driven by volume and inflation in Argentina and our new business in Brazil.

GBS third quarter EBITDA of \$431 million was up 4% versus the prior year period and margins expanded 80 basis points to 41.8%. Turning to slide 7 and Global Financial Solutions. At \$391 million, GFS Q3 revenue grew 3% or 9% on a constant currency basis. North American GFS revenue grew 11%, primarily driven by two factors, low teens growth in accounts on file, as well as increased card personalization volume, which is being aided by the EMV related card reissuances.

EMEA revenue grew 8% constant currency, primarily driven by growth with existing processing customers as well as new business wins. Latin America and APAC constant currency revenues combined were modestly up year-over-year. GFS EBITDA, up \$145 million, grew 9% and GFS margins expanded 190 basis points to 37.1%, primarily due to higher volumes and better fixed cost leverage in our US businesses.

Turning to slide eight and Network and Security Solutions, at \$374 million, NSS third quarter revenue grew 9%. The majority of this business is in the US, so I will not refer to constant currency adjustments here. Revenue in EFT network solutions, which includes our STAR Network and the US debit processing business was up 7%. The business saw good transaction growth, aided by new issuer clients and the ramp up of pinless as a new transaction type.

Security and Fraud Solutions revenue were up 9% in the quarter, driven by strong growth in our TransArmor product, which protects our business clients' sensitive payment information. This growth was partly offset by declines in our TeleCheck business, as check volumes continue to decline.

As previously discussed, the growth in security revenue which shows up in both our NSS and GBS segments is likely to moderate in Q4 as we begin to anniversary stronger year ago comparisons. Stored Value Network, which includes our open loop business, closed loop prepaid business, and digital gift offerings was up 14%, primarily driven by strong transaction growth in our open loop payroll card solution.

NSS third quarter EBITDA of was \$162 million was up 7%. The segment's margins declined 70 basis points to 43.3% reflecting ongoing investments in EFT network solutions and digital gift.

Moving to free cash flow shown on slide 9, this table walks you to free cash flow starting with adjusted EBITDA. More broadly, we define free cash flow as operating cash flow less CapEx, less distributions to minority interests. Today, it shows you quarterly and year to date free cash flow. Note that quarterly free cash flow can be highly impacted by timing issues quarter-to-quarter.

We had negative \$9 million of free cash flow in the third quarter, which represents an improvement of \$14 million versus the same period a year ago. Improvement in adjusted EBITDA and cash interests were largely offset by a lower benefit from working capital, largely due to various factors such as the timing of payables related to interest costs and higher hardware sales to small merchants.

Finally, I'd like to provide you an update on our balance sheet starting on slide 10. We obviously completed the IPO from which we expect to raise gross proceeds of \$2.8 billion. Net proceeds after deducting underwriter fees and KKR termination fees will be a bit over \$2.6 billion. You can also see that in Q3, we executed on two debt refinancing transactions. We issued a \$1 billion new term loan at a pricing of LIBOR plus 3.75% and a new \$1.2 billion first lien bond with a coupon of 5.375%.

The net proceeds of these issuances were jointly used to retire two first lien bonds that had aggregate principle value of \$2.1 billion and a weighted average coupon of 7.7%. Separately, as of September 30, we had approximately \$1 billion in unrestricted liquidity. Slide 11 lays out our full debt stack as of September 30. You can see the two unsecured notes targeted to be reduced using IPO proceeds are highlighted in the blue box. Over three quarters of our debt is either fixed rate or has been effectively swapped to fixed.

Lastly, slide 12 provides you a table of the portion of our outstanding debt. As of September 30, that has a call date by the middle of 2016. You can see that we have \$10 billion of debt on this page with an average coupon of 10.2%, all of it with call dates no further out than May of 2016. A portion of this amount will obviously be outright repaid through net IPO proceeds. We have always closely followed the credit markets and you can assume that we will continue to look for opportunistic ways to further improve our borrowing costs through potential refinancings.

So in summary, third quarter saw reasonable revenue growth and EBITDA growth and good operating leverage. Obviously, we still have a lot of work ahead of us, but we were pleased with the quarter. We won't be providing explicit guidance but wanted to remind everyone of a few housekeeping items. First, Q4 2015 will see the non-recurrence of a previously disclosed portfolio sale in the year ago period, which flowed through first quarter 2014 revenue and adjusted EBITDA, benefiting both by \$12 million in that year ago quarter. This was in our European merchant business. Second, the October IPO and resulting debt pay down will also lead to sizable unusual costs related to stock-based compensation and debt extinguishment costs, both of which will be excluded from adjusted EBITDA and adjusted net income for fourth quarter. And lastly, regarding share count, assuming all granted shares and options are eventually Vested, we will have a fully diluted share count pro forma for the IPO of approximately 940 million shares. This could change in any given quarter due to various factors such as fluctuations in our stock price, as well as future grants to our owner associates as stock grants are a component of annual compensation at our Company.

It's also important to note that the fourth quarter share account will be a bit messy as IPO related shares will not have been issued at the start of the quarter. With that, I'm going to hand it back to Peter and we'll be happy to take questions.

Peter Poillon - *First Data Corp - SVP, Investor Relations*

Thank you, Himanshu. We request that you abide by a few ground rules for the Q&A portion of the call. Please limit your questions to one question and one follow-up in order to be fair to all the participants. If we have time at the end, you can come back in the queue for another question. As we approach the end of our time today, I'll let you know when we have time for one final question.

Paulette, please open it up to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Ashwin Shirvaikar from Citi. Please go ahead.

Ashwin Shirvaikar - Citigroup - Analyst

Thank you and congratulations. So my first question is could you comment on the pipeline of new contracts that you say in terms of RFPs or opportunities across your businesses.

Frank Bisignano - First Data Corp - Chairman and CEO

We are in the market every day talking to clients and we're building solutions with clients. As you know, we've spent a lot of money on sales force expansion, both globally and within the US. So we feel very, very good about the work we're doing. We continue to hear from our clients their desire for more technological solutions and we continue addressing in everything from security, to our issuing business, to the things we're doing on the front end, as you see with Clover.

So we are very, very active in the market and we feel very good about our position.

Himanshu Patel - First Data Corp - CFO

Yes, Ashwin, I don't think we want to provide explicit guidance on pipeline, but I think it's fair to say rebuilding the Company's enterprise pipeline is a key focus of this Company.

Ashwin Shirvaikar - Citigroup - Analyst

Understood. For the follow-up, could you comment on where you stand with regards to the cost optimization program that was announced earlier in the year?

Himanshu Patel - First Data Corp - CFO

Yes, so as we discussed in terms of restructuring charges, we've taken \$40 million year to date. We feel comfortable with our original statements of \$75 million in total restructuring costs. Those are figures that do not go through our adjusted EBITDA figure and we also feel comfortable with our objective of reaching \$200 million of annualized savings on a gross basis by the middle of 2016.

Ashwin Shirvaikar - Citigroup - Analyst

Got it. Thank you. I'll pop back in the queue.

Operator

And our next question comes from Smitti Srethapramote from Morgan Stanley. Please go ahead.

Smitti Srethapramote - Morgan Stanley - Analyst

Great. Thank you. So my first question is on the signature debit initiative that you guys have. I'm just wondering if you can give us an update on sort of the timing of when this product will likely hit the market and what kind of feedback have you been hearing from some of the partners that you're looking to launch this product at.

Frank Bisignano - *First Data Corp - Chairman and CEO*

Yes, what's important to recognize is that we're in the business of collaboration and client choice, and you'll hear us talk about that a lot. We have tremendous assets inside this Company, an issuing business, what was the largest independent pin debit network and the acquiring business. And our clients already have engaged in activities around pinless debit, and we feel very, very good about where that is right now. They've asked for that choice. We deliver against client's choice. So that's begun. It's in market and we're seeing great acceptance.

But this is really us responding to our clients asking us to use their assets for their benefit.

Smitti Srethapramote - *Morgan Stanley - Analyst*

Okay. Thank you. And then maybe just a follow-up question on the announcement that came out from 2020 yesterday, regarding Chase Pay. They're going to be collaborating with some of the MCX merchants, which are your clients. I'm just wondering if you have any early thoughts about how that announcement could potentially impact your business.

Frank Bisignano - *First Data Corp - Chairman and CEO*

Well, I think it's very early days for digital wallets and a lot of learning still needs to take place. That said, we really like our position for a series of reasons. The fact that we talked earlier about enterprise sales approach, it really does resonate very well with our merchants and FI client base. Results are encouraging and our pipeline is building. And you can't have an enterprise sale if you don't bring the full range of products to the table.

And if you look at this set of products, they're really unparalleled and our approach and our client's desire to have choice. So commerce is getting more complex by the day and price always matters. So does begin able to source a full suite of integrated solutions from a single provider. Secondly, our discussions with merchants increasingly focus on our ability to bring them a full suite of economic friendly payment acceptance methods. So if you look at the private label capabilities that this Company has, we have great demand for that and we have leading market share. The STAR debit network, pin, pinless, and whatever else the clients want, we are in the client business.

You know that we're the largest independent. Gift, we have a leading share in gift, closed loop, and now we have physical and virtual. And our TeleCheck product allows a lot of choice and is very, very well accepted. And we can add this in a broad suite of solutions, including security loyalty offers and analytics.

Thirdly, I think it's very important to know we have the partnerships with many of the largest issuers of credit and debit cards that allow us to create our own differentiated value prop for the issuer and the merchant, and the consumer.

Finally, we are partnered with many of the key technology players that are helping transform commerce and we're doing this across a physical, online, and mobile worlds. So I think when you look at it, we think we've got approach, solutions, partnerships, client centric approach, listening to the client, and that we can be very, very creative because of our multiple collaborations. We're in every huddle and we're bringing solutions, multipart solutions.

So it's a journey. It's early, early days on digital wallets and we feel very good about all the work we're doing with our clients.

Smitti Srethapramote - *Morgan Stanley - Analyst*

Okay. Thank you.

Operator

Our next question comes from Sara Gubins from Bank of America Merrill Lynch. Please go ahead.



Sara Gubins - Bank of America Merrill Lynch - Analyst

Hi. Thanks. Good morning. You mentioned in your prepared remarks you had single digit transaction growth in North America. I just wanted to check, does that accelerate by 100 basis points from the 4% growth that you did in the second quarter, or is it more or less than that? And any comments on how that varies directionally by channel?

Himanshu Patel - First Data Corp - CFO

Sara, it did improve a little bit. Part of that is also we're starting to anniversary Walmart, the impact of Walmart and that's helping on a year-over-year basis as well. In terms of channels, I would say pretty broad based. I think it's fair to say our direct channels are doing a little bit better than our indirect, but I wouldn't say there's a huge bifurcation between the two either.

Sara Gubins - Bank of America Merrill Lynch - Analyst

Okay, and then following up within GBS, product sales were a nice contributor to the quarter. Could you talk about what we're seeing in Clover and kind of maybe where Clover stands at this point?

Himanshu Patel - First Data Corp - CFO

So we're not going to give a quarterly update in terms of volumes on Clover, but I think we've said before that we've sold over 100,000 units. I think it's fair to say that our annualized rate of all versions of Clover right now is comfortably north of 150,000 units and it's growing at a pretty regular pace, weekly and monthly. Obviously, Clover Mini being the most recent launch there is driving a lot of the incremental growth.

Sara Gubins - Bank of America Merrill Lynch - Analyst

Great. Thank you.

Operator

Our next question comes from Bryan Keane from Deutsche Bank. Please go ahead.

Bryan Keane - Deutsche Bank - Analyst

Hi. Good morning. Himanshu, if I just look at constant currency revenue growth, looks like GFS went from about 3% last quarter to 9% and NSS went from 6% to 9% on a constant currency basis. So kind of a nice acceleration there. Do you expect that to continue kind of going forward as we head into the fourth quarter? Or were there some one-time items there that won't repeat themselves?

Himanshu Patel - First Data Corp - CFO

Hi, Brian. We don't want to provide any explicit guidance on Q4 but let me help you a little bit with what's going on sequentially and year-over-year. I think in GFS where you did see a more noticeable improvement sequentially, really we're benefited in all of our businesses, but EMV, card personalization volume is helping. That was a much smaller contributor in Q1 and is a bigger contributor of revenue at this stage, and is likely to remain healthy.

We've also seen some pretty solid growth in our processing businesses as well. Although, in the sequential revenue change, you wouldn't have seen that much. On the year-over-year it was a contributor.

I think in terms of anomalies in the quarter, I don't think there's anything particular to point out. Every quarter is not going to be the same. We do have some lumpiness in our business, particularly card personalization. Some of those volumes are really they come at us pretty fast and we end up benefiting from that. Others aren't like that. But I wouldn't say this was a quarter where that stood out. Most of what happened this quarter we had pretty decent line of sight to in both segments.

Bryan Keane - *Deutsche Bank - Analyst*

Okay, great. And then just the follow-up. Appreciate your comments, Frank, on the Chase announcement. Does it potentially add pricing pressure from some of those larger merchants considering I think they're waving merchant acquiring fees entirely?

Frank Bisignano - *First Data Corp - Chairman and CEO*

Yes, I mean we've come at this as not competing on price. We've been very, very consistent about solutions and bundles, and so I think it's very early. I think actually when you sit down across all spectrums of this business, we've made a point to say we're in business to help our clients grow their business. And it's resonating in the client's office. So if we can bring the right solution set to them, and with them and we've demonstrated that, we're not in a price war. We're in the ability to provide solutions and help our clients run their business better.

It's been very well received.

Bryan Keane - *Deutsche Bank - Analyst*

Okay. Thanks for the call.

Operator

And our next question comes from Andrew Jeffrey from SunTrust. Please go ahead.

Andrew Jeffrey - *SunTrust Robinson Humphrey - Analyst*

Good morning. Thanks for taking the question and I'll add my congratulations. As far as incremental or newer services, Himanshu, you called out security, TransArmor as well as your security offerings in GBS, and recognizing that there's a tougher comp as you mentioned. Could you just elaborate a little bit on whether or not you see broad demand across your merchant base for those solutions? Is it concentrated among any specific merchant segment, tier one or SMB? And is there or might there be an SMB tail as EMV kicks in here?

Himanshu Patel - *First Data Corp - CFO*

I think it's fair to say it's pretty broad based but there are different products obviously for large merchants versus small merchants. After the Target breach, I think the awareness in the merchant community of all things related to security solutions obviously grew. We were fortunate enough to have the TransArmor product available sort of right around that time. So I think I wouldn't say we're seeing any sort of particular demand coming from one segment versus another. I think we've seen a pretty good healthy demand for that.

Obviously, large merchants wake up to a lot of these things a lot faster than smaller guys, but I think the small guys have taken a pretty keen interest as well lately.



Andrew Jeffrey - SunTrust Robinson Humphrey - Analyst

Okay, and as a follow-up, there's been some talk of EMV related pricing generally. I was reading something yesterday during Money 2020 about possible out of EMV compliance fees. Is this a potential revenue source for First Data and used industry wide on sort of appropriateness, in your view, of those types of fees?

Himanshu Patel - First Data Corp - CFO

I'm sure some of that stuff will come through in more clarity over the course of the next two, three quarters. I don't think we're thinking about that as a major source of revenue right now. Our main objective is to help our clients become EMV compliant as fast as possible in terms of trying to bill them for fees when they're not compliant. I don't think that's really our main focus right now.

Andrew Jeffrey - SunTrust Robinson Humphrey - Analyst

Thank you.

Operator

And our next question comes from Frank Jarman from Goldman Sachs. Please go ahead.

Frank Jarman - Goldman Sachs - Analyst

Great. Thanks for taking my questions, guys, and congrats on the results. So I just wanted to ask a question about sort of your next steps to optimize the capital structure. I know that you have flexibility on the leverage based maintenance covenant, but can you talk about what incurrence covenants look like under your bond? And specifically, how much more ability do you have to raise additional secured debt? Thanks.

Himanshu Patel - First Data Corp - CFO

Probably want to take that one offline, but I think in general I'd give you the following thoughts around that. We obviously have a lot of bonds that have call dates near term. I think in general, we think about the mix of our capital structure between secured and unsecured as being in a pretty good spot right now. We may make some tweaks to that, but I don't think we're anticipating any major tweaks to it.

Frank Jarman - Goldman Sachs - Analyst

Thank you.

Operator

Our next question comes from Arun Seshadri from Credit Suisse. Please go ahead.

Arun Seshadri - Credit Suisse - Analyst

Yes, hi. Thanks for taking the question and also congratulations. First, I wanted to ask in terms of NSS, if you could give us a little bit better color in terms of operating leverage on a more normalized basis? And also, any color in terms of the relative margins of EFT security and stored value?



Himanshu Patel - *First Data Corp - CFO*

So Arun, the NSS business operating leverage in any given quarter is lumpy in that business because of revenue mix. But the core processing businesses that are embedded inside of NSS, such as our network business, debit processing, closed loop prepaid, those are all pretty good, healthy contribution margins similar to what you'd expect other processing businesses to be.

There is a portion of our NSS business where we see revenue from plastics. This is different than card personalization. It's actually where we're doing just card plastics. That obviously comes in at a lower margin. So this wasn't necessarily a quarter where we saw a lot of that driving the revenue growth. But you may see that in the future. But I would say on balance, we don't really think about NSS contribution margins as being dramatically different than the rest of the businesses. But it does tend to be lumpy.

Obviously, keep in mind it's a US business and I think we said before, most of our US businesses in general tend to have better margins than our non-US businesses.

Arun Seshadri - *Credit Suisse - Analyst*

Okay, appreciate that. And then second, can I ask about as far as the EBITDA year-over-year goes, any color you can give in terms of what the constant currency EBITDA would have been year-over-year? And also, how much of the \$200 million cost saves were actually realized and showed up in the EBITDA line? Thank you.

Himanshu Patel - *First Data Corp - CFO*

Sure. So if you go to slide 5, right, we've shown you there in absolute dollars and in percent change the impact of currency changes on revenue and expenses. If you just took those two numbers and simply applied them to EBITDA, you would get to 9% year-over-year growth in EBITDA, instead of the 7% reported. You should note that when you get that far south in the P&L, obviously there's many, many currency impacts that will start coming in, not just translation. You also have transaction impacts. So it's one of the reasons we don't talk actively about constant currency earnings related metrics. But it's directionally a good way of looking at it. It's just taking those numbers and adding all that up together. You'll get to roughly 9% for the quarter.

And then I'm sorry, your second question on cost savings, we're still pretty early days. We have started to see some savings from there, but I wouldn't say it's really a big driver of performance right now. I think most of the savings we still anticipate will really come through by the middle of next year.

Arun Seshadri - *Credit Suisse - Analyst*

Great. Thanks.

Operator

Our next question comes from Jim Schneider from Goldman Sachs. Please go ahead.

Jim Schneider - *Goldman Sachs - Analyst*

Good morning. Thanks for taking my question. I was just wondering if you could maybe update us on your investments, for example, in pinless debit network upgrades as well as gift. How many of those are recurring versus kind of one time in nature? And would you expect the kind of the OpEx run rate that you put up this quarter to be kind of good over the next several quarters in terms of the investments, specifically those programs?

Himanshu Patel - *First Data Corp - CFO*

Jim, Maybe I'd just broaden your question a little bit. There's multiple areas of investment happening in our business. It's definitely not just those two. We've expanded our sales force. We're investing in Brazil. We're investing in controls, and obviously we're also investing in digital gift and our network businesses.

I would say that it is fair to say that the \$60 million constant currency year-over-year expense growth that you see on page 5, a smaller portion of that growth was driven by growth in these investment areas than it was in the first half of the year. This is not too dissimilar than what we had discussed on the Q1 conference call, where a lot of what's happening is -- it's not so much that those investments in absolute terms are going down. It's simply that we're facing easier comparisons as we get later into the year on that.

And I think what's happening in Q3 is probably reasonably representative on that issue for future periods as well. And again, it's not so much that we're changing the rate of investment in the business. It's just there was a pretty sharp ramp up that happened over the last five, six quarters and you're starting to lap some of that now.

Jim Schneider - *Goldman Sachs - Analyst*

Thanks. That's helpful. And then just as a follow-up, I understand on Clover, you don't want to be too granular in terms of quantitative metrics, but can you help us a little bit to understand some of the -- where it's doing best in terms of channel and by vertical?

Frank Bisignano - *First Data Corp - Chairman and CEO*

Sure. Yes, I think when you look at Clover, clearly it's very, very SMB focused. And it has great receptivity there. Adoption of it in our new businesses has been very, very good. In other words, new client sign-ons. We will continue to go into our install base and bring out this product suite. I think what's important to recognize is the Mini really hasn't gone into market only a couple months. So we have great receptivity there.

But I'd put it completely in SMB, QSR, FSR, retail expanding there. And we're seeing great adoption and Himanshu talked about the growth in it. So clearly, SMB.

Jim Schneider - *Goldman Sachs - Analyst*

Thank you.

Operator

(Operator Instructions) And our next question comes from Neil Doshi from Mizuho. Please go ahead.

Neil Doshi - *Mizuho Securities - Analyst*

Great. Thanks guys, and congrats. First question is it seems like there's a big opportunity on the data and analytics side, especially for you guys to help merchants on the omni-channel initiatives. How are some of your data analytics initiatives trending so far? And what potential do you see there? And then I do have a follow-up. Thanks.



Frank Bisignano - *First Data Corp - Chairman and CEO*

Well, I think when we came here and looked at this Company, one of the great opportunities was helping our clients, and kind of transforming from a classic payment processor to a commerce enabler and information source. So we've found SMB adoption very, very strong here. Our ability to play back a lot of information to them in a way that actually helped them run their business.

When we did focus groups and talked to small and medium sized business owners, they really loved the business they're in, but didn't have all the tools to manage it. And Clover coupled with Insightics has had very, very good adoption. We continue to see both of those on accelerating rates. The ability to provide software suites that we do to our clients that they generally wouldn't have got, running a business in a box a little differently. And the fact that we have this information and we are -- become their technology department, we become their marketing department, it's a transformation of our relationship with these clients.

Early, early innings though.

Neil Doshi - *Mizuho Securities - Analyst*

Great. Thanks, Frank. And then Himanshu, just on the GFS EBITDA margins, they were up pretty nicely, up 190 BPS year-over-year, anything to call out there? Or how sustainable is that?

Himanshu Patel - *First Data Corp - CFO*

Again, every quarter is different. I think some quarters you have paper cuts, some quarters you don't. This was a reasonably clean quarter for GFS. I would just give you the following context. That business has pretty good operating leverage in general and we saw our US portion of that business see pretty healthy revenue growth, much more than the overseas. Although, overseas grew as well. And that business obviously does see pretty high margins in the US.

So it was not one particular item. On a year-over-year basis, the business benefited from very good growth in card count and processing volume for both new customers, as well as existing customers. It saw good growth on EMV card personalization volume as we discussed. Also saw good growth in our print business as well, which comes in at lower margins. But obviously, helps on fixed cost absorption. So it was sort of almost every portion of that business had a pretty good quarter in Q3.

Neil Doshi - *Mizuho Securities - Analyst*

Great. Thank you.

Operator

And our next question comes from George Mihalos of Cowen. Please go ahead.

George Mihalos - *Cowen and Company - Analyst*

Great. Let me add my congratulations and thanks for taking my questions, guys. Wanted to start off in Europe. Given some of the new regulations coming up the end of the year, the interchange caps, how do you feel about your prospects for new business growth was on the GBS side, whether that's with M&A or with joint ventures. And also on the GFS side, just sort of win more outsourcing business from the banks as they try to cut costs.



Himanshu Patel - *First Data Corp - CFO*

George, yes, I would say in general, we're watching the regulation changes closely, both the regulations around interchange as well as separation or processing from network. I think nothing we've seen concerns us. I think for the most part we feel like we're pretty well positioned. I think the broader question about M&A or bank partnerships, I think it's fair to say that we see nearly every major deal that's happening in the industry. We look at all of them and we actively consider all of them on various criteria, whether it's geographic presence or the customer, or the bank partner.

I do think it's a fair statement if you broaden the comment outside of Europe, but to all of international. I think many banks around the world are looking to save on costs and they are looking for partners. And it's not just our merchant business but it's also our issue processing business, obviously, where we can be a provider for them for multiple areas of their business that could be in house right now. And I think that's been going on for a while. We're probably seeing greater interest in that now than maybe two years ago, but I wouldn't say the regulations are driving anything around that specifically.

George Mihalos - *Cowen and Company - Analyst*

Okay, great. Appreciate that color. And just as a quick follow-up as it relates to Clover, are you seeing any sort of accelerated tailwinds now with the liability shift date behind us, sort of more of a push to these integrated payment solutions? And have you sort of even begun really pushing Clover on your existing merchant base versus sort of new customers coming on board?

Frank Bisignano - *First Data Corp - Chairman and CEO*

Yes, well as I said before, we -- when you look at what we've done so far, it's been to a new client base. We've just begun having a dialogue in the install base. The liability shift dates occurred, but as you know the statistics very, very well, this will be going on for quite some time. We like the fact that we're able to deliver a software solution, an open architecture that clients can actually choose what applications they want to use.

So we think that this is a long journey on this one. I think we've proved out with over 100,000 units in market and the accelerating growth Himanshu talked about, I think we've proved out client receptivity, we've proved out scalability. We have Silicon Valley writing to us in a way that is unparalleled in this space and we're going to stay at.

Really about giving these small and medium sized businesses a lot more tools than they ever had to run their business.

Operator

And our next question comes from Tom McCrohan from CLSA. Please go ahead.

Tom McCrohan - *CLSA - Analyst*

Hi, thanks for taking the questions. So just a question on Chase Pay. So a major thrust of the Chase Pay initiative appears to be to lower the overall average acceptance cost that major merchants are willing to pay their acquirers. So I realize it's still early innings but can you help us think about the mitigating factors that First Data expects it to play going forward to offset forces such as Chase Pay announcement that set the stage for what appears to be downward pressure on the overall merchant discount fee?

Frank Bisignano - *First Data Corp - Chairman and CEO*

Yes, so I'd go back to what I discussed before. First of all, we're in the client choice business. We're in the solutions delivery business. We think when you look across our client base, we bring more than one product into them, whether it be our private label capabilities, whether it be gift, whether it be TeleCheck, always to help the client run their business differently and better.



We believe tremendously in collaborations. It's one of the things that we made sure we did here and you'll find us fundamentally, whether it's a technology partner or a network partnering and enabling them for the client. So I think client choice is a big deal. Being the largest commerce enablers allows us to participate across it all and what we want to really bring is technological solutions to help our clients.

Yes, price matters but being able to be a solutions set to help them in many different ways across the whole economic spectrum is really the way we look at it, not single dimensionally.

Tom McCrohan - CLSA - Analyst

Yes, broader set of products. And Payeezy seems to be one of those products potentially. And I'm hearing from my industry techs really good things about Payeezy. Can you maybe help articulate, it's kind of difficult to get your head around it, like how Payeezy compares to Stripe and some of the other offerings that are out there.

Frank Bisignano - First Data Corp - Chairman and CEO

Well, what I would say is we focus a lot on ecomm. We think it's a tremendous growth area. We invested in it. We have unbelievable names that we do business with there and we -- the beauty of what we're trying to do is small and large, right. And even if you look at what we did Spree commerce, the ability to serve small and large, and single gateway for global acceptance. But in all these, I just go back to my opening comments. We're on a journey. This was a transformative quarter. But we're going to stay at it and very, very early innings for this team.

Tom McCrohan - CLSA - Analyst

Thank you.

Operator

Our next question comes from Guy Baron from RBC. Please go ahead.

Guy Baron - RBC Capital Markets - Analyst

Hi, guys. Thank you. Just a couple of follow-ups from me. When you sort of talk about the Clover run rate and that was very helpful, how much of that are we actually seeing in the numbers today. And how satisfied are you with kind of where the sales force preparedness is at this stage to sort of sell those solutions? And what kind of levers can you really pull to accelerate that within the existing base?

Himanshu Patel - First Data Corp - CFO

So obviously, we have many, many clients in our existing base for GBS and Clover volumes today are not a big portion of that. So in terms of contribution to our P&L, it's really not a big number right now. Obviously, we anticipate it will become a bigger impact over time. I think your point around the sales force, we think it's a good question. It is a new solution. It is different than selling a terminal and we have invested a lot in getting our sales force trained to sell some more of these solutions.

But I think it's also important to remember Clover Mini, which is the more recent version of Clover, is really intended to be a much easier sale also for the sales person and also just fundamentally a much less disruptive purchase for the merchant, because it's intended to be a replacement -- more of a replacement for a traditional terminal with obviously a lot more software intelligence to it.

So I think we feel pretty good about being able to distribute all of these versions and Clover Mini is obviously a big part of that.

Guy Baron - *RBC Capital Markets - Analyst*

Okay, great. And then if I could just follow-up on a balance sheet question. How aggressively are you sort of thinking about pursuing the financing of the balance sheet? I know it's an important part of the sort of value discussion, but how sort of aggressively are you going to push that? And in terms of rationale, is it simply a case prioritizing by coupon size and looking to reduce the expense? Or is this sort of another kind of approach that you're using to sort of think about what comes next? Thank you.

Himanshu Patel - *First Data Corp - CFO*

Look, we've been at this for multiple years. We've been proactively managing our balance sheet pretty regularly, both in terms of maturities, cost of borrowings, as well as trying to reduce outright leverage. So I think it's fair to say that we watch the credit markets very closely. We are the definition of an opportunistic issuer. We rarely have a gun to our head in terms of when we need to access the markets.

And so I think we have a pretty good track record of being able to access the markets on favorable terms that work for us. And I think you can expect that we'll continue to do that going forward. In terms of our focus, obviously we do have a reasonable amount of high cost debt in our capital structure with some near term call dates. And to the extent the markets are in a place that we think makes sense, I think you can expect us to opportunistically refinance, which we did in the third quarter. I wouldn't expect us to think about anything different than that.

Guy Baron - *RBC Capital Markets - Analyst*

All right. Thanks again.

Peter Poillon - *First Data Corp - SVP, Investor Relations*

Paulette, we have time for one more question please.

Operator

Thank you very much, sir. Your final question will be Thomas Egan from JPMorgan. Please go ahead.

Thomas Egan - *JPMorgan - Analyst*

Morning. Thanks for fitting me in. One more balance sheet question follow-up for you, Himanshu. You talked about how you're comfortable with this mix of secured and unsecured. But within those structures, you have two layers of each. You've got first lien and second line. In security, you've got unsecured and subordinated within unsecured.

Could you talk to us a little bit about your philosophy? Are you as a public company comfortable with having three or four layers, or would you prefer to ultimately collapse those down to a single layer of secured and a single layer of unsecured?

Himanshu Patel - *First Data Corp - CFO*

We can probably discuss a little bit more of that offline. Look, I mean I think our macro point is not so much, hey, today we're a public company, yesterday we weren't. So this looks better or works better than not. I think our general philosophy is optimizing our capital structure, and whether it's secured, whether it's first lien, whether it's second lien, or whether it's unsecured, I think we tend to look at all of it pretty holistically. I don't anticipate us making dramatic changes around that, but I wouldn't say we've got an overriding dogmatic principle that says we got to move from one class to another.

Thomas Egan - *JPMorgan - Analyst*

Okay. Thank you.

Frank Bisignano - *First Data Corp - Chairman and CEO*

So I'd like to thank everybody for joining the call and we greatly look forward to our future discussions. Thank you and have a great day.

Himanshu Patel - *First Data Corp - CFO*

Great. Thank you.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.

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