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EDITED TRANSCRIPT

FDC - Q4 2015 First Data Corp Earnings Call

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CORPORATE PARTICIPANTS

Peter Poillon *First Data Corporation - SVP of IR*

Frank Bisignano *First Data Corporation - Chairman and CEO*

Himanshu Patel *First Data Corporation - CFO*

CONFERENCE CALL PARTICIPANTS

Darrin Peller *Barclays Capital - Analyst*

Tim Willi *Wells Fargo Securities - Analyst*

Sara Gubins *BofA Merrill Lynch - Analyst*

Ashwin Shirvaikar *Citigroup - Analyst*

Bryan Keane *Deutsche Bank - Analyst*

Lisa Ellis *Bernstein - Analyst*

Craig Maurer *Autonomous - Analyst*

James Friedman *Susquehanna Investment Group - Analyst*

Andrew Jeffrey *SunTrust Robinson Humphrey - Analyst*

PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the fourth-quarter 2015 First Data financial results conference call. My name is Vanessa 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 answers 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, Investor Relations. You may begin, sir.

Peter Poillon - *First Data Corporation - SVP of IR*

Thank you, Vanessa, and good morning, everyone and welcome to First Data's fourth-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 is 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 materially change our current forward-looking assumptions are described in today's presentation and in our prospectus filed on October 15, 2015 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 will hand the call over to Frank.

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

Thank you and good morning, everyone. It is a pleasure to be on this call this morning. Let me start with slide three, the highlights of the quarter. Fourth-quarter segment revenue on a constant currency basis was 5% excluding the items Himanshu will discuss. Adjusted EBITDA grew 7% and EBITDA margin expanded 200 basis points.

Importantly we completely transformed our balance sheet in Q4 with an IPO and a refinancing of all the high cost debt, all of which helped reduce our annualized cash interest expense by $0.5 billion taking that interest expense down to $1 billion.

More broadly, 2015 for First Data was a momentous year and we are deep into our transformation. Our underlying business momentum is very strong. We have posted two years of midsingle-digit revenue growth on a constant currency basis. Our pipeline in the large client space continues to strengthen with opportunities to sell more to our current financial institution and institutional clients along with selling to new clients and completely entering new verticals.

In the small and medium-size business space, we are receiving tremendous response to our Clover lineup and our product innovation. This is leading bank and other acquiring distribution partners that historically have not worked with us to want to partner with us to help bring their businesses to the next level. Daily, as I talk to clients, the combination of new product suite, integrated offering, our much strengthened balance sheet has signaled clearly to them globally that we are now a completely different company.

In short, we are confident we can grow this business and continue to see positive operating leverage. After Himanshu provides you more details on the financials, I will give you an update on the major initiatives to drive topline and bottom line growth.

I will now turn it over to Himanshu.

Himanshu Patel - *First Data Corporation - CFO*

Thank you, Frank. Good morning or good afternoon everyone. I am going to start on slide four of the slide presentation. I will focus on the non-GAAP financial metrics which more closely reflect how we manage our business.

Segment revenue which modifies consolidated revenue primarily to exclude certain pass-through costs and to proportionately consolidate the revenue of our major joint ventures was $1.8 billion in the quarter. This is up 2% on a reported basis or up 4% excluding the impact of foreign exchange translation. Adjusted EBITDA for the quarter was $762 million, up 7% versus $712 million in the year-ago period.

Fourth-quarter adjusted EBITDA margin expanded 200 basis points to 41.6% from 39.6% in the year-ago period. Fourth-quarter adjusted net income, a measure that is intended to approximate recurring cash earnings was $299 million, an improvement of $110 million versus the year ago. The improvement was driven by better operating performance and lower interest.

Please turn to slide five where we provide an overview of segment results for the fourth quarter. I'm going to focus my comments on Q4 which is the left half of the slide and I will work my way down downwards on this page.

So first, let's begin with segment revenue. Our reported topline growth rate in Q4 is a bit messy because of noise in both this quarter and the year-ago quarter but when you cut through all of it, our underlying constant currency revenue growth in the fourth quarter was 5% versus the 4% shown on slide five.

The three items that help you reconcile between the 4% shown in the table on this slide and the 5% that I just mentioned are number one, as previously disclosed in the fourth quarter of 2014, our revenues benefited by $12 million from a portfolio sale in our EMEA GBS business.

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Number two, as mentioned on our Q3 call, a change in the timing of when we bill US small merchants for security solutions hurt our year-over-year revenue comparison in the fourth quarter by $8 million. And number three, in the fourth quarter of 2015, we saw a benefit from a single client contract modification which aided revenue by $10 million. This benefit was entirely in our in NSS division.

So bottom line, the first two items inflated revenue in the fourth quarter of 2014 by $20 million collectively and the third item inflated revenue in the fourth quarter of 2015 by $10 million. The net of this is a $10 million understatement of year-over-year revenue growth. Adjusting for this $10 million, Q4 constant currency revenue growth was 5%.

On a segment basis, GBS constant currency revenue grew 2% in Q4 but this would be 4% excluding the impact of the year-ago timing change of security billings and the year-ago EMEA portfolio sale.

GFS constant currency revenue grew 5% and NSS revenue growth was 11% including three percentage points of benefit from the previously mentioned change in contract terms for a client.

Now let's move down the page to adjusted expenses. You can see in the slide it shows a year-over-year decline in expenses of $18 million or 2%. The primary unusual item affecting expenses in Q4 is an $11 million benefit to expenses from gains on the revaluation of US dollar-denominated assets and liabilities in Argentina. While the impact of this factor regularly flows through our adjusted expenses and adjusted EBITDA, its magnitude was larger than normal this quarter due to the material devaluation of the Argentine peso relative to the US dollar in December. This $11 million expense benefit was split about two-thirds to GBS and one-third to GFS.

Moving to the bottom half of this page, let's talk about EBITDA and margin. Our reported fourth-quarter adjusted EBITDA was $762 million, up 7%. The $762 million EBITDA figure includes $19 million of unusual benefits. That is $11 million benefit from the Argentine peso devaluation impact that I just discussed, and $8 million as the EBITDA level benefit of the previously mentioned change in contract terms for one client in NSS.

Lastly, let me discuss margins at the bottom. Our adjusted EBITDA margin in the fourth quarter was 41.6% versus 39.6% in the year-ago period. This is a 200 basis point year-over-year improvement. If you adjust for the various unusual items discussed earlier in both periods, the underlying year-over-year margin expansion is comparable. The margin expansion was driven by improved operating leverage and a more favorable geographic mix of earnings.

Separately, on restructuring expenses which are excluded from adjusted EBITDA, we incurred $13 million of cost in Q4 and $53 million for the full year. We expect total restructuring costs related to our strategic expense management program to still be $75 million.

Now let's review the segments in some detail starting on slide six with GBS.

At $1 billion, GBS fourth-quarter revenue was down 1% on a reported basis or up 2% on a constant currency basis. Excluding the impact of the timing change of security billings and the year-ago EMEA portfolio sale, GBS fourth-quarter revenue growth was 4% on a constant currency basis.

Taking a look at results by geographic region, North American GBS revenue was flat in the quarter on a reported basis. The timing change of security billings adversely impacted GBS North American revenue growth in Q4 by 1 percentage point. North American GBS saw 6% transaction growth in the fourth quarter.

Stepping back as we think about revenue and revenue growth in GBS North America, it is important to realize that unlike some of our competitors our revenue generated from merchants shows up in more than one segment. It obviously shows up in GBS but NSS also generates significant revenue from North American merchants through security solutions, prepaid solutions and TeleCheck. If we were to show all of the revenue we derive from merchants in North America meaning what shows up in NSS as well as what is in GBS obviously and adjust for a few other items to improve comparability such as our decision to defer Clover revenue over three years, our North American revenue growth in our merchant franchise more broadly would be notably higher than the revenue growth rate we show strictly in our GBS North American division.

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Moving on, EMEA GBS revenue grew 3% on a constant currency basis. Excluding the $12 million portfolio sale impact in the year-ago period, constant currency revenue growth in EMEA GBS was double digit in the fourth quarter driven by volume and pricing growth, pricing strength in our UK direct business, our European alliances and our German business.

Latin America GBS constant currency revenue growth once again saw robust growth driven by the ramp up of our Brazilian acquiring business and local inflation. GBS adjusted expenses decreased 2% or $11 million inclusive of a $7 million expense benefit from the previously mentioned Argentine peso devaluation. The business continues to incur investment costs related to product, sales and geographic expansion in places like Brazil but the rate of year-over-year investment cost growth has begun to moderate. GBS EBITDA grew modestly to $436 million in the quarter and its margin improved 50 basis points to 42%.

Turning to slide seven and GFS. At $394 million, GFS fourth-quarter revenue grew 1% or 5% on a constant currency basis. North American GFS revenue grew 9% driven by strong growth in accounts on file from both new and existing clients as well as increased revenue from EMV card personalization and statement printing.

Card accounts on file in GFS North America at the end of the quarter were 14% higher than the year-ago period. EMEA GFS revenues declined 2% on a constant currency basis in the fourth quarter as internal growth was offset by lower blended yield. GFS adjusted expenses decreased 4% or $9 million inclusive of a $4 million expense benefit from the Argentine peso devaluation. GFS EBITDA of $162 million grew 8% and GFS margins expanded 270 basis points to 41.1%.

Before I talk about NSS, I wanted to step back and quickly recap underlying business volumes in North America.

Slide eight shows you quarterly growth in GBS North American transactions on the top and on GFS North American card accounts on file. On the GBS side, you can see that our North American volumes have started to improve on a year-over-year basis in terms of transaction count. On the GFS side, you can see our card accounts on file have also seen strong growth in the second half of this year driven by new business wins and organic growth.

Turning to slide nine and Network & Security Solutions or what we call NSS. NSS fourth-quarter revenue was $398 million, up 11%. The impact of the previously mentioned change to a client's contract terms benefited NSS revenue growth in the quarter by 3 percentage points. EFT Network Solutions revenue was up 5% reflecting continued growth at our STAR debit network which is benefiting from new issuers and the rollout of pinless.

Security and fraud solutions revenue rose 11%. Stored value network was up 24% including a $10 million benefit from the previously mentioned client contract change. Growth in the quarter was driven by our open loop prepaid business and our digital gift business. NSS expenses grew 4% in the quarter driven by a combination of higher variable costs in stored value and security as well as higher but moderating year-over-year investment cost growth in STAR and digital gift.

NSS fourth-quarter EBITDA was $191 million, up 19% and EBITDA margin was 48% versus 44.6% year ago. The EBITDA figure for NSS includes an $8 million benefit from the previously mentioned change in contract terms for a client.

Moving to free cash flow shown on slide 10; this table walks you to free cash flow starting with adjusted EBITDA. At a high level we had a messy quarter on free cash flow because of two large unusual items I will explain. Adjusting for these items, normalized free cash flow in the fourth quarter was $233 million, $18 million above a year ago. The two unusual items that impacted the quarter's reported free cash flow are discussed at the bottom of this slide.

First, we incurred $271 million of accelerated payments on interest on bonds which we paid off in Q4 with IPO proceeds or which we refinanced. This shows up in the cash interest payments line on the table. Second, during the fourth quarter, we incurred $78 million in certain one-time IPO related payments as previously disclosed in our S-1. The $78 million is included in the line titled items excluded from adjusted EBITDA/other.

On slide 11, we also provide some details around working capital. You can see we had a cash outflow related to working capital both in Q4 and in the year and for the full year that was larger than year ago. I wanted to provide some color on this.

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The working capital outflow was driven by receivables, inventory and prepaid expenses primarily but the key point here is that most of this is just timing related issues. The growth in receivables partly reflects year-over-year growth in our hardware leasing business and year-over-year growth in our ISO business, both of which are generally tied to small merchants. Small merchants generally have longer payment terms.

Relatedly, our hardware inventory in dollar terms grew as we ramped up Clover sales. Lastly, prepaid expenses also grew this year driven by a few major IT vendor contracts that we chose to enter this year to help reduce our run rate future operating expense.

Next I would like to discuss changes to our capital structure on slide 12. We executed numerous capital market transactions since 2014 and they all fall broadly into three buckets laid out on slide 12.

First, we raised over $6 billion of primary equity in the past two years through our $3.5 billion private placement in July 2014 and the $2.8 billion IPO completed in October 2015. The net proceeds of these actions were used to pay down debt including debt held at our former holding company.

Second, we have also refinanced over $8 billion of higher cost debt, most of it in the fourth quarter of 2015 helping to notably reduce our average cost of debt. This is a critical point because it relates to the refinancing opportunity we discussed on the IPO road show. Seeing an opportunistic window in the credit markets in Q4, we were able to complete the refinancing of all of our high cost debt through a series of transactions affectively pulling ahead what was otherwise likely to be 12 to 18 months of financing activity.

Lastly, in an effort to further de-risk our capital structure, we have pushed out all significant near-term debt maturities. During this past quarter, we pushed $1.5 billion of term loans scheduled to mature in 2017 to 2022 and back in the second quarter of 2015, our old revolver was replaced with an upsized new revolver maturing in 2020. We now have no debt maturities until 2018.

Slide 13 simply illustrates our cash interest path over the past two years. In 2013, First Data had about $2 billion of interest costs including non-cash PIK interest on notes held at our former holding company. Using the net proceeds from both of the primary equity raises and the multiple refinancing transactions, we have reduced our cash interest costs to an annualized rate of $1 billion currently. Our average cost of debt has also been reduced from 7.3% at the end of the third quarter of 2015 to around 5.5% currently. Note that most of all of our debt is in the United States where we have significant US NOL carryforwards and cash interest reduction largely flows to free cash flow in the coming years as a result.

So in summary, fourth quarter saw 5% revenue growth on a constant currency basis adjusted for certain items previously discussed, 200 basis points of margin expansion, and a dramatic improvement in our balance sheet. We are excited about the trajectory of the Company in 2016 where our focus will be to execute on our growth initiatives and expense management plan.

On that note let me hand it to Frank to provide you an update on some of these initiatives.

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

Thanks, Himanshu. I think it is a great time to talk about the things we talked about on the road show. I would like to start in the large client space.

As we talked about, this was not a space well covered by us or focused on by us. And today we have completely focused a large portion of the Company around large clients. We dramatically expanded our sales force and I can personally say our relationship with our large clients operating at the senior most level, satisfaction is at an all-time high.

We are bringing to our clients all these solutions. We are no longer a single product company or a single relationship. We are a multi-pronged relationship at the senior most level and it is a complete transformation in the clients' office. So all of this is starting to pay off.

Our enterprise pipeline across all of our segments continues to grow and is at the highest this Company has ever seen. We could highlight a few recent wins. First, Tennessee Bank and Silicon Valley Bank, each of these is a complete enterprise win. It includes a bank acquiring revenue share, it includes card issuing and the STAR Network. That is a gang tackle around bringing our solutions to institutions that see the value of those.

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And then let me point to a client like Cabela's; they were an existing client. We went out and saw them, we spent time with them, they saw our capabilities at the senior most level, now they are converting over to our acquiring service. There are many more of these, I won't name them and in many cases I can't name them but we feel very, very strong about what we have done over the past year and a half to get us to be able to grow a pipeline and implementation queue at the size and scope it is today.

Our renewals across the board, Synchrony, PNC, Wells Fargo, Alpha Bank in Greece, many others have all come to the table and believe in what we are doing and are prepared to do more with us. The new vertical expansion that we talked about, an example would be gaming, Hard Rock in Florida; we now are in that casino, a space we never operated before. Healthcare, universities and tech companies, growth areas which we were totally absent in before, strong pipeline, strong wins and we are talking to them every day.

We move into new areas. You saw the announcement that Bill McDermott and I made around SAP and ourselves in the B2B space, a place we would have never operated. And once again, these are being engineered at the senior most level. They are long ramps, they are time-consuming but that in fact is long, sticky new revenue this Company never saw.

You see the types of things we have done with PayPal and NCR, new collaborations in places we wouldn't have operated. These are all new channels for us.

So I do close with on the large client space, pipeline as strong as ever, implementation queue as strong as ever, client sat as strong as ever and collaboration is at the highest level in the tech and other areas that this Company has ever had.

So let's talk about STAR. We talked a lot about STAR in the road show and I would like to remind everybody this was a business in decline two years ago. The last two years, 14% increase year-over-year, both years in a row of cards in this business. Why? Three large FI wins.

We dramatically improved the functionality that is why we win business. We invest in technology, we deliver on what we say and we bring new clients new functions. It was only a pin network when we started and today it is pinless and it sees great momentum. The way I think about that is 15,000 First Data merchants had STAR installed on it a year ago, today almost 200,000 and that will continue to grow. It has led to 20% transaction growth in 2015, a business that was declining only two years ago. We will continue to invest in our functionality, we will continue to partner with others and we will continue to go into our install base and grow that business.

The SMB space in the US is a very, very important part of this Company and there are no silver bullets as we said on the road show but it is a multi-pronged strategy that is taking hold. We are in the middle of fundamentally reengineering our relationships with our bank partners to drive greater growth. The conversion of these relationships from what was before a referral processing agreement to a much more embedded sale and a much more product and business oriented sale is taking hold.

Early signs are showing. I would point to Associated Bank in Green Bay where we have a fabulous relationship, one of the oldest clients this Company has had. We spent time at the senior levels, we talked about how to change the model, how to integrate the offering and the results show tremendously year-over-year.

We do have the largest network of bank partners, Bank of America, PNC, Citi, Wells, Santander, SunTrust, Lloyds outside the US and many more and these are all transforming. We have spent the past year in the dialogues of how to change them. Those dialogues have been at the senior most level and we have actually highlighted and brought to our partners in the financial institution the opportunity and they see it the same. Small and medium-size business growth is key to them, embedded sales, digitizing the businesses and changing how we operate. There is a commitment in each one of these institutions that we have personally worked on to change the operating model to drive the revenue growth.

It is starting. The modernizing of our bank partnership model is proving a better client experience and an increased yield.

Second, I would like to talk about Clover. We have talked a lot about Clover and we feel very, very strong. It has taken hold. It is not an experiment. It is a growth opportunity, it is embraced. We have over 150,000 units of Clover station, mobile and mini deployed and have been shipped today.

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We have four versions. We had none two years ago. Third-party developers clearly recognize Clover as the only scale open architecture platform facing off the small merchants. 112,000 instances of third-party applications are being used by our clients. That is not to mention what we ourselves have installed as the fundamental group of apps on that platform and our own information product Insightics, has more than 100,000 installed instances. These are apps being used. The transformation from the processor to the solutions and services company that we are and you can see as more merchants get on the Clover platform and use a growing library of apps, that retention will change. We already see the signs. We see the signs of us being a multiproduct solution and services company changing the relationship between us and our clients.

I speak regularly to small and medium-sized business owners who embrace this application and series of applications. But it is not all about Clover. We are working like I say on multi-prongs, simplified pricing, signing up merchants through digital channels, improved client service; we will be maniacal on that and interoperability of our solutions and bundled pricing, a complete shift from the First Data people knew 2.5 years ago.

For us there are no unknowns in this space. There are multiple items we are working on. We've got a world-class team working on it. We treat SMB as a business that is mandatory to win in and now it is about execution for us.

When I think about the international franchise, we talked about Brazil and I would like you to think about Brazil and I would like you to think about us in the following way. Like Clover, like STAR, like Large Client, in all cases it proves if we get behind an initiative we deliver. We fundamentally had no merchants a year ago and today we have 40,000 in Brazil, a complete transformation. Now I understand Brazil is a challenged economy but we will grow there and it is a large payment environment that we should be in. I think the large point is when we talk about getting something done and we put our time and project management and systems expertise and management expertise against it, we can deliver and in scale.

And in Europe, we see large growth also. The UK direct business saw its merchant count grow nearly 20% in 2015.

So when we looked at the fourth quarter and we looked at the year, we think very, very much about positive operating leverage. We believe positive operating leverage will be a mantra for the long-term for this Company and I would ask you to look at what has happened in margin expansion in the last three quarters of this year with the fourth-quarter showing 200 basis points of margin expansion. This was a direct relationship to what we talked about in May when we said we would have an expense management initiative. And I do recall many time saying to people we had to fix many of the fundamentals in this business before we could get at the expenses and many times I was encountered with the question around platform and I would come back to everybody and say we can fix technology but our site locations are a strategic disadvantage. The lack of integrating acquisitions physically and culturally were hurting this Company. This year we closed over 15 sites, Corpus Christi, Maitland Florida, Moorpark, California we are going to stay at it. And you will see us modernize our facilities and also densify our facilities and have a lot less real estate.

We have moved over 1000 jobs in this process and affected a much greater number. In many cases, we have eliminated jobs. We have moved them to more strategic hubs to increase productivity and in fact we have also moved jobs offshore and we have increased our India footprint by 35% or about 200 FTEs and you should expect us to do that in a way that works both for our clients and for ourselves going forward.

These actions are designed to rationalize our real estate and workforce footprint and we expect this to continue to yield results in the coming quarters. We are very, very focused on the expense management that was there to be got in this Company but we couldn't get at when we first got here because we needed to delight our clients, we needed to build our relationships, we had to invest in our business and now we are rationalizing the expense base to a place that we all know well how to do.

Our strategic sourcing decisions also yielded results and we count on them to do more. We will continue to generate strong positive operating leverage through strong expense management.

In summary, I look at the past two years as a tremendous transformation of this Company. A zero growth Company fundamentally to a mid-single-digit growth Company with a series of initiatives with a changed client attitude towards it and with a series of expense management efforts that will really drive the outcome. I look at the next two years as being stronger than the past two years and I look at this quarter as one where we have transformed the balance sheet and did what on the road show we talked about doing that might have been questioned about the ability to refinance that debt and it all got done in Q4.

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It is an honor to be here and I am delighted to take questions. Peter will have some fine points on how we do that but I thank you, thank you for your time.

Peter Poillon - *First Data Corporation - SVP of IR*

Thank you, Frank. Just one request for a simple ground rule. 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 into queue for another question. As we approach the end of our time today. I will let you know when we have time for one final question.

Vanessa, please open it up for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Darrin Peller, Barclays.

Darrin Peller - *Barclays Capital - Analyst*

Thanks, guys. Nice job. Just want to start off, I mean your quarter illustrated obviously revenue growth rate at the 4% to 5% range. It looks sustainable and obviously you had considerable margin expansion of around 200 basis points in the quarter even after backing those items out. But I don't think we heard color on guidance at this stage and so if there's any way you can just give us some color given the high recurring revenue trend in your model, any insight on how to think about 2016 on than it would be great.

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

You hear me talk a lot about the initiatives and I thought it was important to talk about the five and the momentum on the five that we had. I think we will give more color as we go forward on expense management in more detail too as we go forward here because I think it is a very strong, strong point here.

We have a lot of growth initiatives and when you go from a pure acquiring business to a multi-solution, really platform and services company, that is a huge transformation. The pipeline is very, very strong and the implementation queue is very, very strong on the large client space. But this Company hadn't ever digested that before and so the amount of activity is very robust. We know how to execute on it all but to give a quarter to quarter prediction with the amount of change in the business, we are not at that point in this Company. We are at the point though to be highly confident in our ability to generate that positive operating leverage, feel great about the client sat. I personally talk to CEOs and clients every day. And I think it is important to recognize, we believe -- we going to do an investor conference during the course of this year, give a lot more detail on every business and we are going to stay at it with you. You can count on us to tell you everything that is going on as we are going down this path.

Darrin Peller - *Barclays Capital - Analyst*

I mean just to kind of push back a little further, I mean is there anything unusual about the recent growth rate, the 4% to 5% that you don't think is sustainable given what seems like pretty healthy drivers?

I guess my follow-up question is just around the margins again. I mean 200 basis points was definitely better than we had expected. When we look at the operating leverage mix and the mix you talked about, I guess if you can give us a little more granularity on what you mean by mix, what

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parts of the business are growing faster that is helping me margin out in that way? How much of that was the cost initiatives? And how much is just pure, simple, straight operating leverage that will happen with any growth? Thanks a lot, guys.

Himanshu Patel - *First Data Corporation - CFO*

Yes, Darrin, on your first question on the 4% to 5% growth in the quarter, there is nothing abnormal on that. And I would say there were a few one-time items that we called out related to the portfolio sale and the security timing issue that we had talked about in Q3. We don't really see anything in the next couple of quarters that immediately jumps out that was as significant as what we saw in the fourth quarter. So I wouldn't call out any anomalies related to the current growth rate that you see. We feel pretty good about that.

And then on the question of margins, unlike most of the publicly traded competitors, we are not a monolithic company. We have processing businesses, we have hardware businesses, we have card manufacturing businesses, we have varying degrees of margins in different geographies. So for us, mix plays a bigger role than maybe what sometimes people appreciate when you look at quarter-to-quarter margins.

In the current quarter, fourth quarter year-over-year, definitely the 200 basis points was aided by just cost absorption so that was good old-fashioned operating leverage. And we also benefited from geographic mix meaning we generally make more money in our US geographies than our international geography and we had a good quarter in terms of US revenue versus non-US.

Darrin Peller - *Barclays Capital - Analyst*

Okay, that is helpful. Thanks, guys.

Operator

Tim Willi, Wells Fargo.

Tim Willi - *Wells Fargo Securities - Analyst*

Thank you. Good morning. Two questions. First was just going back to your comments on STAR. Could you talk a bit as you build that momentum and talked about signing some FIs and merchants. Just what is really resonating in that series of discussions around getting merchants to sign on with STAR? And then also specifically the pinless capabilities and then I have a quick follow-up.

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

So I would start that remember we have like 20% market share in pinless debit. So our view is always that, sorry -- in pin debit. And our view is always we own a debit network, we have an issuer processing business and we have a merchant acquiring business. Actually we are probably the only property that could say that. And so our view was invest in a functionality, build out the functionality, make it easy for your clients to have choice. We believe in client choice. If you see us do something with PayPal or you see us do something, we will collaborate with everyone. That is our mantra, we came with that mantra which was a complete transformation of mentality in this Company and our view was build out the functionality. We knew we were technically competent at building it. I think people in the past were concerned whether it could even be built and then offer it to your clients, even offer it to your competitors but enable it and let the client make the choice.

Merchants and issuers want choice and we have all the tools in the shed. I actually think if you thought about where we are and where we are today, it is one of those things that talks about the power of what were the underlying assets of this Company.

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Tim Willi - *Wells Fargo Securities - Analyst*

Great. My follow-up was on PayPal and the agreement you signed to support them. I think for several years, there's sort of been a standoff around working with PayPal. And just to what degree you could shed any light on what the key things were that led you to the agreement in benefit to you, not just them?

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

I think, first of all, I am well reminded that on my second day on the job, The Wall Street Journal had a front-page article that we were being sued by Discover and PayPal. So I quickly learned what that was about. And we spent a long time talking about it, about what to do.

And it started before Dan got there, but clearly Dan and I concluded, one, they are a large customer of ours unrelated to that. So we have a deep, very strong relationship. I don't think people knew that commonly. So keeping that relationship was very important and growing that relationship very important.

And as late as two weeks ago, Dan and I hosted our senior teams here about strategic initiatives, as we do with lots of people regularly. I won't get into contract terms, but I would say it is fair to say it was right for both sides. We feel like it is about pure growth. We do believe in client choice -- I will say that again -- and giving at the point of sale the choice whether you want to use whatever method you want to use, we want the merchant and the client to decide.

We are a commerce enabler. New management on both sides, commerce enablers, great partners. I would say that is one of those examples of a complete transformation of a relationship, and that is the new First Data.

Tim Willi - *Wells Fargo Securities - Analyst*

Great. Thank you very much.

Operator

Sara Gubins, Bank of America.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Thanks, good morning. In GBS, the North American transaction growth was strong, but the yield worsened, even if we adjust for some of the unusual items that you have mentioned. Could you talk about what is driving this, and do you think those factors would continue into 2016?

Himanshu Patel - *First Data Corporation - CFO*

Don't want to get into 2016, but the comment you mentioned is obviously correct. We have had transaction growth being offset to a decent amount by lower blended yield. I would just make an important point on that. Remember, we have a large diversity of merchants, whether they come from large clients, an ISO, one of our alliances or a directly acquired client. And each one of them carries a different RPT, so the impact on the blended RPT you are looking at externally is not just about pricing, it is also about mix of business that is moving around in there as well.

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Sara Gubins - *BofA Merrill Lynch - Analyst*

Okay, great. And then on an EMV, so there has been some studies that just the card prevalence is over 50% at this point. Could you talk about how much of your portfolio is now penetrated in the US? And if you would comment on what that means also for 2016 if we should suggest a slowdown in GFS given that a lot of that has already been done?

Himanshu Patel - *First Data Corporation - CFO*

So let me take that in two parts. If you looked at our US general purpose credit and debit cards alone excluding retail private label where we have a pretty large bank of cards, I think your observation is for the industry is probably comparable to ours, probably over half of that portfolio has now been reissued as EMV and so there is still some more to go on that.

Two things to keep in mind, in the early stages of the reissuance wave, larger issuers went; in the later stages, you will see more midsize and smaller issuers go and there does tend to be different pricing with that. And number two, obviously we have several hundred million retail private label cards that we do processing for and the vast majority of those are still magnetic stripe.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Great. Thanks very much.

Operator

Ashwin Shirvaikar, Citi.

Ashwin Shirvaikar - *Citigroup - Analyst*

Thank you. Good morning, Frank and Himanshu. Congratulations. It is good to see the transformation continue to take shape here. As you look at cadence of quarterly revenue and profit growth expectation, I know you cannot comment specifically by quarter. Can you remind us of the major items you would advise investors to look out for from a year-over-year comparison basis as we look at the quarters?

Himanshu Patel - *First Data Corporation - CFO*

There is always noise quarter to quarter. I don't think there is anything in Q1 that we can think about that particularly jumps out. There are a couple of items but they are not worth really getting into. Really the fourth quarter was really the most unique one and this is the reason in the third quarter conference call we had talked about the EMEA portfolio sale as well as the security timing issue which are both Q4 centric comments. I mean there will be ups and downs ever quarter in terms of year-ago comparisons but nothing really jumps out going forward.

Ashwin Shirvaikar - *Citigroup - Analyst*

Got it. And is it possible to get maybe a pro forma merchant services growth number that combines the GBS and NSS elements? That was good point you made, many of our checks do indicate higher strength of demand is actually in some of the items put in NSS. So would we be able to get that possibly?

Himanshu Patel - *First Data Corporation - CFO*

We obviously resegmented the Company the way we did because this is the way we want to run the business. So I don't think we want to get into providing another way of disclosing our business. But I think it is fair to understand that the NSS business fundamentally serves merchants and

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issuers and it grabs revenue from both sides. And so as you are seeing NSS growth grow as nicely as it has, it is just worth keeping in mind that a very significant chunk of that accrues to our broader merchant franchise in North America.

Ashwin Shirvaikar - *Citigroup - Analyst*

Got it. Thank you.

Operator

Bryan Keane, Deutsche Bank.

Bryan Keane - *Deutsche Bank - Analyst*

Hi, good morning. I was just hoping to get an idea how attrition is trending in GBS in the quarter and throughout the year?

Himanshu Patel - *First Data Corporation - CFO*

I wouldn't say there has been any material change versus let's say a year ago. Quarter to quarter we do see a little bit of improvement occasionally but remember, we have sold over 150,000 Clover units and we are obviously starting to see some data about what that does for retention. The early evidence is encouraging but the sample size is not good yet and because most of these clients haven't had the product for more than a year. And given the size of our portfolio, it just takes some time for those products solutions to be more widely deployed.

So I think it is something that we would probably expect some impact on once you see many more Clover units out there. I think 150 is a good start but I think it is fair to say on a base of a few million merchants, you need to get several hundred thousand out there to start moving the needle on that meaningfully.

Bryan Keane - *Deutsche Bank - Analyst*

Okay. Just as a follow-up, looking at the GFS segment, it looked like it was weighed down more by EMEA. Was there some one-time items there or what is the outlook for improvement in that segment? Thanks.

Himanshu Patel - *First Data Corporation - CFO*

The underlying business is good. If you looked in the press release you will see international accounts on file are growing nicely. We did have a major client renewal in Germany. There is some impact related to that in the fourth quarter. Some of that will start lapping fairly shortly in the next few quarters. And there were also some other pricing related items that were one-off that hit us in the fourth quarter in Europe GFS.

Bryan Keane - *Deutsche Bank - Analyst*

Okay. Thanks so much.

Operator

Lisa Ellis, Bernstein.

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Lisa Ellis - *Bernstein - Analyst*

Good morning. You didn't explicitly break out product sales for GBS other than to comment that they were increasing. Can you just give a little bit more color around how you are seeing product sales trend in North America and where you feel like you are in the EMV cycle on that front?

Himanshu Patel - *First Data Corporation - CFO*

So Lisa, you will see more of this detail in our K. Just keep in mind, product sales for us is not just about hardware, also includes security solutions and in the fourth quarter we did have this adverse timing issue so the reported product sales for the Company you will see are actually not up as much as they were in the prior quarter mainly because of the security comparison that we talked about.

I think more qualitatively, your comment about EMV hardware sales, I think it is fair to say that trend is still continuing. Fourth quarter is obviously seasonally an odd time for merchants to go in and re-terminalize just given the uplift in shopping at that point. But I don't think we are seeing any signs that merchants are not still interested, small merchants are still not interested in moving into new hardware solutions. That trend in earnest probably kicked off for us I would say probably sometime in the second or third quarter of 2015 and we would expect that to continue.

Lisa Ellis - *Bernstein - Analyst*

Terrific, thanks. Just as a follow-up on the STAR Network, do have a perception as you have expanded into PINless debit who you feel like you are taking share from? Not to specifically name competitors but I mean is this just an incremental piece of secular growth you think you are capturing or is there specific competitive gains you can highlight?

Himanshu Patel - *First Data Corporation - CFO*

I don't know that we have an ability to have a strong view on that so I mean I think from our perspective it is just a new transaction type that we didn't have before. I am sure it is coming from multiple players, not just one guy.

Lisa Ellis - *Bernstein - Analyst*

Terrific. Thanks.

Operator

Craig Maurer, Autonomous.

Craig Maurer - *Autonomous - Analyst*

Thank you. Two questions. One, can you discuss the competitive nature of the acquiring market? Specifically we hear that Paymentech is looking to gain scale for their vertically integrated solution and Chase Pay is getting extremely aggressive on blended acquiring rates?

And secondly, on the relationship with PayPal, is this simply an ISO like model for PayPal where you are just looking to drive acceptance or is there something more platform-wide that you are doing with them and don't you risk frustrating some of your bank partners by promoting growth essentially of a channel with ACH that could take revenue from them?

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

Why don't I take the first and second part of that, right? I think the first item is innovation will always occur and I think competition is good. We've got to delight clients. We've got to bring things to clients that work well. So we have Clover, we have Insightics, we have a number of items that we believe are very, very compelling for clients and so to us that is how we think about it.

On any given day there will be different offers and different pricing. We are maniacally focused on how we are going to deliver value to the client that actually helps them grow their business. We are not in a pricing war in our mind. We are in a solutions and services opportunity to help people grow and that is the approach we have taken and we will continue.

The other is I believe clients like choice and giving clients choice is really, really important and we think First Data has one of the greatest, greatest capabilities to do that.

So I just look at it like it is never going to be one item. We have to be innovating, we have to be creating and I think Clover is unparalleled. I think our ability to bundle a bunch of our products together are very, very, very strong and by the way, this is the receptivity that we get in the clients' office. So that is how we think about that.

I think about PayPal, goes back to the choice category. Our acquiring partnerships are about giving clients choice and whether it is Visa, whether it is AmEx, whether it is MasterCard, whether it is Discover, they are all enablement channels. And I actually think it was important to us to allow when we hear clients say they want to accept something to enable it and accept it. I mean look, I understand the point, I think it is a minor point, not a major point. I think the real point is how do you enable payments for clients the way they want to be enabled.

Operator

James Friedman, Susquehanna.

James Friedman - *Susquehanna Investment Group - Analyst*

I wanted to ask Himanshu about this slide 10. In terms of the cash interest payments, is there anything to call out as remodeling the Company the next few quarters that would suggest that these recur?

Himanshu Patel - *First Data Corporation - CFO*

No, I mean so the accelerated cash interest payment that we are talking about simply has to do with refinancing bonds. Bonds have semiannual coupons, not quarterly coupons so if you do a refinancing transaction and then off coupon cycle, you have to obviously pay up the interest expense which may have otherwise landed in the subsequent quarter. We are done refinancing all of our high cost bonds. Our highest cost bond today is 7% and so we are pretty good about all of that.

So I wouldn't anticipate any accelerated payments related lumpiness in quarterly cash interest expense. Now that said, there is always going to be normal course bumpiness in quarterly cash interest payments that doesn't show up in our P&L interest expense which is obviously smoothed out. But anytime you're making a bond coupon payment, you are going to be higher than when you are doing just term loan.

So there is a little bit of bumpiness there but nothing related to the refinancing activity which was the much more significant item impacting cash interest expense in Q4.

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James Friedman - *Susquehanna Investment Group - Analyst*

I wanted to ask you about your large client commentary. Could you vector that between GBS and GFS specifically on the GFS side, what does the pipeline look like for large national or regional banks, not just for renewals but new opportunities for accounts on file?

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

New opportunities for us are very strong. I mean I have a call Union Bank here which has greatly expanded their relationship when I get off here. I mean Bank of the West we converted. We have a lot of activity in that space.

I think it goes back to focus, discipline, expertise, knowledge. One of the things that is different in this Company is we understand technology and financial services pretty darn well. And of course I believe we have great expertise in expense management too but our ability to talk to the CEOs or senior most level of financial institutions and understand their needs, whether it be in the compliance, whether it be in third-party oversight is very, very strong. They are great competitors in this space and I give them all a lot of credit but we are out there, we are working it, we like it, we really like this business, the recurring nature of it and we are going at a pretty darn hard.

James Friedman - *Susquehanna Investment Group - Analyst*

Thank you.

Peter Poillon - *First Data Corporation - SVP of IR*

We are up beyond the hour so I'm going to say one last question, Vanessa.

Operator

Andrew Jeffrey, SunTrust.

Andrew Jeffrey - *SunTrust Robinson Humphrey - Analyst*

Thank you. I appreciate you squeezing me in here. The commentary, Frank, I think particularly on enterprise wins is pretty compelling. I wonder if you could frame up from a long-term growth rate perspective how you think those wind up layering and contributing to the growth? Is this something you think we should begin to see contributing to calendar 2016 organic revenue growth for the consolidated entity or do think there is a longer tail in terms of the momentum on some of these big company-wide or enterprise contracts?

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

I think from the time we all have the first conversation to the time to signing a document, we love for them to take a week but they usually take nine, 12 months. Obviously 2016 will benefit more than 2015. We are deeply working on those implementations and even 2015 wins. But I also think when you look at some of the things we talk about whether it is NCR, whether it is SAP, those could be -- to get to what the ramp opportunity is, potentially is over three years.

Now the investment spend is already in these spend and we are working it through. I think you see benefit in 2016 and it gets even better after. Remember, we didn't even have an institutional salesforce a year and a half ago. It goes back to like transformation. I always go and think about this place like if you look at the past two years of transformation in the business, the next two years will be better. That is how I look at it and I would say the most confident I have been in this Company is right this minute if you look at what has gone on so we feel good about it. They are long sales cycle, require a lot of work and there are long-term partnerships that we are dedicated to doing a great job for the client in.

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Andrew Jeffrey - *SunTrust Robinson Humphrey - Analyst*

Okay, I appreciate that. Just as a follow-up quickly, could you just comment on the accelerated industry consolidation? I'm referring to the merchant processing space that we have seen in the last several months, any thoughts in terms of how that affects First Data directly one way or the other?

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

It is an interesting thing, if you look at -- I may have this a hair wrong -- but if you look at the top 10, 15 acquirers showing up on there will be businesses like PNC Merchant Services, Bank of America Merchant Services, SunTrust Merchant Services, Citi Merchant Services and First Data as a standalone. So most of -- and by the way that is all run on the infrastructure of this Company.

So when I look at the consolidation, it seems like a very, very, normal thing to be occurring given that we actually were the grand consolidator at one point in time and now we are the grand collaborator and changing it. So I mean I don't think there is anything odd about it in huge scale businesses. I feel great about our scale and our ability to generate positive operating leverage off of the scale.

Andrew Jeffrey - *SunTrust Robinson Humphrey - Analyst*

Thanks a lot.

Operator

Thank you. This concludes the question-and-answer session and this concludes today's call. We thank you, ladies and gentlemen. We thank you for participating. You may now disconnect.

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