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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the first-quarter 2016 First Data Corporation earnings conference call. My name is Vanessa and I will be your operator for today's call. At this time, all participants are in 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 Investor Relations. You may begin, sir.

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

Thank you and good morning, everyone, and welcome to First Data's first-quarter 2016 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. Frank and Himanshu will be referencing a slide presentation during their prepared remarks. A copy of the slide presentation as well as our earnings release and supplemental schedules are available on our website at investor.FirstData.com.

I would like to remind you that any forward-looking statements made during today's call are subject to risks and uncertainty. Factors that could cause actual results to be materially different than those expressed in our forward-looking statements are described in today's presentation and in our 10-K filed on February 25, 2016. 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.

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

Thank you and good morning, everyone. It is a pleasure to be on the call this morning. Let me start with slide three and discuss some of the highlights of the quarter.

Our overall first-quarter financial results were good. We saw 5% constant currency revenue growth and solid margin expansion through positive operating leverage that resulted in 13% EBITDA growth and strong free cash flow.

In our segments this quarter, GMS grew 12%, NSS was up 5% and GBS grew 2% driven by good growth in EMEA and Latin America. GBS North America was down modestly in the quarter. We have a concrete understanding of the issues that we face in this business and a detailed plan to turn it around that I will discuss with you in a few minutes.

We generated more than $200 million of free cash flow in the quarter. That is up over $0.5 billion versus a year ago reflecting a healthy improvement in our EBITDA and a significant reduction in cash interest payments. Generating free cash is and will be a mantra for this Company, something that you are now beginning to see.

Finally, we remain focused on proactively managing our balance sheet. This past quarter we extended maturities on over $4.5 billion of debt that was previously due in 2018.

Now I would like to update you on four of our major initiatives. First, let's start with the expansion of our enterprise business which is where we bring the full suite of our offerings to both financial institutions and large corporations. The pipeline is improving and includes opportunities in new verticals. For example, we recently signed Travelport in the travel and leisure space as well as Banco Popular in Spain as a credit processing client and First National Bank of Omaha as a retail private label processing client.

In addition, we have been making good progress on loan processing which has been a new growth area for us. Citizens Bank is processing their consumer smartphone loans from a major handset manufacturer with First Data and Bank of Ireland is processing consumer installment loans in the UK with us as well.

Second, our international business saw good growth primarily in Latin America and Europe. Our Brazil acquiring business is starting to rapidly expand and contribute more meaningfully to overall revenue growth. We expect this to continue. Our European acquiring business is also seeing strong growth reflecting both market share gains in our direct business and better yields.

Third, managing expenses is a core discipline of this Company. Last year we committed to $200 million in gross expense saves and are fully on target to hit that number by the middle of 2016. Our site strategy is taking hold. We just sold a building in Omaha that will allow us to consolidate and modernize our space there. We are also moving our people to lower-cost locations and we are executing our procurement saves as well. You can count on us to always remain focused on managing our expenses to improve our overall operating performance.

Finally, our leadership team is intensely focused on improving our US SMB business. We have a number of initiatives and plans currently underway in this business. Let me walk you through some of the changes we are executing on in this business.

First, we are increasing leads for our bank partners by more deeply penetrating our solutions in their branches.

Second, we are investing in our digital strategy to acquire merchants directly online across all of our distribution channels. You can see an example of this in our recently relaunched Clover.com site.

Third, we are directing our field sales force to be more targeted to higher lifetime value clients as well as expanding our telesales capabilities to sign up smaller clients.

Fourth, we are improving our service model through vertical specialization and expanding online self-help capabilities.

Fifth, we are implementing processes to simplify how we interact with our clients including clear transparent pricing, simplified statements and streamlined on-boarding.

Finally, we are continuing to invest in our value-added products like the Clover lineup with a particular focus on vertical specialization.

We like to say there are no silver bullets in the US SMB business but we are confident there are no unknowns. To us US SMB is the battleground and I think it is our last major one. We are succeeding in others like STAR, GFS North America and our balance sheet and we will win the battle in US SMB as well by executing on our strategy in a detailed and maniacal fashion.

In summary, the quarter's results were solid. We are doing a lot of things well and I am proud of where our Company has come from and I am proud of everyone who works here continuing to drive our multiyear transformation.

But I want to be clear, by no means are we satisfied with where we are today. Our biggest business, GBS North America, did not grow. We have the plan to fix it and we are executing against it.

Now I will turn it over to Himanshu for further discussion on our financial results for the quarter.

Himanshu Patel - *First Data Corporation - EVP and CFO*

Thank you, Frank. Good morning, everyone. I'm going to start on slide four, the summary of our Q1 results that Frank just touched on. 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 JVs was $1.7 billion in the quarter. This is up 2% on a reported basis or up 5% excluding the impact of FX translation.

Adjusted EBITDA of $636 million was up 13% reflecting revenue growth and expense management actions. Q1 adjusted EBITDA margin expanded 360 basis points to 37.6% from 34% in the year-ago period. This is our fourth consecutive quarter of margin expansion. First-quarter adjusted net income, a measure that is intended to approximate recurring cash earnings was $220 million or $0.24 per diluted share, an improvement of $185 million versus the comparable prior year period. The improvement was driven by better operating performance and lower interest expense.

You can see in our press release and slides that we have slightly modified our definition of adjusted net income, adjusted net income now adds back only the portion of consolidated amortization related to alliances that is attributable to First Data's ownership percentage as opposed to 100% of consolidated amortization. The effect of this change is an $18 million reduction in Q1 2016 adjusted net income versus what it would have been under the prior definition. The change has no impact on EBITDA or free cash flow in current or historical periods but we made this change because we believe this approach provides a better approximation of our cash earnings.

Please turn to slide five where we provide an overview of segment results for the first quarter. I will provide commentary on each of the segments in the slides to follow. Total segment revenue as mentioned on a constant currency basis grew 5% reflecting 2% growth in the GBS division, 12% in GFS, and 5% in NSS. While we do not provide guidance, we do have good visibility into our business. Note that we have now seen mid single-digit constant currency revenue growth for several consecutive quarters. Our focus is driving that mid single-digit growth figure higher.

Moving down the page to adjusted expenses, you can see that overall our adjusted expenses declined $35 million or 3%. There are three key factors driving our expense improvement.

First, while we continue to invest in our business, the year-over-year growth in investment spending has moderated. Second, the strategic expense management initiative that we announced a year ago is showing up in our results helping to offset variable expense growth driven by higher volumes across many business lines. Lastly, foreign exchange translation had an estimated $23 million favorable impact on our global adjusted expense base.

Moving to the bottom half of the page, let's talk about EBITDA and margin. Adjusted EBITDA in the quarter was $636 million or up 13%. Our adjusted EBITDA margin in Q1 was 37.6% versus 34% in the year-ago period. The margin expansion reflects the operating leverage inherent in our business and recent expense actions.

Now let's review each of the segments in more detail starting with GBS which is covered in both slides six and seven. At $955 million, GBS Q1 revenues were down 1% on a reported basis or up 2% on a constant currency basis. GBS as Frank discussed, was a mixed bag with strong results in EMEA and Latin America but a weak result in North America. North American GBS revenue was down 2% and as you can see on slide seven, North American merchant related revenue across both GBS and NSS was flat. These revenue figures reflected 7% transaction growth in GBS North America and lower blended yield.

The decline in blended yield primarily reflects the ongoing impact of attrition in our SMB portfolio. But flat growth in our North American merchant business is clearly not where we want to be. As Frank mentioned, we have an intense focus here and are executing a clear game plan to drive these numbers higher and we expect the overall performance of our North American merchant business to start showing improvement in the second half of the year.

Moving on to results outside of North America, GBS EMEA revenue grew nicely at 17% on a constant currency basis. The growth was primary driven by strong transaction growth as well as higher blended yield which partially reflects recent changes in EMEA interchange rates. Latin American GBS constant currency revenue grew 44% in the quarter and nearly half of this was driven by the ramp up of our Brazilian acquiring business.

GBS EBITDA grew 4% to $376 million in the quarter and its margin improved 200 basis points to 39.4%.

Now let's turn to Global Financial Solutions or GFS covered on slide eight and nine. At $386 million, GFS saw strong Q1 revenue growth of 8% or 12% on a constant currency basis. North American GFS revenue grew 11% driven by balanced growth across credit and retail processing and in our output services business which reflects new wins in statement printing as well as continued growth in EMV card personalization. While EMV has been a nice tailwind to GFS North American growth for the past few quarters, it is only one of many growth contributors to this business.

In the first quarter for example, a large majority of GFS North American growth was driven by business lines outside of EMV card personalization. We note that card accounts on file in GFS North America at the end of Q1 were 13% higher than the year-ago period as shown on slide nine. EMEA GFS revenues grew 6% on a constant currency basis in Q1 largely driven by internal growth.

Latin American GFS grew 44% on a constant currency basis in Q1 with approximately two-thirds of this growth attributable to a license fee resolution in Brazil and the remainder primarily driven by growth in Argentina. GFS EBITDA was $155 million, up 30% reflecting revenue growth paired with expense management. GFS margin expanded 690 basis points to 40.2%.

Now turning to slide 10 and network and security solutions or NSS. NSS Q1 revenues were $352 million, up 5% over the prior year. As a reminder, fourth quarter 2015 revenue growth in this segment included a 3 percentage point benefit from a single client contract modification as mentioned last quarter. EFT Network Solutions revenues were flat as healthy STAR Network revenue growth was offset by the impact of recent long-term debit processing contract renewals.

Security and Fraud Solution revenue was up 10% reflecting strong customer demand for these products partly offset by ongoing declines in our TeleCheck business. Stored Value Network Solutions revenue was up 12% primarily driven by our closed loop gift business. NSS Q1 EBITDA was $151 million, up 16% year-over-year and its margin improved 420 basis points to 42.9%.

Moving to free cash flow shown on slide 11, this table walks you to free cash flow starting with adjusted EBITDA. We had a healthy free cash flow quarter as you can see here. It grew to $211 million from negative $310 million in the year-ago quarter. The two primary drivers of the year-over-year improvement are a reduction in cash interest and improvements in EBITDA.

With regard to cash interest, we still expect full-year 2016 cash interest payments of approximately $1 billion. We expect full-year 2016 book interest expense to be slightly higher than cash interest at approximately $1.1 billion.

Next, I would like to discuss further improvements to our capital structure on slide 12. We continued to be proactive with our capital structure in the first quarter taking advantage of a window of opportunity to extend the majority of our 2018 debt maturities. At December 31, 2015, we had nearly $6 billion of term loans maturing in 2018. In Q1 2016, we took actions that reduced this on amount to approximately $1.4 billion. We issued $900 million of 5% first lien bonds maturing in 2024 and the net proceeds were used to reduce the amount of outstanding term loans due in 2018.

In a separate transaction, we also effectively extended the maturity of $3.7 billion of 2018 term loans into 2021.

Finally, one housekeeping item on taxes. Currently we estimate that our full-year GAAP tax expense will be in the range of $100 million to $120 million but will be lumpy quarter to quarter based on geographic mix of profits.

So in summary, first quarter saw 5% revenue growth on a constant currency basis, 360 basis points of EBITDA margin expansion, a significant improvement in our free cash flow and continued strengthening in our balance sheet.

With that, I'm going to get it back to Peter and we will be happy to take your questions.

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

Thank you, Himanshu. Just one simple ground rule on the Q&A. Please limit your questions to one question and one follow-up in order to be fair to as many participants as possible. If we have time at the end, you can come back into the 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. Operator, please open it up for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). George Mihalos, Cowen.

George Mihalos - *Cowen and Company - Analyst*

Great, thanks for taking my questions. Wanted to start off in the US GBS again on the SMB side. I think you guys had commented about attrition playing a role but is there anything else in there that may be highlighting or causing the negative mix shift whether it be pricing or anything different in the competitive environment that stands out to you? Thank you.

Himanshu Patel - *First Data Corporation - EVP and CFO*

Thanks for the question. The business has obviously got multiple sub businesses inside of it. There is the First Data direct business, we have alliances, we have ISOs and so each is moving at a different pace. Kind of the core area that we talk about in terms of where we would like to improve the business much further is the First Data owned small medium sized merchant business and most of that is really what is driving what you are seeing on revenue and yield. I would say yield keep in mind, is a blended number. It also is impacted by merchant mix so as we sign up new enterprise clients, those are national merchants, obviously they tend to come in at a lower RPT so there are some of that going on on the externally reported figures as well.

George Mihalos - *Cowen and Company - Analyst*

Great. Thanks for the color. Just as a quick follow-up, you highlighted strength again in Brazil. Just curious on the GBS side with one of your competitors, it looks like Citi and Elavon sort of exiting the market or selling their stake. Does that mean anything to First Data down in Brazil and maybe just sort of how you see the landscape evolving there?

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

We felt good about Brazil when we started talking about being there. I think we demonstrated our ability to acquire and build a merchant business there. It is a large payment economy. It is a bad economy right this minute but like everything we do, it is about a long-term set of initiatives.

This is a multiyear transformation in the Company and part of that transformation was utilizing geographic footprints. So what I see is more opportunity by those exiting and we continue to feel great about our ability to expand there.

Operator

Sara Gubins, Bank of America Merrill Lynch.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Thanks, good morning. So I know that you are not giving guidance but I'm wondering as you think about the 4% to 5% range that we have seen recently if that is reasonable to expect over the course of the year given the range of moving parts in the business? And also margin expansion, we have seen strength in the last couple of quarters. How much of the $200 million expense saving program is already in the run rate and are there any plans for new programs that might help margins in the back half of the year? Thanks.

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

Why don't I talk about a couple of things here. We have been continuing to say this mid-digit revenue growth that we feel good about it and we feel we have a series of initiatives to expand on that over time. You have seen us perform that way in consecutive quarters. When we talked about that SMB series of actions, that was foundation laid over a year and a half to two years ago.

We have built out our systems there, we have built out Clover. We feel very good about how that is taking hold. We have actions in order to continue to grow that. So we have a detailed plan. You have seen what we have done outside the US and we feel very, very confident about our ability to grow. I think I would look at the actions we have taken. We talked about expense management and we continue to work on that.

Like we said by the middle of 2016, those $200 million on a gross basis you will see and I would like to point to free cash flow. We had a strong start to the year with over $200 million generated in Q1. But as it pertains to 2016, let's think about the correct starting point which would be over $700 million in 2015 if you pro forma-ed last year's reported free cash flow for our non-lower cash interest expense and the one-time KKR fees.

So I think you are going to see that continue to improve through the EBITDA growth. We had $73 million of that and we also had what we considered a weak performance around working capital and a $200 million outflow last year that you should see improve. We will always work on the expense line. I think we feel good about where we are against it. But you should continue to see us continue to re-invest in the business also.

Sara Gubins - *BofA Merrill Lynch - Analyst*

Thank you.

Operator

Darrin Peller, Barclays.

Darrin Peller - *Barclays Capital - Analyst*

Thanks, guys. Just want to touch quickly on the GBS growth rate again for a moment just given I know last quarter if you were to move the parts around from the NSS side back into the merchant revenue stream like you showed this quarter in the slides, it was a little more in line in terms of transaction growth versus revenue growth rates being of them were in line with each other. And this time it seems like it is spread out a bit more again. I mean maybe just a little more color on what actually happened there.

You mentioned small business. If you can give us more ideas as to what is driving that and what it is actually going to take to improve that back because your transaction growth is very strong so it would be helpful. Thanks.

Himanshu Patel - *First Data Corporation - EVP and CFO*

Good questions. So most of this is really again what we have been talking about for several quarters. Reducing the level of attrition in our SMB business is a pretty powerful force on improving our blended yields. It is not like we sign up new merchants at a rate that is dramatically different than where the market is. But obviously merchants that have been with you for a while are oftentimes at a different price point. So the good news is we do have a very detailed plan that has been in place for well over six months now to really tackle the issue of portfolio management and improving retention in the core business.

That I would say is the main driver. There is always a bunch of other things going on inside of that externally reported number that you see. In the year-ago period, there were a few one-time good guys that we had but I wouldn't really want to call them out because they are just normal course business stuff but they tend to be a little bit lumpy quarter to quarter. That hurt us a little bit in terms of year-over-year comparisons on that RPT number this quarter. But I would say the core primary issue is really SMB attrition and that is one of the reasons we have been so focused on improving that.

Darrin Peller - *Barclays Capital - Analyst*

And then just a quick follow-up on the guidance side. Understanding that you have now had two quarters in a row I guess as a quick follow-up to Sarah's question. It has been pretty consistent now right, mid single-digit growth. So is it really just with all the moving parts as you have just put out numbers since you went public not too long ago and strategy is basically to let the quarters show themselves first -- I mean just a little more strategy behind the thought process on guidance if you don't mind.

Himanshu Patel - *First Data Corporation - EVP and CFO*

Look, I think the issue around guidance is exactly where we are. We have a policy to not provide guidance but we do think performance will speak for itself. I think one important point I would make is we have seen mid-single digit revenue growth on a constant currency basis for several quarters now with a underperforming GBS North American business embedded inside of that and GBS North America is nearly half of our revenue. So to the extent we improve that business which we fully feel confident on, we think there is a good ability to drive our growth rate higher.

Darrin Peller - *Barclays Capital - Analyst*

Okay, makes sense, guys. Thanks.

Operator

Bryan Keane, Deutsche Bank.

Bryan Keane - *Deutsche Bank - Analyst*

Good morning. Just on GBS, what is causing the high attrition in SMB? Is somebody being super competitive on price or what exactly is causing the high attrition?

Himanshu Patel - *First Data Corporation - EVP and CFO*

Brian, I wouldn't attribute anything new there. By the way, I wouldn't characterize the attrition in that business as being any different than what it has been for a while. It has been a pretty high churn business in First Data's history for several years. Really I would kind of step back and look at the broader point of what we are trying to do with that business.

Historically the Company was very focused on signing up new merchants. Now we've got to focus on expanding the amount of new merchants we sign up through things like digital, getting more bank leads from our existing partners. But also another big initiative inside of that business is we have a very strong focus on managing the portfolio which is something that you should expect to improve attrition simply because I would say for most of First Data's history that wasn't necessarily a historic focus.

So it is not so much that attrition rates have changed, it is pretty much kind of where they have been open for a while. Quarter to quarter you will see some lumpiness in the externally reported numbers but that is a big pot of money, to the extent we can move that dial down even incrementally on attrition, that can have a pretty meaningful impact on not just RPT but also total revenue.

Bryan Keane - *Deutsche Bank - Analyst*

And then just as the follow-up, just the plan to fix it, is it just managing in the portfolio, is it changing sales comp, is it changing price, exactly what is the plan?

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

The plan is we had talked about or I had specifically spoke about is one, we have terrific partners. We have over 70 terrific partners and we have re-energized every one of those partnerships. We are in deep dialogue and it is how we drive more leads through those channels. That is Item A.

B is we have gone back into our installed base and began bringing more product to them whether it is things I talked about gift, TeleCheck, STAR Debit. The ability to have multiple products into our client installed base will have a long-term effect.

Three, we began our digital presence with some of our bank partners and we will continue to see that grow and in fact begin our own digital presence as we talked about in Clover.com.

Then when we look at lifetime revenue, we are working hard on segmenting the business to in fact focus our salesforce to the appropriate places for a higher lifetime revenue and completely build out our telesales capability. When you bring all that together the management team is meeting on this as a topic as we have on every other topic that we tackled in the Company whether it was STAR, whether it was the balance sheet, whether it was expenses and you should expect in the second half to see changes. We are committed to turnarounds and we are very, very confident in our ability on this one.

Bryan Keane - *Deutsche Bank - Analyst*

Okay, thanks. We will look forward to the second half. Thanks.

Operator

Ashwin Shirvaikar, Citigroup.

Ashwin Shirvaikar - *Citigroup - Analyst*

Thank you. Good morning, Frank and Himanshu. First of all, I guess good job on the earnings and cash flow and appreciate that you candidly outlined the issues and growth. A lot of questions have been asked on GBS so I will turn my attention to GFS here.

When you say obviously the 12% constant currency is a good performance but what I want to parse out is the relative impact of growth in accounts on file versus output services which I am assuming is EMV which might then be a transitory impact? If you can talk a little bit about that.

Himanshu Patel - *First Data Corporation - EVP and CFO*

The growth you saw in GFS North America this quarter I would characterize as very balanced. Approximately half of the growth came from our processing businesses which is tied to accounts on file and then the other half approximately came from our output services business. By the way, the revenue split in North America between those two businesses is also roughly half and half so that is a fairly balanced split.

And on the interior of output services, there is growth happening in our statement printing business as well as ongoing growth in our EMV card personalization business and we have line of sight towards the back half of the year to improving the revenue in our remittance business which is the third portion of output services.

So it is benefiting, the business is benefiting as it has been from several quarters through a little bit from EMV card personalization but by no means is that the majority. The vast majority of the revenue growth in that business and I would say probably around three-quarters of it is due to non-EMV card personalization up charge. So we feel pretty good that the business has multiple growth engines humming right now.

Ashwin Shirvaikar - *Citigroup - Analyst*

Got it. And from a quarterly cadence perspective, typically I guess should we expect that you tend to gain strength as you go from Q1 toward Q4? Is that a safe assumption?

Himanshu Patel - *First Data Corporation - EVP and CFO*

Yes, our business is seasonal like most payments companies. Usually our lowest point tends to be the first quarter and the highest tends to be Q4. It can be very lumpy in between that for a variety of items but that is the historic seasonal pattern across the whole Company.

Ashwin Shirvaikar - *Citigroup - Analyst*

I guess the final question, you expect the same thing this year?

Himanshu Patel - *First Data Corporation - EVP and CFO*

Yes, I think that is fair.

Operator

Lisa Ellis, Bernstein.

Lisa Ellis - *Bernstein - Analyst*

Good morning, guys. Can you talk a little bit about the impact of EMV in GBS? I think I was a little surprised that we are not seeing more of a notable uptick in GBS driven by EMV on the product side. And maybe weave into that some comments on Clover traction.

Himanshu Patel - *First Data Corporation - EVP and CFO*

EMV related hardware sales specifically for small merchants which is I think where you are going is -- are still strong although I wouldn't say they are necessarily up year-over-year through the P&L. There is a lot of factors on that but in terms of unit counts, Clover is doing great. We crossed the 200,000 unit mark recently, over 150 apps in there, many in the development queue. But just in terms of year-over-year growth contributions to that externally reported line that you see which is product sales, hardware is really not the driver there, there is other factors going on in there like our security business is a benefit there.

But I wouldn't say EMV is necessarily an incremental tailwind for us in Q1 as it pertains to the GBS product line.

Lisa Ellis - *Bernstein - Analyst*

Okay. Terrific. And then just a follow-up, on the comment of how you think about trading off between expense controls and margin expansion versus reinvestment particularly in GBS, can you just give a little bit more color on kind of like where you are choosing to make organic investments back to turning around that business versus expanding EBITDA margins there?

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

Yes, I think that is a great question. On the expense management when we came out last year and talked about $200 million, I was very clear that we were getting at things that historically had been in this Company and not managed. I talked about site consolidation strategy, I talked about low-cost location strategy. To me these aren't a trade-off versus investment. Obviously it takes management time and attention but there is by no means anything here that caused us not to put money back in our business.

In fact, these are historically good expense hygiene items that I felt we knew about but didn't get out earlier because it would have broke the Company. The Company needed all lot of fixing. We are in a multiyear transformation here.

Now relative to investing in GBS, our highest and most important priority inside the Company is to grow that business in North America. We are very focused on salesforce, we are very focused on investment so by no means will you see us do anything on the expense side that causes us not to be able to invest. We have set the foundation for that business but we have brought in the management, we have built out Clover, we have modernized a lot of systems and now it's go to market and we believe feel very good about the second half.

Lisa Ellis - *Bernstein - Analyst*

Terrific, thanks.

Operator

Tim Willi, Wells Fargo.

Tim Willi - *Wells Fargo Securities - Analyst*

Thank you, good morning. My first question was on STAR. Could you just talk about any progress around or the pipelines around the PIN-less debits and the signature products and just sort of how you are thinking about that and that initiative? And then I had a quick follow-up?

Himanshu Patel - *First Data Corporation - EVP and CFO*

So STAR is growing on most metrics you would think about transaction count, revenue growth, so overall we still feel very good about that. As we have mentioned before, we are enabling new cardholder verification methods on star. PIN-less is in market. We will be in market with signature shortly and there are a few key big deals that we are circling on that as well, both on the issuer side, on the acquiring side and on the merchant side that we hope to announce at the right time. But we feel pretty good about the progress that we have so far on STAR.

Tim Willi - *Wells Fargo Securities - Analyst*

Great. And then my follow-up was just on Clover. Again, I know you are pretty early in this journey but is there anything regarding utilization of the app store if you sort of look like maybe the initial merchants that have embraced Clover and sort their engagement with the platform and downloading apps and really leveraging that relative to your expectations? Any kind of color you might be able to add there?

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

I appreciate the question and as you had said, it is still the early innings but as Himanshu said over 200,000 units have been shipped and from where we started to where we are, we have a full product suite in there.

Our Insightics product which took information and brought it to small and medium-size businesses has been well adapted. We have a number of outside apps that our leaders being used by clients across the board. But I think app adoption, changing of business models, we transitioned from pure acquiring to a solution set here and that is why we have talked so much about segmentation because also we have thought about how we deliver this product to different segments because obviously a QSR uses a much different set of apps than a retail store.

But we are -- even the management team every week is out looking at clients, talking to them, going in stores, finding out what they like. So we feel it is really early innings. Apps are being used, clients feel the effect on their business in a positive way. So feel good but we will continue to stay at it and continue to drive usage.

Tim Willi - *Wells Fargo Securities - Analyst*

Great, thank you.

Operator

Andrew Jeffrey, SunTrust.

Andrew Jeffrey - *SunTrust Robinson Humphrey - Analyst*

Good morning. Thanks for taking the question. I wonder if we could dig a little more deeper, get a little more granular with regard to North American GBS, specifically when I think about the bank relationships that First Data has, it seems that they are a crucial lever for distribution. I also know and especially in SMB -- I also know and we have seen in the industry before that ramping those relationships can take a long time and be challenging. So I'm just wondering if you can speak in a qualitative way at least about how receptive you feel your bank partners have been and what perhaps some of the puts and takes are with regard to ramping that distribution channel?

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

I think first of all, the bank partners are invigorated by these relationships. As you know, I talk to CEOs of banks about this all the time and they are enthusiastic about the opportunity. They actually view this as an opportunity to help them grow and deepen their relationship with their clients.

Now of course as you know, banks have a number of priorities and we work through it but I would say since I have been here, they are more invigorated than ever, they really do like the Clover solution. They do like the idea of us being in the solution business and bringing value to their clients and that is if you look through over the past year whether it be BBVA or First Tennessee, those will take a while to ramp but they are moving well. And we have gone back into our relationships to digitize it, to actually bring our products onto their website and that will be an expansion opportunity all year long.

So I think it is at the highest level it has ever been in the Company honestly.

Andrew Jeffrey - *SunTrust Robinson Humphrey - Analyst*

Okay, that is helpful. As a follow-up, Himanshu, one of the things you cited as I guess one of the challenges in the quarter or one of the headwinds was pricing and long-term STAR contracts. Could you elaborate a little bit and talk about sort of the competitive environment? I think there has been some movement of reasonably large debit issuing deals? I wonder if you could also sort of touch on share a little bit?

Himanshu Patel - *First Data Corporation - EVP and CFO*

Sure. Andrew, the comment was actually inside of the NSS division there is a subsegment that we externally report called EFT Network. EFT Network is the composition of STAR revenue as well as debit processing business in the United States. STAR is growing but debit processing is also growing from a transaction count perspective but we did incur price compression in debit processing because of a few major long-term contract renewals.

So that is pretty standard in that business. These are very long-term contracts, they are great contracts, highly profitable so you have a little bit of a grow over issue in the moment that you renew one of those contracts. But I wouldn't say there is anything indicative there of market share movements to be bad. In fact both of those businesses are seeing very strong transaction growth. But it is really just around one or two major debit processing customers.

Andrew Jeffrey - *SunTrust Robinson Humphrey - Analyst*

So as distinct from STAR?

Himanshu Patel - *First Data Corporation - EVP and CFO*

Correct.

Andrew Jeffrey - *SunTrust Robinson Humphrey - Analyst*

All right, that is helpful as well. Thanks a lot.

Operator

James Friedman, Susquehanna.

James Friedman - *Susquehanna Financial Group - Analyst*

Thank you. I wanted to follow up with regard to slide nine and the 13% account on file growth in GFS. Frank, I think as the Q4 call, you had suggested you had a lot of opportunities -- of quoting new opportunities for accounts on file in GFS. Could you update us on those opportunities? Have you closed some? Are they still in the pipeline? Do you think that 13% reflects market share gains or is that actually the growth of the underlying issuance?

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

You heard in the beginning of the call I talked about a couple of items and we feel deep about our enterprise ability and we feel very good about the pipeline as it continues to grow. We were not if you went back three years ago treating this Company with an enterprise capability. I like to talk about the multiyear transformation journey we are on. I think GFS is an example of it. Obviously we have a lot of other things transforming inside the Company. But you should expect us to continue to grow that business as the deals we announced and you should count on hearing from us about more deals in the future.

James Friedman - *Susquehanna Financial Group - Analyst*

Great. I know it is very early days in terms of tokens, but I believe that you process a great deal of the tokens that are out there. Just curious for the industry in general, are you seeing any volume now come through the token vaults and if you have any perspective on that going forward? Thank you.

Himanshu Patel - *First Data Corporation - EVP and CFO*

We are partners with Apple Pay, Samsung Pay, we enable a lot of mobile wallets. But in general, mobile transactions as a percentage of total in terms of physically present, person present mobile transactions, they are just not that material yet. So over time we would expect that business to grow but I wouldn't call that out as anything significant to our business right now.

James Friedman - *Susquehanna Financial Group - Analyst*

Thank you so much.

Operator

James Schneider, Goldman Sachs.

James Schneider - *Goldman Sachs - Analyst*

Good morning, thanks for taking my questions. Just one more follow-up on the GBS North America if I could. Frank, you mentioned a bunch of different initiatives you guys are going through to drive the growth in that and accelerate in the back half of the year. From where you sit today, what is your confidence interval in achieving that acceleration? Is it more driven by merchant contracts you already have signed today that you know is going to convert to revenue in the back half or is it just more experience telling you that when you do these things and pull on these levers that tends to accelerate growth?

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

I would first answer that as I said before, we have been working on this for a while. We had a bunch of things to fix in the Company and we are cycling management attention exactly to this although that foundation whether it be Clover, whether it would be ease of access for our clients, whether it be reenergizing our bank channels, all was going on for the past year and a half to get us to this point that we can say to you confidently we know the metrics, we will discuss them even on the next call and the trajectory of those metrics that you will see. And very, very deep and there is portfolio management.

We did not have a portfolio management function before. We have one today. Going back to our clients and helping them through their lifecycle with us and then in fact doing all the other things we have talked about. So I think for us it is an every week, every day discussion and I am prepared to have it be an every quarter discussion in deep detail with you all.

James Schneider - *Goldman Sachs - Analyst*

That is helpful, thanks. And then just a quick follow-up relative to the prior question that was asked on GFS and accounts on file, in Q3 we start to get into a more difficult comp in terms of accounts on file growth so I'm wondering given your comments on the pipeline whether you feel relatively confident that you can kind of sustain that double-digit or high single-digit growth in that metric?

Himanshu Patel - *First Data Corporation - EVP and CFO*

James, you're right, we did see a big increase in accounts on file starting in the third quarter of last year because of a few big wins. Like I said, we are going to stay away from explicit numbers for the future but I would remind you that the enterprise business that Frank talked about, a very significant chunk of the wins in that business land inside of the GFS division.

So I think there is goodness going forward, how it lands quarter to quarter will be affected by comps. But it shouldn't indicate that the underlying business isn't growing. It's growing at a very healthy rate and we expect that to continue.

James Schneider - *Goldman Sachs - Analyst*

Thank you.

Operator

Neil Doshi, Mizuho.

Neil Doshi - *Mizuho Securities - Analyst*

Great, thank you. First of all, I think you guys talked quite a bit about the SMB attrition issue but maybe if you can touch on how SMB sign-ups are going and whether these new initiatives will help accelerate that?

Himanshu Patel - *First Data Corporation - EVP and CFO*

Neil, new sign-ups -- so First Data has always had a very strong high velocity new sign-up machine. That is one of the beauties of our distribution model. We have dozens of banks that send us leads and we convert those leads. When you think about the initiatives that Frank laid out, they are really on two parts. One is the new sign-up machine can itself see better improvement and that is what everything around digital is embedding our solutions into bank branches, all of that helps.

But that is not really the only thing we are working on on the GBS business. A big part of this turnaround is also for us really reducing the amount of churn in the existing portfolio which a lot of merchant acquirers in general haven't historically focused much on that. We know in First Data's history that hasn't historically been a huge focus but we do think that is a very meaningful driver and quite honestly we are now much better equipped to do it because we do have value-added products that you can actually go back to the base with and they are fairly receptive to that.

So to your question specifically on new sign-ups, there is nothing going on there that isn't good. I mean that has always been a strength of the Company and we think we can improve that even further. But I would really say most of our big driver on GBS North American revenue going forward is also around managing the portfolio better.

Neil Doshi - *Mizuho Securities - Analyst*

Great. We have seen pretty nice margin expansion over the past few quarters across the three business segments. How should we think about margin expansion over the course of the year? And I don't know if you would be willing to talk about kind of margin targets midterm or long-term for the three business segments?

Himanshu Patel - *First Data Corporation - EVP and CFO*

I will stay away from targets but I think I can help you with some texture there. We have seen four consecutive quarters of margin expansion now. What you are really seeing here is too big items. Number one, the non-repeat of investment cost growth. First Data went through a pretty unique period in 2014 primarily where we launched multiple growth initiatives at once whether it is our enterprise business, Brazil, building out STAR, building out Clover, all that stuff cost a lot of money and as a result operating leverage though it was always there in the business was really been being masked by investment cost growth.

Now those investment costs, they are not necessarily going down but they are just not growing as much on a year-over-year basis and in some cases they are going down. So in the context of a growing topline, good old-fashioned operating leverage that was always there is now simply starting to resurface. I would expect that to continue. Obviously the margin comparisons do get more difficult as you can see over the course of the year. But our business does have operating leverage and there is no reason to assume that that wouldn't continue.

I would caution though margins in any given quarter for our Company given the diversity of products that we have, given the diversity of countries that we sell into, it is very affected by mix in any given quarter and so you could see that move around a little bit. But in general I think it is fair to say we still probably have some room on margins and a lot of that is simply operating leverage that has always been there.

Neil Doshi - *Mizuho Securities - Analyst*

Great. Thank you, Himanshu.

Operator

Craig Maurer, Autonomous.

Craig Maurer - *Autonomous Research - Analyst*

Thanks. So just a little help in reconciling yield in GBS again. When I think about it, you had Leap Year that should have given you about a 1 percentage point tailwind so in your GBS plus NSS breakout that actually would have a negative growth year-on-year yet you had a 6% or what would have been taking Leap Year into account a 6% growth in transactions. This should seasonally be your strongest quarter on yield so are we missing something? Was there pressure in core large merchant? Something just seems off?

Himanshu Patel - *First Data Corporation - EVP and CFO*

Craig, I wouldn't say that. Your assessment of Leap Year is accurate but as I mentioned earlier, we also had some lumpy -- I wouldn't call them nonrecurring -- but just kind of lumpy items that benefited revenue in the year-ago period related just quarterly timing noise. Again this stuff I wouldn't really characterize as unusual in our business but the impact of that was probably even greater than the Leap Year impact you mentioned. So that is affecting a little bit of the year-over-year anniversarying.

I think if you look at GBS North America it was 0% growth in Q4; on a reported basis it was down 2% in Q1. I think if you adjust for all that stuff both quarters would have been roughly zero.

Operator

Glenn Greene, Oppenheimer.

Glenn Greene - *Oppenheimer & Company - Analyst*

Thanks, good morning. I actually wanted to focus on the balance sheet on the net debt. Showing nice cash flow, very strong EBITDA obviously; the net debt sort of staying static kind of in that $19.1 billion to $19.2 billion range. So any commentary on why that is and more importantly, when are we going to start to see reduction in sort of the net debt leverage? And I was wondering -- I know you are not giving guidance but it might be helpful given how levered the Company is maybe over a two- to three-year timeframe a goal to sort of reduce the seven times leverage, is there a timeframe to get it down to five times leverage let say?

Himanshu Patel - *First Data Corporation - EVP and CFO*

You are right, our current net debt level is around 19.3. Obviously key to paying off debt is generating free cash flow and so it is a high-quality problem and we are glad to be able to address that.

In terms of quarterly timing of how we pay off debt, there are some tactics involved on that that aren't that obvious really but it just has to do with the seasonality of our business and how we consume cash. And so I would expect you to see us apply free cash flow toward debt paydown. Just because you didn't see a lot of that in Q1 is not indicative of the future.

In terms of leverage, you are right, we are at seven times. I think our goal is to clearly delever the balance sheet further. We are big believers in multiple expansion through derisking the balance sheet and so whether it is 5 times or 4 times, I think it is fair to say our objective is to be significantly below 7 times in the future.

Glenn Greene - *Oppenheimer & Company - Analyst*

Okay. And then maybe on someone had asked earlier around seasonality and sort of thinking about the EBITDA and the profitability, obviously very nice margin expansion and you just got a question on that. But is there any reason to think the seasonality directionally as it relates to EBITDA will be any different or meaningfully different from what it was in 2015?

Himanshu Patel - *First Data Corporation - EVP and CFO*

You know, like I said quarter to quarter there is always some lumpiness with stuff but there is nothing inherent that we see in the forward three quarters. I would suggest normal seasonality won't continue.

Glenn Greene - *Oppenheimer & Company - Analyst*

Okay, great. Thank you.

Himanshu Patel - *First Data Corporation - EVP and CFO*

Operator, why don't we take one more question and close it out.

Operator

Arun Seshadri, Credit Suisse.

Arun Seshadri - *Credit Suisse - Analyst*

Thanks for taking my questions. First, I just wanted to ask in terms of the GBS side, can you talk about how much the SBC direct is as a proportion of the total revenue, the total merchant revenue in GBS in North America?

Himanshu Patel - *First Data Corporation - EVP and CFO*

Sure. Think about at GBS North America as being about a $3 billion business on an annualized basis and think of our alliances which we proportionately consolidate in that number as being a little bit over $1 billion in total revenue. Those are the three equity alliances which is Bank of America, Wells Fargo and PNC. And then the rest of it is effectively our direct business which is a combination of national merchants, small merchants, ISOs, e-commerce all of that added together.

Arun Seshadri - *Credit Suisse - Analyst*

Got it. That is very helpful, thank you. And then one more follow-up, security software within GBS, how did that perform in the quarter and any way you could size that? And also I wanted to ask if you could quantify the license fee resolution in Brazil on the GFS side in dollar terms? Thank you.

Himanshu Patel - *First Data Corporation - EVP and CFO*

Sure, they last item was about $8 million in the quarter and security fees, it is still a product that has good receptivity so we are still seeing year-over-year growth. The rate of growth is moderating because we have launched the program well over a year ago now.

Arun Seshadri - *Credit Suisse - Analyst*

Great, thank you.

Operator

Thank you. This concludes the question-and-answer session. I will now turn the call over to our speakers for closing remarks.

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

It is Frank. I would like to first thank everybody for taking the time out this morning and for your thoughtful questions. We are in the midst of a multiyear transformation and we feel very, very good about it. I mean this is a revenue growth and organic deleveraging transformation. You saw what our free cash did in Q1 and you should expect that type of momentum. We have great client momentum and we think the operating leverage driven by what we did in the expense management continues to be very strong.

So I look forward to getting together with you in the next quarter and talking to you at the end of the quarter and so we are thankful for your time this morning.

Operator

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