First Data

Third Quarter 2016 Earnings Conference Call

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CORPORATE PARTICIPANTS

Peter Poillon – *SVP of Investor Relations*

Frank Bisignano – *Chairman and Chief Executive Officer*

Himanshu Patel – *Chief Financial Officer*

PRESENTATION

Operator
Good morning and welcome to the First Data Third Quarter 2016 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on your telephone keypad. To withdraw your question, please press star then two. Please note this event is being recorded.

I would now like to turn the conference over to Peter Poillon. Please go ahead.

Peter Poillon
Thank you. Good morning, everyone, and welcome to First Data's Third 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. 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'd like to remind you that any forward-looking statements made during today's call are subject to risks and uncertainty. Factors that could materially change our current forward-looking assumptions are described in today's presentation and in our 10-K and subsequent SEC filings. We'll also discuss items that do not conform to generally accepted accounting principles. We've reconciled those measures to GAAP measures in the appendix of the slide presentation and in the supplemental schedule to the earnings release.

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

Frank Bisignano
Thank you, and good morning, everyone. It's a pleasure to be on the call today. As we've done in the past, Himanshu will cover the financials in detail, and I'll open with a few comments summarizing our third quarter results and update you on progress across a number of initiatives.

Consistent with our second quarter results, we once again saw strong cash flow and earnings growth. The earnings growth came from 3% constant currency top line growth, combined with continued positive operating leverage and reduced interest expense. On the top line, we saw GBS grow 3%, that's up from flat last quarter. GFS grew 5% in the quarter, with good international growth. And NSS grew modestly at 1% with uneven performance across the various businesses in that segment.

Free cash flow in the quarter topped $400 million and we continue to organically de-lever the balance sheet with our net debt having declined nearly $800 million year-to-date. Operationally, we continue to focus our efforts on growing the top line. So, as I've done on the past few calls, let me update you on some of the key initiatives aimed at improving growth across the company.

First, I am pleased that we saw further progress in our SMB direct business. Let me take a few minutes to update you on this business. We broadly categorize our SMB initiatives into two buckets: improving the new sign-up machine; and reducing our merchant attrition in the existing portfolio. On new sign-up efforts, the tangible progress we started seeing in the second quarter has continued. We have seen a meaningful reduction in sales force attrition, which is already helping sales force productivity. In addition we have invested in digital sign-ups and over 10% of leads are now self-source digitally.

On SMB merchant account attrition, Q3 saw a meaningful reduction in the annualized attrition rate. We know we have more work to do here to drive significant improvement and we're relentlessly focused on it. In summary, as we've been saying, we are confident in our plan and remain maniacally focused on executing against that plan to reaccelerate growth in the US SMB business.

On recent calls, we've also discussed our important enterprise initiative. We define enterprise clients as large national merchants and financial institutions, so it spans all of our business segments and our geographic regions. We continue to do a great job of both retaining our key clients and winning new business in this important sector. We believe that we are taking share in this space.

During the third quarter we saw multiple enterprise wins. We signed an agreement to provide processing services, including debit and ATMs, along with other services, for Huntington Bank. That was a notable competitive takeaway.

In the gaming sector, where we have been focused on expanding, we signed new business wins with FanDuel and Rush Street Interactive.

And in the government vertical, we signed a major open-loop contract with the Federal Government.

Lastly, we added a new RSA relationship with Live Oak Bank, a leading innovator in digital and online banking with specialized vertical expertise.

On past calls, I've discussed our international growth initiatives and remain excited about them. The international regions continue to do well, with strong growth in EMEA, where we saw high single digit constant currency growth this quarter, in both GBS and GFS and LATAM where we've consistently seen robust growth rates each quarter this year. So, we continue to feel great about our international footprint and the growth trajectory of First Data outside of the US.

In closing, I would summarize the key highlights of the quarter as follows. Free cash flow generation was strong, and we continue to de-lever. We've seen the start of improvement in our North American GBS business, but we have a lot of work ahead of us before we are growing at industry levels. We are most confident that we will get there. We continue to see progress in our enterprise initiative with important new wins and a growing pipeline. And we continue to see revenue momentum in our international regions.

Thank you. Now I'd like to turn it over to Himanshu.

Himanshu Patel
Thank you, Frank. Good morning and good afternoon, everyone. I'm going to start on slide 4, the summary of our third quarter results. I'll focus on the non-GAAP and segment 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 $1.8 billion in the quarter. This was up 1% on a reported basis or up 3% excluding the impact of FX translation. Third quarter total segment EBITDA of $739 million was up 5% on a reported basis or up 8% on a constant currency basis and reported segment EBITDA margin expanded 150 basis points to 40.6%.

Third quarter adjusted net income, a measure of earnings that excludes amortization of acquisitionrelated intangibles, stock-based compensation, restructuring costs and other items was $312 million or $0.34 per diluted share. That's an improvement of $141 million versus the prior year quarter. The improvement was driven primarily by lower interest expense and better operating performance.

During the quarter, we generated $427 million of free cash flow. Year-to-date we've generated more than $900 million of free cash flow. As I'll discuss a bit later, we continue to organically de-lever. Our absolute level of net debt was reduced by nearly $800 million year-to-date.

Moving to slide 5, this is an informational slide as it provides summary financial information for Q3 and year-to-date including segment level revenue expense, EBITDA, and margin information on both a reported and constant currency basis. I'll discuss each of the segments separately on the slides that follow, beginning with GBS.

Please turn to slide 6. At $1 billion, GBS Q3 segment revenue was up 1% on a reported basis, or up 3% on a constant currency basis. GBS North America revenue was up 1% in the third quarter. We estimate that underlying revenue growth in GBS North America benefitted by 100 to 200 basis points from the net effect of a few unusual items in both the current and year ago periods.

The primary source of pressure on GBS North American revenue has been our direct SMB business, which accounts for about 20% of GBS North America's revenue. We are seeing tangible evidence of improvement in the SMB business on multiple metrics, including a measurable reduction in merchant attrition in the third quarter both sequentially and year-over-year. Our visibility on the progress of the turnaround of this business unit has been rising and we expect to make further steady progress over the next several quarters. We expect to share more details on our broader turnaround efforts in the SMB business at our upcoming Investor Day.

Please turn to slide 7 where we show transaction growth. You see that GBS North America results once again reflect 7% transaction growth. This was offset by lower revenue per transaction or what we call blended yield. Our GBS North America revenue per transaction on a headline basis declined 6% in Q3. Excluding the favorable impact of the unusual items previously mentioned and all hardware revenue in both Q3 2016 and Q3 2015, revenue per transaction declined 5% in Q3 versus down 8% in Q2 on a comparably measured basis. Hardware revenue is creating some near term noise in our GBS North American numbers, particularly revenue per transaction, because hardware revenues were elevated in Q3 and Q4 of 2015, primarily due to EMV-related volume growth.

Moving to results outside of North America, GBS EMEA revenue grew nicely at 8% on a constant currency basis, primarily driven by good transaction growth. Latin America constant currency revenue grew by more than 40% for the third quarter in a row, driven by the continued ramp up of our Brazilian acquiring business as well growth in Argentina, which was driven by both transaction growth and inflation. GBS segment EBITDA grew $24 million or 6% on a reported basis or 8% on a constant currency basis. And its reported margin improved by 170 basis points to 43.5%.

Let's turn to GFS, covered on slides 8 and 9. At $397 million, GFS saw Q3 segment revenue growth up 2% or 5% on a constant currency basis. GFS North American revenue grew 2%. Card personalization volumes declined in the third quarter of 2016 because of a strong year ago comp around the EMV liability shift date which particularly benefitted Q3 and Q4 of 2015. This grow over created a nearly 300 basis point headwind in the third quarter of this year in GFS North America.

You can see on slide 9 that card accounts on file in Q3 in GFS North America grew 4% over the prior year period. That is down from the growth rates seen in the last four quarters largely due to the anniversarying of a large retail private label win last year. The growth achieved in North America in the quarter was primarily driven by processing revenue growth with output services growth having moderated as higher print revenue was offset by lower card personalization revenue.

GFS EMEA revenue grew 8% on a constant currency basis in the third quarter, primarily driven by growth with existing clients as well as good growth in professional services revenue primarily in the UK. GFS Latin America revenue grew 28% on a constant currency basis in Q3, much of that growth came from Argentina driven by strong growth in volume and inflation. We also saw growth in Colombia as we started issuer processing for a large local bank in the middle of this year.

GFS total segment EBITDA was $158 million, up 9% on a reported basis or up 13% on a constant currency basis, reflecting the solid revenue growth paired with expense management. GFS reported margins expanded 270 basis points to 39.8%.

Turn to slide 10 where we cover Network and Security Solutions. NSS third quarter segment revenue was $378 million, up 1% over the prior year. NSS comprises varying products and services, so I'll review each. EFT Network Solutions revenue grew 1% as growth in the STAR Network revenue continued to be largely offset by pricing compression in debit processing. Security and Fraud Solutions revenue was up 5% reflecting good customer demand for these products. The growth was partially offset by the ongoing decline in TeleCheck revenues. Stored Value Network revenue was down 3%, partly driven by the timing of card shipments in our open-loop business. NSS third quarter segment EBITDA was $166 million, up 2% and its margin improved 60 basis points to 43.9%.

Moving to free cash flow shown on slide 11. We think of free cash flow largely as cash flow from operations, less cap ex and distributions to minority interests. We provide the reconciliation on slide 19 in the appendix of the slide deck. This table walks you through free cash flow. We had a healthy free cash flow quarter - it came in at $427 million. This is up significantly compared to the year ago quarter largely driven by reduced cash interest coupon payments, lower cap ex, as well as improved operating performance and working capital. Note that 2016 cap ex continues to lag 2015. This is driven by a combination of an increase in new capital lease formations as well as benefits from foreign exchange. Note that capital leases are included in our reported debt balances.

Taking a look at free cash flow on a year-to-date basis, on the right side of the slide, you see that we've generated more than $900 million of free cash flow in just the first nine months of the year. As we discussed last quarter, we are confident in our ability to generate meaningful free cash flow for the foreseeable future, which should only improve further as we make progress towards improving our top line growth rate. All of this in turn makes us confident in our ability to continue to organically de-lever our balance sheet.

Next, I'd like to update you on our capital structure. Slide 12 lays out our capital structure at the end of last year and at the end of the past two quarters. The key point to this slide is that year-to-date we have reduced net debt by nearly $800 million. As a result, our leverage ratio defined as net debt to EBITDA is now 6.4 times versus 7.1 times at year end 2015. And our interest coverage ratio improved to 2.3 times at September 30th of this year from 1.5 times at year end 2015. Note that on a prospective basis using our expected full year 2016 cash interest expense guidance of $1 billion, our coverage ratio is closer to 3 times.

Referring to slide 13, as previously discussed, our recent refinancings have turned out all debt maturities to beyond this decade. In addition, we continue to do opportunistic refinancings to lower our cost of debt. On this note, in October, we disclosed that we refinanced about $4.5 billion of 2021 term loans, reducing the interest rate on those term loans from LIBOR plus 400 to LIBOR plus 300. That latest transaction is expected to result in annual cash interest savings of about $45 million going forward. You can continue to expect us to closely monitor the markets for potential future opportunistic transactions.

One final item I'd like to discuss before the more typical housekeeping items is our recent divestiture. On September 30th, we sold our Australian ATM business. The assets sold included a fleet of ATMs in the Australian market. The total sale price before customary closing adjustments was $55 million Australian dollars or about $42 million US dollars. We recorded a $31 million loss on the sale that shows up in other income/expense on our income statement. Our Australian ATM business was non-core to First Data's traditional card-based payment processing business and it has seen revenue and EBITDA declines for several years driven by the ongoing displacement of cash by Australian consumers.

First Data will retain a presence in the Australian market via our core processing offerings. We believe that the divestiture of the Australian ATM business marks an important transformation of our APAC footprint with nearly all of our remaining APAC businesses operating in segments and geographies that have good secular growth potential.

And finally, let me cover a few housekeeping items. As it pertains to Q4, four modeling items to note. First, our fourth quarter results will be slightly affected by the divestiture of our Australian ATM business that I just mentioned since the transaction was signed at the end of Q3. The impact of the divestiture on Q4 comparisons on a year-over-year basis will be about $12 million on revenue and $3 million on EBITDA.

Second, in the fourth quarter of 2015, we had two previously disclosed unusual items that will affect comparisons in the fourth quarter of 2016. Our NSS segment had a $10 million revenue benefit in the fourth quarter of 2015 related to a single client contract amendment. Also, that same period was impacted from the revaluation of the Argentine peso resulting in a one-time expense benefit in the fourth quarter of 2015 of approximately $11 million.

Third, we expect book taxes of $40 to $50 million for Q4.

And fourth, assuming no change in our stock price, we expect our fully diluted share count would increase by about 3 to 5 million shares in Q4 from the Q3 level primarily due to the normal course vesting of previously granted equity-based compensation.

And lastly, a reminder that we are hosting our first Investor Day next week on Wednesday, November 16th in New York City. During the event, we will be providing guidance on how we see the next few years. The event will be webcast and we hope you can join us live or via webcast. Details on the webcast will soon be available on our website.

So, in summary, our year-to-date results demonstrate that despite an overall top line growth rate that we are far from happy with, we are able to generate robust levels of cash. We are approaching the $1 billion mark on free cash flow in just the first nine months of the year. On GBS North America, we remain confident of a steady underlying recovery in this business.

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

Peter Poillon
Thank you, Himanshu. A reminder of our standard ground rule in 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'll let you know when we have time for one final question.

Operator, please open it up for the Q&A.

QUESTIONS AND ANSWERS

Operator
Yes. Thank you. We will now begin the question and answer session. If you have a question, you must press star then one on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. At this time, we will pause momentarily to assemble the roster.

And, the first question comes from Bryan Keene with Deutsche Bank.

Ashish Agarwal
Hi this is Ashish Agarwal [ph] calling on behalf of Bryan Keene. Pretty good progress on the GBS North American business. Last quarter you had mentioned a high single digit growth with activated clients, I was wondering if you could provide some more details on the growth in client activation this quarter. And then just quickly on the attrition also you've seen some good improvement there. I was wondering if you can just provide the key drivers which were driving those improved retention rates.

Himanshu Patel
Hi, Ashish. So activations are just one of a handful of KBIs that we follow in that business. Activations are still up versus where they were a year ago. That would be part of other metrics that we would look in the broader bucket of the new sign-up machine. The other metrics that we talked about on this call was sales force attrition which has seen a pretty meaningful reduction this quarter as well, which helps sales force productivity, as well as leads that are sourced digitally which are now over 10% of our total leads. I'd put all of that in the context of KBIs that are supporting the thesis that the new sign-up machine is improving.

And then on the attrition rate as I mentioned, our merchant account attrition in that business is in the mid-30s, and that's about roughly two percentage points better than where it was sequentially and year-over-year.

Ashish Agarwal
That's great. And just a quick question on ChaseNet. So Walmart recently announced that they're going to process using ChaseNet. And Walmart also announced that they're going to start accepting ChasePay. Two full questions on that, one is as ChaseNet expands into other larger merchants, how do you think about the industry? Would there be any impact on the [indiscernible]? And then second part is have you seen an increased interest among your bank alliance partners on a similar solution? Thanks.

Frank Bisignano
Yes, we've always and continue to have a fabulous relationship with Walmart. And that's a large multi-product relationship, a partnership. And so when you think about us and Walmart, you should think of acquiring as a very, very important piece of business we do, but when you look at the totality of it, it's actually very small. And then when you think about what's going on, you look at this as a small part of that small part of the relationship.

Now, we have talked a lot about cost of acceptance. And that's really what's at the heart of this and many times our enterprise wins are driven by us having tools to drive other reduction of cost of acceptance to merchants. And you'd think about those tools as retail private label, TeleCheck, gift, and our STAR debit network. So we always feel we have a fabulous package to go to large retailers with and we've gotten that feeling from their acceptance of it in the number of implementations we've done in that space.

Ashish Agarwal
Thanks. And again, solid results.

Operator
Thank you. And the next question comes from Jason Kupferberg with Jefferies.

Jason Kupferberg
Good morning, guys. Great to see the improvement there in North America GBS, and I just wanted to ask a follow-up question on that. I think you mentioned you expect steady further improvement from here, so I know you don't provide formal guidance, but generally speaking, should we think about the magnitude of improvement in the year-over-year growth rate being similar in Q4 versus Q3 as it was in Q3 versus Q2? I know your comp gets easier there in Q4, so just wanted to get a sense on that.

Frank Bisignano
Well first I think we have nine more days of not providing guidance or something like that. So, you should assume that we'll have a robust discussion around that and we're happy to do it. And then, we say steady gradual because as I've always said, this is a ground game, no silver bullet series of initiatives. We've seen very, very good progress but it's not a quarter-to-quarter item. It's your long-term trajectory item. We had talked about that we'd see improvement in the second half and then we've also talked about being an industry grower to the latter part of next year. And that's what you should expect from us.

Jason Kupferberg
Okay, understood. Just for my follow-up I wanted to ask about free cash flow, certainly that was quite robust as well at the $427 million. If you think about some of the drivers there, and I know Himanshu you walked through some of those, how much of this is favorable timing and almost one-time-ish in nature? Just trying to get a sense of run rate going forward because clearly there's some underlying improvement as well just given the EBITDA growth.

Himanshu Patel
There's always a handful of cats and dogs in the free cash flow statement for any given quarter. I wouldn't call out any one particular item. I'd say the net effect is that the third quarter free cash flow felt pretty normalized. It is a seasonally strong cash flow quarter for us, though, so that's why you should refer to the year ago as the reference point. We do have seasonality in our cash flow numbers and this tends to be a pretty good quarter for us. But I wouldn't say there's anything abnormal that made this quarter particularly good or bad.

Jason Kupferberg
Okay, well, thanks for the comments.

Operator
Thank you. And the next question comes from Tim Willi with Wells Fargo.

Tim Willi
Thank you and good morning. Two questions. The first is I was wondering if you could talk a bit just around mobile commerce and eCommerce, I know it's just one part of the story, but just how you're

feeling about the efforts there and your capabilities, and maybe as that might pertain to any of your success in the enterprise initiative as well. And then I have a follow-up.

Frank Bisignano
We feel very, very good about it. Everything we're working on across the company is a continued, steady progress. And if you think about mobile commerce, maybe the best way to cause you to think about us we have a number of clients who have used us to be able to change how they do business. And so, once again we have a very client-centric approach, a partner approach. And if you went to Chick-Fil-A and looked at their store throughput since we and them partnered on their mobile app, you would see store throughput out a lot. They put a bunch of marketing dollars against it.

And they talked about First Data's mobile capabilities. And we have these discussions happening every day with clients. It's no longer about a single solution, like acquiring or any other of our businesses but it's how we bring a relationship between our clients and their clients and a lot of it through mobile and digital. So we feel very, very good about it.

Tim Willi
Great, and then my follow-up is probably a bit related to some of your last comments, but I think at a higher level, you've been doing a lot of work over the last couple of years around sales culture, marketing culture throughout the entire enterprise, not just improving the SMB direct business. Could you talk about just how you feel about where you're at on that curve around the true sales culture and sales management systems and all of that at First Data and just bring us up-to-date on your thoughts there?

Frank Bisignano
Yes, I look at this much like we have an institutional sales force and we have an SMB sales force. And an institutional sales force which we're a number of product sales forces still have product specialization in them, but we've really focused on the client as many of your companies have over time and how you bring all the capabilities to the client's office. So, there are times where we're responding to an RFP specifically about an item. But we always try to make sure that we're covering a waterfront of what we can bring that can help in throughput, like the mobile product, in lowering the cost of acceptance, in helping them build their business. And I think we've made huge progress in that way. But, this is a constant, constant build in this company.

And then lastly, our SMB sales force, Himanshu talked about the attrition rates and what's been improved there. And we feel very, very good about it.

Tim Willi
Great. Thank you very much.

Operator
Thank you. And the next question comes from James Faucette with Morgan Stanley.

Vasu Govil
Hi, thanks, this is Vasu Govil for James Faucette. I just wanted to ask on the GFS business you called out the slowdown in accounts on file because of the EMV tough comps and then because of the lapping of new business. But as we go forward, I think in the past you've said normalized growth rate in that business should be in the mid to high single digits. Is that still the expectation and should be expected to go back to those growth rates as you bring in some of the new wins on board?

Himanshu Patel

Hi, yes, we would agree the two items I mentioned earlier were the revenue growth in GFS North America in the current quarter is facing a difficult comparison because many of the issuers raced in the year ago period to reissue new EMV compliant cards because of the liability ship date. That portion of our business, generally, doesn't see that much volatility but it was actually outright down year-over-year in Q3. If you adjust for that, the underlying growth in the quarter in GFS North America this quarter was mid-single digit, and we would characterize that business long-term as a mid to high single digit growth rate business.

Vasu Govil
Got it. That's helpful. And then on the international side, the accounts on file were weaker this quarter. Anything to call out there?

Himanshu Patel
Just some timing issues, you'll see that number move back up in the fourth quarter.

Vasu Govil
Alright, thank you.

Operator
Thank you. And the next question comes from Jim Schneider with Goldman Sachs.

Jim Schneider
Good morning. Thanks for taking my question. I was wondering if you could maybe talk about the pipeline you're seeing in GFS right now, specifically in the US, I think growth slowed there a little bit and you talked about some of the underlying factors. Can you maybe just talk about the overall pipeline of business in the US and to any extent you can talk about what drove the strength in LATAM and APAC?

Himanshu Patel
I would say in Latin America and APAC, just in general outside of the United States, we don't talk enough about it, but we have an excellent issuer processing business on the vision platform. And we would say we're generally a market share taker in most of those geographies. What you saw in GFS Latin America this quarter was underlying strength in Argentina continued, as well as we started becoming an issuer processor in the Colombian market for the first time this quarter. And that's a pretty meaningful movement as well.

APAC has seen similar stories, every country has its own little thing, but overall EMEA, APAC, Latin America, GFS, you're going to see some pretty good underlying growth in all of those businesses.

I think in terms of the backlog in GFS, we don't think about enterprise clients as just GFS, GBS, or NSS. It straddles all three. But specifically as it pertains to that business, I think we've said on many separate conversations that we don't have an ability to say that our close rates are better or worse than our competitors, but we're 100% sure our competitors see us in the customer's office a lot more than they did two years ago. So we feel pretty good about the backlog in that business.

Jim Schneider
That's helpful. Thanks. And then, related to the STAR Network, can you maybe give us an update on any kind of signature debit processing wins you might be seeing in that pipeline as you head over the next four quarters or so?

Frank Bisignano
Yes, I think the way I'd look at STAR today, great demand for it. We've said it many times that the

larger merchants are challenged with their EMV implementations and our implementation of STAR signature sits behind that. We're continuing to invest and grow it. We continue to find demand on the bank side and the merchant side in terms of using our capabilities. So I think we feel good about it.

Jim Schneider
Thank you.

Operator
Thank you. And the next question comes from David Togut with Evercore ISI.

David Togut
Thank you, good morning. You called out pricing compression in the debit processing business and we've seen a lot of industry changes here in the US with Visa seeing some slowdown due to dynamic routing, MasterCard seeing a pickup. Can you give us a sense of what your strategy is in US PIN debit now that dynamic routing seems to be moving share around a bit?

Himanshu Patel
Look, I would say, first of all, the comment around debit pricing compression is not intended to convey anything incremental versus last quarter. This is still referring to the year-over-year grow over impact of a major renewal that we did in that business towards the tail end of last year, early this year. And so that business, of all our issuer processing businesses, I think everyone knows debit tends to be one of the more competitive areas and so we did take some compression on that. I view that largely as just a grow over issue.

I think in terms of PIN versus PIN-less versus signature, I think our general view is we're agnostic to which way the market tilts. We wanted to make sure we had capabilities available in all three, and that's what we have right now.

David Togut
Understood. And as a follow-up, given the new Visa and MasterCard agreements with PayPal that prevent PayPal from steering toward ACH, can you call out any impact that you expect to see from these agreements over the next couple years particularly given your large presence online and mobile?

Himanshu Patel
Look, PayPal and First Data have an excellent relationship that's multi-faceted. You guys have seen an announcement by us several quarters ago about accepting PayPal on the merchant acquiring side. But they are also a client to First Data's on many parts of our business. Without getting into the second derivative knock-on effects of what happens to First Data if PayPal does X or Y, I think it's fair to say if PayPal does well that's good for us and they obviously struck a deal that's intended to help their transaction growth.

David Togut
Thank you very much.

Operator
Thank you. And the next question comes from Andrew Jeffrey with SunTrust.

Andrew Jeffrey
Hi, guys, good morning. Thank you for taking the question. I wonder, Himanshu or Frank, if you could rank order for us the initiatives or technologies, and I'm thinking about Clover, and eCommerce, storefront, and things like that, analytics, that are driving better SMB merchant retention.

Frank Bisignano
I think, first of all, we have seen Clover as an individual item perform better, but remember this isn't a silver bullet. We've also seen our ability to service the client in a better manner than we were before. We talked last call about technology we've applied against that. We have a maniacal focus on what the client's looking for. We've done work in everywhere, service, pricing, analytics, and building a product suite for them. We spend a lot of time thinking about net promoter score.

And I think it's not a technology item. Technology is a grand enabler, but it's really been a full court management item, whether it's on sales force hiring and sales force retention, whether it's on how we deal with different verticals, it's an across the board. And nothing's a silver bullet, and that's why we like to talk about steady growth because many of these actions will still await outcomes that you haven't seen yet. And that's why we talk about the latter half of next year.

Andrew Jeffrey
Okay, that's helpful. And if I could just parse the commentary on Tier 1 merchant pricing in the competitive environment. Is it right to think about the enterprise efforts as materially offsetting any price competition that's taking place among the larger merchants for merchant acquiring and processing?

Himanshu Patel
I'd answer it a little bit differently. I think most of our competitors go to larger merchants with one product offering called Acquiring. We go to the merchant with half a dozen product offerings, Acquiring is one component of it. But it's also gift, it's check acceptance, it's retail private label, it's network, it's security. And so, the package we offer is intended to create value for First Data but each client has got their own sensitivities. Some may care more about price on one area versus another. We're very much trying to take a view that we're not selling individual products because we have such a unique position with having many more toys in the toy chest to offer national merchants to help them grow revenue and reduce their cost of acceptance. I think we feel like there's always pricing pressure in certain products but on aggregate, we don't see that as a big trend for us.

Andrew Jeffrey
Thank you very much.

Operator
Thank you. And the next question comes from George Mihalos with Cowen.

George Mihalos
Great. Thanks for taking the question, guys. I wanted to ask first about the North America GBS transaction growth, again, that was plus 7% in the face of much tougher comps. Just curious if you can give a little bit more color as to what's driving that. And then somewhat related to that, I'm wondering if those 1,500 new branches from the 4 bank partnerships that you called out on the last call have been ramping in the quarter.

Himanshu Patel
George, I think it's fair to say the answer is all of the above. Those ramp-ups do take some time, so it's not like that was the one explainer in the quarter's transaction growth. I think it's fair to say a couple of our alliances are doing well. We've also got some good transaction growth in our enterprise space as well. So, it's pretty much across the board.

I do understand your point that the comparisons did get a little bit tougher this period on underlying GBS North American transactions, but we always talk about our North American business as really being a set of competing distribution channels together. And while on the surface it may seem like on a headline basis there's a tough comp in aggregate, there's some good fundamentals on some of the other channels that sometimes offsets it. So, the blended number you see externally ended up being 7% this quarter.

George Mihalos
Okay, I appreciate that. And I just wanted to ask about EMEA GBS growth, again, that was up nicely, I think plus 8%, up from a plus 2%, I think, in the prior quarter. Anything to call out there? Anything we should keep in mind going forward?

Himanshu Patel
No, that growth of 8% constant currency was pretty across the board in our direct business. That's our growth; one of our big alliances saw growth. Our German business saw growth. We have a big acquirer, processing business in EMEA as well, and that saw growth. So, I'd call it pretty broad based.

George Mihalos
Great. Thank you.

Operator
Thank you. And the next question comes from Jason Deleeuw with Piper Jaffray.

Jason Deleeuw
Thanks and good morning. A question on GBS North America, the transaction growth is still very strong and with the initiatives you're doing with the SMB channel, the improvements that we should expect over the next few quarters, should we expect a better yield so the difference between revenue and transaction growth will begin to narrow? Is that the key focus or should we also expect better transaction growth?

Himanshu Patel
Yes, just to be clear, we don't manage the business to a blended average RPT number. That just happens to be an output of the RPT trends within each of our competing distribution channels. And so, I think it's fair to say that our SMB direct business has a higher absolute RPT than some of the other channels. Part of that is just accounting because we proportionately consolidate our JVs and we don't do that for our direct channel.

And so, when that business is operating at a different speed than some of the other businesses it does put downward pressure on the blended RPT. Last quarter, we talked about the decline in RPT being 40% related to mix, 60% related to price. I would say this quarter it was probably about 60% related to mix and approximately 40% related to price. Mix being all forms of mix, channel mix differences, customer mix differences, etc.

Jason Deleeuw
Okay, thank you for that. And then I believe you called out a couple unusual items that helped GBS North America. I was hoping we could get a little bit more color on that.

Himanshu Patel
Yes, there's always a bunch of items but the two big items are in the quarter we had a fairly significant decline in hardware revenue. It was down about $25 million, give or take, or about 20% in GBS North America. A lot of that was due to the tough comparison created in the year ago period, driven by the EMV liability shift which triggered a lot of hardware sales in the year ago period. And we also had some good guys this period related to the timing of network assessment fees. And so the net of all that

was really what we were trying to normalize for in the commentary earlier.

Jason Deleeuw
Okay. Thank you very much.

Operator
Thank you. And the next question comes from Neil Doshi with Mizuho.

Neil Doshi
[Audio disruption] business and how that's trending. And then as a follow-up, any—

Himanshu Patel
Neil, I'm sorry. Your first part of your question cut off. Do you want to just repeat it?

Neil Doshi
Oh, sure, yes. I was wondering if you could maybe provide us with an update on the eCommerce transaction business and how that's trending.

Himanshu Patel
We'll talk a little bit more about that on Investor Day but as I've mentioned before, First Data has a fairly large eCommerce business, both wholesale and retail, and it grows double digit.

Neil Doshi
And then, Himanshu, I'm not sure if I missed it, but can you provide any update on the Clover unit sales and how that's impacting the direct to consumer efforts going on, on the SMB side, or direct to the SMB side?

Himanshu Patel
They're not directly linked but one does help the other. So, I think when you say direct to consumer I think you're referring to digitally self-source leads.

Neil Doshi
Right.

Himanshu Patel
And Clover is a product that espouses simplicity, ease of sign-up, all of those things and that tends to play well to the whole theme of signing up merchants online. And so, that's one of the more popular products that we promote through our digital channels. So, they're not directly linked but I think it's fair to say having that product helps us on our digital efforts.

And in terms of Clover shipments, we've talked about it before, shipments continue to do well. Gross shipments are about 260,000 as of third quarter.

Neil Doshi
Thank you.

Operator
Thank you. And the next question comes from Darrin Peller with Barclays.

Darrin Peller
Thanks, guys. Just on the margin front, you obviously continue to execute well. If you could just give

us a quick update on how much is left, if anything, of your cost initiatives you had taken on over a year ago. How much of that is operating leverage? How much is sustainable margin expansion going forward given the growth you have now and what you've gone through on the cost side? Thanks, again, guys.

Frank Bisignano
One is what we talked about the $200 million. We had come and talked last call and declared we'd completed that effort and you'd seen it roll through here. Now, as you know, we are always using technology to build efficiency in the company. And you can count on us continuing to do that. And while doing that, we continue to invest in the business. So by no means are we in cost-cutting mode, we are in efficiency-building mode. And there's been a lot of that opportunity to continue to work on.

But I would think of us as an investor in our business. The types of things we talk about, building the app for Chick-Fil-A, building out the network, continuing to look at the Clover suite with 211 apps sitting in it and how do we build a canister more friendly to our clients. Those are all designs that say that we will continue to invest. I would look at us to continue to work on efficiencies, too. It's our daily bread to go after that in the business we're in. So, I think you'll see both occur and you'll look at us improving, continually, as we grow the business.

Darrin Peller
Alright, guys, that's helpful. Thanks.

Operator
Thank you. And the next question comes from Brent Huff with Stephens.

Brett Huff
Good morning, thanks for taking my questions. One housekeeping and then one bigger question. I just want to make sure that I'm getting the message right on North American GBS. It was up about 100 basis points which is a significant improvement from the down 2 points the past couple quarters. Should we take that 100 basis points and normalize it down 100 to 200 basis points to get down maybe 100 bps compared? Is that what we're trying to say with the one-time tailwinds?

Himanshu Patel
Yes, you're doing the math right, Brett. I would say we would view the normalized revenue growth of GBS North America in the quarter as being sort of flat to perhaps down 1%. The reason there's a range there is largely because there's some subjectivity in our estimate of how much we think year ago hardware revenues were inflated by EMV, perhaps you saw a decline related to that. So there's some estimates in there but I'd view that as a reasonable range.

Brett Huff
Great. Thank you. And then the bigger picture question is any comments on consumer credit and how consumers are acting. There's still somewhere in the market, especially with the election and etc. going on. Have you guys seen any notable behavior changes for better or for worse in your same-store sales, or underlying trends that we don't quite have visibility into?

Himanshu Patel
There's always some bounciness month-to-month, and it affects both sides of the house. I think it's fair to say on the GFS side, accounts on file clearly have generally been holding up pretty well for us and our competitors. There's obviously folks out there talking about credit losses creeping up for some of these businesses. But I think to see any big change in growth in accounts on file you'd have to see something change on the jobless claims numbers to the negative. And I don't think we're seeing

anything like that. So, you guys will probably figure it out before we do, but I don't think we're seeing the trends that we've seen in recent quarters change materially.

Brent Huff
Great. That's it for me. Thanks for the time.

Operator
Thank you. And the next question comes from Chris Brendler with Stifel.

Chris Brendler
Hi, thanks, good morning. Thanks for taking my questions. Just a quick question on the US, the North American GBS business, you mentioned an improvement in attrition. Do you think any of that is related to some of the slowdown we've seen in merchant adoption on EMV terminals? Thanks to some rule changes by Visa and MasterCard, it seems like small merchants aren't really flying off the shelves to get upgrades anymore. Is that helping your business at all? Is there any noticeable impact there? Thanks.

Frank Bisignano
I wouldn't make the point in the improvement. I'd make it all the things we've talked about. There may be less adoption but I think the real issue is we're changing many dials in how we manage that business. And, like I said, that's a journey, not a quarter. We're not declaring a victory but we are saying you should expect us in the latter half of next year to be an industry grower.

Chris Brendler
Thanks for that color. Separate question on Europe, really strong growth as you noted, constant currency 8%. I believe you guys are one of the few that have publicly said that you're not keeping any of the interchange benefit from the reductions in Europe. I just want to make sure that's true for the majority of the European business and there's not some upcoming slowdown to lap those interchange benefits. Thanks.

Himanshu Patel
Most of that benefit left our P&L last quarter, so I consider this pretty normalized. But that said, look, the last quarter the number also didn't include interchange benefits and it wasn't 8%, it was lower. This time it was 8%. There's always a little bit of volatility here or there because it's not a business as big as GBS North America. But I think it's fair to say our numbers are already fairly excluding that benefit.

Chris Brendler
Great. Thanks so much, guys.

Peter Poillon
We're running up on the end of an hour, so I'm going to say there's time for one last question.

Operator
Thank you. And that comes from Paul Condra with Credit Suisse.

Paul Condra
Hi, good morning. Thanks. Most of my questions have been asked, Himanshu. I was just wondered if you could update us, over the next couple quarters, any new deals or unusual items that may cause some lumpiness particularly in GBS or GFS. Anything that you could call out to help us in our models?

Himanshu Patel
Nothing jumps off the top of my mind, Paul. Obviously, there was a very large issuer processing deal in GFS North America that we talked about that we just lapped. There's always a few every quarter, ins and outs. But in terms of really mega ones, I can't really think of anything off the top of my head.

Paul Condra
Okay, thanks a lot.

CONCLUSION

Frank Bisignano
So, I'd like to thank everybody for their time. I appreciate it and look forward to seeing you on Investor Day.

Operator
Thank you. The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.