First Data

Fourth Quarter 2016 Earnings Conference Call

February 13, 2017 at 8:00 a.m. Eastern

CORPORATE PARTICIPANTS

Frank Bisignano, *Chairman and Chief Executive Officer*

Himanshu Patel, *Chief Financial Officer*

Peter Poillon, *Senior Vice President of Investor Relations*

PRESENTATION

Operator
Good morning and welcome to the First Data Fourth 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 1 on your telephone keypad. To withdraw your question, please press star, then 2. Please note this event is being recorded.

I would now like to turn the conference over to Peter Poillon, Senior Vice President of Investor Relations. Please go ahead, sir.

Peter Poillon
Thank you. Good morning, everyone, and welcome to First Data's Fourth 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 press release and supplemental schedules are available on our website at investor.firstdata.com.

Throughout this call, segment revenue, expense, and EBITDA growth rates referenced by Frank and Himanshu will be on a constant currency basis and exclude the impact from the divestiture of the Australian ATM business. After Frank's and Himanshu's prepared remarks, we'll open the call up to Q&A, and our standard ground rules will apply. We request that you 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.

Now 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 schedules to the earnings release.

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

Frank Bisignano
Thank you, everyone. It's a pleasure to be on the call today. I'll open with a few comments recapping 2016 and the quarter, and I'll give you an update on key strategic initiatives, and Himanshu will cover the financials in more detail. 2016 was a landmark year for First Data, so let me recap.

Our adjusted net income nearly doubled to $1.2 billion in 2016, or $1.32 per share. Our segment revenue increased 4 percent, segment EBITDA increased 9 percent, and our EBITDA margin expanded 180 basis points. We generated $1.2 billion of free cash, paid off over a billion of debt, and cut our leverage ratio to 6.3 times at year end versus 7.1 at year end of 2015.

2016 marked the first full year since the LBO, in which First Data paid off material amounts of debt with internally generated cash flow, and we are generating this strong rate of free cash flow after having significantly increased our ongoing level of investment in sales, firm-wide talent, innovation, and infrastructure. In addition, we continue to actively manage our balance sheet. Since the end of Q3, we've refinanced over $9 billion of debt, helping to reduce our borrowing costs by over $100 million. Himanshu will cover all of this in much more detail.

Our investments and strategies are working. We are clearly winning like never before in the large enterprise client space across financial institutions, corporate clients, and the government sector in the U.S. and outside the U.S. Clients and prospects have taken note of a resurgent First Data that always had an unmatched breadth of assets and capabilities, but that is now investing in innovation and showing up at the client with a unified approach.

Our Clover platform is a one-of-a-kind innovative solution that is attracting small merchants, good development community, new bank-acquiring partnerships and now also point-of-sale ISVs. Since our first Clover Station was introduced with fewer than a dozen apps, we've expanded the Clover platform to multiple device types and hundreds of applications. To date, we have shipped approximately 300,000 units of Clover Station, Clover Mobile and Clover Mini. In addition, we've also sold over 200,000 units of Clover Go. In short, Clover has clearly established itself as an industry-leading, next-generation SMB platform. Our international business in both Europe and Latin America saw excellent growth, including a greenfield Brazilian acquiring business launched less than two years ago that has already captured a 2 percent market share.

Now let me talk a little bit about the fourth quarter and update on some of the initiatives mentioned at our investor conference. In Q4, our segment revenue grew 3 percent, EBITDA grew 4 percent, margins expanded by 50 basis points, and we generated $270 million of free cash flow. Those of you who listened to our investor conference hopefully took away a clear sentiment of issues we are focused on, including areas such as turnaround on U.S. SMB direct business, expanding into integrated payments space, and winning new enterprise clients.

Let me provide some details on the progress we've made on these areas during the last quarter. First, on the SMB direct business, we continue to see positive traction and remain confident in a steady turnaround. Q4 saw a further improvement in both merchant attrition and salesforce attrition. Second, at our investor conference, we told you that we would launch an integrated solutions channel to partner with ISVs and acquire merchants. As you've since heard, we have fielded the team and are starting to make progress. For example, just recently ShopKeep and Revel have agreed to leverage the Clover platform for their software. While still early days, ISVs are clearly noticing that First Data is open for business, and our Clover platform is being seen as a partnership tool that helps ISVs grow their business. Third, we had another strong quarter in the enterprise space, and we continue to feel good about our pipeline. Let's go through a few of the recent highlights.

In the U.S., we're busy generating many new wins and securing key renewals. We recently signed a new bank-acquiring partnership with KeyBank, adding more than 1,200 branches to our already substantial US Bank branch distribution network. This was a comparative takeaway and follows our previously announced new bank partnerships with BBVA, First Tennessee, Zions, Silicon Valley Bank, and Live Oak Bank, all of which are still ramping. In addition, maintaining strong relationships with our existing bank-acquiring partners is also important to our growth strategy. During the quarter, we renewed three key merchant-acquiring bank partnerships for multiple years. These include Citibank, Associated Bank, and our Irish joint venture with Allied Irish Bank. In summary, we are clearly expanding our already leading position in the bank-acquiring channel.

Beyond bank-acquiring partnerships, we expanded our relationship with Ford Motor Company into the e-commerce space. In addition, during the quarter, we signed up DraftKings, an exciting new win in the fantasy sports vertical, and in the QSR vertical, we're thrilled to have Smashburger as a new client as they are rapidly growing across the country — all of these competitive takeaways. Beyond acquiring, in our gift card business, we closed a notable new deal with Verizon during the quarter, and in our GFS business, we signed a sizable new deal with Home Credit U.S., for credit processing and related services as this global lender expands into the U.S.

Outside of the U.S., we entered into a new agreement with Banco Sabadell, one of the largest banks in Spain, to provide issuer processing services in support of their acquisition of TSB. This also was a competitive takeaway. We also continued our strong relationship with the international investment fund Värde, closing a deal to extend our services to their recent investment, WiZink, in Spain and Portugal.

In closing, we are executing on key strategic initiatives, returning GBS to healthy growth rates, which includes turning around our SMB business, expanding into the ISV channel, and further strengthening our e-commerce business, winning enterprise mandates which will help grow GBS, GFS, and NSS, continuing to grow our business outside of the U.S., and, of course, de-leveraging the balance sheet. Second, we reiterate the financial guidance that we discussed at our investor conference in November.

And, lastly, never before have our people felt better than they do today to be part of this amazing company. We are now firmly profitable, we are generating significant free cash flow, and clients are delighted to do business with us. We are proud of what we have accomplished in transforming the business over the past three years, and that work you can count on continuing and continuing to help us to grow that top line.

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 Q4 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 joint ventures, was $1.8 billion in the quarter. This was flat on a reported basis or up 3 percent excluding the impacts from currency and the divestiture of the Australian ATM business. Recall that we sold our Australian ATM business at the end of September, and, given its size, we will report constant currency growth rates for segment revenue, segment expense, and segment EBITDA over the next three quarters, excluding the impact of this divestiture.

Fourth quarter adjusted net income, a measure of earnings that excludes amortization of acquisition-related intangibles, stock-based compensation costs, restructuring costs, and other items was $365 million, or 39 cents per diluted share. That's an improvement of $94 million, or 35 percent, versus the prior year quarter. The improvement was driven primarily by the lower interest expense in the current quarter.

Fourth quarter total segment EBITDA of $771 million was up 1 percent on a reported basis or up 4 percent excluding the impacts from currency and the Australian ATM divestiture. The Q4 4 percent EBITDA growth rate was hurt by approximately 2 percentage points from a couple of previously disclosed items included in last year's results, the single-client contract modification that favorably impacted NSS revenue in Q4 2015, and the Argentine peso devaluation that favorably impacted Q4 2015 expenses. Our reported fourth quarter 2016 segment EBITDA margin expanded by 50 basis points to 42.1 percent in the quarter. During the quarter, we generated a seasonally healthy $270 million of free cash flow. I'll discuss that further in detail later.

Slide 5 is an informational slide that summarizes financial performance for Q4 and the full year. Before moving on to the segment results, I'd like to briefly review the full year results which are shown on the right-hand side of this slide. Total segment revenue of $7.1 billion increased 1 percent on a reported basis, or 4 percent excluding impacts from currency and the Australian ATM divestiture. Full year total segment EBITDA was $2.9 billion, up 6 percent versus the prior year, or up 9 percent excluding impacts from currency and the Australian ATM divestiture, driven by revenue growth and expense management. Full year reported total segment EBITDA margin improved 180 basis points to 40.5 percent in 2016. Full year adjusted net income of $1.2 billion, or $1.32 per diluted share, was up $599 million, or 96 percent, versus the prior year period, driven by lower interest expense and improved operating results.

Now, let's move on and discuss the segments separately, beginning with GBS on Slides 6 and 7. The $1 billion GBS Q4 segment revenue was down 1 percent on a reported basis or up 2 percent excluding impacts from currency and the Australian ATM business. GBS North American revenue was approximately flat in Q4. The fourth quarter in GBS North America had a few lumpy items in both the current and year ago periods which roughly offset each other. GBS North American revenue growth has stabilized for the past two quarters, an improvement from the negative 2 percent growth rate this segment saw in the first half of 2016. While we are encouraged by this gradual recovery, we are far from satisfied with this performance and expect it to grow in full year 2017.

Let me provide some color on some of the distribution channels within GBS North America. Within our SMB direct business, we saw further evidence of progress in Q4, including a measurable improvement in merchant attrition in Q4 on both a year-over-year basis and a sequential basis. While this business is not fixed, we continue to believe we will make steady progress in the year ahead. Our JVs saw some moderation in their revenue growth rate in Q4, partly due to softer lead flow, which we and our partners believe is largely transitory. On balance, we believe GBS North America remains on track for a steady, gradual recovery throughout this year.

Please turn to Slide 7, where we show transaction growth. You see that GBS North America results once again reflect solid 7 percent transaction growth. GBS North American revenue per transaction normalized to exclude hardware and lumpy or one-time items in the current and year ago periods declined at a mid-single digit rate in the fourth quarter. This is comparable to the RPT rate of decline seen in Q3, measured on a comparable basis, and improved from the high-single digit rate of decline in RPT seen in Q1 and Q2 of 2016. In Q4, roughly 70 percent of the RPT decline was driven by channel and customer mix impacts, with the remaining impact being primarily attributable to price compression. This ratio has generally improved progressively throughout 2016 in favor of being more driven by mix.

Moving to results outside of North America, GBS EMEA revenue growth was flat on a constant currency basis, but this unit's underlying growth rate approximates mid-single digit growth. Q4 2015 revenue was a tough comp as it included strong hardware revenue associated with a reterminalization program in Germany and a partial tailwind in the quarter from interchange rate changes in the UK that started in December 2015. The impact of the EMEA interchange rate changes will make for even a tougher revenue comp in GBS EMEA in the first quarter of 2017, but then this comp issue largely fades away by the second quarter of 2017.

Latin America constant currency revenue once again grew in excess of 40 percent, driven by the continued ramp of our Brazilian acquiring business as well as strong growth in Argentina, driven by good transaction growth and inflation.

GBS segment EBITDA grew $10 million, or 2 percent on a reported basis, or 6 percent excluding the impacts from currency and the Australian ATM divestiture, and its reported margin improved by 150 basis points to 43.5 percent.

Let's turn to GFS, covered on Slides 8 and 9. GFS fourth quarter segment revenue was $415 million, representing growth of 5 percent, or 10 percent excluding currency impacts. GFS North American revenue grew 7 percent. That growth includes the impact from a $7 million termination fee that resulted from a client being acquired. The underlying growth in GFS North America was mid-single digit, driven by steady growth in credit and retail processing and modest growth in output services. In our output services business, continued good growth in print was largely offset by a decline in card personalization revenue. As discussed last quarter, card personalization volume declined in the second half of 2016, primarily because of the strong comp associated with the EMV liability shift which particularly benefited the second half of 2015 and to a lesser extent, the first half of 2016.

GFS EMEA revenue grew 6 percent on a constant currency basis in the fourth quarter, primarily driven by growth in the UK and the Middle East, partially offset by weakness in Greece. Latin America grew 50 percent on a constant currency basis in Q4. Much of that growth came from Argentina, driven by good growth in volume and inflation. We also saw good growth in Colombia. As I mentioned last quarter, we started issuer processing for a large local bank in Colombia in the middle of 2016.

Our APAC region grew nicely in the quarter, driven by new business primarily in Australia, but this is off a small base, so small nominal amounts can result in an outsized percentage change in this business. GFS segment EBITDA was $173 million, up 7 percent on a reported basis, or up 11 percent on a constant currency basis. GFS reported margin expanded 60 basis points to 41.7 percent.

Please turn to Slide 10 to cover NSS. NSS fourth quarter segment revenue was $389 million, down 2 percent from the prior year. Recall that the fourth quarter 2015 results included a $10 million revenue benefit associated with a single client contract modification in our gift card business. EFT Network Solutions revenues were flat, with modest transaction growth being offset by a lower blended yield. Security and Fraud Solutions revenues were up 1 percent in the quarter, reflecting low-double digit growth in our core security and fraud products, largely offset by the ongoing decline in TeleCheck revenue. Stored Value Network revenue was down 11 percent; however, excluding the previously mentioned prior year benefit from the single client contract modification, Stored Value revenues were essentially flat year over year. NSS Q4 segment EBITDA was $183 million, down 4 percent, and its margin declined about a 100 basis points to 47 percent.

Moving to free cash flow shown on Slide 11, we think of free cash flow largely as cash flow from operations less capex and distribution to minority interests. We provide the reconciliation of cash flow from operations to free cash flow in the Appendix of the slide deck. This table on Slide 11 walks you from total segment EBITDA to free cash flow. We had another healthy cash flow quarter, with fourth quarter free cash flow coming in at $270 million. This is significantly higher than free cash flow generated in the fourth quarter of 2015, largely driven by lower cash interest expense, the non-recurrence of IPO-related KKR termination fees, and better working capital performance.

Taking a look at free cash flow for full year 2016 on the right side of the slide, you see that we generated $1.2 billion of free cash flow in our first full year as a public company. The drivers of the improvement were a nearly $800 million reduction in cash interest, strong EBITDA growth, substantially better working capital performance, as well as lower capital expenditures. I'll note once again that part of the capex reduction was driven by increases in new capital lease formations in 2016, which show up as an addition to First Data's net debt balance. As you've heard us discuss each quarter and then emphasize once again at our Investor Day in November, we expect to generate significant amounts of free cash flow annually and use this cash to primarily de-lever and for selective acquisition opportunities.

That brings me to the next slide, where I'll update you on our capital structure. Slide 12 lays out our capital structure and presents it from left to right at the end of 2015, at the end of the third quarter of 2016, and at the end of the fourth quarter of 2016. The key point here is that we reduced net debt by $342 million in Q4 and by $1.1 billion in full year 2016. Our leverage ratio, defined as net debt to EBITDA, is now 6.3 times versus 7.1 times at the end of 2015.

Moving to Slide 13, this provides you an update on some recent balance sheet activity since the end of the third quarter. We have once again been fairly active in the markets, having refinanced over $9 billion of term loans and bonds since the start of Q4 through multiple transactions that collectively will help reduce our annualized interest costs by slightly over $100 million. Back on the third quarter call, we disclosed that in October, we had refinanced about $4.5 billion of 2021 term loans, reducing the interest rate on those loans from LIBOR plus 400 to LIBOR plus 300. That transaction is expected to result in annual cash interest savings of about $45 million going forward.

Then in December, we refinanced $2.8 billion of U.S. dollar-denominated term loans and about $800 million of euro-denominated term loans, both maturing in 2022. The interest rate on the U.S. dollar-denominated term loans was reduced from L plus 375 to L plus 300, and the rate on the euro-denominated term loans was reduced from euro LIBOR plus 375 to euro LIBOR plus 325. That transaction is expected to result in annual cash interest savings of about $25 million going forward.

And most recently, in January of 2017, we announced the refinancing of $1.4 billion of 6.75 percent first lien bonds due in 2020, replacing them with $1.3 billion of amortizing term loan A-debt at LIBOR plus 200 basis points. This transaction was important to us not only for the annual interest cost savings, which we estimate at approximately $40 million swap adjusted, but also because it is also First Data's first access to the lower-cost term loan A market, another milestone in our continuing journey to lower our borrowing costs. At the bottom of this slide, you can see that we anticipate our full year 2017 book interest expense to be about $930 million. Our interest coverage ratio is 3.1 times, using 2016 EBITDA and our 2017 interest guidance. As we have said before, we will remain opportunistic in the market throughout 2017. Lastly, two additional features of our debt stack that are worth highlighting — roughly 70 percent of our total debt is either at a fixed rate or fixed within a range via interest rate collars, and, second, we have no material debt maturities until 2020.

Finally, let me cover a few housekeeping items. First, as we've been disclosing in our 10-Qs since the second quarter of 2016, we have been continuously monitoring the secondary market for Clover devices to determine if Clover hardware can achieve standalone value from an accounting perspective. We have now determined that Clover hardware devices have achieved standalone value similar to all of the other terminal hardware First Data sells, primarily because an active after market has now developed for used Clover devices. As a result, starting in Q1 2017, we will begin fully recognizing revenue and expenses associated with new Clover unit sales. We could only account for this change on a prospective basis for new Clover shipments. We estimate that this change could favorably impact our 2017 company revenue growth rate by about half a percentage point but have no impact on our EBITDA growth.

Second, as Frank mentioned, we reiterate the financial guidance we discussed at our investor conference in November. As a reminder, we stated our expectation for full year 2017 constant currency growth, excluding the divested Australian ATM business, to be 3 to 5 percent for segment revenue and 5 to 7 percent for segment EBITDA. We also expect 2017 adjusted EPS growth of approximately 15 percent and 2017 free cash flow to be in excess of $1 billion. As stated at our Analyst Day, we expect the second half growth to be better than the first half, with the first half being more consistent with our 2016 exit rate.

With that in mind, as you think about Q1 modeling, let me take a moment to recap a few known items impacting comparability versus the prior year. As previously mentioned, Q1 2016 GBS EMEA saw a temporary but notable revenue tailwind associated with interchange rate changes that largely passes away by the second quarter of 2016. In GFS Latin America, Q1 2016 saw a previously disclosed licensing fee resolution that resulted in $8.5 million of lumpy revenue during that quarter. And, lastly, Q1 2016 had one extra calendar day of transactions in the quarter, because 2016 was a leap year.

In summary, we set out 2016 to do the following. — improve our revenue growth rate, maintain expense discipline, drive strong cash flow, and start to de-lever the balance sheet organically. We are not at all satisfied with our top line growth, and you've heard us talk about numerous initiatives to help improve this metric. However, even without anything close to what we consider acceptable revenue growth, we believe First Data now has a uniquely powerful cash generation model that will allow us to pay off debt organically, as evidenced by the $1.1 billion in net debt reduction we achieved last year.

With that, I'm going to hand it back to the Operator to open it up for Q&A.

QUESTIONS AND ANSWERS

Operator
Yes, thank you. We will now begin the question-and-answer session. To ask a question, you may press star, then 1 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 2. At this time, we will pause momentarily to assemble the roster.

And this morning's first question comes from Jim Schneider with Goldman Sachs.

Jim Schneider
Good morning. Thanks for taking my question. I was wondering if you could maybe start off with GBS. You talked about the expectation that North America will turn positive for the full year. Do you expect that to also be the case in the first half, or do you think you're going to be getting the growth towards the middle of the year?

Frank Bisignano
Yeah, maybe I'll make a couple of comments. First of all, we feel very good about the trajectory. We've spent a lot of time talking about the SMB business, and that glide path appears to be completely in the direction we were forecasting. We did have, as you might expect, given recent events, a weakness in lead flow in our bank JV partners, which completely was anticipated, and none of that deals with attrition. Those rates were very, very, very stable and felt good there. But I would count on all of the elements in this business continuing to improve, recognizing it wasn't surprising that a couple of our JVs would have some lead flow slowing in it, so we feel strongly about the trajectory of that business through the course of next year.

Himanshu Patel
Jim, I would just add we're trying to give some clarity on what's going on with lumpy items and hardware, which creates some excess volatility for our merchant-acquiring business than perhaps historically. It's hard to call it quarter to quarter, but I would say from an underlying basis, excluding all those items, we'd expect a steady recovery from the fourth quarter level.

Jim Schneider
Okay, thanks. That's helpful. And then maybe as a quick follow-up, in GFS, that continues to perform nicely. Can you maybe talk a little bit about the sustainability of that growth rate this year and particularly about the pipeline of new deals that you see heading into this year? Thank you.

Frank Bisignano
Well, maybe I'll just talk about the business in general. It's a place that we feel very, very comfortable growing. In every one of our businesses, we've invested in them, so I want to be very clear, a lot of things we're doing, you'll see more of going forward, bringing what our clients are asking for. We've been fortunate both outside the U.S. and inside the U.S. to be growing a pipeline. When we talk about deals on this call, we're not talking about everything in our pipeline or uncommitted. We're really talking about one piece of what is an ongoing sustained drive. And, Himanshu, you could talk a little bit about some of the numbers in there, but I would make the point that the GFS business inside the U.S. and outside the U.S. does have very, very good, strong traction.

Himanshu Patel
I would agree with that. We've generally seen in GFS North America, pretty consistently outside of major new wins, an underlying growth rate of mid-single digit in accounts on file. I think that largely translates to what underlying organic growth in that business is, and then we are actually adding net new business with the enterprise pipeline, and if you look outside of the U.S., growth has even been a hair stronger than that, and there's a pipeline outside of the U.S. as well. So we feel pretty solid about all of the underlying processing revenue going on in that business.

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

Darrin Peller
Thanks, guys. Just starting off on the European side of the business in GBS, if you could just touch on what you'd expect that to trend at, given I know this quarter I think you came in a little weaker. I know you mentioned tough comps last year. And then as a follow-on on the GBS North America side, where are we in that turnaround process? I know we've talked a lot about it at the Investor Day. Frank, just give us a little more of an update on what we'd expect that business to get back to later this year and into next year again as a follow-on to the Investor Day you had.

Frank Bisignano
Yeah. Well, if you chart back in time, we said the second half of '16 would be a point in time where you would see the trend changing for us, and I believe even with the softening of lead flow, in fact, you see that within that business, and we feel it in all the underlying metrics. Now, we have in GBS North America, five components, really, SMB; our own; alliances, which I call JVs, really, because we have lots of bank alliances, but let's stay focused on JVs; enterprise business, which we win a deal with PetSmart, and it just finally onboards this quarter, so those are long-cycle sales, long-cycle ramps; e-com, which we veered in quite heavily, and you can see the types of things right now, seeing they are — in those two, we'll have some degree of cycle. And then we talked about having an ISV channel, and we feel very, very good about that community's receptivity to us. So I give you all that to then give the backdrop that we expect to be a very, very good grower in the second half, given the set of initiatives we have, which is consistent with what we said at the beginning of '16 about what '16 would end at and where '17 would end.

Himanshu Patel
Yeah, Darrin, I would just add on GBS North America, I think we've been in this now for four quarters where we've talked about a steady, gradual recovery. You saw negative 2 percent growth rates in the first half and underlying growth rates of basically flat in the second half. I think as you think about our kind of pace and rhythm going forward, we don't think about a hockey stick. We think about a continuation of a gradual recovery driven by all the things Frank mentioned. There's just so much underneath that one item.

On GBS EMEA, we are going to face some tough comps in Q1, no surprise — we talked about that on our first quarter '16 conference call — because of the interchange cuts. You should think about underlying growth on a constant currency basis in GBS EMEA as having been roughly mid-single digit in Q4 and you won't see that as a headline print in Q1 because of the comp issue, but we expect the underlying business to be at that level and probably in the second half of the year more or less consistent with that.

Darrin Peller
That's helpful. And just a quick follow-up if you guys don't mind. NSS is the segment we thought we'd see strong growth out of different parts. I know that, again, there were some elements of a contract benefit from last year that had an impact this quarter, but how are those trends? I think that would have been flat even without that one-time grow-over. STAR, obviously, is in an area we still think there's a good opportunity for you guys. And I'll turn it back to the queue. Thanks, guys.

Frank Bisignano
Yeah, so obviously, we've got that TeleCheck business sitting in NSS, so that's an immediate drag, although we're working hard on that business to reinvigorate some components of it. If

you look at our transaction volumes, they're very, very good. You see us announce that Verizon gift deal. You should not think that's the only thing going on in that business. There's a very, very strong pipeline and one business to be implemented. STAR PINless has performed well for us, and you should expect Signature — full Signature to be in the market during the course of this year. So we're still hearing great receptivity from merchants and from bank partners. Obviously, there is plumbing work to do, or as I call it, we need to build the connectivity on the large guys, and EMV had caused some delay in what we expected there, and so there's no individual business that has issue there that we don't feel good about. And our strength of confidence comes behind what we see in the pipeline and what we see in our wins that are not yet implemented.

Operator
Thank you. And the next question comes from Ashwin Shirvaikar with Citi.

Please go ahead, Mr. Shirviakar, your line is open.

Ashwin Shirvaikar
Hi. Sorry, I was on mute. Can you hear me now?

Himanshu Patel
We can hear you fine.

Ashwin Shirvaikar
Great. So my question was on enterprise client pipeline and progress. You won, obviously, a few different deals. In terms of forward pipeline, how does it look, and, Himanshu, I had a question with regards to how this gets split across segments.

Himanshu Patel
Yeah, Ashwin, we haven't disclosed a pipeline number externally. I think it's fair to say it's considerably larger than where it was two years ago, primarily because the company's now much more organized in terms of institutional selling across all three businesses. I think if you go back and look at all of our transcripts over the last, call it, four quarters, I think you'll see a clear pattern there that says we've been winning net new business in all three segments. We've generally not been losing any existing enterprise clients, so over time, I think you'll start seeing that feed through the P&L. I think Frank's point on this being a long-cycle business is important to remember. Typically, from when we meet a client to when it onboards, the revenue could easily be a two-year gap, and so I think most of our competitors would probably acknowledge that they're seeing First Data much more forcefully in the client's office and probably taking a lot more business than they expected before.

In terms of segments, when we use the word enterprise, it is not intended to connote any one division. It's really intended to talk about large institutional clients, so it cuts across all three divisions and all geographies.

Ashwin Shirvaikar
Okay. And in terms of just mid-size and regional bank health improvement in the U.S., which is something we hear about, given interest rate trends as well as potential lower regulations, are you seeing any freeing up of any intent to spend on any particular kinds of solutions because of that?

Frank Bisignano

Well, I think we have a very, very, very healthy and good business around large and small banks. We have a deep belief in partnering with these banks, and you could see that consistently in our drumbeat of where we're veering. What I do see is it's early going. I think it's early going and it remains to be determined, but I would say general receptivity in a banker's office is that our product suite is strong, that they want to partner, our ability to grow organically with them is good, so I think our bank channel, both in acquiring and in GFS, is very, very healthy and receptivity to STAR is healthy. But I think it's early to feel like a change has occurred, but there's definitely momentum there.

Ashwin Shirvaikar
Got it. A quick question on the balance sheet. How much of the $1 billion-plus free cash flow would be used to pay down debt?

Himanshu Patel
You're talking about prospectively for 2017?

Ashwin Shirvaikar
Yes.

Himanshu Patel
If you look back at 2016, obviously $1.2 billion converted of free cash flow more or less dropped to $1.1 billion of net debt reduction. So it won't be perfectly at that ratio every year, but I think it's fair to say the majority of our free cash flow is going to be used over the medium term to pay off debt. That said, as we talked about during Investor Day, we're not going to be tone deaf to any great acquisition opportunity that comes our way. We're always looking at nearly every deal that's in the marketplace. Most of the ones haven't really made a ton of sense for us, because we have a clear alternative use for our cash, but there will be some transactions that we'll think about over the next couple of years, and obviously when those happen, we'll be converting some cash for that, but I think it's fair to say over a two- or three-year period, the majority of our cash flow is going to be used to de-lever.

Ashwin Shirvaikar
Got it. Thank you, guys.

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

Jason Kupferberg
Hey, good morning, guys. I just wanted to start on North America GBS. I understand, obviously, the second half will be better than the first half, but as we think about exit rates potentially for '17, I know you've talked about, I think, by 2018, getting into maybe the mid-single digit overall market rate of growth. Is it feasible we can be a 3, 4, or 5 percent growth there as we leave 2017?

Himanshu Patel
I think in terms of quarterly cadence, Jason, I would definitely think that we would aspire this business to comfortably get to that level of growth over time, if not better. We talked about 6 percent at Investor Day as being our hallmark for what we consider industry growth across all of our businesses. I think that's a good goal to think about for GBS North America as well.

In terms of exit rate for 2017, I'd say we probably wouldn't exactly be there, but we'd expect it to definitely be better than flat, which is where we are right now.

Jason Kupferberg
Okay. And just at a high level, as you take a step back and you think about this turnaround, whether from a growth standpoint, margins, balance sheet, cash flow, are there any parts of this turnaround effort that you guys would say are meaningfully behind expectations?

Himanshu Patel
There's tons of Monday morning quarterbacking we could do, but I think when we look back on the collective of everything we've worked on over the last two years, I think it's fair to say the main area that's been a disappointment for us has been GBS North America's growth rate. There's no mystery there. We're not going to be happy with a business that's more than half our — or nearly half our revenue that grows flat. I think that's really the only area when you cut through it. There's obviously a bunch of small items that went good or worse, but that's probably the one that clearly stands out.

Frank Bisignano
Yeah, but I look at the macro here. We believe we still will do good work every day on expense management. That will always be a hallmark. We do think our salesforce is way better engineered than it was but still more work to do. If you look at the de-leveraging and the refinancing and what occurred on the balance sheet, which was the fundamental largest Achilles' heel in this company, I think its trajectory is very clear, and I think it was an outstanding performance for the year. We've gotten most of our businesses in much better shape, but you should expect to see more revenue growth from us.

Jason Kupferberg
Thank you.

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

George Mihalos
Great. Thanks, guys. Just wanted to ask you again on the North America GBS side, the lead generation or the slower lead generation on the JV side, was that broad-based across your JVs or more localized to a handful of partners or a partner?

Himanshu Patel
I would say, George, it's probably fair to say it's not one JV, but there's a few that are a little bit more — where that impact is more pronounced than others. I think if you step back and look at what's happening with just some of the stuff that's been in the press, obviously, a lot of banks are cautious around all things related to selling right now. Obviously, they're in business to make money as well, so we do think most of this is transitory, and most of our JV businesses on nearly every other metric, they're very sound, fundamentally healthy businesses, and we know what we're in right now, and we feel pretty confident that this is a transitory issue that these businesses go through given what's happened in the external environment.

George Mihalos
Okay, that's helpful. And just a quick follow-on. I think as it relates, Himanshu, to the accounting impact for Clover for 2017, I think you said that will add potentially half a point to top

line growth. Will that all come through on the North American GBS side? Because that would add about a point to that segment growth, right, if that be —

Himanshu Patel
Yeah, so just, first point, that's an estimate. The most important input into the estimate is forward expectations on what devices we sell, what price we sell them at, and what mix of devices we sell. So a lot of things could make that number a little bit different. That's our best swag right now. The vast majority of Clover devices are sold in North America, but there is some international as well, so I think it's fair to say the majority of that will land in GBS North America.

George Mihalos
Okay. Thank you.

Operator
Thank you. And the next question comes from James Friedman of Susquehanna.

Jamie Friedman
Hi. Thank you, it's Jamie. I recall that on November 16th at the Analyst Day, Andrew Gelb had talked about some adjacency opportunities in GFS, specifically in consumer lending and loan processing. I was wondering if you could share any update on the prospects for that. I know that would be a subset of enterprise, but any visibility that you might have on that segment would be helpful.

Frank Bisignano
Well, I would say the first thing to think about is that Home Credit announcement, which is exactly that. And we had previously talked about other partnerships we've done here in the lending area. So I would say put an exclamation point on — that's a validation of our technical capability and of winning there in the market. You should expect us to continue that pursuit in that space.

Himanshu Patel
And, James, the GFS business in North America is fundamentally, from a processing perspective, the majority of the revenue is today and will be for the foreseeable future, credit and retail private-label processing. The point we were trying to make at Investor Day is our technical capabilities on that platform are actually fairly strong and go beyond that. In particular, we do have some unique capabilities in the loan processing space, and we've been winning some business around that space. So it's not going to be 50 percent of the revenue of that business, but it was an existing capability that we're now starting to sell.

Jamie Friedman
Thanks for the clarification. And then, Frank, or, Himanshu, in your prepared remarks, you had mentioned you shipped 300,000 Clover, 200,000 Clover Go. I just don't recall — and probably my fault — what the equivalent metric was. I remember the Clover but not the Clover Go. If you might have that in your notes, that would be helpful. Thank you.

Himanshu Patel
We've never disclosed a Clover Go standalone metric before, and partly because it's obviously a very different type of sale than selling a tablet-based touchscreen device, which is what Clover Mini, Mobile, and Station are. Clover Go is an EMV-compliant dongle solution that hangs off of a mobile handset. And so we're very happy. We're actually probably around 220,000 units of

Clover Go right now, so that was a recent launch. We were one of the first ones in the marketplace with an EMV-compliant device in that space, and it's been selling pretty strongly.

Frank Bisignano
I would take from that — I'll continue — the real point about my comments there is that we continue to invest in a Clover suite of products. We're spending money, we are innovating, and our tools are being adopted very, very well. There's more to come there too. So as we invest and build out — and we do believe that all that we've done there has actually — and I'll pivot to ISV — that all of those products will be adopted well, because we are no longer viewing Clover, and the market no longer views it as a competitor to ISVs but, instead, a partner to ISVs.

Jamie Friedman
Got it. Thank you.

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

Andrew Jeffries
Hi, good morning. Thanks for taking the question, guys. Frank, that's a good segue, actually, to my question, the ISV comment and Clover in particular. Can you elaborate a little bit on your thinking about the market share potential for Clover and the ISV strategy generally? It's obviously been a fast growing space where there has been a ton of price discovery so a lot of excess profit. How does First Data fit into that rubric?

Frank Bisignano
So here's — maybe I'll take an extra minute on this, because I think it's so darn important. All right. You know, we built out Clover. Clover was a thought, and it became an industry-desired product that you'll find in a lot of SMBs. What we learned on that journey as we were bringing the development community along — and that's why I look at more than 200 apps and the like and you've heard us talk about that — is we brought along the development community of single product owners who wanted to write for a platform, but ISVs actually viewed it as a competitor. And after we continued the buildout, proved out the concept, built other versions of it, we began to recognize that a very large swath of the development community, which I would call ISVs, looked at us like we weren't partners. And so it's early days, but that community, as I communicated today and spoke to a CEO of one of them before I got on the call even this morning, sees us as a great opportunity and back to being a collaborator and an innovator, that Clover is open to partnership and First Data is open to partnership. And it's another different look. So we think it's, for us, it's a complete greenfield of untapped opportunity that we will bring across a whole swath of our install base and to our partners.

Himanshu Patel
I think it's fair to say, Andrew, most ISVs are delighted to hear First Data focusing on this market. We've got a lot of capabilities in this space that they've been looking for.

Andrew Jeffries
Okay. That's helpful. Thank you. And as a quick follow-up, Himanshu, can you comment a little bit on the pricing environment on the RSA renewals that you mentioned?

Himanshu Patel
By the way, in any given quarter, we have multiple renewals. Just because we named three in the merchant-acquiring business doesn't mean that's the only three we've done over the course

of the last year or two. We've done multiple. I would say it's fair to say that most renewals come with some modest price compression, but in most renewals, we're also selling more products than we sold previously to that same entity, so don't translate that comment directly to revenue.

Andrew Jeffries
Thanks.

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

David Togut
Thank you. Good morning. Visa recently opened up a debit network routing option in the U.S. in agreement with the FTC and Federal Reserve. I'm wondering if you see any opportunity to capitalize on that within the STAR segment, and, if so, what actions are you taking to do so?

Himanshu Patel
David, I'm not sure I completely follow your comments, but maybe we could answer a little bit more broadly. A lot going on in the network space in D.C. in general around debit routing and fair competition. There have been some rulings that have come out of D.C. that are I wouldn't say, incrementally favorable to STAR but they help keep the current structure of the industry the way it's been before as opposed to it getting worse. I think it's fair to say that the temperature in D.C. and with large banks and with large corporate clients around the network space and particularly cost of acceptance is exceptionally high. They understand a lot more about what's going on in that space than before, and so, in general, we feel pretty good about most of the direction of where things are going, and we are, of course, going to also have a position to be for pro competition in the debit network space.

David Togut
Well, as a related question, do you see any initiatives within D.C., given the environment of deregulation to try to roll back the Durbin Amendment?

Himanshu Patel
Look, it's D.C., so anything could happen, and we'll find out probably at the same time you guys do, but none of the ground level intel we have indicates that the conversations around Dodd-Frank are really around Durbin. They're around Dodd-Frank, largely excluding Durbin. Now, that could change, and who knows what really happens, but I wouldn't say it's a top-of-mind concern for us right now.

David Togut
Understood. Thank you very much.

Operator
Thank you. And the next question comes from Bryan Keane with Deutsche Bank.

Bryan Keane
Hi, guys. Good morning. Just thinking about modeling, what can we expect for free cash flow growth in fiscal year '17? Should it be similar to EPS growth, or is there some other factors there that we should consider? And then just also thinking about FX impact to the top line in '17, given current rates, where should we be modeling that out? Thanks.

Himanshu Patel
I'll come back to you on the second point in a second. On the first point, don't want to give, Bryan, any more guidance than we've given before. We expect free cash flow to be greater than $1 billion. It's a little bit hard to call free cash flow quarter to quarter, because, obviously, there's a lot of things in there that are not outside of normal modeling things like working capital movements, but I think it's fair to say that over the medium term, we'd expect our free cash flow to grow in line with our adjusted net income growth. It may not happen like that perfectly quarter to quarter.

Bryan Keane
Okay. And then just on GBS North America, where is attrition now on GBS North America, and do you expect that it will continue to improve through the initiatives you're seeing? Is that one of the main drivers of growth improvement for next year or for this year, '17?

Himanshu Patel
So just to be clear, attrition is a large word. There's only been one business unit inside of GBS North America that we would characterize has had an attrition issue, and that's been our SMB direct business on the interior of GBS North America, which is about 20 percent of GBS North America. The rest of the distribution channels are performing fine, most are actually trending favorably off of the already good base on attrition. On the SMB direct business, our attrition rates improved by about 100 basis points sequentially, from Q3 to Q4, and several hundred basis points year over year.

Bryan Keane
Okay, thanks.

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

Tim Willi
Thank you, and good morning. I have a question on both GBS and one on GFS, but first on GBS, I think at the Investor Day, you highlighted — I believe it was called universal commerce, and you highlighted the Chick-fil-A relationship. And given what seemed like a pretty clear inflection point in the fourth quarter around online and omni channel versus traditional brick-and-mortar retailing, could you just talk about anything you've seen, even in the last several months or just general thoughts around merchants, both large and small, and their focus or prioritization of the online and omni channel type experiences? Has that at all picked up to any degree or more or less like you thought it was several months ago?

Frank Bisignano
Well, yeah, I think there's great receptivity to it. When you talk about Ford, that will have an e-commerce component to it, in fact. I think as we go forward, every time we're in the client's office we are having a dialogue about mobile and omni channel. I think our capabilities are very, very strong, so I recognize that it's a very technical sale, and then it's also the client has to want the capability, but it is one of the things that in about every institution, when we talk about enterprise, that's in the dialogue. And it's all according to their adoption premises around it. But it's as strong as we've felt about it on Investor Day, and we see it win traction in the market.

Tim Willi
Great. Thanks. And my follow-up on GBS was in terms of retailers, and, again, back on this e-com versus brick and mortar, are conversations — how have those changed, or even

pipelines maybe of retailers looking to launch or intensify efforts around private label and loyalty to compete with the e-commerce channel and struggling same-store comps? Is there anything there that you've sensed or you think could materialize around the pipeline discussions in your business wins?

Himanshu Patel
Yeah, I would say retailers are focused on a lot of things. It's not just e-commerce. They're very much focused on lowering cost of acceptance, and so products like retail private label, gift card, STAR network, TeleCheck, those are all actually part of that theme. So as we face off to large retailers, it's not just e-commerce they're talking about. In many cases, we're winning business, I would argue, because we offer a very unique solution to help drive down their cost of acceptance, which is an area that's become a lot more sensitive to them over the last few years.

Tim Willi
Great. Thank you very much.

Himanshu Patel
Operator, just before we go to the next question, in the prior question, there was a question on FX. So our best estimate right now based on forward curves is foreign exchange for First Data will be probably about a $100 million drag on revenue for the full year 2017, probably around $50 [million] on EBITDA. Obviously, that could move around over the course of the year.

Operator
Okay. Thank you. And the next question comes from Lisa Ellis with Bernstein.

Lisa Ellis
Hey, good morning, guys. As you're looking forward, can you talk a little bit about your portfolio strategy? Now that you've got the operating performance of the business fairly well stabilized and have organic cash generation available for investment, I'm just curious if you would reel off the top three areas that you see as important investment areas, and then potentially also are you looking at divestitures or trimming as well?

Frank Bisignano
Well, I would characterize it this way. We have businesses — you saw that in the ATM business — in Australia. We don't have a bunch of things that perform at that rate, but, obviously, we're looking at our own hurdle rate and we look at all the businesses in the company, and if we think it can't get to a normalized growth rate, we'll probably be thinking about what to do with that.

Secondly, we feel fortunate to have the opportunity now to actually think about acquisitions in a way that we couldn't before, and growing the GBS business is mission critical for us, and including in that, thinking about strategic things that can help us there, obviously, we will always use the first form in the hurdle rate for use of cash for debt paydown, but you should think about us thinking about things we could do in GBS or bolt-ons to our other businesses that are logical and will help us grow the company.

Himanshu Patel
Yeah, and, Lisa, in terms of divestitures, we would hope the message is coming across that the enterprise selling industry that is very much predicated on bringing a lot of the unique assets of First Data together to a client. When you go to a merchant, you don't have to sell just acquiring like most of our competitors do. You can sell gift cards, you can sell check solutions, you can

sell network businesses, you could sell retail private label, so we've got a $7 billion top line. I wouldn't think about us doing divestitures that lead to billions of dollars or anything like that or the business being lopped off. I think most of our businesses, we view as very core. I think the way Frank described it, you know, the Australian ATM business was a small business that was clearly non-core, did not really fit with our go-to-market with our existing clients, so there will be a couple more of those cats and dogs that we're reviewing, and we'll announce those as they come, but I wouldn't think of anything that's very large.

Peter Poillon
This is Peter. We have time for one last question.

Operator
Yes, thank you, and that comes from Chris Brendler with Stifel.

Chris Brendler
Hi, thanks so much. Good morning. Not to beat a dead horse, but North American GBS, you mentioned that it's for the area of focus, and certainly there are a lot of questions on this call on this area. Could you maybe go through the five sub-segments that you identified and which ones are growing, which ones are shrinking, and then, perhaps more importantly, where do you see the improvement coming by segment as you go through '17 and into '18 that's going to lead to the accelerating revenue growth? Thanks so much.

Himanshu Patel
Yeah. I would answer that fairly simply. The SMB direct business, which is, as I've mentioned before, about 20 percent of GBS North America is really the only business that's been declining. Its rate of decline on revenue has been cut significantly in the fourth quarter versus where it was in the first half. Everything excluding that is fundamentally flat to growing, so there's really nothing there that's really dramatically different with the others, whether it's our JV channel or our ISO business or our enterprise business, they're all in pretty good shape.

Frank Bisignano
Yeah, and you should think about e-com will be a further, deeper focus. Enterprise, we talk about wins, but they are all long ramps, like I highlighted. Duration of something like PetSmart, and then the ISV is a complete greenfield for us, of which we have great expectations and have tremendous receptivity as I talked about on this call.

Chris Brendler
Great. And just a quick follow-up. I think the guidance for fourth quarter in North American GBS was to be better than third quarter plus 1 percent, so it came in flattish, a little bit worse. Is that also SMB that drove the below expectations this quarter?

Himanshu Patel
Hard to call this quarter to quarter, because there is fundamentally many competing distribution channels that come together to form the publicly reported business called GBS North America. I would not say there was anything in there that's dramatically different than what we expected. So I would say the SMB business definitely saw a noticeable improvement in the rate of revenue performance, meaning the rate of decline moderated considerably in the fourth quarter on an underlying basis than in the first half. Our alliances, our JVs did soften in terms of the growth contribution year over year. I wouldn't really call that a surprise, though. We knew what was happening externally, and we expected this to happen, and some of that did show up in Q4.

Chris Brendler
Great. Much appreciated. Thank you.

Himanshu Patel
Good.

CONCLUSION

Frank Bisignano
Yeah, this is Frank. I'd like to thank everybody for joining the call. It's always an honor to have you here, and we look forward to speaking with you again over the course of the quarter, and thank you very much for your time.

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