# First Data

## Second Quarter 2016 Earnings Conference Call

## August 1, 2016 at 8:00 a.m. Eastern

**CORPORATE PARTICIPANTS**

**Peter Poillon** – *Senior Vice President-Investor Relations*

**Frank Bisignano** – *Chairman and Chief Executive Officer*

**Himanshu Patel** – *Chief Financial Officer*

**PRESENTATION**

**Operator**
Good morning and welcome to the First Data Second Quarter 2016 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, signal a conference specialist by pressing the * followed by 0. After today's presentation, there will an opportunity to ask questions. To ask a question, press * then 1 on your touchtone phone. To withdraw your question, please press * then 2. Please note, this event is being recorded.

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

**Peter Poillon**
Thank you. And good morning, everyone and welcome to First Data's Second 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 will also discuss items that do not conform to generally accepted accounting principles. We reconcile those measures to GAAP measures in the appendix of the slide presentation and in the supplemental schedule for the earnings release. With that I will hand the call over to Frank.

**Frank Bisignano**
Thank you and good morning, everyone. It's a pleasure to be on the call today. Himanshu will cover the financials in detail shortly, but I want to open it up by summarizing our second quarter.

The quarter saw strong free cash flow and earnings growth, organic deleveraging, continued positive operating leverage and a return to profitability. We know we have to continue to work on growing the top line and remain laser focused on this. It's important to note that there are a number of areas of our business that are growing quickly. For example, we are currently seeing healthy growth in our GFS issuer processing and output services business, which has seen solid growth rates in nearly every geography, including 14% in North America; our North American eComm business, our Latin American operations underpinned by our newly created Brazil acquiring business, our prepaid businesses and our Security and Fraud-related products. We know we still have a lot of work ahead of us to drive further growth across the businesses, particularly in our North American merchant business.

So let me update you on some of our key initiatives aimed at improving growth across the company. First, let me discuss the progress we are making in turning around our direct SMB business. Last quarter I discussed a half-dozen broad areas of action in the SMB business around improving new sign-ups and reducing attrition. I would tell you we are making solid progress on turning the business around, though the benefit of all of our actions are clearly not in the numbers yet.

On new sign-ups we're seeing tangible progress already. In the first half of this year, this channel has seen high single-digit growth in newly activated merchants. The improvement was driven by a combination of increased sales productivity, lower sales force attrition, improved activation rates and new partnerships, many of which have not fully ramped. As we discussed on the call, we are working on many additional areas to further increase new sign-ups.

On attrition our rate was stable but still far from acceptable. As we mentioned last quarter, we have detailed action plans in place to improve this. For example, in June we completed a major phase of investment in contact center technology. This provides us with state-of-the-art voice analytics, and this technology has already significantly reduced the number of inbound service calls that need to be transferred, resulting in significant client satisfaction improvement.

In addition, our SMB direct business will also be the beneficiary of four new bank acquiring partnerships that we have signed up and are in varying degrees of ramp-up: BBVA, First Tennessee, Zions Bank and Silicon Valley Bank. I think it’s important to not lose sight of what it really means to have landed four new bank partnerships. First, there are only a handful of meaningful bank acquiring partnerships that trade every year in this industry, so we’re very pleased to have won four of them. These banks collectively have a footprint of approximately 1,500 branches. This expansion in our bank partnership base is something the Company has not seen in several years and this is additional evidence that our transformation has begun to bear fruit at the client level.

Lastly, it’s worth reflecting on the question: “Why are these banks moving to First Data and in each case leaving one of our competitors?” Because we have invested in cutting-edge innovation, for example, Clover and Insightics. We have an enterprise bundled offering that covers more than merchant acquiring and because these banks feel confident in the depth of our expertise in growing a successful bank merchant acquiring partnership. In summary, we remain maniacally focused on executing against the detailed SMB turnaround plan and remain confident that our North American merchant business will start to see improvement in the second half.

Second, let me now talk about progress in the enterprise space. Our pipeline is strong and we feel great about it. We have a blue-chip list of clients and one of our key objectives is to deepen our existing relationships with them in addition to winning entirely new clients. For example, this quarter, in terms of existing clients, Synchrony and Citi, two of the largest in the portfolio, added new solutions to their existing relationship with us. And Chick-fil-A expanded its relationship with First Data beyond acquiring. We are behind the payment features available in the just-released Chick-fil-A app that allows customers to order ahead. This was recently the number one downloaded app on iTunes. uCommerce solutions such as that app bring together many First Data solutions, allowing us to highly differentiate ourselves in the enterprise merchant space.

In the healthcare vertical, which we targeted as a growth initiative, we have terrific momentum, enabling payment services for a healthcare payment network InstaMed and a new large not-for-profit hospital system and research group. We’ve also won new deals in the government vertical where our pipeline continues to strengthen, both at the federal and state level.

As evidenced by the Chick-fil-A solution, innovation is key to our success in growing our enterprise business. We entered into an ISV partnership with Bypass using Clover for food ordering and inventory management in the sports and entertainment space. Our initial clients through this partnership include an NFL stadium, an NHL arena, two major college stadiums and an outdoor concert venue.

As a reminder, the enterprise space is a long cycle business. For example, we are just now starting to onboard some of our previously won, large merchants such as Toys "R" Us, PetSmart and Cabela’s along with the four bank acquiring partnerships I previously mentioned.

Third, on global expansion, I am excited to say that we are further expanding our presence in Latin America, a region where we already have $300 million of annualized revenue that is expanding nicely. We announced the strategic partnership agreement with Bancolombia to provide acquiring and commerce-enabling solutions to merchants. This is a great institution and we feel good about the strong growth prospects in Colombia and in all of Latin America.

So those are just some examples of the growth initiatives we are executing against. And you should know that we will continue our focus on generating operating leverage. As we had planned we have completed our previously announced $200 million gross annualized expense reduction.

In closing, year-to-date free cash flow generation is strong and we have begun to organically delever. Our margins have expanded while we have continued to make strategic investments. Many areas of our business are growing well, and our large U.S. bank acquiring alliances are healthy and our relationships with those bank partners are stronger than ever. We know we have lots of work in our North American GBS business, which is performing at a level that we will not accept. We are starting to see evidence of progress in our U.S. SMB business and there is a lot of work happening that makes us confident this business will become a grower.

This quarter marks my third anniversary as CEO. While we have much work ahead of us, it's worth noting how far we have come. We notably improved our balance sheet. We began generating material free cash flow. We've begun to organically delever. We've enhanced our core technology and infrastructure, making it easier for clients to connect to us and enabling them to roll out new products and services faster. We invested in innovation across the Company to reposition First Data from being simply a payment processor into a commerce enabler that helps clients grow their business. We've greatly enhanced our relationship with our clients. And lastly, we've materially improved our Company's operating earnings and growth rate over the past three years.

As I reflect on the past three years and the efforts we've put in and think forward, I feel as confident about what we will achieve as what we have achieved. Our leadership team that is completely committed to having every part of this Company grow.

I thank you for the time today. And 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 Q2 results that Frank just touched on. 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 up 2% on a reported basis or up 4% excluding the impact of foreign exchange translation. Segment expenses declined $11 million, or 1%, driven by expense actions and favorable FX translation.

Q2 total segment EBITDA of $746 million was up 6% and segment EBITDA margin expanded 170 basis points to 41.5%.

Second quarter adjusted net income, a measure of earnings that excludes the amortization of acquisition related intangibles, stock-based compensation, restructuring costs and other items was $323 million, or $0.35 per diluted share. That's an improvement of $179 million versus the prior year quarter. The improvement was driven by better operating performance and lower interest expense.

During the quarter, we generated $308 million of free cash flow and over $500 million of free cash flow in the first half. This has allowed us to start to organically de-lever with our absolute level of net debt having been reduced by $300 million year-to-date and our leverage ratio now standing at 6.7 times versus 7.1 times at year-end 2015. I will discuss this more thoroughly on Slide 11 in a few minutes.

Slide 5 is an informational slide as it provides summary financial information for Q2 and year-to-date including segment level revenue, expense, EBITDA and margin information. I will discuss each of the segments separately on the slides that follow, beginning with GBS on Slides 6 and 7.

At $1.0 billion GBS second quarter segment revenues were down 2% on a reported basis, or flat on a constant currency basis. GBS North America revenue was down 2% this quarter and as you can see on Slide 7, North America merchant related revenue across both GBS and NSS was down 1%.

We are confident in our ability to turn around the performance of our direct SMB business and we are seeing early evidence of progress as Frank discussed. The direct SMB business is the primary area of drag on GBS North America's total revenue growth rate, but it is worth noting that it is a fairly compartmentalized portion, accounting for less than one quarter of the total GBS North American revenue. This result this quarter reflects 7% transaction growth in GBS North America, largely offset by lower implied revenue per transaction or what we call blended yield.

As a reminder, our GBS North American revenue per transaction, both in terms of its absolute levels and its year-over-year rate of change, is the output of many variables given the unique diversity of our business such as channel mix, product mix, customer mix and price levels. Indeed, the metric or the change in the metric's growth rate in any given period can often be highly misleading because it reflects the blended impact of all of these variables.

For example, we have three large equity alliances within GBS North America. Our segment revenue figures reflect only our proportionate share of those JV's revenues, but our reported transaction count includes 100% of those JV's transactions. So, during periods when our equity alliances grow faster than our direct SMB business, as is the case today, it typically puts downward pressure on our externally measured revenue per transaction. This would simply be a mix impact, not a pricing impact.

The decline in revenue per transaction in Q2 can be attributed to many of these mix-related factors as well as the impact of attrition of legacy merchants in our direct SMB portfolio. On a related note, revenue per transaction is not under pressure because we are cutting prices on new SMB merchants. Indeed, that is not the main driver at all.

Moving to results outside of North America, GBS EMEA revenue grew 2% on a constant currency basis, somewhat impacted by adverse unusual items. Latin America constant currency revenue grew 44% for the second quarter in a row driven by the ramp-up of our Brazilian acquiring business as well as growth in Argentina, driven by inflation and underlying transaction growth.

Despite a tough economic backdrop in Brazil, we feel good about the growth potential of this business, which has been exceeding our internal expectations year-to-date. GBS segment EBITDA declined $6 million or 1%, and its margins improved 20 basis points to 43.2%.

Slide 8. Let's now talk about GFS or Global Financial Solutions. At $395 million GFS saw strong second quarter segment revenue growth of 12% or 14% on a constant currency basis. GFS North American revenue grew 14% driven by balanced growth across credit and retail processing, and in our output services business, both of which reflect new wins and internal growth. We note that card accounts on file in GFS North America at the end of the quarter was 14% higher than in the year-ago period as shown on Slide 9.

EMV-related card personalization was once again a tailwind this quarter but only represented about 1/10 of the year-over-year growth of GFS North America in Q2 versus about one quarter of the division's growth in Q1. The key point here is that the underlying growth of this business, excluding EMV-related impacts, was still fairly healthy.

EMEA revenue grew 8% on a constant currency basis in Q2, primarily driven by growth with existing clients as well as good growth in professional services revenue across the region.

Latin America grew 46% on a constant currency basis in Q2. Almost half of that growth came from Argentina, driven by growth in volume and inflation. Part of the growth was also attributable to a contract modification.

GFS segment EBITDA was $160 million, up 29%, reflecting the strong revenue growth paired with expense management. GFS margin expanded 540 basis points to 40.5%.

Turn to Slide 10 and Network & Security Solutions. NSS Q2 segment revenue was $366 million, up 3% over the prior year. NSS, as you know, comprises varying products and services, so I will review each.

EFT Network solutions revenue declined 1%, impacted by pricing compression from a previously discussed key renewal in debit processing plus the lapping of large issuer wins at STAR. STAR remains a strategic growth priority for us and we are in active discussions to further expand STAR's issuance base and to drive more routing.

Security and Fraud solution revenue was up 7%, reflecting strong customer demand for these products partly offset by the ongoing decline in TeleCheck revenue. Stored Value Network solutions revenue was up 6%, primarily driven by our closed loop gift card business. NSS Q2 segment EBITDA was $166 million, up 6% year-over-year and its margin improved 160 basis points to 45.4%.

Moving to free cash flow on Slide 11. As a reminder, we define free cash flow as cash flow from operations less capex and distributions to minority interests. This table on Slide 11 walks you to free cash flow starting with total segment EBITDA. We had a healthy free cash flow quarter as you can see here. It came in at $308 million. This is down slightly from $316 million in the year-ago quarter, largely impacted by different timing versus a year ago on cash interest coupon payments.

I think it's instructive to look at this metric on a year-to-date basis. You can see on the right side of this slide that year-to-date we have generated $519 million of free cash flow. This was primarily driven by improved operating results; lower cash interest payments; lower capex; and improved working capital performance, which reflects improvements in nearly all major areas of working capital. The below year-ago capex 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 First Data's reported debt balances.

Slide 12, I'd like to update you on our capital structure, which is actually covered on both Slide 12 and 13. Slide 12 lays out our capital structure today versus yearend 2015 and first quarter 2016. The key point on this slide is that our net debt outstanding today is $300 million lower than it was six months ago and most of this reduction occurred in the second quarter. As a result, our leverage ratio as defined as net debt to EBITDA is now down to 6.7 times versus 7.1 times at yearend 2015 and 9.8 times at the end of 2013.

And while our leverage is still relatively high at 6.7 times, we think interest coverage is fairly important to understand from a risk profile. Because of the new equity we have raised in recent years, all of the refinancing actions we've recently completed that have pushed down our average borrowing cost to well below 6%, and growing EBITDA, our interest coverage ratio has expanded sharply to nearly three times as of the second quarter of 2016 using our estimated interest cost for 2016 of $1 billion, versus less than 1.5 times at the end of 2013.

Stepping back, the key message to take away from Slides 11 and 12 is that First Data's capital structure has now clearly reached escape velocity. We can now generate ample free cash flow to continue to organically delever. This in turn helps us further drive down our interest expense, which in turn allows our future EPS and free cash flow growth rate to be amplified as EBITDA grows.

Slide 13 depicts our current debt maturity profile. At yearend 2015, we had nearly $6 billion of term loans maturing in 2018. Throughout the first six months of this year we extended all of those term loans into the next decade. As a result, First Data has no significant debt maturities until 2020.

Before summarizing and turning over for Q&A, I'd like to mention some housekeeping items. During the quarter we incurred $24 million of restructuring costs associated with the strategic expense management initiative. This includes a $21 million book loss on a pending real estate sale. Since the inception of this initiative, we've incurred about $100 million in restructuring costs and expect total restructuring costs to amount to about $125 million. Just to remind you, restructuring costs are excluded from our non-GAAP total segment expenses and our total segment EBITDA.

Finally, we have reserved a date for our first Investor Day where members of our management committee will provide a deeper overview of the key initiatives across each business. It will be on November 16 in New York City. Investors and analysts will hear more about this in the near future.

So to summarize, we generated over $0.5 billion of free cash flow in the first half of this year and this has allowed us to begin organically deleveraging. The cash generation was underpinned by revenue growth, expanding margins and improved working capital performance. This has occurred with the backdrop of an underperforming GBS North American business where we are optimistic about the impact of our turnaround plan and believe this will start bearing fruit in the second half.

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. Just one ground rule on the Q&A: please limit your questions to one question and one follow-up in order to be fair to as many participants as possible. If we have time at the end, you can come back into the queue for another question. As we approach the end of our time today we'll let you know when we have time for one final question. Operator, please open it up for Q&A.

**Question-and-Answer Session**

**Operator**
Yes, thank you. And as mentioned, if you would like to ask a question, please press * then 1 on your touchtone phone. Press * then 2 to withdraw your name from the list. If you are using a speakerphone, please pick up your handset to ensure good sound quality. And with the instructions in mind, please pause while we assembling our roster.

And the first question comes from Sanjay Sakhrani with KBW.

**Sanjay Sakhrani**
Thanks, good morning. A quick question on GBS. Himanshu, you mentioned the mix affected the yield. Could you just talk about the core yields and how they performed this quarter?

**Himanshu Patel**
Sanjay, the question you are asking maybe another way to phrase it is how much of the year-over-year decline in what you can see as revenue per transaction is attributable to mix-related items versus everything else, and in the everything else category most of that would largely be attrition, not so much pricing changes on our new merchants. I'd call the split somewhere around 40/60. That's roughly where it was in Q1, as well.

**Sanjay Sakhrani**
Okay, great. Then as far as the investment cycle, obviously you guys have been making a fair amount of investments that have been affecting the growth. Could you just talk about anecdotally where we are in the investment cycle and where we can see a little bit more leverage off of those? Thanks.

**Himanshu Patel**
I think we discussed various courses over the course of last year. First Data went through a very unique investment cycle period throughout the course of 2014 where we didn't launch one growth initiative, we launched over half a dozen nearly simultaneously and we invested a lot in things around our core infrastructure. So this is a very innovative industry. We're always going to be looking to invest more where we need it to help our clients grow. But I think it's going to be – it would be hard for us to imagine that, at least in the near-term, there would be another period similar to what we went through in 2014 where we were launching many items at once.

Remember, we built out Clover, we built out a Brazil acquiring business, we built out additional functionality on STAR, we invested in digital gift, we expanded our enterprise sales team. All of that was good money, we were very happy to spend it, but that obviously was an impact on our margins back then. Going forward, we will still have investments but the pace is probably likely to be more sequenced.

**Sanjay Sakhrani**
Thank you.

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

**Jim Schneider**
Thanks and thank you for taking my question. I was wondering if you could maybe talk about as you outline some of the growth initiatives to improve GBS North America whether you are still confident that the actual reported rates of growth in the back half will improve relative to what you have provided or that might be a little bit pushed out in time at this point?

**Frank Bisignano**
Yes. So we were very specific about six items we were driving. Obviously there's a lot more detail underneath that in the last call. And what we saw in this quarter was as expected, and that's why we talked about a second half. Those initiatives operate at different paces and different timings, so the reason we said we'd start talking to you about things like key business indicators, for us the merchant sign-up machine was very important. You saw that take hold as we talked about it. That means

activations are occurring at a higher rate than they had before.

Attrition we believe is a longer tail, but we have a fair amount of things and we did highlight that technology enhancement, we thought that was a very big deal. That was one-and-a-half years in development and those are the type of tails you are going to have on some of those. Our current SMB business is one part of GBS North America. When we talk about enterprise wins that will show in our North American business, new bank partnerships will show up in our enterprise business and we are continuing pursuit of all of those daily, so you should expect to hear more about those in quarters to come. So I would say on course.

**Jim Schneider**
Thanks. And then maybe as a follow-up, on the GFS segment the growth still is doing pretty well there and as you mentioned less of an impact from EMV specifically. So can you maybe talk to your pipeline of new wins and new portfolios in the GFS segment?

**Frank Bisignano**
Yes GFS – and I like taking a reflection for a second on this three-year anniversary that I talked about. Many of you probably won't remember, but I well do, that our North American FS business was very well-publicized and contemplated for sale. If you are in the process of thinking about selling a business, the pipeline is pretty darn dry and your competitors are talking about why they can beat you every day. We've completely veered in here. Banks like our total solutions. We find our vision product globally to be a very, very, very strong offering, that's the global part. We find our U.S. pipeline strong also. We feel that we're competing daily there very, very well, there's formidable competitors. Think about our cross-sell opportunities, our bundling opportunities. We feel good about our relationship with financial institutions across the world, and you should expect us to be announcing deals during the course of this quarter also.

**Jim Schneider**
Thank you.

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

**Dave Togut**
Thank you very much. GFS APAC revenue improved sharply in the quarter, up 14% year over year versus a 1% decline in constant currency in the first quarter. Can you talk through some of the drivers of the improvement in that business and what you see going forward?

**Himanshu Patel**
That's a fairly small business, so I wouldn't read too much on that. A lot of that is just the law of small numbers is affecting that. Our financial services business does have some lumpiness around professional services revenues at times, so when you get something like that landing on a small total revenue probably can move the number around, but overall that's not really a large-size business, so the percentages are not as meaningful.

**Dave Togut**
Just as a quick follow-up, in the second quarter you reached an agreement with the UK Financial Services regulator to pass through all interchange reductions. Can you talk through how material that might be to earnings going forward on a quarterly basis?

**Himanshu Patel**

Well, I think it is a good discussion. We've definitely taken the posture that we were going to pass back most of those savings, if not all of them, fairly quickly to the underlying merchants and you saw a lot of that in our second-quarter results in GBS EMEA.

**Dave Togut**
Thank you very much.

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

**Darrin Peller**
Hey, it's Darrin from Barclays. Just first on the GBS, would you actually expect the growth rate, just to be clear, in the North American side to improve in the second half versus second-quarter trends just to actually look at for modeling purposes? And then on EMEA growth, again, I know Dave just brought up the interchange benefits being removed, but is that the entire explanation for the deceleration? I think you mentioned any other unusual items.

**Himanshu Patel**
Yes, there's a couple of other cats and dogs there, Darrin, but it's fair to say the majority of that deceleration is related to the interchange benefits that we saw very vividly like the rest of the industry in Q1 that are now pretty much gone. On GBS North America our intention is definitely to improve from negative 2% in the second half.

**Darrin Peller**
Okay, thanks, Himanshu. And then quickly STAR, there's been a lot of discussion in the industry around dynamic routing and just debit routing broadly being more competitive. I think you also mentioned renewals with some long-term contracts impacting your growth rate. I think STAR has an opportunity given the merchant acquirers position to win share. Can you just talk a little more about the trends there you are seeing in the industry and what STAR can do going forward?

**Himanshu Patel**
Yes, so you're co-mingling two comments there. We talked about pricing compression in EFT Networks. That is not related to STAR, that's related to our debit processing business in the United States. I think many of us know, debit processing is an industry like a lot of processing businesses, but particularly debit, it's been fairly competitive for several years. So we did have a major renewal in that business. We talked about that last quarter. We saw another quarter's impact of that this quarter.

Overall, in terms of STAR, we have expanded into new cardholder verification methods. Whether it's PIN or PIN-less, from our vantage point I wouldn't say we see our strategy here as largely being about materially changing pricing. I think our strategy is largely to bundle our network business with all of the other solutions that we bring to banks and to merchants together.

**Darrin Peller**
All right. So when we saw that growth rate in STAR or on the EFT side it was actually, like you said, it was the debit processing side that impacted that? STAR is still growing pretty well?

**Himanshu Patel**
STAR grew in the current quarter in Q2.

**Darrin Peller**
All right. Thanks, guys.

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

**Lisa Ellis**
Hi, good morning, guys. Can you talk a little bit about the trend lines you're seeing on retention in your segments in GBS North America, whether that be in SMB but also in the larger merchants and just across the board, and whether you're starting to see some leading indicators of improvement there?

**Frank Bisignano**
Yes, Lisa, thanks for the question, and maybe cover it a couple of ways. When we talked about stable but not pleased and having visibility to a series of enhancements to change the outcome, that's really on that specific part of the portfolio, our U.S. SMB direct. If you move to our national portfolio, we've been wildly successful there in maintaining relationships and upselling other products in and gaining. And we feel that way in the midmarket presence where we've brought a bunch of solutions inclusive of Clover with middleware with some strategic partners. So I would say those two well, well performing and better than what we got here.

Then the ground war, which we take on and are laser focused on, is in the SMB. We believe there's a lot of things we're doing right now. One of the things that I always like to say, and I'm guarded on my comment on it, but we made over the last couple of quarters we're here talking about no price increases. So historically, we raised prices in this sector constantly. We've decided we're going to win on good product, good service, good sales and to continue to do that. I expect that we will see the fruits of those labors and begin talking through them as we go through the second half. The reason why we love the idea of having an Investor Day is taking you deeply into each one of these segments and the performance and what we're doing for them and a long-term view on how we'll perform in them.

**Lisa Ellis**
Terrific. Thank you. Then just as a quick follow-up, can you talk about some indication of what the EBITDA margins look like between your alliance partners versus the direct business? I know that you said that 40% of what looks like the RPP decline is driven by mix and a lot of that is essentially an accounting phenomenon because you consolidate in only a portion of revenues, but can you give us a flavor for the margin differential, if there is one between the two?

**Himanshu Patel**
Little bit hard for us to nail it that closely, Lisa, because our business model is really to share a backend infrastructure across a bunch of competing distribution channels, so you have to make a lot of assumptions on fixed allocated costs. In general, I would say all three alliances as well as our direct business, for the most part, if you normalize for merchant mix, the profitability of them is all fairly comparable.

**Lisa Ellis**
Terrific. Thank you.

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

**Bryan Keane**
Yes, good morning. You guys are showing pretty solid EBITDA margin expansion since the IPO. Any thoughts on how sustainable that is going forward and any initiatives that will continue to drive EBITDA leverage in the business?

**Frank Bisignano**
Those are driven by mostly things we had done to get at what I considered expenses that we couldn't get at in our first two years because we first had to shore-up our infrastructure. We spent a lot of time getting the infrastructure of this Company in good order. And I use infrastructure in a very large-scale manner, but that did include data centers and networks, getting an application development stack that can work for the Company. And getting our clients in good shape so we weren't in the penalty box and we could grow with them.

As all that unfolded, we then said we can't get at these expenses and we talked long about site strategy and productivity. That doesn't mean we're not going to be relentless on opportunity, because I always believe technology is the great enabler of productivity, specifically seeing things like that call center technology we just brought out.

Having said all that, you should expect us to put money back into the business. This is an investment cycle business. We feel very strong about it. One of the reasons this Company was on its heels three years ago is because it didn't have the type of opportunity we've created here to invest and grow. We're an invest and grow business, but you should expect us to maintain margins, but don't see them necessarily continuously expanding. As we still get productivity gains, we will invest it back in the Company.

**Himanshu Patel**
And I would just add to that, Bryan, maybe a good way for you guys to think about this is we have fairly good margins right now. We're over 40% in the current quarter. A good way to think about it is that the pace of year-over- year margin expansion is going to start moderating largely because the comps are getting harder. As Frank mentioned, we're not going to starve the business, we do need to fund investments and you can see that's already happened. You had over 300 basis points of margin expansion in Q1. You had 170 basis points in Q2.

**Bryan Keane**
Okay. And then as a follow-up, just any thoughts, updated thoughts on giving annual EPS guidance and free cash flow guidance? The results have been fairly consistent. I'm one in the camp to believe that if you did give guidance I think the multiple on the stock would go higher since the business overall is pretty steady, any thoughts on that?

**Frank Bisignano**
I think on Investor Day we will talk through guidance with people.

**Bryan Keane**
Okay, super. Thanks so much.

**Himanshu Patel**
Hey. Operator, just before we go to the next question, I wanted to clarify one question back from Darrin. Darrin, I know you are not in the queue, but the question was around STAR. One other item that I was trying to clarify in my comments was STAR also lapped a couple of major issuer wins in this latest quarter, as well. So the accounts on file at STAR have started to lap versus a couple of big wins that we've talked about previously. Operator, we can go to the next question.

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

**James Faucette**
Great, thank you very much. Just quickly, we saw strong GFS revenues that you attributed to EMV. How much more tailwind from EMV is remaining and how should we think about the normalized growth rate when EMV tailwinds abate? Then also around continued deleveraging, obviously as you pointed out you're starting to get a lot more control over free cash flow, etc. How do you think about the priorities of continuing to pay down debt versus potentially starting to look at using cash for other purposes like investment or for acquisition? Thanks a lot.

**Frank Bisignano**
Why don't I take the last part, and we can talk you then through what we actually said on EMV and GFS? We always said our first priority is to organically delever. It was one of the key objectives of what we did in terms of raising equity and, in fact, improving the Company, and that's priority one.

Having said that, we will not walk away from an opportunity that we believe is accretive and good for our shareholders as we see those opportunities. So our eyes are wide open always where we're looking and working on everything, but we do emphatically love organically deleveraging and changing the shape of this Company, too. And we feel great about it, what the first half has showed us.

**Himanshu Patel**
Yes, I think that's a good way to think about it. Primary use of free cash flow is going to be to de-lever, but obviously we're not going to be blind to opportunities if they come our way that are very compelling. On your question on EMV and GFS, so just to be clear, EMV was not anywhere near a material portion of the year-over-year 14% growth in GFS North America. I said it was only about 10% or 1/10 of the total growth. The majority of the growth you're seeing in GFS North America is stuff excluding EMV. So this would be processing, output services. You will start seeing in that business, obviously in the third quarter I think you can see in the slide decks, we do start anniversarying some new issuer wins in the third quarter as well there, so you will see that underlying growth rate moderate most likely a little bit in Q3, but I would say the underpinnings of that business are very healthy. We have good organic growth with current clients, excluding EMV, and we are adding net new business through our enterprise pipeline.

**James Faucette**
Thank you very much.

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

**Ashwin Shirvaikar**
Hi, good morning, Frank and Himanshu. My first question is with regards to direct SMB, both of you mentioned early evidence with regards to those trends improving for attrition and revenue per transaction. So can you provide any anecdotal evidence or what sort of metrics you're looking at underlying that can help us also get to that conclusion? And where do you expect revenue per transaction decline to stabilize by the end of this year?

**Himanshu Patel**
So Ashwin, internally we obviously look at dozens of metrics. We're not prepared to share all of those externally, but we look at things like lead flow from our existing bank partners, approval rates, activation rates, net merchant count, percentage of our sales that go through telesales. Every business looks at that, none of those are necessarily new.

I think the macro point I would give you guys is two points. One, most of the metrics we're looking at internally would indicate that the initiatives that we have in place are moving in the right direction, but the reality is some of the areas that we're tackling just take longer than others. Impacting the new sign-up machine is always going to be a little bit more of a quick hit than impacting attrition simply because of the size of the base. But there is a lot of good work happening around improving that, as well.

The second point I would make there is a lot of questions on the call, implicit in your question as well, around the aggregate growth rate of GBS North America. Look, I think the easiest way for guys to think about it is we're managing to total revenue growth for that business. The SMB business happens to be the one portion of that business that's under challenge today. We've got a lot of attention around improving that, but regardless of what the other portions of that business are we're never going to be happy with a negative 2% number for GBS North America. So our expectation is the total division actually does better than what's happening right now in the first half.

**Ashwin Shirvaikar**
Got it. I appreciate that response. The follow-up is with regards to enterprise wins and you had pretty good traction there. My question is as those wins ramp, is there an impact on revenue per transaction that we should anticipate? And cumulatively what you signed, what does that do to overall rev growth, as well? If you could help us quantify that, that'd be helpful.

**Himanshu Patel**
Yes. So I rattled off a bunch of drivers that impact revenue per transaction in my prepared comments. One of those was merchant mix and that's exactly what you're alluding to, right? The RPT on a national merchant is obviously going to be a lot lower than on a small merchant. So to the extent we're adding net new in enterprise and all else equal, it would otherwise put downward pressure on RPT. But it means total transactions are also growing, so total revenue would actually rise in that scenario.

**Ashwin Shirvaikar**
Got it. Thank you, guys.

**Operator**
Thank you. And the next question comes from Sara Gubins of Bank of America/Merrill Lynch.

**Sara Gubins**
Thank you, good morning. Could you give us an update on the timing of the rollout for signature debit for STAR?

**Frank Bisignano**
Yes. As I said on the last call, we had tested in the lab and we are building the functionality and feel very good about it. It tested well. EMV obviously is a large item out there for merchants, and on large merchants all of this goes in the simple way to think about it, in their plumbing. We have active discussions going on, on all sides of this, and I would expect as we go through the second half of the year we'll have a more detailed discussion with you all about it.

**Sara Gubins**
Okay great. And then turning back to GBS North America, on the last call you had detailed out a number of initiatives to improve over time. Just a question on a couple of them. Are you still ramping the number of staff to focus on retention and are they making any difference yet? And then you've talked about pricing simplification. Where are you on that and is there any yield impact from perhaps lowering pricing for renewing SMB customers?

**Himanshu Patel**

So, Sara, the answer to both of the first two questions is yes. We are ramping up a team to really manage the existing base. It's organized a lot more by verticals to really make it more specific for those clients. And as it pertains to simplified pricing that will also be phased in even to a greater degree than it is already over the course of the year.

In terms of impact on net pricing, I would not jump to the conclusion that it materially decreases or increases our pricing. We're obviously sensitive to respecting the merchant that they are not dumb, they do understand what they are really paying for but they do value transparency. The idea behind transparent pricing isn't to necessarily change the amount of revenue we're taking, although we may have a slight impact one way or another, it's really to make it simply easier for them to do business with us.

**Sara Gubins**
Okay, thank you.

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

**Brett Huff**
Good morning. Thanks for taking my questions. One topic we haven't touched on yet is Clover in detail. Can you all give us any of the typical metrics you provide? And then just give us some qualitative update on how that process is going both as it relates to competing with maybe more niche players, but also how merchants are accepting it as the go-forward hardware strategy that you all are using?

**Frank Bisignano**
So if you look at units shipped over 225,000, if you look at applications in the app store over 180 apps, we have very high Net Promoter Scores in many verticals. We've really focused on vertical expertise here. I know for a fact I myself receive a lot of feedback because people now see Clover in many places. I think what's important to know is we've definitely taken a vertical focus on which verticals and how to serve, and that will flow through to the portfolio management piece we talked about.

And I would say field receptivity is very, very high still. We know that it's not a silver bullet by itself, but it's a very well-liked product in small. You see where we've talked about Bypass, its Bypass and Clover going into these venues, and we're having good receptivity and good performance in it.

It's a key component of our strategy, but this is a big business with a multipronged strategy. We're always going to do what the client wants. We're in a client-centric business. We're only going to sell them what they want and we're happy to sell them a full bundle of all our services. Happy to help them reduce the cost of acceptance with all our services and like Clover to be a part of it, but we're happy if that doesn't work for them and to be able to provide them the rest of the things we do.

**Brett Huff**
That's helpful. And my follow-up is on the alliance wins I think those are pretty significant given as you said they're competitive. When you talk with those banks and they choose you all, what are the top few things that they say are differentiating your product or your offering versus peers?

**Frank Bisignano**
Yes. I think first of all it's much larger than a merchant acquiring partnership. Many times it's many services and they see our understanding of banks, bank technology, how to integrate with bank technology, how to roll it out, the bundled offering potentially long-term at GFS and GBS, and the fact that we are continuing to invest and will invest side-by-side with them; that we're happy to do things that

are good for their client base, not a cookie-cutter model, but one that appeals to how a bank wants to run their retail distribution network and partner with their retail distribution network.

**Brett Huff**
Great, thank you.

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

**Andrew Jeffrey**
Hi, good morning, guys. Thanks for taking the question. As a follow-up on the bank partnerships, and it's good to see the four new ones you mentioned, Frank, can you talk about any significant renewals that might be coming up in the next 12 months? You mentioned some of the competitive points, but how aggressive do you see competitor pricing out there and if there's risk on renewal we should be thinking about?

**Frank Bisignano**
Well, I feel very, very, very good about all our bank partnerships and we have a lot of them. We're the industry leader at this and it's a place where I think we've actually completely improved the relations, so I think it's something we're very proud of. It's something we've gone deeper. When we talked about our strategy and our plan you can look at how we've embedded ourselves even in many of the banks' websites where we never were before, having that digital offering as a partnership with the bank. Every one of these banks we talk to regularly about how to do more, how to do it better. So I'm painting a picture of a very strong, deep set of relationships and, of course, there's always renewals in that portfolio, there's always discussions and there are always ways how we think about helping each other make more money.

But what I would take away from it if I was you is we're strong, we're deep, we're in dialogues all the time and we feel like we have a great set of assets and what's being reinforced by many bank CEOs to us.

**Andrew Jeffrey**
Okay, thank you. And Himanshu, you alluded to, or maybe, Frank, it was in your prepared remarks, alluded to strength in eCommerce. I wonder if you could put some color or some figures around that?

**Himanshu Patel**
Yes, this was in the prepared comments. We will probably go into more detail on that perhaps around Investor Day. But I think it's fair to say we have a large multi $100 million eCommerce business that grows double-digit.

**Andrew Jeffrey**
Okay, thank you.

**Peter Poillon**
Operator, we're coming to the close of our time. So we have time for one more question, please.

**Operator**
Yes, thank you. And that comes from James Friedman with Susquehanna.

**James Friedman**
Hi, thank you, it's Jamie. I want to ask you about the Slide 9. I noticed that the account on file growth

paralleled the revenue growth. I was just trying to figure out, is any of the revenue growth from new account wins or is it just organic issuing from your installed base? And I will just do my follow-up now, if you could share any vectors between say credit and debit and prepaid and government, what sorts of cards are banks issuing for you? Thank you.

**Himanshu Patel**
Yes. So the last question first. So the GFS division in North America does not include debit. That's actually in NSS because it is oftentimes sold with STAR. There is debit-related accounts on file in GFS outside of North America.

So primarily the card types that are on the interior of GFS North America is general purpose credit and retail private label. But we also have a very large non-processing business in North America in GFS or what we call output services. Both of those businesses are growing. Your question about how much of the growth is coming from existing clients versus brand new client additions, the answer is it's a healthy mix of both of them.

**James Friedman**
Okay, thank you.

**Operator**
Thank you. As that was the last question I would like to return the call to management for any closing comments.

**CONCLUSION**

**Frank Bisignano**
I'd just like to thank everybody for the time. I look forward to spending time with you in the second half of this year and we truly do look forward to an Investor Day with each and every one of you. Thank you for your time today.

**Peter Poillon**
Thank you.

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