

First Data Corp. (FDC)

Alert: Momentum Continues as Top-Line & Margins Accelerate

- Citi's Take:** Overall, we are encouraged by FDC's 2Q results that show continued momentum in the business. The top-line grew by 4% y-o-y (highest growth rate since 1Q12), resulting in adj. revenues of \$1.76bn, which compares favorably vs. our \$1.73bn estimate. The company reported 2Q EBITDA of \$669mm; however, adjusting for the \$20mm one-time items within the International segment, adj. EBITDA equated to \$689mm (vs. our \$680mm estimate). Consolidated EBITDA margin expanded to 37.9% (+75bp y-o-y). Importantly, revenues increased across all three segments with Financial Services in particular exceeding our projections. FDC cash and 5-year CDS levels are relatively unchanged this morning.
- One-Time Items:** Mgmt. highlighted \$20mm of higher expenses within the International segment, including \$12mm for an uncollectable receivable, \$5mm of litigation claim (likely from several years ago), and \$3mm provision for merchant credit loss (from an online travel agency in Europe). Overall, we view the items as one-time in nature. Recall, during 1Q14, the segment was impacted favorably by \$21mm owing to an operating tax credit and a gain on the revaluation of assets.
- Credit Implications:** We are comfortable with our existing recommendations including Buy ratings on the second liens, senior unsecureds, and the 11.75% sub notes (currently yielding 5.9% on the offer side). Moreover, we believe 5-year CDS has the potential to tighten further (from 355bp currently). Based on strong first half results, First Data appears to finally have growth momentum that should further improve its financial profile as the company leverages its "self-help" and broader growth prospects for the business. **More on Page 2.... Including cap structure.**

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	2Q13A	Actual 2Q14A	Citi Est. 2Q14E	y-o-y Δ	Key Drivers
Segment Revenue					
Merchant Solutions	\$928	\$945	\$933	2%	transaction growth +4%; revenue per transaction -1%
Financial Services	337	357	347	6%	driven new business and volume growth
International	425	448	438	5%	merchant acquiring rev +7%, issuing revenue +6%
Adjustments	11	14	12	--	
Adjusted Revenue	1,702	1,765	1,730	4%	
Segment EBITDA					
Merchant Solutions	\$429	\$456	\$438	6%	cost restructuring initiatives & higher sales
Financial Services	151	183	170	21%	cost restructuring initiatives & 2Q13 one-time headwinds
International	115	111	131	-4%	in-line after adjusting for \$20mm one-time expenses
Adjustments	-63	-81	-60	--	
Adjusted Revenue	633	669	680	6%	
EBITDA Margin					
Merchant Solutions	46.3%	48.2%	47.0%	+196bp	
Financial Services	44.7%	51.2%	49.0%	+654bp	
International	27.1%	24.7%	30.0%	-237bp	FS margins not adjusted for one-time items
Total	37.2%	37.9%	39.3%	+74bp	

Source: Citi Research, Company Filings; Not adjusted for one-time expenses.

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Balance Sheet & Debt Pay-down: 2Q free cash flow of \$298mm exceeded our \$210mm projection. Additionally, as previously disclosed, subsequent to quarter-end FDC Holdings received \$3.5bn in new equity commitments, proceeds from which were used for debt paydown. As of 06/30 pro-forma, net leverage through the Holdco PIK notes declined to 8.1x (vs. 9.6x at 1Q14). Lastly, FDC collected \$255mm from sale of its stake in EFS, further bolstering its liquidity position.

Conference Call Info: 10AM ET on July 30. Dial-in: 800-708-4540; PW: 37638896. Replay: 888-843-7419 (same PW).

Recent FDC Publications:

[Take Profits on HoldCo PIKs; Walking Through the Math](#)

[Cap Structure Rallies on Equity Transaction; Remain Overweight](#)

[Upgrading 14.5% PIKs Notes to Buy on Solid 1Q](#)

Figure 1. FDC 2Q14 Cap Structure (PF for Debt Pay down in July 2014)

	06/30/14	Δ	06/30PF	PF Leverage		Bid		Rating
				Gross	Net	Price	YTW	
Debt								
Revolver (L+400bp, \$1.0bn, 09/2016)	0		0					
Term Loan (L+350bp, 03/2017)	1,465		1,465			100.125	4.43%	
Term Loan (L+350bp, 03/2018)	4,676		4,676			99.250	5.09%	
Term Loan (L+350bp, 09/2018)	1,008	+350	1,358			99.375	5.20%	
Ext Term Loan (L+400bp, 03/2021)	1,215		1,215			98.250	4.34%	
7.375% 1st Lien Sec Notes (06/2019)	1,595		1,595			106.250	4.19%	Neutral
8.875% 1st Lien Sec Notes (08/2020)	510		510			109.250	3.93%	Neutral
6.750% 1st Lien Sec Notes (11/2020)	2,150	-753	1,397			107.500	4.49%	Neutral
First Lien Secured Debt	12,619		12,216	4.7x	4.5x			
8.250% 2nd Lien Sec Notes (01/2021)	2,000		2,000			108.750	4.73%	Buy
8.750/10.00% PIK Toggle 2nd Lien Sec Nts (01/2022)	1,000		1,000			109.250	5.01%	Buy
Second Lien Secured Debt	3,000		3,000	5.9x	5.7x			
11.250% Senior Notes (01/2021)	785	-275	510			116.000	5.33%	Buy
12.625% Senior Notes (01/2021)	3,000		3,000			121.875	5.27%	Buy
10.625% Senior Notes (06/2021)	815	-285	530			115.750	5.37%	Buy
Other Senior Debt	308		308					
Senior Unsecured Debt	4,908		4,348	7.6x	7.4x			
11.750% Sr Sub Notes (12/2021)	2,475	-866	1,609			117.250	6.16%	Buy
Total OpCo Debt	23,002		21,173	8.2x	8.0x			
14.500% HoldCo Senior PIK Notes (09/2019)	1,466	-1,250	216			113.000	12.14%	Neutral
Total OpCo + HoldCo Debt	24,468		21,389	8.3x	8.1x			
5-Year CDS Spread (bp)						360bp		
Liquidity								
Cash	548		548					
Revolver Availability (net of LoC)	723		723					
Total	1,271		1,271					

Source: Citi Research, Company Filings; bid-side prices shown.

Appendix A-1

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First Data Corp (FDC) — Issuer Portfolio Weighting and Issue Rating History

High Yield Credit Research

Analyst: Manish A. Somaiya

Issuer		Issue			
Weighting	Date	Coupon	Description	Maturity	Rating
OW	20-Dec-12	11.250%	Sr Sub Nts	31-Mar-16	Buy (1)
		8.875%	1st Lien Nts	15-Aug-20	Neutral (2)
		10.550%	Sr Nts	24-Sep-15	Buy (1)
					NC
		7.375%	1st Lien Nts	15-Jun-19	Neutral (2)
		9.875%	Sr Nts	24-Sep-15	Buy (1)
					NC
		8.250%	2nd Lien Nts	15-Jan-21	Buy (1)
		8.750%	2nd Lien Nts	15-Jan-22	Buy (1)
		12.625%	Sr Nts	15-Jan-21	Neutral (2)
					Buy (1)
		6.750%	1st Lien Nts	01-Nov-20	Buy (1)
					Neutral (2)
		11.250%	Sr Nts	15-Jan-21	Neutral (2)
					Buy (1)
		10.625%	Sr Nts	15-Jun-21	Neutral (2)
					Buy (1)
		11.750%	Sr Sub Nts	15-Aug-21	Neutral (2)
					Buy (1)
		14.500%	HoldCo PIK Nts	24-Sep-19	Neutral (2)
					Buy (1)
					Neutral (2)

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