

# First Data Corp. (FDC)

## Cap Structure Rallies on Equity Transaction; Remain Overweight

- **What's New?** — Earlier this morning First Data (FDC) announced that its parent Company, First Data Holdings Inc., has received \$3.5bn in equity commitments via a private placement transaction. The proceeds are likely to be used to repay debt of FDC (OpCo and HoldCo). Today's transaction enables FDC to reduce leverage by over one-turn (9.6x to 8.3x at HoldCo PF), decrease annual interest expense by \$375mm, and provides evidence of support from the equity markets. We remain Overweight First Data, while maintaining our Buy recommendations.
- **Sources of Funds** — The \$3.5bn in new equity includes \$1.5bn from existing investors and \$2.0bn from new investors including pension funds, mutual funds, asset managers, and wealthy individuals. Notably, KKR provided ~\$1.2bn, including \$700mm from its balance sheet and \$500mm from the original 2006 fund, highlighting the sponsors' high level of commitment to First Data. Although FDC did not specify the EBITDA multiple for the new equity, we anticipate 11-12x on the basis of recent public comps. The transaction is expected to close on or about July 11, 2014.
- **Uses of Funds** — FDC intends to use the proceeds from the private placement to strengthen its balance sheet. Specifically, FDC is redeeming \$285mm of its 10.625% sr notes at 110.625%; \$275mm of its 11.25% sr. notes at 111.250%; \$866mm of its 11.75% sr. sub notes at 111.750%; and \$753mm of its 6.75% 1st lien notes at 106.750% (totaling \$2.179bn). Although a formal redemption notice has not been issued, we note that the Company is utilizing its 35% equity claw feature to redeem the notes.
  - **Remaining \$1.1bn:** We expect FDC to utilize the remaining \$1.1bn to repay additional debt (including fees), likely targeting the 14.5% HoldCo PIK notes, as this tranche represents the highest coupon debt within the FDC structure. However, we note that the Company could target additional OpCo debt as well.
- **Credit Implications** — FDC 5-year CDS has tightened 45bp today, reaching an all-time low of 320bp. Meanwhile, the bonds are also higher, with the 14.5% HoldCo PIK notes outperforming (6 points higher today at 113.25 offer). We retain our Buy ratings on the 2<sup>nd</sup> Liens, Seniors, Subs, and HoldCo PIK notes for now. In our view, the Company is likely to redeem the full amount of the 14.5% PIKs (highest coupon debt within cap structure) over the coming months (callable at 107.25) via the remaining \$1.1bn and potentially issue new lower coupon (secured or unsecured debt) to call the remaining portion.
- **Updated Estimates & Pro-Forma Capital Structure** — See following page. See [link](#) to our 1Q earnings recap.

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

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Figure 1. FDC Pro-Forma Cap Structure

	3/31/14	Δ	1Q PF	PF Leverage		Bid		Rating
				Gross	Net	Price	YTW	
<b>Debt</b>								
Revolver (L+400bp, \$1.0bn, 09/2016)	326		326					
Term Loan (L+350bp, 03/2017)	1,465		1,465			99.875	4.44%	
Term Loan (L+400bp, 03/2018)	4,679		4,679			100.250	5.20%	
Term Loan (L+400bp, 09/2018)	1,008		1,008			100.250	5.20%	
Ext Term Loan (L+400bp, 03/2021)	1,216		1,216			100.250	6.01%	
7.375% 1st Lien Sec Notes (06/2019)	1,595		1,595			107.500	3.25%	Neutral
8.875% 1st Lien Sec Notes (08/2020)	510		510			110.875	2.96%	Neutral
6.750% 1st Lien Sec Notes (11/2020)	2,150	-753	1,397			107.625	4.54%	Neutral
<b>First Lien Secured Debt</b>	<b>12,949</b>		<b>12,196</b>	<b>4.8x</b>	<b>4.6x</b>			
8.250% 2nd Lien Sec Notes (01/2021)	2,000		2,000			108.875	4.85%	Buy
8.750/10.00% PIK Toggle 2nd Lien Sec Nts (01/2022)	1,000		1,000			109.625	4.98%	Buy
<b>Second Lien Secured Debt</b>	<b>3,000</b>		<b>3,000</b>	<b>6.0x</b>	<b>5.8x</b>			
11.250% Senior Notes (01/2021)	785	-275	510			116.250	5.49%	Buy
12.625% Senior Notes (01/2021)	3,000		3,000			123.250	4.85%	Buy
10.625% Senior Notes (06/2021)	815	-285	530			115.875	5.53%	Buy
Other Senior Debt	238		238					
<b>Senior Unsecured Debt</b>	<b>4,838</b>		<b>4,278</b>	<b>7.7x</b>	<b>7.5x</b>			
11.750% Sr Sub Notes (12/2021)	2,475	-866	1,609			116.000	7.01%	Buy
<b>Total OpCo Debt</b>	<b>23,262</b>		<b>21,083</b>	<b>8.3x</b>	<b>8.1x</b>			
14.500% HoldCo Senior PIK Notes (09/2019)	1,466	-1,000	466			112.375	11.68%	Buy
<b>Total OpCo + HoldCo Debt</b>	<b>24,728</b>	<b>-3,179</b>	<b>21,549</b>	<b>8.5x</b>	<b>8.3x</b>			
5-Year CDS Spread (bp)						320bp		
<b>Liquidity</b>								
Cash	409		409					
Revolver Availability (net of LoC)	0		0					
<b>Total</b>	<b>409</b>		<b>409</b>					

Note: Total debt paydown of \$3.18bn assumes ~\$320mm in fees and premium above par.

Assumes \$1.0bn paydown of HoldCo PIKs (not announced by Company thus far)

Source: Citi Research, Company Filings.

Figure 2. Summary Projections

	Annual				Quarterly						Annual	
	2010A	2011A	2012A	2013A	1Q13A	2Q13A	3Q13A	4Q13A	1Q14A	LTM PF	2014E	2015E
<b>Operating Statistics</b>												
Adj. Revenue	\$6,441	\$6,589	\$6,762	\$6,776	\$1,613	\$1,702	\$1,708	\$1,753	\$1,641	\$6,804	\$6,895	\$7,141
y-o-y change	2.7%	2.3%	2.6%	0.2%	(0.1%)	0.2%	0.8%	0.0%	1.7%		1.8%	3.6%
Adj. EBITDA	2,027	2,249	2,436	2,449	520	633	627	669	614	2,543	2,700	2,847
y-o-y change	(4.2%)	10.9%	8.3%	0.6%	(5.5%)	1.9%	3.1%	2.1%	17.9%		10.2%	5.4%
Margin	31.5%	34.1%	36.0%	36.1%	32.3%	37.2%	36.7%	38.2%	37.4%	37.4%	39.2%	39.9%
<b>Balance Sheet</b>												
Balance Sheet Cash	510	486	608	425	434	363	358	425	409	409	583	667
1st Lien Secured Debt	12,485	12,478	12,592	12,622	12,577	12,586	12,706	12,622	12,949	12,196	11,796	10,970
2nd Lien Secured Debt	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Unsec/Other Debt	7,325	7,296	7,372	7,321	7,345	7,354	7,339	7,321	7,313	5,887	5,887	5,887
Total OpCo Debt	22,810	22,774	22,964	22,943	22,922	22,940	23,045	22,943	23,262	21,083	20,683	19,857
Total HoldCo Debt	1,402	1,567	1,753	1,400	1,854	1,960	1,400	1,400	1,466	466	466	534
<b>Credit Statistics (OpCo)</b>												
					LTM							
Net 1st Lien Debt / EBITDA	5.9x	5.3x	4.9x	5.0x	5.0x	5.1x	5.1x	5.0x	4.9x	4.6x	4.2x	3.6x
Net 2nd Lien Debt / EBITDA	7.4x	6.7x	6.2x	6.2x	6.3x	6.3x	6.3x	6.2x	6.1x	5.8x	5.3x	4.7x
Net Total Debt / EBITDA (OpCo)	11.0x	9.9x	9.2x	9.2x	9.3x	9.3x	9.3x	9.2x	9.0x	8.1x	7.4x	6.7x
Net Total Debt / EBITDA (HoldCo)	11.7x	10.6x	9.9x	9.8x	10.1x	10.2x	9.9x	9.8x	9.6x	8.3x	7.6x	6.9x

PF for \$3.5bn equity placement in July 2014.

Source: Citi Research, Company Filings.

# Appendix A-1

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% of companies in each rating category that are investment banking clients	78%	78%	66%

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)

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