

FIRST DATA CORP
Form 10-Q
August 07, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 001-11073

FIRST DATA CORPORATION
(Exact name of registrant as specified in its charter)
www.firstdata.com

DELAWARE 47-0731996
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)
225 LIBERTY STREET, 29th FLOOR
NEW YORK, NEW YORK 10281
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code (800) 735-3362

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer" "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

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Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at July 31, 2017
Class A Common Stock, \$0.01 par value per share	380,065,237 shares
Class B Common Stock, \$0.01 par value per share	542,917,072 shares

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Unless otherwise indicated or the context otherwise requires, financial data in this Form 10-Q reflects the consolidated business and operations of First Data Corporation and its consolidated subsidiaries. Unless the context otherwise requires, all references herein to “First Data,” “FDC,” the “Company,” “we,” “our,” or “us” refer to First Data Corporation and consolidated subsidiaries.

Amounts in this Form 10-Q and the unaudited consolidated financial statements included in this Form 10-Q are presented in U.S. Dollars rounded to the nearest million, unless otherwise noted.

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Forward-Looking Statements

Certain matters we discuss in this Form 10-Q and in other public statements may constitute forward-looking statements. You can identify forward-looking statements because they contain words such as “believes,” “expects,” “may,” “will,” “should,” “seeks,” “intends,” “plans,” “estimates,” or “anticipates” or similar expressions which concern our strategy, projections or intentions. Examples of forward-looking statements include, but are not limited to, all statements we make relating to revenue, earnings before net interest expense, income taxes, depreciation, and amortization (EBITDA), earnings, margins, growth rates, and other financial results for future periods. By their nature, forward-looking statements speak only as of the date they are made; are not statements of historical fact or guarantees of future performance; and are subject to risks, uncertainties, assumptions or changes in circumstances that are difficult to predict or quantify. Actual results could differ materially and adversely from our forward-looking statements due to a variety of factors, including the following: (1) adverse impacts from global economic, political, and other conditions affecting trends in consumer, business, and government spending; (2) our ability to anticipate and respond to changing industry trends, including technological changes and increasing competition; (3) our ability to successfully renew existing client contracts on favorable terms and obtain new clients; (4) our ability to prevent a material breach of security of any of our systems; (5) our ability to implement and improve processing systems to provide new products, improve functionality, and increase efficiencies; (6) the successful management of our merchant alliance program which involves several alliances not under our sole control and each of which acts independently of the others; (7) our successful management of credit and fraud risks in our business units and merchant alliances, particularly in the context of eCommerce and mobile markets; (8) consolidation among financial institution clients or other client groups that impacts our client relationships; (9) our ability to use our net operating losses without restriction to offset income for US tax purposes; (10) our ability to improve our profitability and maintain flexibility in our capital resources through the implementation of cost savings initiatives; (11) the acquisition or disposition of a material business or assets; (12) our ability to successfully value and integrate acquired businesses; (13) our high degree of leverage; (14) adverse impacts from currency exchange rates or currency controls imposed by any government or otherwise; (15) changes in the interest rate environment that increase interest on our borrowings or the interest rate at which we can refinance our borrowings; (16) the impact of new or changes in current laws, regulations, credit card association rules, or other industry standards; and (17) new lawsuits, investigations, or proceedings, or changes to our potential exposure in connection with pending lawsuits, investigations or proceedings, and various other factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2016, including but not limited to, Item 1 - Business, Item 1A - Risk Factors, and Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations. Except as required by law, we do not intend to revise or update any forward-looking statement as a result of new information, future developments or otherwise.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FIRST DATA CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
(in millions, except per share amounts)	2017	2016	2017	2016
Revenues:				
Transaction and processing service fees ^(a)	\$1,686	\$1,669	\$3,249	\$3,260
Product sales and other ^(a)	349	307	668	586
Total revenues (excluding reimbursable items)	2,035	1,976	3,917	3,846
Reimbursable debit network fees, postage, and other	990	952	1,909	1,859
Total revenues	3,025	2,928	5,826	5,705
Expenses:				
Cost of services (exclusive of items shown below)	691	698	1,391	1,429
Cost of products sold	91	86	171	164
Selling, general, and administrative	518	500	1,043	1,064
Depreciation and amortization	237	238	465	476
Other operating expenses	29	24	51	45
Total expenses (excluding reimbursable items)	1,566	1,546	3,121	3,178
Reimbursable debit network fees, postage, and other	990	952	1,909	1,859
Total expenses	2,556	2,498	5,030	5,037
Operating profit	469	430	796	668
Interest expense, net	(238)	(284)	(472)	(547)
Loss on debt extinguishment	(15)	(9)	(71)	(55)
Other (expense) income	(2)	38	(3)	44
Income before income taxes and equity earnings in affiliates	214	175	250	110
Income tax expense	28	28	40	33
Equity earnings in affiliates	57	68	112	132
Net income	243	215	322	209
Less: Net income attributable to noncontrolling interests and redeemable noncontrolling interest	58	63	101	113
Net income attributable to First Data Corporation	\$185	\$152	\$221	\$96
Net income attributable to First Data Corporation per share:				
Basic	\$0.20	\$0.17	\$0.24	\$0.11
Diluted	\$0.20	\$0.17	\$0.24	\$0.10
Weighted-average common shares outstanding:				
Basic	915	900	913	898
Diluted	938	914	935	916

Includes processing fees, administrative service fees, and other fees charged to merchant alliances accounted for (a) under the equity method of \$54 million and \$106 million for the three and six months ended June 30, 2017, respectively, and \$45 million and \$98 million for the comparable periods in 2016.

See notes to unaudited consolidated financial statements.

FIRST DATA CORPORATION
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 (Unaudited)

(in millions)	Three months ended		Six months ended	
	June 30,	June 30,	June 30,	June 30,
	2017	2016	2017	2016
Net income	\$243	\$215	\$322	\$209
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	18	(41)	108	(105)
Pension liability adjustments	19	—	19	—
Derivative instruments	(2)	—	(1)	—
Total other comprehensive income (loss), net of tax	35	(41)	126	(105)
Comprehensive income	278	174	448	104
Less: Comprehensive income attributable to noncontrolling interests and redeemable noncontrolling interest	62	62	108	114
Comprehensive income (loss) attributable to First Data Corporation	\$216	\$112	\$340	\$(10)

See notes to unaudited consolidated financial statements.

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FIRST DATA CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(in millions)	As of June 30, 2017	As of December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$493	\$ 385
Accounts receivable, net of allowance for doubtful accounts of \$47 and \$74	1,791	1,877
Settlement assets	9,976	14,795
Prepaid expenses and other current assets	317	360
Total current assets	12,577	17,417
Property and equipment, net of accumulated depreciation of \$1,578 and \$1,416	914	883
Goodwill	16,885	16,696
Customer relationships, net of accumulated amortization of \$5,862 and \$5,660	1,593	1,739
Other intangibles, net of accumulated amortization of \$2,530 and \$2,365	1,882	1,800
Investment in affiliates	988	988
Other long-term assets	766	769
Total assets	\$35,605	\$ 40,292
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$1,504	\$ 1,564
Short-term and current portion of long-term borrowings	274	358
Settlement obligations	9,976	14,795
Total current liabilities	11,754	16,717
Long-term borrowings	18,033	18,131
Deferred tax liabilities	409	409
Other long-term liabilities	809	831
Total liabilities	31,005	36,088
Commitments and contingencies (See note 11)		
Redeemable noncontrolling interest	72	73
First Data Corporation stockholders' equity:		
Class A Common stock, \$0.01 par value; 1,600 shares authorized as of June 30, 2017 and December 31, 2016, respectively; 389 shares and 372 shares issued as of June 30, 2017 and December 31, 2016, respectively; and 379 shares and 367 shares outstanding as of June 30, 2017 and December 31, 2016, respectively	4	4
Class B Common stock, \$0.01 par value; 625 shares authorized as of June 30, 2017 and December 31, 2016, respectively; 543 shares and 544 shares issued and outstanding as of June 30, 2017 and December 31, 2016	5	5
Preferred stock, \$0.01 par value; 100 shares authorized as of June 30, 2017 and December 31, 2016, respectively; no shares issued and outstanding as of June 30, 2017 and December 31, 2016, respectively	—	—
Class A Treasury stock, at cost, 10 shares and 5 shares as of June 30, 2017 and December 31, 2016, respectively	(138)	(61)
Additional paid-in capital	13,362	13,210
Accumulated loss	(10,391)	(10,612)
Accumulated other comprehensive loss	(1,207)	(1,326)

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Total First Data Corporation stockholders' equity	1,635	1,220
Noncontrolling interests	2,893	2,911
Total equity	4,528	4,131
Total liabilities and equity	\$35,605	\$ 40,292

See notes to unaudited consolidated financial statements.

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FIRST DATA CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six months ended June 30,	
(in millions)	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$322	\$209
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization (including amortization netted against equity earnings in affiliates and revenues)	526	528
Charges related to other operating expenses and other income	54	1
Loss on debt extinguishment	71	55
Stock-based compensation expense	121	171
Other non-cash and non-operating items, net	4	(5)
Increase (decrease) in cash, excluding the effects of acquisitions and dispositions, resulting from changes in:		
Accounts receivable, current and long-term	110	59
Other assets, current and long-term	(19)	(8)
Accounts payable and other liabilities, current and long-term	(165)	(77)
Income tax accounts	(23)	(25)
Net cash provided by operating activities	1,001	908
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	(123)	(113)
Payments to secure customer service contracts, including outlays for conversion, and capitalized systems development costs	(133)	(119)
Acquisitions, net of cash acquired	(85)	(6)
Proceeds from Visa Europe share sale	—	27
Proceeds from the maturity of net investment hedges	90	—
Other investing activities, net	12	1
Net cash used in investing activities	(239)	(210)
CASH FLOWS FROM FINANCING ACTIVITIES		
Short-term borrowings, net	(160)	196
Proceeds from issuance of long-term debt	3,548	2,377
Payment of call premiums and debt issuance cost	(63)	(52)
Principal payments on long-term debt	(3,811)	(3,163)
Payment of taxes related to settlement of equity awards	(83)	(59)
Distributions and dividends paid to noncontrolling interests and redeemable noncontrolling interest	(126)	(157)
Other financing activities, net	33	35
Net cash used in financing activities	(662)	(823)
Effect of exchange rate changes on cash and cash equivalents	8	(22)
Change in cash and cash equivalents	108	(147)
Cash and cash equivalents at beginning of period	385	429
Cash and cash equivalents at end of period	\$493	\$282
NON-CASH TRANSACTIONS		
Capital leases, net of trade-ins	\$50	\$67

Other financing arrangements

\$103 \$22

See notes to unaudited consolidated financial statements.

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FIRST DATA CORPORATION
CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited)

(in millions)	First Data Corporation Stockholders						Accumulated Loss	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total	
	Common Stock		Treasury Stock		Additional Paid-In Capital						
	Class A	Class B	Class A	Class A							
Shares	Amount	Shares	Amount	Shares	Amount						
Balance, December 31, 2016	367	\$ 4	544	\$ 5	5	\$ (61)	\$ 13,210	\$ (10,612)	\$ (1,326)	\$ 2,911	\$ 4,131
Dividends and distributions paid to noncontrolling interests ^(a)	—	—	—	—	—	—	—	—	—	(110)	(110)
Net income ^(b)	—	—	—	—	—	—	221	—	—	85	306
Other comprehensive income	—	—	—	—	—	—	—	—	119	7	126
Adjustment to redemption value of redeemable noncontrolling interest	—	—	—	—	—	1	—	—	—	—	1
Stock compensation expense	—	—	—	—	—	121	—	—	—	—	—