

FIRST DATA CORP
Form 10-Q
May 01, 2018

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 March 31, 2018

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 Smaller reporting company

Non-accelerated filer (Do not check if a 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 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

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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 March 31, 2018
Class A Common Stock, \$0.01 par value per share	485,170,696 shares
Class B Common Stock, \$0.01 par value per share	443,844,872 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, 2017, 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	
	March 31,	
(in millions, except per share amounts)	2018	2017
Revenues:		
Revenues excluding reimbursable items ^(a)	\$2,084	\$1,882
Reimbursable items	198	919
Total revenues	2,282	2,801
Expenses:		
Cost of revenues (exclusive of items shown below)	779	781
Selling, general, and administrative	647	525
Depreciation and amortization	250	228
Other operating expenses	60	22
Total expenses excluding reimbursable items	1,736	1,556
Reimbursable items	198	919
Total expenses	1,934	2,475
Operating profit	348	326
Interest expense, net	(233)	(233)
Loss on debt extinguishment	—	(56)
Other expense	(3)	(1)
Income before income taxes and equity earnings in affiliates	112	36
Income tax expense	27	12
Equity earnings in affiliates	49	55
Net income	134	79
Less: Net income attributable to noncontrolling interests and redeemable noncontrolling interest	33	43
Net income attributable to First Data Corporation	\$101	\$36
Net income attributable to First Data Corporation per share:		
Basic	\$0.11	\$0.04
Diluted	\$0.11	\$0.04
Weighted-average common shares outstanding:		
Basic	923	910
Diluted	946	931

Includes processing fees, administrative service fees, and other fees charged to merchant alliances accounted for (a) under the equity method of \$51 million and \$52 million for the three months ended March 31, 2018 and 2017, respectively.

The 2018 results include the impact of adopting ASC 606 and ASC 340-40 (collectively, the New Revenue Standard). Refer to note 1 "Basis of Presentation and Summary of Significant Accounting Policies" to the Company's unaudited consolidated financial statements included in Part I, Item 1 of this Form 10-Q for more information.

See notes to unaudited consolidated financial statements.

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FIRST DATA CORPORATION
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Unaudited)

	Three months ended	
(in millions)	March 31, 2018	March 31, 2017
Net income	\$134	\$79
Other comprehensive income, net of tax:		
Foreign currency translation adjustment	90	90
Derivative instruments	9	1
Total other comprehensive income, net of tax	99	91
Comprehensive income	233	170
Less: Comprehensive income attributable to noncontrolling interests and redeemable noncontrolling interest	37	46
Comprehensive income attributable to First Data Corporation	\$196	\$124

See notes to unaudited consolidated financial statements.

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FIRST DATA CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(in millions, except par value)	As of March 31, 2018	As of December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 586	\$ 498
Accounts receivable, net of allowance for doubtful accounts of \$48 and \$45	2,062	2,176
Settlement assets	17,547	20,363
Prepaid expenses and other current assets	295	335
Total current assets	20,490	23,372
Property and equipment, net of accumulated depreciation of \$1,617 and \$1,588	951	951
Goodwill	17,774	17,710
Customer relationships, net of accumulated amortization of \$5,378 and \$5,940	2,096	2,184
Other intangibles, net of accumulated amortization of \$2,250 and \$2,665	1,936	1,935
Investment in affiliates	1,067	1,054
Other long-term assets	1,101	1,063
Total assets	\$ 45,415	\$ 48,269
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,578	\$ 1,659
Short-term and current portion of long-term borrowings	1,104	1,271
Settlement obligations	17,547	20,363
Total current liabilities	20,229	23,293
Long-term borrowings	17,908	17,927
Deferred tax liabilities	83	77
Other long-term liabilities	905	886
Total liabilities	39,125	42,183
Commitments and contingencies (See note 12)		
Redeemable noncontrolling interest	78	72
First Data Corporation stockholders' equity:		
Class A Common stock, \$0.01 par value; 1,600 shares authorized as of March 31, 2018 and December 31, 2017, respectively; 498 shares and 492 shares issued as of March 31, 2018 and December 31, 2017, respectively; and 485 shares and 482 shares outstanding as of March 31, 2018 and December 31, 2017, respectively	5	5
Class B Common stock, \$0.01 par value; 523 shares authorized as of March 31, 2018 and December 31, 2017, respectively; 444 shares and 443 shares issued and outstanding as of March 31, 2018 and December 31, 2017	4	4
Preferred stock, \$0.01 par value; 100 shares authorized as of March 31, 2018 and December 31, 2017, respectively; no shares issued and outstanding as of March 31, 2018 and December 31, 2017, respectively	—	—
Class A Treasury stock, at cost, 14 shares and 11 shares as of March 31, 2018 and December 31, 2017, respectively	(202) (149
Additional paid-in capital	13,578	13,495
Accumulated loss	(8,971) (9,059
Accumulated other comprehensive loss	(1,049) (1,144

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Total First Data Corporation stockholders' equity	3,365	3,152
Noncontrolling interests	2,847	2,862
Total equity	6,212	6,014
Total liabilities and equity	\$45,415	\$ 48,269

See notes to unaudited consolidated financial statements.

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FIRST DATA CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three months ended March 31,	
(in millions)	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 134	\$ 79
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization (including amortization netted against equity earnings in affiliates and revenues)	271	258
Deferred income taxes	1	15
Charges related to other operating expenses and other income	63	23
Loss on debt extinguishment	—	56
Stock-based compensation expense	74	65
Other non-cash and non-operating items, net	3	9
Increase (decrease) in cash, excluding the effects of acquisitions and dispositions, resulting from changes in:		
Accounts receivable, current and long-term	136	136
Other assets, current and long-term	(14)	(26)
Accounts payable and other liabilities, current and long-term	(128)	(170)
Income tax accounts	(6)	(24)
Net cash provided by operating activities	534	421
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	(70)	(58)
Payments to secure customer service contracts, including outlays for conversion, and capitalized systems development costs	(69)	(59)
Acquisitions, net of cash acquired	(17)	—
Purchase of investments	(12)	—
Proceeds from the maturity of net investment hedges	26	—
Other investing activities, net	(1)	1
Net cash used in investing activities	(143)	(116)
CASH FLOWS FROM FINANCING ACTIVITIES		
Short-term borrowings, net	(153)	119
Proceeds from issuance of long-term debt	—	1,300
Payment of call premiums and debt issuance cost	—	(57)
Principal payments on long-term debt	(53)	(1,456)
Payment of taxes related to settlement of equity awards	(56)	(60)
Distributions and dividends paid to noncontrolling interests and redeemable noncontrolling interest	(52)	(43)
Other financing activities, net	10	10
Net cash used in financing activities	(304)	(187)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	3	—
Change in cash, cash equivalents and restricted cash	90	118
Cash, cash equivalents and restricted cash at beginning of period	525	414
Cash, cash equivalents and restricted cash at end of period	\$ 615	\$ 532
NON-CASH TRANSACTIONS		

Capital leases, net of trade-ins	\$15	\$54
Other financing arrangements	\$—	