

## Equity Research

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## Financials

### First Data Corporation

#### Downgrading to Neutral (from Buy) As Accretion from FIS Transaction Largely Reflected in FDC Share Price

We are downgrading First Data Corporation (FDC) to Neutral (from Buy) and removing our price target of \$28 as we believe the accretion from the company's agreement announced January 16 to be acquired by Fiserv (FIS, Not Rated) in an all-stock deal is now largely reflected in its share price. Moreover, we do not expect FDC to attract additional bidders and expect that the deal to create the world's largest payment processor should close as scheduled in 2H19.

- ▶ Shares of FDC have rallied by more than 43% since the company announced its agreement to have its shareholders receive 0.303 new FIS share for each share of FDC. At the time that equated to \$22bn of implied equity value, or \$22.74 per share. The companies stated that the deal would be accretive to FIS's adjusted earnings per share by more than 20% in the first full year following its close.
- ▶ The 4Q18 results and FY19 guidance that FDC reported yesterday were in line with the company's January 16 preannouncement. The company's 4Q18 adjusted EPS of \$0.38 matched management's preliminary expectation, as did its total segment revenue of \$2.185bn, which was up 6% on an organic, FX-neutral basis.
- ▶ FDC guided to FY19 adjusted EPS in a range of \$1.55 to \$1.58, which was consistent with management's preannouncement of adjusted EPS growth in the low double digits, and it reaffirmed its preannounced guidance of FY19 total segment revenue growth of 5% to 6% on an organic, FX-neutral basis.
- ▶ FDC's North America Global Business Solutions (GBS) unit – the segment of the company that comes under the most scrutiny by investors given its ongoing turnaround – posted 4Q18 revenue of \$1.1bn, up a healthy 5% on an organic, FX-neutral basis despite what management described as a “modest decline” in its bank JV channel.
- ▶ **Valuation:** Based on our valuation for FDC, we believe the company's shares will trade within +/- 15% from current levels over the next 12 months. BTIG does not assign price targets to Neutral-rated stocks.

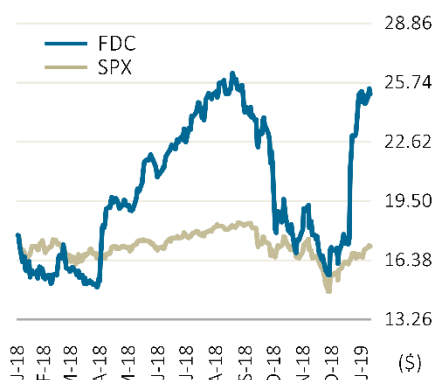
FDC \$25.15

### NEUTRAL

52 week range \$14.99 - \$26.24

Market Cap (m) \$24,270

#### Price Performance



Source: IDC

## Estimates

	1Q18 A	2Q18 A	3Q18 A	4Q18 A	FY18 A	1Q19 E	2Q19 E	3Q19 E	4Q19 E	FY19 E	FY20 E
EBITDA (Adj.)	730	864	815	855	3,324	776	930	911	1,071	3,688	3,889
Diluted EPS (Adj.)	0.29	0.39	0.35	0.38	1.48	0.34	0.44	0.43	0.53	1.74	2.00

Source: BTIG Estimates and Company Documents (\$ in millions, except per share amount)

Please Read: Important disclosures and analyst's certification appear in Appendix

## Income Statement

First Data - Operating Model	Dec-15	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Dec-19	Dec-20
\$ millions	2015A	2016A	1Q17A	2Q17A	3Q17A	4Q17A	2017A	1Q18A	2Q18A	3Q18A	4Q18A	2018A	1Q19E	2Q19E	3Q19E	4Q19E	2019E	2020E
<b>Total revenues (excluding reimbursable items)</b>	<b>7,764</b>	<b>7,839</b>	<b>1,882</b>	<b>2,035</b>	<b>2,081</b>	<b>2,131</b>	<b>8,129</b>	<b>2,084</b>	<b>2,244</b>	<b>2,158</b>	<b>2,193</b>	<b>8,679</b>	<b>2,183</b>	<b>2,328</b>	<b>2,277</b>	<b>2,352</b>	<b>9,140</b>	<b>9,596</b>
Cost of services	2,891	2,855	700	691	698	674	2,763	779	751	741	734	3,005	805	791	764	714	3,074	3,227
Cost of products sold	357	337	80	91	96	92	359	-	-	-	-	-	-	-	-	-	-	-
Selling, general and administrative	2,271	2,035	525	518	564	571	2,178	647	683	665	656	2,651	672	662	657	618	2,610	2,731
Depreciation and amortization	1,022	949	228	237	248	259	972	250	255	248	256	1,009	255	260	253	261	1,029	1,050
Restructuring	53	61	22	29	57	35	143	-	17	29	13	59	-	-	-	-	-	-
<b>Total expenses (excluding reimbursable items)</b>	<b>6,594</b>	<b>6,237</b>	<b>1,555</b>	<b>1,566</b>	<b>1,663</b>	<b>1,631</b>	<b>6,415</b>	<b>1,736</b>	<b>1,706</b>	<b>1,683</b>	<b>1,659</b>	<b>6,724</b>	<b>1,732</b>	<b>1,713</b>	<b>1,673</b>	<b>1,594</b>	<b>6,713</b>	<b>7,007</b>
<b>Operating Profit</b>	<b>1,170</b>	<b>1,602</b>	<b>327</b>	<b>469</b>	<b>418</b>	<b>500</b>	<b>1,714</b>	<b>348</b>	<b>538</b>	<b>475</b>	<b>534</b>	<b>1,955</b>	<b>451</b>	<b>615</b>	<b>603</b>	<b>758</b>	<b>2,427</b>	<b>2,589</b>
<b>Adjusted EBITDA</b>	<b>2,731</b>	<b>2,892</b>	<b>651</b>	<b>786</b>	<b>787</b>	<b>848</b>	<b>3,072</b>	<b>730</b>	<b>864</b>	<b>815</b>	<b>855</b>	<b>3,324</b>	<b>776</b>	<b>930</b>	<b>911</b>	<b>1,071</b>	<b>3,688</b>	<b>3,889</b>
Interest expense	(1,540)	(1,068)	(234)	(238)	(234)	(231)	(937)	(233)	(234)	(231)	(219)	(917)	(205)	(200)	(196)	(192)	(793)	(724)
Loss on debt extinguishment	(1,068)	(70)	(56)	(15)	(1)	(8)	(80)	-	(1)	(2)	(150)	(153)	-	-	-	-	-	-
Other income (expense)	29	17	(1)	(2)	(4)	23	16	(3)	2	202	-	201	-	-	-	-	-	-
<b>Loss before income taxes and equity earnings in affiliates</b>	<b>(1,406)</b>	<b>481</b>	<b>36</b>	<b>214</b>	<b>179</b>	<b>284</b>	<b>713</b>	<b>112</b>	<b>305</b>	<b>444</b>	<b>165</b>	<b>1,086</b>	<b>246</b>	<b>415</b>	<b>407</b>	<b>566</b>	<b>1,633</b>	<b>1,866</b>
Income tax expense (benefit)	101	81	12	28	(106)	(663)	(729)	27	(37)	54	5	49	68	114	112	156	449	504
Equity earnings in affiliates	239	260	55	57	55	55	222	49	60	58	54	221	55	55	55	55	218	220
<b>Net income (loss)</b>	<b>(1,268)</b>	<b>660</b>	<b>79</b>	<b>243</b>	<b>340</b>	<b>1,002</b>	<b>1,664</b>	<b>134</b>	<b>402</b>	<b>448</b>	<b>214</b>	<b>1,258</b>	<b>233</b>	<b>355</b>	<b>350</b>	<b>465</b>	<b>1,402</b>	<b>1,582</b>
Less: net income attributable to noncontrolling interests	213	240	43	58	44	54	199	33	61	47	52	193	60	60	60	60	240	227
<b>Net income (loss) attributable to first data corporation</b>	<b>(1,481)</b>	<b>420</b>	<b>36</b>	<b>185</b>	<b>296</b>	<b>948</b>	<b>1,465</b>	<b>101</b>	<b>341</b>	<b>401</b>	<b>162</b>	<b>1,065</b>	<b>173</b>	<b>295</b>	<b>290</b>	<b>405</b>	<b>1,162</b>	<b>1,355</b>
<b>Diluted EPS - Adjusted</b>	<b>\$0.74</b>	<b>\$1.32</b>	<b>\$0.28</b>	<b>\$0.40</b>	<b>\$0.40</b>	<b>\$0.44</b>	<b>\$1.52</b>	<b>\$0.29</b>	<b>\$0.39</b>	<b>\$0.35</b>	<b>\$0.38</b>	<b>\$1.48</b>	<b>\$0.34</b>	<b>\$0.44</b>	<b>\$0.43</b>	<b>\$0.53</b>	<b>\$1.74</b>	<b>\$2.00</b>
Diluted shares outstanding	920.9	921.4	931.0	938.0	944.0	945.0	939.5	946.0	954.0	965.0	961.0	956.5	968.2	973.0	977.9	982.8	975.5	970.6
<b>Net income (loss) attributable to first data corporation</b>	<b>(1,481.0)</b>	<b>420.0</b>	<b>36.0</b>	<b>185.0</b>	<b>296.0</b>	<b>948.0</b>	<b>1,465.0</b>	<b>101.0</b>	<b>341.0</b>	<b>401.0</b>	<b>162.0</b>	<b>1,065.0</b>	<b>172.9</b>	<b>295.1</b>	<b>289.6</b>	<b>404.7</b>	<b>1,162.3</b>	<b>1,355.2</b>
Adjustments for non-wholly-owned entities	(26.0)	(30.0)	(6.0)	(6.0)	(9.0)	(9.0)	(30.0)	(18.0)	(4.0)	(7.0)	(6.0)	(35.0)	-	-	-	-	-	-
Depreciation and amortization	1,022.0	949.0	228.0	237.0	248.0	259.0	972.0	250.0	255.0	248.0	256.0	1,009.0	255.0	260.1	253.0	261.1	1,029.2	1,049.8
Interest expense	1,540.0	1,068.0	234.0	238.0	234.0	231.0	937.0	233.0	234.0	231.0	219.0	917.0	204.6	200.5	196.3	192.1	793.5	723.7
Loss on debt extinguishment	1,068.0	70.0	56.0	15.0	1.0	8.0	80.0	-	1.0	2.0	150.0	153.0	-	-	-	-	-	-
Other items	71.0	71.0	26.0	33.0	61.0	12.0	132.0	63.0	15.0	(173.0)	13.0	(82.0)	-	-	-	-	-	-
Income tax benefit (income)	101.0	81.0	12.0	28.0	(106.0)	(663.0)	(729.0)	27.0	(37.0)	54.0	5.0	49.0	67.7	114.0	111.9	155.6	449.2	503.7
Stock based compensation	330.0	263.0	65.0	56.0	62.0	62.0	245.0	74.0	59.0	59.0	56.0	248.0	75.9	60.5	60.5	57.4	254.2	256.7
<b>Adjusted EBITDA</b>	<b>2,731.0</b>	<b>2,892.0</b>	<b>651.0</b>	<b>786.0</b>	<b>787.0</b>	<b>848.0</b>	<b>3,072.0</b>	<b>730.0</b>	<b>864.0</b>	<b>815.0</b>	<b>855.0</b>	<b>3,324.0</b>	<b>776.0</b>	<b>930.2</b>	<b>911.2</b>	<b>1,071.0</b>	<b>3,688.4</b>	<b>3,889.1</b>
Tax rate	-7.2%	16.8%	33.3%	13.1%	-59.2%	-233.5%	-102.2%	24.1%	-12.1%	12.2%	3.0%	4.5%	27.5%	27.5%	27.5%	27.5%	27.5%	27.0%
Average cost of debt	7.8%	5.8%	5.0%	5.2%	5.0%	4.8%	4.9%	4.9%	5.0%	5.2%	5.0%	5.3%	4.8%	4.8%	4.8%	4.8%	5.0%	5.0%
Revenue growth	2.9%	1.0%	0.6%	3.0%	4.1%	6.9%	3.7%	10.7%	10.3%	3.7%	2.9%	6.8%	4.8%	3.8%	5.5%	7.3%	5.3%	5.0%
Adjusted EBITDA growth	0.8%	5.9%	2.4%	5.4%	6.5%	10.0%	6.2%	12.1%	9.9%	3.6%	0.8%	8.2%	6.3%	7.7%	11.8%	25.3%	11.0%	5.4%
Adjusted EBITDA margin	35.2%	36.9%	34.6%	38.6%	37.8%	39.8%	37.8%	35.0%	38.5%	37.8%	39.0%	38.3%	35.5%	40.0%	40.0%	45.5%	40.4%	40.5%

Source: BTIG Estimates and Company Reports

## BTIG Covered Companies Mentioned in this Report

FIRST DATA CORPORATION (FDC, Neutral, \$N/A PT; Current Price: \$25.15; Analyst: Mark.Palmer)

## Appendix: Analyst Certification and Other Important Disclosures

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I, Mark Palmer, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

I, Giuliano Bologna, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

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#### First Data Corporation (FDC, Neutral)

**Valuation:** Based on our valuation for FDC, we believe the company's shares will trade within +/- 15% from current levels over the next 12 months. BTIG does not assign price targets to Neutral-rated stocks.

**Risks:** The primary risks to our thesis include: Competition, significant leverage and interest rate risks, the overhang associated with majority ownership, chargeback liability, security breaches, foreign exchange risks, consolidation of card-issuing banks, risks associated with the pending merger.

**First Data Corporation (FDC)**



*Note: Closing Price and Target Price have been adjusted for corporate actions.*

Date	Closing Price (\$)	Target Price (\$)	Analyst	Rating
17-Nov-15	16.82	NA	Mark Palmer	Neutral
10-Feb-16	9.35	13	Mark Palmer	Buy
07-Mar-16	13.34	NA	Mark Palmer	Neutral
01-Aug-16	13.02	15	Mark Palmer	Buy
17-Nov-16	15.40	18	Mark Palmer	Buy
19-Jun-17	18.44	23	Mark Palmer	Buy
14-Jun-18	21.61	27	Mark Palmer	Buy
30-Jul-18	23.34	28	Mark Palmer	Buy

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