Michael Capellas Presentation Transcript

Michael Capellas: Introduction…a little bit about our technology. I will stay particularly out of the prepaid space, which Mark Herrington, of course, will cover. I will stay mostly out of the mobility space; let Barry McCarthy cover that as our domain expert. I'll try not to give their presentations for them and I will go from there.

Feel free to ask a question or throw in an opinion. I always think that one of the values that we can provide for you is that you can learn as much from each other and the interaction as you would ever from us. I mean, feel free to join as you like.

Economy: In the most obvious statement, I shall say it's not good. I do think that when you really get to the root cause of why we're here and how we got here it's a pretty simple function, this is consumer led and despite all the rest that you have about it, this is about over-leverage of the U.S. consumer.

The average U.S. consumer right now, for every man, woman and child in the U.S., has $46,000 of personal debt and another $35,000 worth of long-term debt. It is a leverage mess that has been created by years of over consumption, over spending, over borrowing and there is only one way that this economy changes and that is for the U.S. consumer to personally delever.

If you look at the rank of how much debt there is in the U.S., we currently have $15 trillion in debt. That's $11 trillion of home mortgages and $4 trillion of other personal debt and consumption. That number has to come down by $3 or $4 trillion for there to be any stability in the U.S. market or housing prices to restart the economy. So the stimulus package aside, interesting; government policy aside, interesting; but at the end of the day personal debt has to drive down.

In 2007**,** the savings rate in the United States per capita, how much of your available personal income saved, was half a percent, 0.5 percent. That number has to go to between 2 and 4 percent for there to be any sustainable U.S. base. And so you think about it, that costs us 1.5 to 2.5 points of GDP for the next three years. That has to change.

The U.S. financial system and the banking industry cannot be allowed to sort of have a let's see what happens next and we'll adjust to it at that time. We have failed to adequately address a national policy about the stability. And I will give the government a lot of credit. To those of you who would like to not feel good about Hank Paulson, that's fine. But I am glad as hell he was there at the time because the one thing that's easy to do is to criticize after a crisis. We came within 24 hours of shutting the U.S. markets down twice and so at least there was stability.

I do believe that you'll end up with the four key leading banks creating the four pillars. Government will ensure its deposits. They will not be allowed to fail at any cost. And the question is do they become nationalized or not nationalized. I don't think it matters. Of course, I'm not a bondholder either but other than that… But I think the point about, will the financial system keep liquidity, will funds flow, I think that's actually solved. It may get solved by nationalization, it may get solved by a little recovery, it may get solved by a combination of the two; but I don't think it's about the banking system right now.

Outside the U.S., far more dire, which is not understood. The banks of traditional Western Europe are actually leveraged about 40 to 50 percent more than the leverage ratios of U.S. banks. You're seeing it with Royal Bank of Scotland, Lloyd's, Barclays, etcetera, etcetera. They're as deeply problematic. Outside the U.S. the banking industry will be nationalized.

There was this theorem that this is not global, there are points of separation and everybody showed all these charts about how China was continuing to be sustained while the U.S. was continuing to decline. I sort of really chuckled at that one. It was about 90 days before and if you look at the relative change in GDP and growth, even unemployment in emerging markets, particularly China/India versus the U.S., you will now see that those curves are exactly on top of each other.

The issue in India and China are far more serious in its long-term consequences. We will see unemployment rates of between eight and ten percent in China and the ability of the social systems to adjust to that is quite different than they are here. So a longer-term question is social structure in China.

That paints a pretty grim picture. I do expect GDP in the U.S. to reach as bad as minus four percent, maybe worse in the first quarter. I do expect unemployment to reach 9.5, maybe worse to 10 percent in the first quarter. I think it continues to slide through the second quarter and I think it is carried through the rest of the world.

So that's a pretty grim picture. That's the bad news.

Now here's the good news: There is a debate about whether this will be an L, a U or a V, the L being -- by the way if you put those together they spell LUV. I can't spell either. So the L assumes that you drop to the bottom which is negative GDP in the U.S., you stabilize the best case scenario of zero growth in the fourth quarter and you maintain there for three years. My personal belief, I put probability of that at less than ten percent; don't think it happens.

The second one is that you have a U, which is called equal angles on the economic curves. And there have been four major recessions since 1929, each of them has had a U shaped curve, with an average duration of 16 months. The U says as you come into a curve, you come down, you come back out of it and its equal angles. The angle of the curve going down is equal to the angle of the curve coming up and you stay at the bottom for a relatively short time. That's the consensus. I think that is unlikely.

The third one is a V, which means that you ratchet dramatically to the bottom and then you ratchet dramatically back up. That to me is the most likely scenario. It is shared by myself and two other people who have been more public relative to economic development. What that says is you're going to slide very, very fast.

First empirical piece of evidence: If anybody doesn't believe we're sliding at a V curve, General Motors this morning, Bank of America, etcetera, etcetera. We are sliding at a very fast curve. That's good news.

The second thing that's absolutely fascinating is that with all the noise and the politicians, all this sort of stuff the stimulus package, the U.S. consumer, as they normally do, have decided to take the bull by the horns and solve the problem themselves. U.S. consumer behavior has been incredibly dramatic. Personal spending has dropped off, as you probably saw. Consumer spending is down at a completely normalized rate of minus five percent. That has never happened in the history of consumption. So we actually have negative consumption, have had it through realistically with the time lag of the numbers, probably the last five months. Personal savings in the U.S. went from minus to 0.5 in 2007 to 1.8 in 2008 and why it went to 1.8 in 2008 is because we're at 2.8 percent in November and 3.6 percent in December. So personal savings rates have risen at a 7X rate.

The consumer is buying less, saving more, delevering. So that is creating the consumer side, the consumer will delever very fast.

Point two and what I think is somewhat missed, let's not forget it was an average rate of $1 trillion of transfer with over-inflated oil prices. There is about a trillion dollars, actually about $700 billion of pure cash flow that comes into U.S. consumers based on the fact that oil prices are lower. If I had to model oil prices going out 18 months, I'd say on average that it is $40 to $45. So that is a second lever.

The third big lever is what I call supply side. There are virtually no inventories of anything. Housing starts have declined to the lowest levels in 37 years. The housing market will correct itself with supply going down. Ultimately demand will level off as the consumer delevers and that will solve the housing problem. Adam Smith was right. All the rest of this housing stuff is sort of nonsense. It's supply and demand. As there's less supply, demand will ultimately normalize. Demand will come up as the consumer delevers. That will cause the housing market and prices to firm. In the interim, we'll probably write off $1.5 trillion of home mortgages, much of which is already baked into the system.

Personal bankruptcies and small business failures will be the short-term pain. That is because there is simply no credit in the market. So that will actually take another bit of the supply side out.

The factors you have working for you are the delevering of the consumer, the supply side constraining inventories which is almost up baked into the system, the slowing housing markets and then the ultimate recovery. If you believe that the $800 billion, $818 billion to be precise, that the government has just said will go into the market, goes somewhere, I don't know where it goes but it goes somewhere, you will have as the economy is already starting to correct itself an incredible flush of liquidity into the market. That will cause the V to kick back up and that's the theory of the V. Consumer behavior already happening, supply side we are probably already ten months into what has normally been a 16 month cycle. I don't believe this one's going to be 16 months. But that is going to cause a wicked flop on the other side.

So I am actually a proponent of the V shaped curve. By the way, nobody really knows. So I will pause for a moment and see if anybody would like to add any comments to that or a question. Yes, sir?

Analyst Question: Isn't there a huge backlog of unsold and uninhabited homes?

Michael Capellas: Yes. There is a 11.5 month supply on hand. We should be operating at four months so we're two to three times the available market. Disproportionately on two areas, very low, very high, not much in the middle. When I said there has been a massive write off which is already baked into the system, some of that will simply never come to fruition. It will just go away. The secondary piece is the look at the housing starts. They have fallen just off the end. So it will take some time to burn down but if the consumer really is delevering and prices go low enough and mortgage money is free enough, that will cause that to start to pick up.

I don't think it has to get healthy. I don't think we have to get to four months of inventory for the economy to recover. I think you have to burn it out and start to tick up and that will start to tick up, particularly with mortgage money.

The inventory will burn quicker than you think and the absolute number of houses is less relevant, as long as there continues to be some upward movement. The only bad part is that the pain will not be proportionate. Some areas will just get hammered. So the recovery will come to those places that didn't dramatically overbuild. If you're sitting with sort of a completely inflated home in Las Vegas, Detroit, Los Angeles, you're not going to see it for a while. But on balance that is not that bad of a supply and the build side has been driven down so low, we're building nothing. I think that will cause it not to be a huge drag on the upside. It's a drag, but I don't think it's as bad as people think.

Analyst Question: Very simple question: What's the game plan for First Data to take advantage of this scenario?

Michael Capellas: What a beautiful segue. I'll leave you with one more thought and then I'll go into what this means to First Data. There's another letter in the alphabet which is the one that I really worry about. L might work, U might work, V might work. What I'm really worried about is a W. I'm afraid of the W a lot. The W says we will ratchet down very sharp, we will ratchet up very sharp.

There is only one thing we can all agree on: What happens as we rise up, which is hyperinflation. So you go down and that's why I really worry from an economic point of view with the amount of stimulus money that's pumping in, it will cause hyperinflation. And if you hyperinflate on the way up, guess what's going to happen? Straight back down.

And so I think where we really are going to need the Fed, at the end of the day. Stimulus packages rarely work although I don't have a better idea. If I was a policymaker, you can't do anything. It's easy to sit back and say, "I don't like this, that or the other thing." But the Fed is going to have to be really, really smart about how they control the supply coming out of it to make sure we don't end up with hyperinflation and I actually think the upside inflation -- we'll come out of this. These cycles always end. But I really worry about hyperinflation coming out. So I think that's something to watch.

That is the economy. What does it mean to us? Well, you know the business we're in. We're in the business. We have two big sets of customers. We have retailers, merchants of all way, shapes and form and we have large financial institutions. So great, your customers are retailers and big banks. Hmm…problem. What we have seen so far is that if you look at our mix of transaction forms, we have held through this thing incredibly well. We have gained a boatload of market share. And the reason is that we are disproportionately established in that 50 percent of our transaction base comes from quick service restaurants, grocery or petroleum, we get paid on the click, we have an incredible solid model. So at 50 percent of the base, whether you go fill up three times at $10 a piece or $30, I'd rather have you do three $10s. People still buy groceries. Quick service restaurants are on fire. So people actually still go out to dinner but they go to McDonald's or your QSR of choice. So those parts of the business have been incredibly resilient to us.

The second piece is people are spending less. The actual trend for using electronic payments versus cash has not slowed. Are you going to use your debit card instead of your credit card? Sure. But at the end of the day it's an electronic payment. And so the growth is sustainable, the secular trend in the industry hasn't changed much.

The third one sort of goes if you've got a good base, the second one is that it is still an electronic payment, we are expanding internationally quite strongly. International will be 20 to 25 percent of our base and there's still some pockets of sustainability outside the U.S.

You take those sort of three pieces and then you get into what do we do. Well, we do merchant acquiring, small, medium and large. We have a huge, huge position with -- depending what term you want to use -- discounters, big box, all the guys that you know are the large players who have taken a boatload of market share. We actually have the ability to sit down from a sustainable point of view with our intelligence systems and sort of say, "If I wanted to know what were sales of pizzas in Boston in pizza parlors," I couldn't tell you pizzas, I could tell you pizza parlors in Boston this year versus last year, I could tell you.

So as we've watched this trend, the mega shift of the retail spend and where the retailers are spending money towards the big box discounters is enormous. So it is quite public that companies like Wal-Mart, SAM'S Club and Costco are First Data clients. We do more and more for them. For those customers they're gaining a disproportionate share of the consumer spend and we are getting a far bigger share of their wallet. For example, for Wal-Mart about a year ago we used some of our intelligence analytics. You could walk into a Wal-Mart store, you hand the check to the cashier. They scan it, we do an analytics check on it. We validate the credit worthiness of the check. The teller will then turn back and hand the check back to the customer. We assume 100 percent of the risk of that check, an enormous cost savings for Wal-Mart because they don't have to handle the check. Their credit loss was dropped by half I believe and their administration bill is dramatically low and their cash flow improves.

It's a great business for us because obviously we get a percentage of the transaction and we have the intelligence of the check clearing through our TeleCheck business. We have been able to use that real time authorization and real time analytics engine to immediately validate the credit.

Here's a case of the downturn really working to our advantage. We gain a bigger share of the volume because the consumers have moved to discounters and we have the opportunity as each of these are looking at new forms of customers to use our intelligent customer base to actually create a new service.

That has been for us the stability point through that. We've held in there pretty well. I'm not predicting the future and I'm not predicting financial projections because that is illegal but -- there's not supposed to be a but after illegal -- that's an example of how we're doing it.

Strategy number one: Leverage the customer base and change the view of the company from a processor which we will still do to a risk manager. Risk management, this is the ah duh. So if you had to say the one thing -- if one was really analytical and thought deeply, they would come to the conclusion that the risk management was not our finest last two years in the U.S. economy. And so everything we're saying is to take the transaction and add intelligence to it, add risk management. Risk management is the top of the list, credit scoring systems haven't worked, and the retention in terms of customer interpretation has not worked. So build on the base, go for the high volume transactions, put intelligence in every transaction and use our scale to extend that with every customer.

We have a whole series of value added analytics products we're developing. Those come into a couple of different varieties. One of course is analytics.

Second is risk management. Third is the whole customer loyalty chain. We see every transaction, we have the advantage of having perfectly relevant data.

Perfectly relevant data means it is of size and scale to be statistically perfect. 42 billion transactions is a lot of transactions. Secondly, a real event has happened. It's not like I have eyeballs, I got on the web, I abandon. That tells you behavior but it's not a discreet transaction. Somebody paid for something so the data is statistically perfect.

The question of how we're going to deal with it: Continue to own virtually all share of the high transaction volumes. Go to where the puck is by continuing to go to those segments of the market that are extending. Use the data to enhance risk management and be able to take the end-to-end process and sort of say how do we save money for our customers. Take a company like Starbucks. Starbucks continues to struggle just because of the nature of the market. We are continuing to mine their data to provide them much more demographics about who buys where. They have to make decisions about what store stays, what stores go, so that's the mining.

Analytics, loyalty, you'll talk about loyalty already and so the way we think about the business is that we have merchant acquiring as the core. That is our traditional core. Continue to gain share, use our volume, and continue to make that work, drive it out, manage the mix, and have deeper presence with those customers is point one. Point two is we have put analytics and loyalty on top of it. There is a natural market extension to where we have a right to the market and adjacent markets. What is the customer behavior? How will the customer pay? That will be about ease of use. So we already have credit. We're increasingly getting more sophisticated on debit and we will extend out to mobility on the forms.

Barry McCarthy will talk to you about our mobile stuff. We're doing some incredible stuff. We have a right to that space. I can promise you that Verizon is not sitting around saying it would like to get into a regulatory industry where they are doing payments. They do not want to do that. So we will go there. In addition to the background of having these views, we have all the validity of the background of the data to drive it.

The second piece is something we broadly call solutions, which is a term I hate. So the notion of solutions says what then can you extend as a natural evolution of already being present. So we're in the store, we have data, we have point of sale, we have customer information, we have external customer information and through TeleCheck we already have real time authorization. The next logical extensions from us from a channel point of view wants to be the leader in e-commerce on the payment side. So a major investment in e-commerce.

The second one is to continue to use the prepaid world which is a fascinating world, multi-faceted, all kinds of different things you can do with it for one to one marketing. Mark's going to talk about that. I won't say any more. So that extended into loyalty which is the natural integration point of the data, the transaction, point of sale, the data, analytics, risk management, ease of use of payment form, ability to do one to one marketing profiles to actually have a loyalty program. Mark's got the development for loyalty as well. Mobility, natural extension for ease of use, extended all the way including location based services, solutions extensions, loyalty, prepaid, analytics, e-commerce.

Ed Labry runs the merchant business, takes the core merchant acquiring. His colleague here, Barry McCarthy has mobility as a strategy. We've taken all those solution sets, bundled them up for Mark Herrington. Mark has a large development team and he is going after solutions. In Mark's world, he can sell them independently or he can sell them into the merchant world where we already have presence.

One of our massive advantages, particularly in a downturn is that we can take that product set, again, core merchant acquiring, ease of use through mobility and point of sale, solutions through the actual evolution of taking the payments and taking it all the way through and use a common distribution system. A common failure which has been historically one of the things that First Data has not necessarily done as well as they might have was the sales force were all embedded in the individual product lines. This is not efficient. So we have taken the distribution network of which we are multi-channel. So we have revenue sharing alliances, we have equity alliances, we have a very talented direct sales force, we have a massive position with the ISOs.

Now you think about that model. I've got distribution with four channels. We are training the sales force to sell all products through all channels. Our single biggest U.S. competitive weapon is the depth and breadth of the sales force with the coverage model. You put underneath that leveraging the core acquiring engine of which we have, depending on whose numbers you use, somewhat north of a third of market share. The lawyers would have been happy with that answer, right? I didn't even get close to the edge yet.

The second piece then is to extend it through ease of use of alternate forms by leveraging mobility and then drive that into a very rich set of solutions. One because he's talented, good looking and a great tennis player. But in addition to all that stuff, he has a distribution system leverage, he's got a massive customer base, he's got a customer base that's looking to do risk management and he has a customer base that's saying anything you can do for process improvement saves you money. We have a natural evolution to that space. We don't have to go prove to somebody as First Data we have the right to be in loyalty or analytics or prepaid.

The final reason is that our competitors are not doing well. And the reason is not because they're not very well managed companies. There are some very bright people in this industry. The reason is, it's difficult for them to have the scale to do what we do, which is bigger. And a flight to scale in a severe downturn forces massive consolidation and only the top three survive and then others come later.

So our scale will really help us and our competitors will continue to struggle with the scale question. So that's a lock step of our retail business.

Analyst Question: Michael how come you did not mention the Financial Services segment?

Michael Capellas: No, it's because I'm going through our three businesses. The core retail business we used to call it merchant acquiring, we now call it retail because we're trying to extend it; the financial services business and the institutional business and the international business. I'm just going through the three businesses in order. The reason why I only started with retail is because it's the biggest. This is a $5 billion plus business.

Analyst Question: You talked a lot about the importance of analytics in this strategy. Michael, can you share with us your view of how strong you think First Data's analytics capabilities are today. If it's strong, if you think it's really strong, tell me why and if you think it could use improvement, tell us what you're doing to fill those holes.

Michael Capellas: The answer is right in the middle. Here's what we have that's really interesting. First one is it's all about the data. You can have all the analytics in the world. If you don't have the data -- it is much easier to build the analytical tools than it is to get a 42 billion transactions stream. So we have the data.

We have probably -- and I've been around a long time in this space -- the most sophisticated set of pure decision support tools that you can imagine. If you're a technologist, we have built this on sort of old technology but it's incredibly efficient with old cubes. So we have mass data cubes that we can slice and dice and look at any way. We have that real time and it's very effective.

I have the data. I have it normalized. I can get to it. That is a lot. That is the part people can't get. If you think about a bank and pick any bank, they can't get to their data because they've never built it in a way to normalize it. And so most banks, if they would actually like to see a customer view of every product that's sold to that customer, they can't get there. That's because they've come up through different worlds. They have the DDA, they have the deposit base, etcetera, etcetera.

We actually can get all the data in a normalized fashion. So that's part one. That's good. That's powerful.

The second piece is we have a pretty powerful fraud tool and it's because we started in the fraud world, we live in the fraud world and so fraud is nothing more than behavioral analysis. We already understand fraud deeply and that is built into everything we do. We couldn't do what we do if we don't have that. We learned that from the credit side and this is in the DNA of the company. That's part two.

We have the data. We have it normalized. We have behavior analysis.

Part four: We have a powerful weapon we've never used. It's called TeleCheck. TeleCheck has got one of the best real time authorization risk engines you've ever seen. That's how we have more check data than anybody in the world. So we have that analytics piece sitting there. That is real.

Now you could argue that it's not exactly state of the art technology. It is not but it is state of the art algorithms. And so, it turns out the math is much harder than the science in this one, the math, the ability to be able to do the algorithms to do the math is a much harder problem to solve than the computer science that goes under it. So that's another one.

We bought a small company called IR up in Seattle.

Analyst Question: What is IR?

Michael Capellas: Intelligent Results, sorry. I'll call it IR for short. We're not supposed to use short here.

So the Intelligent Results guys are very smart guys. They are pure analytics. I mean they are pure mathematicians that do analytics. The product is Predigy. The platform is used for collections intelligence. So we will go into a financial institution, blitz a high volume of data and come up with an actionable report that says of these customers no sense calling, you're never going to get your money. The behavior already tells you can't get there. This set of customers, send them a letter. They're going to pay; you just need to nudge them. This set of customers, you'd better call them today because they won't be here in a week. That gives us that. The group is small. It's not to scale. But it's gifted.

Those are the pieces we have. We also have our own custom coded sort of reporting engine that sits within our credit world. I would stretch to call it a real analytics engine but it's pretty rich reporting. Those are the pieces you have.

What we don't have is a fully integrated decision support engine that does truly all the analytics method. There are products out there like Blaze in the marketplace, SSA, the guys out of Charlotte. So the question goes is, if you have the data, the flows, the fraud, the reporting, the understanding of the customer behavior, massive scale and oh, by the way, the customer base and distribution vehicle, what you now have to do is build that into a product set and drive it out.

I could build the analytics engine or who says that I have to own the tool. You can take that to its logical conclusion, right?

We are in discussions with all the big guys, IBM, SSA, Fair Isaac about how we go to market together. A year ago I would have told you I would have built the product and we started down that path. In today's market you can get to the same place faster and with just as good of economics by doing some partnerships. So you will see that develop.

We did hire a 24-year Accenture veteran, a very talented guy who brings with him that world, the professional service world with that. He's an analytics guy. He joined us about a year ago. So that's where we are. It's pretty exciting stuff.

We're better than people think. We have another interesting thing -- and this is all about the business model. We give away a lot of these services today but we don't package them very well and we don't have a value proposition. We don't help the customer. We don't actually sell the data. We use a customer's data to help that customer. So we wouldn't aggregate Best Buy's data and sell it, for example. The second thing is when Mark talks about prepaid, there's other ways to gather the data and use it and embed it in the loyalty programs.

We did buy a small loyalty company a couple years ago called Size Technologies. So the Size folks also understand consumer behavior and they are now engrained in Mark's development teams.

We've got a lot of stuff. Why I'm encouraged it's the stuff you can't really get. You can't get volume. You can't build a distribution system overnight. You can't have a massive customer base. Those are the things you can't do. Building the tools is not easy. But it's the easiest part of the loop. Back to you, did you have a follow up question?

Okay. So that is the retail side of the world.

Analyst Question: Visa, MasterCard, American Express are aggressively going after check processing, etcetera. Could you make some comment in terms of maybe how you see First Data competing with these networks increasingly or not increasingly? I mean what does that mean for First Data?

Michael Capellas: I think taken on aggregate, the competitive landscape has improved for us for a couple of reasons. In this world your competitors could have been your customers on the retail side, big retailers doing it themselves; the banks driving into merchant acquiring with things like Chase and BAMS (Bank of America

Merchant Services) and Elavon. The banking side has weakened dramatically and that comes in the category of ah, duh. There's a lot of banks out there really looking to sort of put capital into things and just sort of say we're in great shape, let's go expand somewhere. I mean they're fighting for their lives.

The banks have become less of a competitor and more opportunities as a partner. We're perfectly happy to work with the banks on this. On the network side, the network topology as you probably well know without me being disparaging to anybody is they're not exactly having fun these days, right? Issue number one in the boardroom is not analytics. It's my loss ratio just went from 3.5 to 7 percent and I'm bleeding. So they have been generally weakened with the exception of one. Obviously Visa is a strong competitor. DPS and debit processing is a serious product. While they have not expanded dramatically outside the U.S., they will. They are well managed and they are a fine company.

At the competitive landscape you sort of say Visa is competing with you. That's true. They're a good competitor. Also true. But the residual of the market has weakened from a competitive point of view. The smaller players are the smaller players. They're going to struggle.

The secondary problem of why we are in an improved competitive position, because we do quick service restaurants, we do petroleum and we do grocery. It isn't sexy. It isn't sophisticated. But it pays the bills. I would not want to be in business whose entire revenue stream or 70 percent of their revenue stream was dependent on the banks. Banks are very bad customers because they have no money. It's a very profound statement. Banks have no money. That's true actually. And they have no capital.

So back to your question competitively, Visa is a very fine company and a strong competitor. Boy, I'll tell you what. Don't think the day doesn't pass that we don't think about them, probably the way they think about us too. It's always loving and kind. That being said, and you've been around all these parts of the business, I don't think it's a bad thing to have a couple of healthy competitors. It's a good thing. And, I am incredibly respectful of Visa and that's not gratuitous. I am incredibly respectful of Visa. You will find co-opetition models, it's like my old days with my old friends. We used to take bayonets and go after each other on one side of the company and partner and go to market on the other side.

We're doing some very interesting things with Visa from a go to market point of view. We may go after the debit processing with them one day and at the same time and in the same building we're doing something else with them. So it's a pretty healthy relationship. I'm not going to say we adore each other but it's respectful.

Analyst Question: You did mention the STAR Network. How does the STAR Network factor into with your comments?

Michael Capellas: Coming next. But since you asked we'll do it here. STAR is, obviously when I think about the network, we have the branded piece which is STAR. We have PIN debit, which is embedded with STAR. We have Cash Card and a bunch of stuff internationally and so when I look at our network we have traditionally thought about a branded STAR product as sort of a card, mostly ATM driven, competing head-to-head with Visa. And we have lost a bunch of share to them. That's not exactly news and it's not exactly like I haven't noticed or not like I'm one to say, "Well, gee, we haven't lost any share to Visa. We lost a boatload of share to them." That's fine. It's not fine but it is what it is.

So the question we have now is that we have an incredible number of global interconnected nodes. We have the ability to take a much more global view of that. We have all the network nodes under one person globally which is something First Data has not done ever. So I will agree, that our most important strategic question is how do we approach our network capability and reposition it? I'd like to say more about that but I will tempt you with come talk to us again. We are aggressively working through a bunch of options. There's a whole bunch of things we can do. What you will not see us do is business as usual. That's about all I'm going to say right now.

Analyst Question: Do you see any threat then to the acquiring business coming from the networks with Merchant Direct Connect and perhaps a retail product as well?

Michael Capellas: Sure. Less on the retail side because think about what that means to their business model. That has nothing to do with us but what they do. Where does Visa make its money? They make it through their bank collaboration. So again, I'm not going to sit here and say what Joe will do and won't do. That's up to him. But your core question is do we believe they're a rising competitor in the space of acquiring and processing. The answer is yes. That's clear. Do we believe they're a good competitor? Yes. That's clear. Do we believe the market is bifurcating into fewer competitors and that we will both gain share in this? Yes, I do. So I think that's where they are. And they're good. They are good. And by the way, so are we. So I actually think this is more of a bifurcation of the industry which will lead to both of us gaining share over time at others expense. Are you good with that? I mean not the answer, at least you understood it; might not have agreed with it. That's okay too. That's what you guys do for a living. Are we good here?

Analyst Question: One more question? On the merchant side you mentioned offering additional service data analytics especially concerning the loyalty and mobile point of sale activity. Do you see one of the merchant's biggest complaints has always been on the interchange, looking at your ability to switch things on us, your ability to offer prepaid cards in a closed loop setting and offer some innovative product alignment there. What's the appetite or interest in partnering with some of the large merchants as they become more consolidated to try to address some of that?

Michael Capellas: That will happen. That is happening. And again, you will understand it. I'm happy to be as open as I can be. There'll be times when I'm under NDA. I'm under NDA a lot. But you guys know what's happening. You've got to assume we're going to go there. You've got to assume that. That answers Bart's question as well. You asked a question about the network and sort of you take the logical question and if we have that many large merchants and we have that much network capabilities, you've got to assume we're looking at all options.

Financial Services: The Financial Services Business is our core issuing business. We have traditionally had in the U.S. a large market share. We have played with most players. I don't know, somebody who's a better historian than I, three or four years ago or maybe a little longer there was sort of the bifurcation between the large banks who wanted to do processing themselves and took it in-house: Citi, JP Morgan, Bank of America. We were the arms merchant for the residual portion of the market: Wells, Wachovia, PNC, you name it. And that was the bifurcation.

We had a third competitor who had the residual portion of the market. There was the big in-house guys, there was us and them and that was basically the market and a couple of small guys who didn't matter much. Sorry, that was disrespectful. Still don't matter much.

So now the question goes along to what is that core business? We still do credit and debit processing and we still have a large incredibly installed base. The next tier of the market is private label, generally led by GE which has been a massive customer forever. They are having all kinds of fun with their financial services market. And the third tier of the market which we refer to GSP is the alternate channel, which is the credit unions which we have long had a wonderful relationship with and are still very strong relative to the position. Credit unions are actually rising in trust as banks become less trusted.

So really big guys, regional's and all other banks, credit unions and GSPs, community banks, we play in all four spaces. We offer the same set of products, credit business, big platform, heavy iron, data centers, done a lot last couple years to try to refresh all that technology, put $300/$400/$500 million into it and we're still good at it.

The question now is what is the market. In the consolidation, we think we will net out neutral which is almost inconceivable. So PNC, NCC, WAMU, JPM, Wachovia, Wells, - I really can't talk about -but we think we'll net out neutral. We'll net out about the same. We'll lose some. We'll go in-house. We'll gain some. We'll get more share. It about nets up in total.

Silvio Tavares: Michael, we've got about five minutes.

Michael Capellas: Really?

Silvio Tavares: Yes.

Michael Capellas: I didn't know I was going to talk that long. So back to the question and in conclusion, that business is pretty sustaining. We're going to hang in there. We are dedicated to business. We've got great customers. The consolidation will happen. We'll see some slide in revenue but by and large you'll see us hold the course and we're just going to get leaner, meaner, more efficient, stay the course. The upside is to extend into another level of services. It's a huge upside because many banks are just not going to want to do it. Does a Citi just sort of say, "I can't afford it?" We're really the only one with enough scale to take it in. GE can't say I can't afford it. And so we are in those discussions and I would love to get in the collections business, really like to get into that business. It's a huge market. There is no reason why we shouldn't do that.

By the way, there are things like analytics we want to say, "This is what we're doing. It's real. We're building. We've got real product. We're coming. This is a gleam in my eye." So I'd love to get in the business. We're nowhere. But it is a strategic intent. I always like to separate what's real and what's not. That's not real. We do have the capabilities. We have the capacity to take a massive outsource. If somebody wanted to say take the whole damn thing, people and all, we have the capabilities to do that.

I'm going to give one more comment which is not related before I go on to international and wrap up. We carry a bunch of debt but we have held in there pretty well. Our parents through KKR have a lot of capital. They believe in this business. We are not capital constrained. If we have a good idea, we can do it.

International, great story. Run by a talented guy named David Yates. The strategy is exactly like the U.S. Core issuing business, go to the financial services, grow out merchant acquiring which in many countries in many cases is not two different businesses but done by the banking side, continue to expand out our

ATM as sort of a cash cow and build out the same set of retail solutions that Mark's working on a global development point of view.

The big difference is our goal here is to drive to product superiority within the next 18 months. We have put a ton of money into VisionPLUS. We have extended VisionPLUS. We've won virtually every contract that's out there in the emerging countries. We will extend out prepaid capabilities, we will extend out analytics capabilities on the VisionPLUS platform. It's very strategic. It is everywhere. As you know, this was sold as a licensed product and then we bought it and have not released it. We will be back in the market.

We are working on a business intelligence engine on the top of it. We are working on a graphical user interface and a whole different set of technologies to aid the navigation and ease of use. We will continue to -- we believe this will be in 18 months if not sooner to be a premier product. If it's hugely installed, we have a very large team working on it and so VisionPLUS is the baseline for emerging countries. We will enter Brazil this year. The business is healthy and growing. We've spent over $400 million to get baseline control which means to get everybody we have…[audio volume drops] … great merchant acquiring business, a great customer list. We will use the data in the analytics layer to add it. We will build services underneath it and we will reposition the network in a very different way which is what I will invite you back to talk to the next time I'm here. Thank you for your time. We will get out of the economic cycle as well but it's going to be painful in the short term.

Cheers….

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