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VNTV - Q1 2015 Vantiv Inc Earnings Call

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PRESENTATION

Operator

Good day and welcome to the Vantiv first quarter 2015 earnings call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Nathan Rozoff, Senior Vice President Investor Relations. Please go ahead, sir.

Nathan Rozof - Vantiv Inc - SVP of IR

Thank you. Good morning and thank you for joining us today. By now everyone should have access to our first quarter 2015 earnings release, which can be found at Vantiv.com under the Investor Relations section. During today's call, Charles Drucker will review Vantiv's first quarter operating performance. Mark Heimbouch will then review our financial results and address our outlook for the second quarter.

Throughout this conference call we will be presenting non-GAAP and pro forma financial information including net revenue, adjusted EBITDA, pro forma adjusted net income and pro forma adjusted net income per share. These are important financial performance measures for the Company but are not financial measures as defined by GAAP. Reconciliations of our non-GAAP pro forma financial information to the GAAP financial information appear in today's press release.

Finally, before we begin our formal remarks, I need to remind everyone that our discussion today will include forward-looking statements. These forward-looking statements are not guarantees of future performance and therefore, you should not put undue reliance upon them. These statements are subject to numerous risks and uncertainties that could cause actual results to differ materially from what we expect. Please refer to the forward-looking statement disclosure in today's earnings release and in our periodic filings with the SEC.



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Additional details concerning our business risks and the factors that could cause actual results to materially deviate from our forward-looking statements can be found in our annual report on form 10-K under the headings risk factors and MD&A and in our other filings with the Securities and Exchange Commission which are available at SEC.gov. Now, I'll turn the call over to Charles Drucker, our CEO. Charles?

Charles Drucker - Vantiv Inc - CEO

Thank you, Nate and thanks to everyone for joining us this morning. I'm pleased to announce that we had another strong quarter as net revenue grew to \$374 million and EPS increased to \$0.45 per share. Net revenue grew 30% primarily driven by the strength in our merchant segment.

Within merchant, net revenue grew 42% including the impact of the Mercury acquisition and organic growth reached 10% up from 8% in the fourth quarter. This 2 percentage point increase in organic growth reflects continued improvement in noose business sales and stronger consumer spending trends.

Our financial institution segment performed consistent with expectation, net revenues increased 1% and transaction grew 5% year over year. In addition, we continued to see strong new sales performance across both of our segments which positions us for another strong year. Our results reflect the continued execution of our strategy to build on our core advantages while expanding into high growth channels and verticals.

Laser focus on our priorities, as well as successful execution have enabled us to consistently grow at above market rate and win market share. The recent published Nielsen report shows that Vantiv has become the second largest acquirer in the US based on a number of transactions. This is up from number three in prior years and we have continued to be the largest pin debit acquirer.

We have consistently won market share for each of the past several years, and we did it again last year. Since 2009, we have increased our market share by more than 5 percentage points to 18%, based upon the same data from Nielsen.

We couldn't have done this without the hard work and dedication of our people. They take the time, each and every day, to do the big and little things that matter to our clients, and it really shows. Our history of consistently winning market share highlights our ability to win new clients, to quickly deploy new products and services, and to successfully penetrate new sales channels, including our established leadership in integrated payment channel.

The payment industry is changing rapidly and becoming much more complex. Change and complexity are good for us. They really play to our strengths.

Skill matters. As we invest in technology, we spread our cost and benefit over more than 20 billion transactions. Our fundamental role is to enable choice at the point of sale, so as complexity increases, we bring payment expertise to help our clients to navigate the shifting landscape.

This change in complexity is being driven by three primary factors. First, consumers are moving their spending online. In addition to creating opportunities for us in the card in our present space, it also is creating a new class of merchants for us to serve. Merchants who have excelled across omni-channel environments and who'll need a partner like Vantiv that could help them deliver a high quality consumer experience online, through mobile devices and at the point of sale.

Second, many small and midsized merchants are taking advantage of new affordable technology to run their business including integrated payment functionality at the point of sale. By partnering with the dealers and developers of this technology we have created an ecosystem that delivers a winning value propositions to our merchants by combining our payment expertise with our partners' technology and business solutions. We are focused on the breadth of distribution and this ecosystem yields not only highly productive new sales referral but also lower attrition rates, further enhancing our growth.

Finally, security and EMV are changing payment technology and once again, adding complexity. EMV creates a catalyst for us to deliver additional value to our clients, merchants and financial institutions, large and small, and across our distribution channel.

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We are educating our clients about EMV, what it means for them, how it will help them protect their customers. We are also providing a comprehensive security suite including encryption and tokenization as well as EMV. This creates cross-selling opportunities for us, but more importantly, it is strengthening our client relationship, making us more embedded and reinforcing our value proposition to them.

The opportunity at integrated payment channel is particularly exciting. As our partners deploy new technology to support EMV, it creates the opportunity for us to further penetrate their existing installed base of merchants. As we discussed in the past, Mercury currently serves about 10% of its client's installed base. So a catalyst to sell the remaining 90% is a great opportunity for us.

We have launched several new EMV solutions, including solutions specifically designed for integrated payments that not only meet these important security needs but also allows our partners to quickly add new services like gift card and mobile wallet, all through one easy integration. We believe our superior EMV solutions as well as our full suite of security products will lead the industry, protect our clients and partners business, and make the liability shift deadline as seamless as possible.

This is consistent with our strategy to build on our core strengths, investing in technology and leveraging our integrated processing platform, to quickly deploy new products and services while also expanding our distribution into high growth channels and verticals. It is also consistent with our superior approach to client services. By helping our clients to solve problems as a trusted advisor, using a consultative approach, we will continue to win market share.

I will now hand the call over to Mark who will review our financial performance in more detail and address our outlook for the second quarter. Mark?

Mark Heimbouch - Vantiv Inc - CFO

Thanks, Charles and good morning, everyone. We had an excellent first quarter. As Charles discussed, net revenue grew 30% to \$374 million principally due to continued strong growth within our merchant segment. In addition, pro forma adjusted net income increased 15% to \$89 million and pro forma adjusted net income per share increased 15% to \$0.45.

Our merchant segment generated net revenue growth of 42% inclusive of our acquisition of Mercury, principally due to a 33% increase in transactions and a 6% increase in net revenue per transaction. As Charles indicated, we saw an acceleration of organic growth in the first quarter to about 10%.

In our financial institutions segment, trends remain consistent. Transactions increased 5% year-over-year with net revenue growth of 1%.

The integration of Mercury is going very well. The business continues to meet our growth expectations and we remain on track to achieve \$15 million to \$20 million in cost synergies in 2015. Inclusive of Mercury, total operating expenses, including sales and marketing, other operating costs in G&A, increased in aggregate by 33%.

When excluding the acquisition impacts, these expenses increased by 9% in aggregate. Depreciation and amortization expense, excluding the impact of the amortization of intangibles related to acquisitions, increased to \$21 million and net interest expense increased to \$26 million, both consistent with expectations given the Mercury acquisition.

Before I hand the call back to Charles, I would like to address our outlook. The strong start to the year increases our confidence in our ability to deliver the upper half of our previously provided guidance for the full-year. For the second quarter, based on current trends and new business activity, we expect net revenue of \$405 million to \$410 million representing growth of 22% to 24% and we expect pro forma adjusted net income per share of \$0.53 to \$0.55 representing growth of 13% to 17%.

I'll now turn the call back to Charles for closing comments. Charles?



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Charles Drucker - *Vantiv Inc - CEO*

Thanks, Mark. To conclude, we've delivered strong results for the first quarter of 2015 and we will continue to press our advantages in order to win market share as well as drive superior returns the remainder of the year. We will continue to enhance our value proposition and to benefit as the payment industry continues to change. We will do this by pursuing new high growth channels and verticals like eCommerce, integrated payments and merchant bank and by deploying new technologies like EMV and our other securities suite of products.

Our strategy is about more than just winning in any single channel. It is about leveraging our integrated technology platform, comprehensive suite of services and diverse distribution channel to expand our reach and further penetrate the market. By executing on our strategy, Vantiv will continue to deliver strong net revenue and earnings growth as we win market share.

So thank you for the time this morning and Operator, let's go ahead and open up the questions for today.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Jason Kupferberg with Jefferies.

Jason Kupferberg - *Jefferies LLC - Analyst*

Thanks, guys. I wanted to start with the comment that I think Mark, you made about stronger consumer spending. Maybe if you can talk a little bit about some specifics on same store sales for the quarter? Did that stronger spending continue into April? What sort of verticals are you seeing that most evident in?

Mark Heimbouch - *Vantiv Inc - CFO*

Yes, Jason. It's Mark. So we, as indicated, we saw very strong organic growth in the first quarter. Below that, also were very strong consumer spending or same store sales trends, accelerating by as many as 2 percentage points in the first quarter as compared to what we've seen in prior quarters. So 8% same store sales growth on a transaction basis. Very strong first quarter in terms of organic trends.

I think on the vertical, I mean we are all aware of gas and gas prices coming down. As we look at it, there is a possibility that lower gas price contributed to a little bit better spend in terms of trend. As well as I recall last year, some difficult months in terms of weather in 2014.

Jason Kupferberg - *Jefferies LLC - Analyst*

Right.

Mark Heimbouch - *Vantiv Inc - CFO*

I think that contributed to a little bit better spend. The other thing is the growth in some of our client carryover from new business trends last year also contributing to very strong same store sales trends.



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Jason Kupferberg - Jefferies LLC - Analyst

Okay, that's helpful. I think you also mentioned that you were very pleased with new sales growth in both the reportable segments. Any quantification you can provide on that? Obviously, good to hear that you guys have got increased confidence in the upper part of the full-year guidance range and sounds like this is one of the reasons.

Charles Drucker - Vantiv Inc - CEO

Our new sales, like we said in fourth quarter, we are seeing good traction, some of the leadership change in AMEFI, we continue to see that traction there and the merchant business you are seeing some of the results of strong wins in the market.

Nathan Rozof - Vantiv Inc - SVP of IR

Yes, but hey, Jason. This is Nate. We don't provide any quantification of bookings.

Jason Kupferberg - Jefferies LLC - Analyst

Right. But directionally, it sounds like they are accelerating? Is that fair?

Charles Drucker - Vantiv Inc - CEO

Yes, we are feeling good about that part.

Jason Kupferberg - Jefferies LLC - Analyst

Okay, and then just last question for me. On the cost side, I think growth in sales and marketing expense on the merchant segment did spike a bit. I think it came in around 38% of revenue which is up a bit quarter-over-quarter and year-over-year. So just curious whether there are some timing factors there? Is this reflective of a new run-rate? Any more color on that metric?

Mark Heimbouch - Vantiv Inc - CFO

You know you are going to continue to see us invest in sales and marketing. I think consistent with your last question, given the increase in new sales activity or success, that is going to contribute to in effect, higher commissions showing up on that line to both direct and indirect partners. I think that line item continues to be a line item that will continue to include investment. As well, the continued strong growth in the integrated payments channel as well as merchant bank. Those both ramping still very strong and will continue to strong investment on that line.

Jason Kupferberg - Jefferies LLC - Analyst

Okay. Understood. Thank you.

Operator

Smitti Srethapramote with Morgan Stanley.



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Smitti Srethapramote - *Morgan Stanley - Analyst*

Great, thank you. Charles and Mark, I have a question on Mercury. At last month's Transact Conference there was some talk amongst some of the iPOS companies I met with, people were mentioning some of the VaRs that they were working with were asking for higher residual. Wondering what you are seeing on the front as it pertains to Mercury?

Charles Drucker - *Vantiv Inc - CEO*

From a residual standpoint nothing has significantly changed. It's been consistent with the trends that Mercury and Element have seen over the past several years that it's very manageable. And each individual, we have individual deals, and nothing has, we haven't seen anything significantly change that has been any acceleration in that. There's always new contracts that come in.

Smitti Srethapramote - *Morgan Stanley - Analyst*

Got it. Thank you. And on the FI segment, just wondering if you could maybe walk us through some of the new strata that you certainly have been put in place with the new sales team there? And if you could also update us on the environment that your customers are seeing on the compliance side?

Charles Drucker - *Vantiv Inc - CEO*

So, consistent with our new leadership coming in, these really narrowed the scope of where, to our sweet spot, as far as focused on bringing the business across the line, we are you know bidding. We are winning business in that space. And he's brought more discipline in how we package all our products together, including the merchant bank, within that particular product set. We are seeing good traction there. On the compliance side, are you asking about EMV?

Smitti Srethapramote - *Morgan Stanley - Analyst*

No, you guys have noticed that your customers have served to late investments and they're growing their customer base because they have been focusing on compliance issues over the past couple of years.

Charles Drucker - *Vantiv Inc - CEO*

I think the regulatory side is still challenging for the midsized banks. And you do still see the investments that they are making associated with more compliance in people inside the financial institution's organization, which doesn't still leave a lot of money to accelerate new products besides fraud or EMV or the things that they have to do from a compliance side. We would hope as the environment changes, that opens up as we pull into the second part of the year and going into 2016. But we are still seeing the same type of trends in the financial institution.

Smitti Srethapramote - *Morgan Stanley - Analyst*

Thank you.

Operator

David Togut with Evercore ISI.



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David Togut - *Evercore ISI - Analyst*

Thank you. Good morning, Charles and Mark.

Charles Drucker - *Vantiv Inc - CEO*

Good morning.

David Togut - *Evercore ISI - Analyst*

Could you discuss the organic growth rate of Mercury in the first quarter? And what your expectations would be for the year as a whole?

Mark Heimbouch - *Vantiv Inc - CFO*

David, it's Mark. The rate of organic growth in our core business has been doing, continuing to improve quarter-to-quarter. We have seen a number of quarters now in terms of organic rates of growth picking up and we talked to that on the call. Organic growth in the business on the merchant side, excluding the impacts of the acquisition of Mercury being 10%, which is very strong for the quarter.

We are also seeing our integrated payments business, overall, including Mercury, continue to actually improve in terms of rates of growth. So some modest acceleration across that entire line of business, inclusive of all pieces of that business. So we continue to see very positive trends. And I guess, almost a bit better than we had expected coming out of the first quarter.

David Togut - *Evercore ISI - Analyst*

Is it essentially the same trends in the iPOS business that you are seeing in the core business? I.e, pickup in same store sales? Possibly a little bit of a dividend from lower gas prices? Or are there other factors driving the pickup and the iPOS business?

Mark Heimbouch - *Vantiv Inc - CFO*

I think many of the same trends affecting consumer spend and merchant growth.

David Togut - *Evercore ISI - Analyst*

And just finally, in the FI business, what kind of traction are you seeing from the fraud management product? I think you released that in October of last year. Is that lifting sales significantly?

Charles Drucker - *Vantiv Inc - CEO*

So, it's in the internet embedded base, it's installed, it's helping us to continue to grow, helping us with margins in that business and I think as we are going out and selling it is in the suite of packages that helps us win new business and bring it over the finish line. So yes, yes, it is.

David Togut - *Evercore ISI - Analyst*

Understood. Thank you very much.



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Operator

Jim Schneider with Goldman Sachs.

Jim Schneider - *Goldman Sachs - Analyst*

Good morning. Thanks for taking my question. First, on the FI business, can you maybe first update us on the competitive landscape within FI? And then, as you look through the rest of the year, how do you handicap the prospects for getting to less negative revenue per transaction growth rate? It's kind of been sitting at the minus 4% to minus 5%. What are the chances that could get down to the low negative single digits or even positive?

Mark Heimbouch - *Vantiv Inc - CFO*

Why don't I take the first part of that in terms of revenue per transaction and the impacts on kind of the mix of products as well as EMV? As you might recall on the annual guidance that we provided, we expected to see a negative revenue per transaction over the course of the year. And I think you are seeing that consistent with what we saw in first quarter. We would expect that to continue but the start to narrow probably more so in the second half of the year. As we see some of the impacts of the new client portfolio come into play, as we see the rates of growth within those fraud-based services, even though they are broadly deployed across the customer base, the contribution continues to accelerate.

And finally, we see the line of sight in terms of EMV impacts contributing to that narrowing of that variance. I would expect that over the course of the year it continues, on a total year basis, it is going to continue to be a negative rate of growth. But contributing to, the transaction trends, more than offsetting that contributing to low single digits in terms of net revenue growth for the year.

Jim Schneider - *Goldman Sachs - Analyst*

Great, thanks. And then as a follow-up, can you maybe talk about the timing of when you are going to achieve those \$15 million to \$20 million of cost synergies for Mercury and specifically address the timing of when you plan to switch those transactions onto your platform?

Mark Heimbouch - *Vantiv Inc - CFO*

I think we talked about this before too. But basically, I think you actually saw some of the benefit of G&A occur actually in the first quarter. Margins were pretty strong. Keep in mind that the first quarter, being the lowest quarter in terms of net revenue production, always results in the lowest EBITDA margin over the course of the year. EBITDA margin being pretty strong for the first quarter. You have seen some of the G&A costs already benefit in the first quarter. I would expect us to continue to see margins continue to be strong achieving that full \$15 million to \$20 million by the end of the year. It is gradually creeping in and you'll see a bigger impact in each of the following quarters.

Nathan Rozof - *Vantiv Inc - SVP of IR*

And then Jim to answer your question on when will you expect the processing to move to our platform, we remain on track for the first half of 2016 migration of that processing.

Jim Schneider - *Goldman Sachs - Analyst*

Great. Thank you very much.

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Operator

Darrin Peller with Barclays.

Darrin Peller - Barclays Capital - Analyst

Thanks, guys. By our calculations the Mercury growth rate's coming at over 20% again. I know you touched on its strength before. If you could just maybe give a little more specific color as to sustainability given that your guidance on Mercury was really a mid-teens number? On a pro forma basis, I think I asked this last quarter also, had you owned Mercury on a year-over-year basis in this quarter, what would your merchant services segment have grown by? And then just a quick follow-up I'll have on the merchant bank referrals.

Nathan Rozof - Vantiv Inc - SVP of IR

You're pretty close in terms of the Mercury growth for the quarter. It has continued to accelerate. And again, our integrated payments business as a whole has continued to improve. We are cautiously optimistic. We believe it continues to grow above our business case. In the near term here it is growing slightly above expectations. The last point in terms of what would organic growth have looked like had we owned it on a full-year basis, it continues to contribute to a few percentage points in terms of organic growth above and beyond the 10%.

Darrin Peller - Barclays Capital - Analyst

So low teens growth rate for the business?

Nathan Rozof - Vantiv Inc - SVP of IR

Yes.

Darrin Peller - Barclays Capital - Analyst

Although WalMart obviously is in there too.

Nathan Rozof - Vantiv Inc - SVP of IR

So we are going to lap a couple of things just in terms of absolute numbers here beginning in the second quarter, right? The transaction trends, both affected by the lapping, we start to lap WalMart and we'll lap Mercury at the second half, I'm sorry, at the end of the second quarter. So you'll start to see that as well as the lapping of the revenue impact. That is going to be principally driven by Mercury.

Darrin Peller - Barclays Capital - Analyst

Right.

Nathan Rozof - Vantiv Inc - SVP of IR

Just for clarity, so the view we still take on same store sales trends, even though we have seen same store sales trends pick up here in the first quarter, as you recall, on the annual call we have consistently seen same store sales trends now through a number of quarters set aside what we think are a couple of anomalies in the first quarter just in terms of stronger consumer spending trends. Our view in terms of same store sales trends

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for the rest of the year continue to be in that mid single digits type of range. In effect, our assumptions are that they moderate back to where they have been prior to the first quarter.

Darrin Peller - *Barclays Capital - Analyst*

It makes sense to be more conservative on that. Embedded in your guidance on Mercury, you initially had mid-teens. Is that also still a mid-teens or more of a mid to high teens assumption now given the 20% run-rate it's been?

Nathan Rozof - *Vantiv Inc - SVP of IR*

I would say it's still in the mid-teens.

Darrin Peller - *Barclays Capital - Analyst*

Last question for me. In the merchant bank referrals, obviously, that is becoming a bigger and bigger growth driver for you guys. Can you give us some color as to what percentage of your mix, your revenue mix, that contributes to now? The numerous bank referrals beyond third branches, what it grew by and how many branches you guys have?

Nathan Rozof - *Vantiv Inc - SVP of IR*

So to start we had 3,200 branches at the end of the first quarter. The growth rate remains very strong Darrin, in the high double digits as we continue to benefit from the ramping of Comerica, Pums and Union bank. And in terms of the mix, Mark?

Mark Heimbouch - *Vantiv Inc - CFO*

It is basically about 6% of our total net revenue. Not just merchant, total company net revenue.

Darrin Peller - *Barclays Capital - Analyst*

Okay.

Charles Drucker - *Vantiv Inc - CEO*

The pipeline remains strong. We are getting good traction in that space.

Darrin Peller - *Barclays Capital - Analyst*

That's great. Alright, nice job, guys. Thanks.

Operator

George Mihalos with Credit Suisse.



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George Mihalos - *Credit Suisse - Analyst*

Great, let me add my congratulations on the quarter, guys. Just a question on obviously, the iPOS growth continues to be ahead of expectations. That seems to be market wide based on what we are hearing. Curious what you are seeing in the ISO channel right now? What sort of growth did you post in the quarter and how are you thinking about that part of the business in your guidance for the remainder of 2015?

Mark Heimbouch - *Vantiv Inc - CFO*

So no change there either. I mean, we've seen that business continue to grow albeit low single digits. It did continue to grow in the first quarter at that low single digits range and that would be consistent with our expectations. We have seen new business in that category as well. I just think that overall market landscape, that that is still a low single digit growth channel for us.

Charles Drucker - *Vantiv Inc - CEO*

I think I agree. I mean that's correct and we are seeing the ISOs are getting some benefit from the EMV world and some of the changes that go. So we are working with their ISOs to help them think and navigate through that. That's something that they're, that's helping with their business at the same time.

George Mihalos - *Credit Suisse - Analyst*

Charles, you mentioned the EMV migration. How is that progressing relative to your expectations both from the issuer side on the FI side and then also from the POS refresh cycle tied to it? Is that tracking in line with what you guys were expecting?

Charles Drucker - *Vantiv Inc - CEO*

Yes, still tracking in line. I think on the FI side we have some of the large issuers that are more forward in the queue and then some of the small issuers that are latter parts of the year and shifting into 2016. The landscape in the FI side hasn't changed where smaller banks are still managing through the expense of that as they deal with compliance issues at the same time.

You know the merchant side, the large clients are very aggressive in getting towards, getting everything upgraded and we are helping them with their suite of security products. And on the smaller end, terminals are being deployed. New terminals that are going out are EMV capable. I think there's things around EMV and the deadline is October. I think there's discussion in the industry about is rumor, is October going to stick? Will it slip a little bit? We still have the pedal on for October, but people are bringing up reasons that it is right there in the holiday season, will it create consumer disruption because of a retraining that the card stays in there? There is a lot of exciting things we are navigating but overall pretty much steady where we were before.

George Mihalos - *Credit Suisse - Analyst*

Okay, great. Just the last question for me Mark, I know you said you are looking for same store sales to normalize in the mid single digits. I'm curious, I'm not sure if I missed it, but did you break out same store sales growth for April? The trend that you have seen so far in the month?

Mark Heimbouch - *Vantiv Inc - CFO*

It's, I would say -- I guess the month's about over. It's running pretty consistent with those expectations. Nothing would change our view right now in terms of mid single digits in terms of same store sales growth.

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George Mihalos - *Credit Suisse - Analyst*

Okay. Thanks, guys.

Operator

Steven Kwok with KBW.

Steven Kwok - *Keefe, Bruyette & Woods - Analyst*

Thanks for taking my questions. First question is around Mercury. You noted that it currently serves about 10% of its client base. What's the game plan around capturing the remaining 90% and how fast can you achieve in terms of getting incremental market share?

Charles Drucker - *Vantiv Inc - CEO*

Mercury has marketing and we have marketing programs to help our dealers and developers go after the existing base. And they are in place and we continue to get traction. But like I've said in the past, the dealers and developers are small groups that have focused on new business because they have a lot of good new business coming in the door selling their system. But with EMV and the changes around that, we have plans working with dealers to try to accelerate, it is a multi-year type of thing, but the catalyst at EMV will allow us to get more mind share about going into the existing base than we have had in the prior year. So there is some, but we see it helping us achieve our numbers in the Mercury portfolio.

Steven Kwok - *Keefe, Bruyette & Woods - Analyst*

And in terms of like market share, do you envision capturing like 1%, 2% per year? Or, can you just elaborate on --

Charles Drucker - *Vantiv Inc - CEO*

No, we don't have numbers around but we are a very aggressive sales and marketing organization. We would hope to get continue it to bring more market share to us in the future.

Steven Kwok - *Keefe, Bruyette & Woods - Analyst*

Got it. Then just around capital management, any changes to your previously outlined thoughts?

Nathan Rozof - *Vantiv Inc - SVP of IR*

No, we'd stay consistent on our theme there, right? You have seen us delever a little bit obviously in first quarter and consequently that'll have an impact on the year. Delevering continues to be a key theme. Beyond that, I think the mix continues to be the same, continue to invest in growth via through M&A as well as we have the availability of the current authorized share buyback program as well as the TRA. So we continue to consider those alternatives but the priorities haven't changed.

Steven Kwok - *Keefe, Bruyette & Woods - Analyst*

Thank you.



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Operator

Tien-tsin Huang with JPMorgan.

Tien-tsin Huang - JPMorgan - Analyst

Hi, great. Thank you. Good quarterly results here. I just wanted, the merchants side, just wanted to clarify the components of the group. I heard ISO low single. I think you said merchant bank high double. Can you give us the rest of the high growth channels and also the traditional merchants on the direct side as well?

Nathan Rozof - Vantiv Inc - SVP of IR

I think, Tien-tsin, in terms of the quarter, the trends themselves were relatively consistent with what we expect for the full-year. Obviously, to the extent we saw some overperformance in the quarter. That was driven by some upside in the high growth channels, principally around the integrated payment space, as Mark referenced. As well as some improvement in the core business around same store sales on those litany of items that seemed to have had a positive effect. But otherwise all in, I think the trends were, were really remain pretty consistent.

Tien-tsin Huang - JPMorgan - Analyst

Okay, so no change in e-commerce as well?

Nathan Rozof - Vantiv Inc - SVP of IR

Correct.

Tien-tsin Huang - JPMorgan - Analyst

On the pricing front, I heard the FI answer. Just on the merchant side, any surprise there in pricing, the success in pushing through network fee changes, op blue, that kind of thing?

Charles Drucker - Vantiv Inc - CEO

The network fee changes came through. There is no surprise into that. The market is still an aggressive market, but hasn't changed, there is nothing out there that would change the pricing trends. Op blue for us is we are more large end type of clients. But we would see traction op blue and op blue continue to help us improve at the latter part of the year and then into 2016. So we see good opportunities there.

Tien-tsin Huang - JPMorgan - Analyst

Terrific and then last one just on the M&A front, we've seen a little bit more M&A activity around products and beta and security and things like that. What's the latest in terms of appetite and pipeline on the M&A front? That's all I had. Thank you.

Charles Drucker - Vantiv Inc - CEO

Domestically, we've checked off the sets that we need. We have a good security suite of products, we have analytic products, and then we have our integrated payments, eCommerce. So from that perspective, we feel like we are in a good spot.

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Operator

Dan Perlin with RBC Capital Markets.

Dan Perlin - RBC Capital Markets - Analyst

Thanks. I want to circle back if I could to FI. And Charles, I guess I just don't think I fully appreciate the change in strategy there. I know you've got a new guy running it. You go to market as you are packaging the product maybe it's helping you roll-out the fraud. But when you think through the importance of that division and what it's going to do to your margins long-term, I just want to make sure I understand how you are going to get that revenue per transaction to turn positive at some point. Because it sounds like it's not, from Mark's comments, it's not going to turn positive at all throughout the course of the whole year. Can you just flesh that out a little bit please?

Mark Heimbouch - Vantiv Inc - CFO

Okay. As I sit here and think about your question, I'm not so sure that our strategy has changed much. I think that the pressures have been more about overall pressure on the market and the market actually more challenged for growth, given the regulatory environment, et cetera. The comments around revenue per transaction, I think that just to clarify my comment earlier, I think that over the course of the year you are going to see that, on a full year basis, it will be negative in terms of revenue per transaction. I think that you'll actually start to see some of that change as we get to the second half of the year. But the narrowing of that won't be enough to impact it being negative over the course of the year.

I think actually there is some opportunity that it could get back to being level perhaps slightly up. It's just not an area given the pressures of the market right now that we see opportunity to have it expand. The other comment I would just make in terms of overall market dimensions, I actually think that market, in terms of providing services to financial institutions, has continued to see compression on a revenue per transaction basis. Whereas, over the past couple of years we have been kind of one of those in the market that's offset that trend, I think now just given the greater pressure on the market space we are seeing more pressure on overall pricing and the ability to sell through additional products. Just making that in the near term here a little bit more challenging.

Dan Perlin - RBC Capital Markets - Analyst

Okay.

Charles Drucker - Vantiv Inc - CEO

My perspective is we are bringing products whether it is the EMV for the small middle sized clients, whether it is the Apple Pay capabilities or wallet pay capabilities, the fraud products people grab a hold a lot quicker because the return is very quick for the fraud products versus the data analytic products that we have to them to manage the base and drive more revenue has a little longer type of cycle for them to see the revenue. So as the banks are, as they complete their cycle to make sure that their compliance, their staffing and as interest rates potentially move up and give them some breathing room, to be able to spend a little bit and not have such an immediate return and grow DDAs a little faster, I think there is some breadth in our products.

From a sales perspective, the leadership has brought a little bit more discipline to where our sweet spot is in packaging and of our entire products in the sales approach to it. It is still an aggressive market. But quite frankly, we are not chasing everything. We are chasing the focus of our sweet spot. And he has been able to bring people and bring deals that we have had in the pipeline, which is a good pipeline, across the finish line a lot faster. He's upgraded the sales skills that we have in the people.



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Dan Perlin - RBC Capital Markets - Analyst

And then my follow-up question is, when you think about -- Alright, maybe I should ask it this way. What is the messaging that you want us to take away in terms of the overall margins on an adjusted EBIT basis for the year? Do you think you can still grow those year-on-year? I know you are investing heavily. And then the merchant side, you talked about the \$15 million to \$20 million of incremental synergies and some of that I guess maybe is being redeployed into growth. But with FI not participating at the level that it kind of needs to be given its margin contribution, just wondering can you hold margin expansion you know this year?

Mark Heimbouch - Vantiv Inc - CFO

This is Mark again. Actually I think, I'll have to check my numbers, but I'm pretty sure that we saw margins actually expand in FI in the first quarter.

Dan Perlin - RBC Capital Markets - Analyst

I'm thinking in aggregate. I'm sorry.

Mark Heimbouch - Vantiv Inc - CFO

I want to point to that though and then I'll walk you all the way through the whole expectation because I do think it's important. That is a highly profitable business. Even though it's probably a little bit more challenge in terms of matching revenue growth with our merchant business in terms of revenue growth, it's highly profitable and we continue to drive efficiencies there. And the second profit report on a sales and marketing basis, while it's driving accretion to earnings behind the scenes in terms of operating expenses, we continue to drive even greater efficiencies in terms of margin. That is a highly profitable business contributing to strong margins and we continue to see upside there.

Back to your overall point though in terms of EBITDA margins. Yes, our expectation is for margins to continue to expand in the course of the year. You know you are coming off of first quarter always being the lowest. So you layer into that the impact of the synergies game by combining Mercury with the rest of the Vantiv infrastructure and continued growth. Our expectation is for margins to continue to improve over the course of the year.

Dan Perlin - RBC Capital Markets - Analyst

But would they be all at the end of the year, like year-on-year? Is that an expectation we should be taking away or not?

Mark Heimbouch - Vantiv Inc - CFO

You mean year-over-year?

Dan Perlin - RBC Capital Markets - Analyst

Yes, for full-year. Do you think you can get that full-year margin up on a year-over-year basis or not quite at that point?

Mark Heimbouch - Vantiv Inc - CFO

Our expectation I think as we get towards the end of the year would be they would be up year-over-year.

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Dan Perlin - *RBC Capital Markets - Analyst*

That is great. Thank you very much.

Operator

Tim Willi with Wells Fargo.

Tim Willi - *Wells Fargo Securities, LLC - Analyst*

Thanks, good morning. I have two questions. First, back on Mercury, I think I checked in with you guys on this a quarter or two ago. But in terms of some of the product roadmap that Mercury had, and I think you mentioned things around wallet stored value. And I have seen some press releases about some of this stuff coming into market. Could you just give us a feel for how initial read is around these value added products and maybe just to help frame what the addressable incremental opportunity would be for each merchant that would choose to get the digital gift card or the wallet or the more rapid funding of receivables? Just how that's looking and then I have a follow-up.

Nathan Rozof - *Vantiv Inc - SVP of IR*

Hey Tim, it's Nate. I'll kick it off here. We don't provide specific quantification on any individual products. But you're right. We have been pretty aggressively rolling out new products across Mercury and really all of our integrated payment stack as well as, I think we've talked in the past, that we have fully integrated the sales force and that group is pretty excited about the fact that they now have a much richer suite of services to sell from. But you know, I'll turn it over to Charles. But I think at least in my conversation with Matt Taylor, the ISVs in VaRs have been excited about the ability to deploy those new products with a single simple integration.

Charles Drucker - *Vantiv Inc - CEO*

That's right. Right now there is a big focus on the EMV roadmap and the security roadmap with them. But what we set up is that when they complete that they get that whole package. And I think some of the gift cards, some of the other type of products is getting traction from us in the whole package. But there is a huge focus right now on the EMV and how we take care of the security focus.

Tim Willi - *Wells Fargo Securities, LLC - Analyst*

Okay, great. Second question was more about Litle and eCommerce and app commerce, mobile commerce, et cetera. I'm curious what you are seeing in the marketplace around app commerce and your capabilities within app payments and all the advances there that I think make it a lot easier for people to do stuff in app off their phones? And also with that, do you see current Litle customers asking to have you handle offline capabilities for them to the extent that they have offline exposure? I think a lot of people thought that Litle was take offline customers and get their online business. I'm just curious about a reverse cycle for that for the embedded Litle base or anything of that nature?

Charles Drucker - *Vantiv Inc - CEO*

So the embedded Litle base -- so, in app continues to grow and helps the sales in Litle of our existing customers and they have that capability and there is obviously more and more of the customers are having the in app. As far as the existing base of Litle, it was predominantly web only type of clients. So it's really more of the reverse of the Vantiv base, which we are seeing good traction associated with people that we had point of sale brick and mortar, that were able to bring those additional features to the customers.

I mean I think we talked about last quarter in new business, shoe store that, a big chain that we not only got the brick and mortar, we got the online presence, we got the security packets. So those continued the omni-channel, as we refer to it, but it's not coming from the embedded Litle base

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because they pretty much focused on web only. It is coming from the Vantiv base. And it's really, as I talk about strong sales, that helps me with my confidence because when we are going out there, we are going out there with a package and capturing their entire business and then also cross selling to our existing clients. So it's going well.

Tim Willi - Wells Fargo Securities, LLC - Analyst

Great, thanks very much. I'll hop off.

Operator

Chris Brendler with Stifel.

Chris Brendler - Stifel Nicolaus - Analyst

Thanks for taking my questions. I listened to the merchant detail really and the 200 basis point sequential and acceleration of organic growth impressive. It sounds like it's coming more from the direct channels. I know you have gotten this question in several different ways this morning but I just wanted to focus on the legacy, traditional merchant acquiring business. Mostly for you guys, I'm thinking about NPC, is that just being a smaller part of the story or actually seeing some stabilization maybe a little bit of an uptick at that level as well? I'm just curious how attrition and pricing trends in the small merchants are behaving with EMV being such a big focus today? I have a follow-up.

Mark Heimbouch - Vantiv Inc - CFO

Chris, it's Mark. Actually, a lot embedded in that question. Just to clarify a couple of things. Kind of the way we think of the traditional would be more of the direct, the traditional direct business, where as I think you referenced NPC, which consists of, granted it's a lot of merchants but they are smaller merchants and they are really principally they consist of our ISO channel. Really, the simplest way I can think about answering your question is the trends in that ISO channel have remained relatively consistent, whether it be from what's going on with pricing, pricing continues to hold. We haven't seen significant changes in pressure there. And that business continues to perform growing at low single digits.

I think what's important to know, is that actually, where we are seeing the higher rates of growth and noting the acceleration in the first quarter, is actually occurring more in what we consider to be our traditional direct channels. Now merchant bank would be in there. ECommerce would be in there. Those channels continuing to benefit our business with higher growth and they are growing across the board in double digits in terms of growth. So well above the organic growth that we cite of 10%.

Those channels continue to demonstrate higher growth, higher penetration. That's where the 10% organic growth is coming from. From the very high performance in those channels. The NPC or ISO business continues to grow. No, I can't see any changing dynamics in terms of pricing, attrition or anything. The businesses continue to perform very consistently. All of those lead us to very predictable, consistent themes which is also why we felt it important on the call to articulate our high level of confidence in annual revenue and earnings performance. The business feels very, very good.

Chris Brendler - Stifel Nicolaus - Analyst

The results are impressive. I guess the follow-up question I have is, I was a little surprised and I don't look at this very often, but on a GAAP earnings basis year-over-year was actually down and I sift through the parts. There's pretty significant increase in integration costs this quarter. I don't -- final stages of the Mercury integration that caused those costs to spike up this quarter? And also the nonoperating expense this quarter, I was just wondering if you had any guidance going forward? Those lines will start coming down so we'll see better follow through in GAAP earnings and also on the tax rate, it looked like it ticked down a little bit? Thanks.



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Mark Heimbouch - *Vantiv Inc - CFO*

A couple things in terms of the GAAP items. First of all, as you are aware, we are going through the integration of Mercury, the biggest cost which principally consists of the back end integration. As Nate called out earlier on the call, that is something that will be completed the first half of 2016. So you'll see those integration costs.

The other item that you pointed out though, has to do with just accounting treatment, all non-cash. Which would be with respect to the valuation of the TRAs on the balance sheet. The tax receivable agreements, as you are aware, that we have with our shareholders, prior shareholders. So that affects that nonoperating expense line. But that's all non-cash.

Chris Brendler - *Stifel Nicolaus - Analyst*

Great, thanks. And also the tax rate, is 36% a good number for the year?

Mark Heimbouch - *Vantiv Inc - CFO*

Yes. So, given the growth in earnings and expectations around the taxes, our estimate for -- and this would be before the adjustments for the cash tax benefits associated with the tax attributes, that the pro forma rate would be 36% for the course of the year.

Chris Brendler - *Stifel Nicolaus - Analyst*

Awesome. Thanks, Mark. Good quarter.

Mark Heimbouch - *Vantiv Inc - CFO*

Thanks.

Operator

Ashwin Shirvaikar with Citi.

Ashwin Shirvaikar - *Citigroup - Analyst*

Thank you and congratulations on the good quarter. Good execution. I guess my question, the first question is, clearly you also took to heart the investor message on being conservative with your guidance. As you look at the, let's call it the \$8 million beat relative to the middle of your range that you provided, how much was just genuine positive surprise versus any initial conservatism that you might have baked in? Is there a way to break it out like that?

Nathan Rozof - *Vantiv Inc - SVP of IR*

Hi, Ashwin, it's Nate. Thanks, we appreciate your feedback. I think our goal in providing guidance is to be clear and consistent and provide the amount of transparency we can. So hopefully that's been helpful.



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We did see some benefit in the first quarter, as you called out, relative to our initial expectations and we saw that from strength in a few things. And really that's what drives our comment that we are now anticipating the top end of our range for the full-year. That increases our confidence in our ability to continue to deliver financial performance.

Charles Drucker - *Vantiv Inc - CEO*

And I tell you from my perspective, feeling good about the sales engine, what they're doing coming out of last year, starting the year strong, the competition in the market has stability to it, our ability with EMV to take advantage of these things. The organization is feeling and I'm feeling very good about how we are positioned and how we're executing in the year. We want to be mindful that it is just the first quarter but I'm feeling good about how we are trending.

Ashwin Shirvaikar - *Citigroup - Analyst*

Okay. That's good to know. I guess the question on the high growth component of the business, could you remind us where you expect that to end the year as a percentage of total? Then, how do you think of the possible margin differential between the different components of that? ECommerce margins versus integrated payment margins versus merchant bank and so on?

Nathan Rozof - *Vantiv Inc - SVP of IR*

Hey Ashwin, it's Nate. In terms of the high growth channels as a percent of total, entering the year on a pro forma basis they were approximately 40% of our merchant business. So call that what, 32% of total company. We haven't provided an expectation of a mix at the end of the year but clearly we anticipate that mix to go up given that the strong rates of growth across those channels.

In terms your question about margins by channel, clearly where we have a direct sales force, our margins tend to be very strong. That includes our traditional direct business, our eCommerce business, et cetera. And where we are working with an ISO partner providing a residual share then our channel costs would be the highest. Therefore, that would have an effect in terms of sales and marketing expense. With our other partners, merchant bank, et cetera, being in the middle there.

Feeling good about our ability to continue to manage margin. We would expect sales and marketing expense continue to grow as we make those investments across our channels. And really focused on leveraging our scale, particularly on a G&A line, as well as to the extent we can on the other operating cost line longer term. Bear in mind Mercury and Mercury integration will have the biggest effect on margins in 2015.

Ashwin Shirvaikar - *Citigroup - Analyst*

Absolutely. Thank you, guys.

Operator

Bryan Keane with Deutsche Bank.

Bryan Keane - *Deutsche Bank - Analyst*

Hi, guys. I won't keep you too long. Just a couple of clarifications. Mark, on same store sales in April, are you saying it's back down to the mid single digit that you kind of thought for the full-year? Or just trying to get a sense exactly if it's off that 8% -- if it's come off that 8%?



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Mark Heimbouch - *Vantiv Inc - CFO*

Yes, that's right. Brian. We are seeing it being in that mid single digits around 6% in terms of same store sales growth which is consistent with our estimates going into the year.

Bryan Keane - *Deutsche Bank - Analyst*

Okay, and then the guidance for the second quarter then, I assume that accounts for that. Do you expect the merchant organic growth of 10% to slightly slow in the looking at the Q2 guidance?

Mark Heimbouch - *Vantiv Inc - CFO*

Yes, I think embedded in first quarter we're effectively two percentage points of same store sales growth, right? That is going to have some effect on organic growth for the second quarter. Should come down a little bit.

Bryan Keane - *Deutsche Bank - Analyst*

Okay, and then just finally, there is some chatter about the EBITDA margins and some expansion. Should the expansion start in the third or fourth quarter? I'm just trying to time it for modeling purposes on a year-over-year basis.

Nathan Rozof - *Vantiv Inc - SVP of IR*

Is that what you call strong EBITDA margins? Chatter? (Laughter). Yes, so our expectation is that -- you have to keep in mind in terms of EBITDA margins, we do have a fixed cost base with when matched with the lower revenue production in the first quarter which always occurs, EBITDA margins will be at their lowest point over the course of the year, right? The expectation would be that they expand at the percent of net revenue of course, and that, particularly going into the second half of the year, they expand on a year-over-year basis.

Bryan Keane - *Deutsche Bank - Analyst*

Okay. Super. Congrats on the execution.

Nathan Rozof - *Vantiv Inc - SVP of IR*

Thanks.

Charles Drucker - *Vantiv Inc - CEO*

We'll wrap-up today's call. But I just wanted to make -- I'm feeling good about how our sales force is executing, how the business is working and change like I said in the script, change in complexity is good for us. It creates opportunity for us to grab market share as we have demonstrated becoming the number two acquirer. So we are excited about how we are positioned going into this year and I appreciate you guys taking the time today. If you have any more additional questions after the call reach out to Nate and our contact or on our website and we'll be happy to get you whatever information. And thanks, again and have a great day.

Operator

This does conclude today's conference. Thank you for your participation.



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