

FISERV INC
Form 10-Q
November 01, 2018
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from _____ to _____
Commission File Number 0-14948

FISERV, INC.
(Exact Name of Registrant as Specified in Its Charter)

WISCONSIN 39-1506125
(State or Other Jurisdiction of (I. R. S. Employer
Incorporation or Organization) Identification No.)
255 FISERV DRIVE, BROOKFIELD, WI 53045
(Address of Principal Executive Offices) (Zip Code)
(262) 879-5000
(Registrant’s Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

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

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

As of October 26, 2018, there were 398,470,777 shares of common stock, \$.01 par value, of the registrant outstanding.

Table of Contents

INDEX

| | Page |
|--|-----------|
| <u>PART I – FINANCIAL INFORMATION</u> | |
| Item 1. <u>Financial Statements (Unaudited)</u> | |
| <u>Consolidated Statements of Income</u> | <u>1</u> |
| <u>Consolidated Statements of Comprehensive Income</u> | <u>2</u> |
| <u>Consolidated Balance Sheets</u> | <u>3</u> |
| <u>Consolidated Statement of Shareholders’ Equity</u> | <u>4</u> |
| <u>Consolidated Statements of Cash Flows</u> | <u>5</u> |
| <u>Notes to Consolidated Financial Statements</u> | <u>6</u> |
| Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>25</u> |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u> | <u>34</u> |
| Item 4. <u>Controls and Procedures</u> | <u>34</u> |
| <u>PART II – OTHER INFORMATION</u> | |
| Item 1. <u>Legal Proceedings</u> | <u>34</u> |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>34</u> |
| Item 6. <u>Exhibits</u> | <u>35</u> |
| <u>Exhibit Index</u> | |
| <u>Signatures</u> | |

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Fiserv, Inc.

Consolidated Statements of Income

(In millions, except per share data)

(Unaudited)

| | Three Months Ended September 30, 2018 | | Nine Months Ended September 30, 2018 | |
|---|--|---------|---|---------|
| | 2017 | 2018 | 2017 | 2018 |
| Revenue: | | | | |
| Processing and services | \$1,199 | \$1,223 | \$3,563 | \$3,668 |
| Product | 201 | 189 | 617 | 604 |
| Total revenue | 1,400 | 1,412 | 4,180 | 4,272 |
| Expenses: | | | | |
| Cost of processing and services | 572 | 568 | 1,715 | 1,696 |
| Cost of product | 174 | 181 | 531 | 551 |
| Selling, general and administrative | 284 | 305 | 837 | 930 |
| (Gain) loss on sale of businesses | — | 2 | (10) | (227) |
| Total expenses | 1,030 | 1,056 | 3,073 | 2,950 |
| Operating income | 370 | 356 | 1,107 | 1,322 |
| Interest expense | (45) | (47) | (131) | (137) |
| Loss on early debt extinguishment | — | (8) | — | (8) |
| Non-operating income | — | 3 | 2 | 6 |
| Income before income taxes and income from investments in unconsolidated affiliates | 325 | 304 | 978 | 1,183 |
| Income tax provision | (98) | (78) | (309) | (290) |
| Income from investments in unconsolidated affiliates | 5 | 1 | 31 | 8 |
| Net income | \$232 | \$227 | \$700 | \$901 |
| Net income per share – basic | \$0.55 | \$0.56 | \$1.65 | \$2.21 |
| Net income per share – diluted | \$0.54 | \$0.55 | \$1.62 | \$2.16 |
| Shares used in computing net income per share: | | | | |
| Basic | 420.2 | 403.8 | 424.3 | 408.4 |
| Diluted | 429.1 | 412.0 | 433.4 | 416.6 |

See accompanying notes to consolidated financial statements.

Table of Contents

Fiserv, Inc.

Consolidated Statements of Comprehensive Income

(In millions)

(Unaudited)

| | Three Months Ended September 30, 2018 | | Nine Months Ended September 30, 2017 | |
|--|--|-------|---|-------|
| Net income | \$227 | \$232 | \$901 | \$700 |
| Other comprehensive (loss) income: | | | | |
| Fair market value adjustment on cash flow hedges, net of income tax (benefit) provision of (\$2 million), (\$1 million), (\$4 million) and \$1 million | (6) | (1) | (11) | 2 |
| Reclassification adjustment for net realized gains on cash flow hedges included in cost of processing and services, net of income tax benefit of \$1 million | — | — | (3) | — |
| Reclassification adjustment for net realized losses on cash flow hedges included in interest expense, net of income tax provision of \$0, \$1 million, \$1 million and \$3 million | 1 | 2 | 3 | 5 |
| Foreign currency translation | (8) | 3 | (14) | 14 |
| Total other comprehensive (loss) income | (13) | 4 | (25) | 21 |
| Comprehensive income | \$214 | \$236 | \$876 | \$721 |
| See accompanying notes to consolidated financial statements. | | | | |

2

Table of Contents

Fiserv, Inc.

Consolidated Balance Sheets

(In millions)

(Unaudited)

| | September 30, 2018 | December 31, 2017 |
|--|-----------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 673 | \$ 325 |
| Trade accounts receivable, net | 949 | 997 |
| Prepaid expenses and other current assets | 716 | 603 |
| Assets held for sale | — | 50 |
| Total current assets | 2,338 | 1,975 |
| Property and equipment, net | 385 | 390 |
| Intangible assets, net | 1,802 | 1,882 |
| Goodwill | 5,450 | 5,590 |
| Contract costs, net | 410 | 84 |
| Other long-term assets | 363 | 368 |
| Total assets | \$ 10,748 | \$ 10,289 |
| Liabilities and Shareholders' Equity | | |
| Accounts payable and accrued expenses | \$ 1,551 | \$ 1,359 |
| Current maturities of long-term debt | 452 | 3 |
| Contract liabilities | 317 | 576 |
| Total current liabilities | 2,320 | 1,938 |
| Long-term debt | 4,823 | 4,897 |
| Deferred income taxes | 715 | 552 |
| Long-term contract liabilities | 75 | 54 |
| Other long-term liabilities | 154 | 117 |
| Total liabilities | 8,087 | 7,558 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Preferred stock, no par value: 25.0 million shares authorized; none issued | — | — |
| Common stock, \$0.01 par value: 1,800.0 million shares authorized; 791.4 million shares issued | 8 | 8 |
| Additional paid-in capital | 1,045 | 1,031 |
| Accumulated other comprehensive loss | (79) | (54) |
| Retained earnings | 11,349 | 10,240 |
| Treasury stock, at cost, 390.4 million and 376.3 million shares | (9,662) | (8,494) |
| Total shareholders' equity | 2,661 | 2,731 |
| Total liabilities and shareholders' equity | \$ 10,748 | \$ 10,289 |
| See accompanying notes to consolidated financial statements. | | |

Table of Contents

Fiserv, Inc.
 Consolidated Statement of Shareholders' Equity
 (In millions)
 (Unaudited)

| | Common Stock Shares | Amount | Additional Paid-In Capital | Accumulated Other Comprehensive Loss | Retained Earnings | Treasury Stock Shares | Amount |
|--|---------------------------|--------|----------------------------------|---|----------------------|-----------------------------|-----------|
| Balance at December 31, 2017 | 791 | \$ 8 | \$ 1,031 | \$ (54) | \$ 10,240 | 376 | \$(8,494) |
| Net income | | | | | 901 | | |
| Other comprehensive loss | | | | (25) | | | |
| Share-based compensation | | | 54 | | | | |
| Shares issued under stock plans | | | (40) | | | (3) | 58 |
| Purchases of treasury stock | | | | | | 17 | (1,226) |
| Cumulative-effect adjustment of ASU 2014-09 adoption | | | | | 208 | | |
| Cumulative-effect adjustment of ASU 2017-12 adoption | | | | 3 | (3) | | |
| Cumulative-effect adjustment of ASU 2018-02 adoption | | | | (3) | 3 | | |
| Balance at September 30, 2018 | 791 | \$ 8 | \$ 1,045 | \$ (79) | \$ 11,349 | 390 | \$(9,662) |

See accompanying notes to consolidated financial statements.

Table of Contents

Fiserv, Inc.

Consolidated Statements of Cash Flows

(In millions)

(Unaudited)

| | Nine Months Ended September 30, 2018 2017 | |
|--|--|---------|
| Cash flows from operating activities: | | |
| Net income | \$901 | \$700 |
| Adjustments to reconcile net income to net cash provided by operating activities from continuing operations: | | |
| Depreciation and other amortization | 286 | 213 |
| Amortization of acquisition-related intangible assets | 120 | 117 |
| Share-based compensation | 54 | 48 |
| Deferred income taxes | 105 | 20 |
| Gain on sale of businesses | (227) | (10) |
| Loss on early debt extinguishment | 8 | — |
| Income from investments in unconsolidated affiliates | (8) | (31) |
| Dividends from unconsolidated affiliates | 1 | 44 |
| Non-cash impairment charges | 3 | 17 |
| Other operating activities | — | (4) |
| Changes in assets and liabilities, net of effects from acquisitions and dispositions: | | |
| Trade accounts receivable | (29) | 23 |
| Prepaid expenses and other assets | (63) | (48) |
| Contract costs | (107) | (20) |
| Accounts payable and other liabilities | 48 | (9) |
| Contract liabilities | (111) | (45) |
| Net cash provided by operating activities from continuing operations | 981 | 1,015 |
| Cash flows from investing activities: | | |
| Capital expenditures, including capitalization of software costs | (263) | (208) |
| Proceeds from sale of businesses | 419 | 19 |
| Payments for acquisitions of businesses, net of cash acquired | — | (383) |
| Purchases of investments | — | (10) |
| Other investing activities | (13) | 7 |
| Net cash provided by (used in) investing activities from continuing operations | 143 | (575) |
| Cash flows from financing activities: | | |
| Debt proceeds | 3,627 | 1,946 |
| Debt repayments, including redemption and other costs | (3,256) | (1,410) |
| Proceeds from issuance of treasury stock | 60 | 65 |
| Purchases of treasury stock, including employee shares withheld for tax obligations | (1,254) | (1,016) |
| Other financing activities | 4 | — |
| Net cash used in financing activities from continuing operations | (819) | (415) |
| Net change in cash and cash equivalents from continuing operations | 305 | 25 |
| Net change in cash and cash equivalents from discontinued operations | 43 | — |
| Cash and cash equivalents, beginning balance | 325 | 300 |
| Cash and cash equivalents, ending balance | \$673 | \$325 |
| Discontinued operations cash flow information: | | |
| Net cash used in operating activities | \$(7) | \$— |

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| | | |
|--|------|-----|
| Net cash provided by investing activities | 50 | — |
| Net change in cash and cash equivalents from discontinued operations | \$43 | \$— |
| See accompanying notes to consolidated financial statements. | | |

5

Table of Contents

Fiserv, Inc.

Notes to Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

The consolidated financial statements for the three-month and nine-month periods ended September 30, 2018 and 2017 are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of the consolidated financial statements have been included. Such adjustments consisted of normal recurring items. Interim results are not necessarily indicative of results for a full year. The consolidated financial statements and accompanying notes are presented as permitted by Form 10-Q and do not contain certain information included in the annual consolidated financial statements and accompanying notes of Fiserv, Inc. (the “Company”). These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

Effective January 1, 2018, the Company adopted Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers, and its related amendments using the modified retrospective transition approach applied to all contracts. Prior period amounts have not been restated; however, certain prior period amounts have been reclassified to conform to current period presentation. Additional information about the Company’s revenue recognition policies and the related impact of the adoption is included in Notes 2 and 3 to the consolidated financial statements.

Principles of Consolidation

The consolidated financial statements include the accounts of Fiserv, Inc. and all 100% owned subsidiaries. Investments in less than 50% owned affiliates in which the Company has significant influence but not control are accounted for using the equity method of accounting. All intercompany transactions and balances have been eliminated in consolidation.

Stock Split

On February 21, 2018, the Company’s board of directors declared a two-for-one stock split of the Company’s common stock and a proportionate increase in the number of its authorized shares of common stock. The additional shares were distributed on March 19, 2018 to shareholders of record at the close of business on March 5, 2018. The Company’s common stock began trading at the split-adjusted price on March 20, 2018. All share and per share amounts are retroactively presented on a split-adjusted basis. The impact on the consolidated balance sheets of the stock split was an increase of \$4 million to common stock and an offsetting reduction in additional paid-in capital, which has been retroactively restated.

2. Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In February 2018, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (“ASU 2018-02”), which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects of the change in the U.S. federal corporate tax rate resulting from The Tax Cuts and Jobs Act (the “Tax Act”) enacted in December 2017. ASU 2018-02 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. The Company early adopted ASU 2018-02 in the first quarter of 2018, and elected to reclassify the Tax Act income tax benefits of \$3 million from accumulated other comprehensive loss to retained earnings.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities (“ASU 2017-12”), which provides guidance designed to improve the financial reporting of hedging relationships to better portray the economic results of an entity’s risk management activities in its financial statements as well as to simplify the application of the hedge accounting guidance in current U.S. generally accepted accounting principles. For public entities, ASU 2017-12 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted in any interim period or fiscal year. For cash flow and net investment hedges existing at the date of adoption, the standard requires a cumulative-effect adjustment to eliminate the separate measurement of ineffectiveness to accumulated other

comprehensive income with a corresponding adjustment to the opening balance of retained earnings as of the beginning of the fiscal year of adoption. The amended presentation and disclosure guidance is required only prospectively. The Company early adopted ASU 2017-12 in the first quarter of 2018, and recorded a cumulative-effect adjustment to accumulated other comprehensive loss of \$3 million with a corresponding decrease in the opening balance of retained earnings.

Table of Contents

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory (“ASU 2016-16”), which eliminates the current prohibition on immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory, with the intent of reducing complexity and diversity in practice. Under ASU 2016-16, entities must recognize the income tax consequences when the transfer occurs rather than deferring recognition. For public entities, ASU 2016-16 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2017. Entities must apply the guidance on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. The Company adopted ASU 2016-16 in the first quarter of 2018, and the adoption did not have a material impact on its consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”), which primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements of financial instruments. For public entities, ASU 2016-01 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Entities must apply the standard, with certain exceptions, using a cumulative-effect adjustment to beginning retained earnings as of the beginning of the fiscal year of adoption. The Company adopted ASU 2016-01 in the first quarter of 2018, and the adoption did not have any impact on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”), to clarify the principles of recognizing revenue and to create common revenue recognition guidance between U.S. generally accepted accounting principles and International Financial Reporting Standards. ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific requirements. It also includes guidance on accounting for the incremental costs of obtaining and costs incurred to fulfill a contract with a customer. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This model involves a five-step process for achieving that core principle, along with comprehensive disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. For public entities, the new revenue standard is effective for annual and interim periods beginning after December 15, 2017. Entities have the option of adopting this new guidance using either a full retrospective or a modified approach with the cumulative effect of applying the guidance recognized at the date of initial application.

The Company adopted the new standard effective January 1, 2018 using the modified retrospective transition approach applied to all contracts, which resulted in a cumulative-effect increase in the opening balance of retained earnings of \$208 million, primarily related to the deferral of incremental sales commissions incurred in obtaining contracts in prior periods. Under this transition approach, the Company has not restated the prior period consolidated financial statements presented; however, it has provided additional disclosures related to the amount by which each relevant 2018 financial statement line item was affected by adoption of the new standard and explanations for significant changes (see Note 3).

Recently Issued Accounting Pronouncements

In August 2018, the FASB issued ASU No. 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (“ASU 2018-15”), which aligns the requirements for capitalizing implementation costs incurred in a cloud computing hosting arrangement that is a service contract with the requirements under Accounting Standards Codification (“ASC”) 350 for capitalizing implementation costs incurred to develop or obtain internal-use software. For public entities, ASU 2018-15 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019, with early adoption permitted. Entities are permitted to apply either a retrospective or prospective transition approach to adopt the guidance. The Company is currently assessing the impact that the adoption of ASU 2018-15 will have on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement (“ASU 2018-13”), which removes, modifies, and

adds certain disclosure requirements of ASC Topic 820, Fair Value Measurement. ASU 2018-13 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2019, with the additional disclosures required to be applied prospectively and the modified and removed disclosures required to be applied retrospectively to all periods presented. Entities are permitted to early adopt the removed or modified disclosures and delay the adoption of the additional disclosures until the effective date. The Company is currently assessing the impact that the adoption of ASU 2018-13 will have on its consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-07, Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting (“ASU 2018-07”), which simplifies the accounting for share-based payments

Table of Contents

granted to nonemployees by largely aligning it with the accounting for share-based payments to employees. For public entities, ASU 2018-07 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, with early adoption permitted. Entities must apply the standard, using a modified retrospective transition approach, with a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption for all liability-classified nonemployee awards that have not been settled as of the adoption date and equity-classified nonemployee awards for which a measurement date has not been established. The Company plans to adopt ASU 2018-07 on January 1, 2019 and does not expect the adoption to have a material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326) (“ASU 2016-13”), which prescribes an impairment model for most financial assets based on expected losses rather than incurred losses. Under this model, an estimate of expected credit losses over the contractual life of the instrument is to be recorded as of the end of a reporting period as an allowance to offset the amortized cost basis, resulting in a net presentation of the amount expected to be collected on the financial asset. For public entities, ASU 2016-13 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. For most instruments, entities must apply the standard using a cumulative-effect adjustment to beginning retained earnings as of the beginning of the fiscal year of adoption. The Company is currently assessing the impact that the adoption of ASU 2016-13 will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (“ASU 2016-02”), which requires lessees to recognize a lease liability and a right-of-use asset for each lease with a term longer than twelve months. The recognized liability is measured at the present value of lease payments not yet paid, and the corresponding asset represents the lessee’s right to use the underlying asset over the lease term and is based on the liability, subject to certain adjustments. For income statement purposes, the standard retains the dual model with leases classified as either operating or finance. Operating leases will result in straight-line expense while finance leases will result in a front-loaded expense pattern. The standard prescribes a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. In July 2018, the FASB issued ASU No. 2018-11, Leases (Topic 842) - Targeted Improvements (“ASU 2018-11”), which provides an additional transition method allowing entities to initially apply the new lease standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. For public entities, ASU 2016-02 is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted.

The Company continues to review the requirements of the new lease standard, including the activity of the FASB as it relates to interpretive guidance and additional practical expedients. The Company has formed a cross-functional project team which is currently in the process of evaluating its existing lease arrangements and assessing potential impacts of adopting the new lease standard on its consolidated financial statements, related disclosures, accounting policies, process and system changes, and controls. The Company has completed the planning and design phases of the project, including the selection of a lease accounting software solution to comply with the new standard, and has engaged an implementation partner to assist with the adoption.

While the Company continues to evaluate other practical expedients available under the guidance, it expects to elect the package of practical expedients permitted under the transition guidance within ASU 2016-02 to not reassess prior conclusions related to contracts containing leases, lease classification and initial direct costs and, therefore, does not anticipate a material impact on its consolidated statements of income. While the Company is continuing to assess the effects of adoption, it currently believes the most significant changes relate to the recognition of right-of-use assets and lease liabilities on its consolidated balance sheets for real and personal property operating leases, as well as the impact of new disclosure requirements. The Company plans to adopt ASU 2016-02 on January 1, 2019 and anticipates using the optional transition method in ASU 2018-11. Under this method, the Company would not adjust its comparative period financial statements for the effects of the new standard or make the new required lease disclosures for periods prior to the effective date.

3. Revenue Recognition

Revenue Recognition During the Three and Nine Months Ended September 30, 2018

The Company adopted ASU 2014-09, Revenue from Contracts with Customers, and its related amendments (collectively known as “ASC 606”) effective January 1, 2018 using the modified retrospective transition approach applied to all contracts. Therefore, the reported results for the three and nine months ended September 30, 2018 reflect the application of ASC 606 while the reported results for the three and nine months ended September 30, 2017 were not adjusted and continue to be reported under the accounting guidance, ASC 605, Revenue Recognition (“ASC 605”), in effect for the prior periods. The cumulative impact of adopting ASC 606 was an increase in the opening balance of retained earnings of \$208 million, primarily related to the deferral of incremental sales commissions incurred in obtaining contracts in prior periods.

Table of Contents

Significant Accounting Policy

ASC 606 outlines a single comprehensive model to use in accounting for revenue arising from contracts with customers. The core principle, involving a five-step process, of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Company generates revenue from the delivery of processing, service and product solutions. Revenue is measured based on consideration specified in a contract with a customer, and excludes any amounts collected on behalf of third parties. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer which may be at a point in time or over time.

Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer, are excluded from revenue.

Shipping and handling activities associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment activity and recognized as revenue at the point in time at which control of the goods transfers to the customer. As a practical expedient, the Company does not adjust the transaction price for the effects of a significant financing component if, at contract inception, the period between customer payment and the transfer of goods or services is expected to be one year or less.

Nature of Goods and Services

The Company's operations are comprised of the Payments and Industry Products ("Payments") segment and the Financial Institution Services ("Financial") segment. Additional information regarding the Company's business segments is included in Note 16. The following is a description of principal activities from which the Company generates its revenue. Contracts with customers are evaluated on a contract-by-contract basis as contracts may include multiple types of goods and services as described below.

Processing and Services

Processing and services revenue is generated from account- and transaction-based fees for data processing, transaction processing, electronic billing and payment services, electronic funds transfer and debit processing services; consulting and professional services; and software maintenance for ongoing client support.

The Company recognizes processing and services revenues in the period in which the specific service is performed unless they are not deemed distinct from other goods or services in which revenue would then be recognized as control is transferred of the combined goods and services. The Company's arrangements for processing and services typically consist of an obligation to provide specific services to its customers on a when and if needed basis (a stand-ready obligation) and revenue is recognized from the satisfaction of the performance obligations in the amount billable to the customer. These services are typically provided under a fixed or declining (tier-based) price per unit based on volume of service, however, may also be based on minimum monthly usage fees. Fees for the Company's processing and services arrangements are typically billed and paid on a monthly basis.

Product

Product revenue is generated from integrated print and card production sales, as well as software license sales. For software license agreements that are distinct, the Company recognizes software license revenue upon delivery, assuming a contract is deemed to exist. Revenue for arrangements with customers that include significant customization, modification or production of software such that the software is not distinct is typically recognized over time based upon efforts expended, such as labor hours, to measure progress towards completion. For arrangements involving hosted licensed software for the customer, a software element is considered present to the extent the customer has the contractual right to take possession of the software at any time during the hosting period without significant penalty and it is feasible for the customer to either operate the software on their own hardware or contract with another vendor to host the software.

Significant Judgments in Application of the Guidance

The Company uses the following methods, inputs, and assumptions in determining amounts of revenue to recognize:

Table of Contents

Identification of Performance Obligations

For multi-element arrangements, the Company accounts for individual goods or services as a separate performance obligation if they are distinct, the good or service is separately identifiable from other items in the arrangement, and if a customer can benefit from it on its own or with other resources that are readily available to the customer. If these criteria are not met, the promised goods or services are accounted for as a combined performance obligation.

Technology or service components from third parties are frequently embedded in or combined with the Company's applications or service offerings. Whether the Company recognizes revenue based on the gross amount billed to a customer or the net amount retained involves judgment that depends on the relevant facts and circumstances including the level of contractual responsibilities and obligations for delivering solutions to end customers.

Determination of Transaction Price

The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring products or services to the customer. The Company includes any fixed charges within its contracts as part of the total transaction price. To the extent that variable consideration is not constrained, the Company includes an estimate of the variable amount, as appropriate, within the total transaction price and updates its assumptions over the duration of the contract.

Assessment of Estimates of Variable Consideration

Many of the Company's contracts with customers contain some component of variable consideration; however, the constraint will generally not result in a reduction in the estimated transaction price for most forms of variable consideration. The Company may constrain the estimated transaction price in the event of a high degree of uncertainty as to the final consideration amount owed because of an extended length of time over which the fees may be adjusted.

Allocation of Transaction Price

The transaction price (including any discounts) is allocated between separate goods and services in a multi-element arrangement based on their relative standalone selling prices. The standalone selling prices are determined based on the prices at which the Company separately sells each good or service. For items that are not sold separately, the Company estimates the standalone selling prices using available information such as market conditions and internally approved pricing guidelines. In instances where there are observable selling prices for professional services and support and maintenance, the Company may apply the residual approach to estimate the standalone selling price of software licenses. In certain situations, primarily processing and services revenue described above, the Company allocates variable consideration to a distinct good(s) or service(s) within a contract. The Company allocates variable payments to one or more, but not all, of the distinct goods or services in a contract when (i) the variable payment relates specifically to the Company's efforts to transfer the distinct good or service and (ii) the variable payment is for an amount that depicts the amount of consideration to which the Company expects to be entitled in exchange for transferring the promised goods or services to its customer.

Revenue Recognition During the Three and Nine Months Ended September 30, 2017

The Company generates revenue from the delivery of processing, service and product solutions. Revenue is recognized when written contracts are signed, delivery has occurred, the fees are fixed or determinable, and collectability is reasonably assured.

Processing and services revenue is recognized as services are provided and is primarily derived from contracts that generate account- and transaction-based fees for data processing, transaction processing, electronic billing and payment services, electronic funds transfer and debit processing services. In addition, processing and services revenue is derived from the fulfillment of professional services, including consulting activities. Certain of the Company's revenue is generated from multiple element arrangements involving various combinations of product and service deliverables. The deliverables within these arrangements are evaluated at contract inception to determine whether they represent separate units of accounting, and if so, contract consideration is allocated to each deliverable based on relative selling price. The relative selling price is determined using vendor specific objective evidence of fair value, third-party evidence or best estimate of selling price. Revenue is then recognized in accordance with the appropriate revenue recognition guidance applicable to the respective elements. Also included in processing and services revenue is software maintenance fee revenue for ongoing client support, which is recognized ratably over the term of the applicable support period, generally 12 months. Contract liabilities consist primarily of advance cash receipts for

services (deferred revenue) and are recognized as revenue when the services are provided.

Product revenue is primarily derived from integrated print and card production sales, as well as software license sales which represented less than 4% of consolidated revenue. For software license agreements that do not require significant customization or modification, the Company recognizes software license revenue upon delivery, assuming persuasive evidence of an arrangement exists, the license fee is fixed or determinable, and collection is reasonably assured. Arrangements with customers

Table of Contents

that include significant customization, modification or production of software are accounted for under contract accounting, with revenue recognized using the percentage-of-completion method based upon efforts expended, such as labor hours, to measure progress towards completion. Changes in estimates for revenues, costs and profits are recognized in the period in which they are determinable and were not material for any period presented.

The Company includes reimbursements from clients, such as postage and telecommunication costs, in processing and services revenue and product revenue, while the related costs are included in cost of processing and services and cost of product.

Disaggregation of Revenue

The tables below present the Company's revenue disaggregated by major business, including a reconciliation with its reportable segments. Most of the Company's revenue is earned domestically within these major businesses, with revenue from clients outside the United States comprising approximately 5% of total revenue.

| (In millions) | Reportable Segments | | | Total |
|---------------------------------------|---------------------|-----------|---------------------|---------|
| | Payments | Financial | Corporate and Other | |
| Three Months Ended September 30, 2018 | | | | |
| Major Business | | | | |
| Digital Money Movement | \$363 | \$ — | \$ — | \$363 |
| Card and Related Services | 401 | — | — | 401 |
| Other | 80 | — | — | 80 |
| Total Payments | 844 | — | — | 844 |
| Account and Item Processing | — | 516 | — | 516 |
| Other | — | 58 | — | 58 |
| Total Financial | — | 574 | — | 574 |
| Corporate and Other | — | — | (6) | (6) |
| Total Revenue | \$844 | \$ 574 | \$ (6) | \$1,412 |

| (In millions) | Reportable Segments | | | Total |
|--------------------------------------|---------------------|-----------|---------------------|---------|
| | Payments | Financial | Corporate and Other | |
| Nine Months Ended September 30, 2018 | | | | |
| Major Business | | | | |
| Digital Money Movement | \$1,071 | \$ — | \$ — | \$1,071 |
| Card and Related Services | 1,215 | — | — | 1,215 |
| Other | 237 | — | — | 237 |
| Total Payments | 2,523 | — | — | 2,523 |
| Account and Item Processing | — | 1,552 | — | 1,552 |
| Lending Solutions | — | 56 | — | 56 |
| Other | — | 172 | — | 172 |
| Total Financial | — | 1,780 | — | 1,780 |
| Corporate and Other | — | — | (31) | (31) |
| Total Revenue | \$2,523 | \$ 1,780 | \$ (31) | \$4,272 |

Table of Contents

Contract Balances

The following table provides information about contract assets and contract liabilities from contracts with customers.

| (In millions) | September 30, January 1, | |
|----------------------|--------------------------|--------|
| | 2018 | 2018 |
| Contract assets | \$ 166 | \$ 158 |
| Contract liabilities | 392 | 520 |

Contract assets, reported within other long-term assets in the consolidated balance sheet, primarily result from revenue being recognized where payment is contingent upon the transfer of services to a customer over the contractual period. Contract liabilities primarily relate to advance consideration received from customers (deferred revenue) for which transfer of control occurs, and therefore revenue is recognized, as services are provided. Contract balances are reported in a net contract asset or liability position on a contract-by-contract basis at the end of each reporting period. During the nine months ended September 30, 2018, contract liabilities decreased primarily due to the recognition of deferred maintenance revenue. The higher contract liability balance at January 1, 2018 was primarily attributable to an increased level of annual maintenance billings in the fourth quarter of 2017 as compared to the first nine months of 2018. The Company recognized \$395 million of revenue during the nine months ended September 30, 2018 that was included in the contract liability balance at the beginning of the period, which exceeded advance cash receipts for services yet to be provided.

Transaction Price Allocated to Remaining Performance Obligations

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period.

| (In millions) | Remainder of: | | | | |
|-------------------------|---------------|-------|-------|-------|------------|
| September 30, 2018 | 2018 | 2019 | 2020 | 2021 | Thereafter |
| Processing and services | \$ 255 | \$950 | \$728 | \$571 | \$ 798 |
| Product | 10 | 35 | 28 | 17 | 20 |

The Company applies the optional exemption in paragraph 606-10-50-14(b) and does not disclose information about remaining performance obligations for account- and transaction-based processing fees that qualify for recognition in accordance with paragraph 606-10-55-18. These contracts generally have terms of three to five years, and contain variable consideration for stand-ready performance obligations for which the exact quantity and mix of transactions to be processed are contingent upon the customer's request. The Company also applies the optional exemptions in paragraph 606-10-50-14A and does not disclose information for variable consideration, including additional seat licenses, that is a sales-based or usage-based royalty promised in exchange for a license of intellectual property or that is allocated entirely to a wholly unsatisfied performance obligation or to a wholly unsatisfied promise to transfer a distinct good or service in a series. The amounts disclosed above as remaining performance obligations consist primarily of fixed or monthly minimum processing fees and maintenance fees under contracts with an original expected duration of greater than one year.

Contract Costs

The Company incurs incremental costs to obtain a contract as well as costs to fulfill contracts with customers that are expected to be recovered. These costs consist primarily of sales commissions incurred only if a contract is obtained, and customer conversion or implementation related costs. Capitalized sales commissions and conversion or implementation costs totaled \$310 million and \$100 million, respectively, at September 30, 2018.

Capitalized contract costs are amortized based on the transfer of goods or services to which the asset relates. The amortization period also considers expected customer lives and whether the asset relates to goods or services transferred under a specific anticipated contract. These costs are primarily included in selling, general and administrative expenses and totaled \$23 million and \$73 million during the three and nine months ended September 30, 2018, respectively. There was no impairment loss recognized during the three and nine months ended September 30, 2018 related to capitalized contract costs.

Table of Contents

Change in Accounting Policy

Except for the changes below, the Company has consistently applied the accounting policies to all periods presented in its consolidated financial statements. The details of the significant changes and quantitative impact of the changes are disclosed below.

Sales Commissions

The Company previously recognized sales commission fees related to contracts with customers as selling expenses when incurred. Under ASC 606, the Company capitalizes incremental sales commission fees as costs of obtaining a contract and, if expected to be recovered, amortizes such costs using a portfolio approach consistent with the pattern of transfer of the good or service to which the asset relates.

Termination Fees

The Company previously recognized customer contract termination fees at a point in time upon deconversion or receipt of a non-refundable cash payment. Under ASC 606, a contract termination is considered a contract modification and therefore the Company recognizes contract termination fees under the new standard over the remaining modified contract term.

Contract Assets and Liabilities

The Company previously presented customer incentives and deferred revenue on a gross basis within its consolidated balance sheet. Under ASC 606, the Company reports net contract asset or liability positions on a contract-by-contract basis at the end of each reporting period.

Impacts on Financial Statements

The following tables summarize the impacts of ASC 606 adoption on the Company's consolidated financial statements as of and for the three and nine months ended September 30, 2018.

Table of Contents

Consolidated Statements of Income

(In millions,
unaudited)

Impact of changes in accounting policies

| Three Months Ended September 30, 2018 | As reported | Adjustments | Balances without adoption of ASC 606 |
|---|-------------|-------------|---|
| Revenue: | | | |
| Processing and services | \$ 1,223 | \$ (6) | \$ 1,217 |
| Product | 189 | — | 189 |
| Total revenue | 1,412 | (6) | 1,406 |
| Expenses: | | | |
| Cost of processing and services | 568 | 1 | 569 |
| Cost of product | 181 | (1) | 180 |
| Selling, general and administrative | 305 | 6 | 311 |
| Loss on sale of business | 2 | — | 2 |
| Total expenses | 1,056 | 6 | 1,062 |
| Operating income | 356 | (12) | 344 |
| Interest expense | (47) | — | (47) |
| Loss on early debt extinguishment | (8) | — | (8) |
| Non-operating income | 3 | (1) | 2 |
| Income before income taxes and income from investments in unconsolidated affiliates | 304 | (13) | 291 |
| Income tax provision | (78) | 3 | (75) |
| Income from investments in unconsolidated affiliates | 1 | — | 1 |
| Net income | \$ 227 | \$ (10) | \$ 217 |
| Net income per share – basic | \$ 0.56 | \$ (0.02) | \$ 0.54 |
| Net income per share – diluted | \$ 0.55 | \$ (0.02) | \$ 0.53 |
| Shares used in computing net income per share: | | | |
| Basic | 403.8 | — | 403.8 |
| Diluted | 412.0 | — | 412.0 |

Table of Contents

| (In millions, unaudited) | Impact of changes in accounting policies | | |
|---|--|-------------|---|
| Nine Months Ended September 30, 2018 | As reported | Adjustments | Balances without adoption of ASC 606 |
| Revenue: | | | |
| Processing and services | \$ 3,668 | \$ (35) | \$ 3,633 |
| Product | 604 | (23) | 581 |
| Total revenue | 4,272 | (58) | 4,214 |
| Expenses: | | | |
| Cost of processing and services | 1,696 | 3 | 1,699 |
| Cost of product | 551 | (1) | 550 |
| Selling, general and administrative | 930 | 5 | 935 |
| Gain on sale of business | (227) | (3) | (230) |
| Total expenses | 2,950 | 4 | 2,954 |
| Operating income | 1,322 | (62) | 1,260 |
| Interest expense | (137) | — | (137) |
| Loss on early debt extinguishment | (8) | — | (8) |
| Non-operating income | 6 | (1) | 5 |
| Income before income taxes and income from investments in unconsolidated affiliates | 1,183 | (63) | 1,120 |
| Income tax provision | (290) | 14 | (276) |
| Income from investments in unconsolidated affiliates | 8 | — | 8 |
| Net income | \$ 901 | \$ (49) | \$ 852 |
| Net income per share – basic | \$ 2.21 | \$ (0.12) | \$ 2.09 |
| Net income per share – diluted | \$ 2.16 | \$ (0.11) | \$ 2.05 |
| Shares used in computing net income per share: | | | |
| Basic | 408.4 | — | 408.4 |
| Diluted | 416.6 | — | 416.6 |

Consolidated Statements of Comprehensive Income

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(In millions, unaudited)

| Three Months Ended September 30, 2018 | Impact of changes in accounting policies | |
|--|--|--------------------------------------|
| | As reported | Balances without adoption of ASC 606 |
| Net income | \$227 | \$ 217 |
| Other comprehensive (loss) income: | | |
| Fair market value adjustment on cash flow hedges, net of income tax benefit of \$2 million | (6) | (6) |
| Reclassification adjustment for net realized losses on cash flow hedges included in interest expense, net of income tax provision of \$0 | 1 | 1 |
| Foreign currency translation | (8) | (8) |
| Total other comprehensive loss | (13) | (13) |
| Comprehensive income | \$214 | \$ 204 |

Table of Contents

| (In millions, unaudited) | Impact of changes in accounting policies | | |
|--|--|-------------|--------------------------------------|
| | As reported | Adjustments | Balances without adoption of ASC 606 |
| Nine Months Ended September 30, 2018 | | | |
| Net income | \$901 | \$ (49) | \$ 852 |
| Other comprehensive (loss) income: | | | |
| Fair market value adjustment on cash flow hedges, net of income tax benefit of \$4 million | (11) | — | (11) |
| Reclassification adjustment for net realized gains on cash flow hedges included in cost of processing and services, net of income tax benefit of \$1 million | (3) | — | (3) |
| Reclassification adjustment for net realized losses on cash flow hedges included in interest expense, net of income tax provision of \$1 million | 3 | — | 3 |
| Foreign currency translation | (14) | — | (14) |
| Total other comprehensive loss | (25) | — | (25) |
| Comprehensive income | \$876 | \$ (49) | \$ 827 |

Consolidated Balance Sheet

| (In millions, unaudited) | Impact of changes in accounting policies | | |
|---|--|-------------|--------------------------------------|
| | As reported | Adjustments | Balances without adoption of ASC 606 |
| September 30, 2018 | | | |
| Assets | | | |
| Cash and cash equivalents | \$673 | \$ — | \$ 673 |
| Trade accounts receivable, net | 949 | (20) | 929 |
| Prepaid expenses and other current assets | 716 | 26 | 742 |
| Total current assets | 2,338 | 6 | 2,344 |
| Property and equipment, net | 385 | — | 385 |
| Intangible assets, net | 1,802 | — | 1,802 |
| Goodwill | 5,450 | — | 5,450 |
| Contract costs, net | 410 | (327) | 83 |
| Other long-term assets | 363 | 98 | 461 |
| Total assets | \$10,748 | \$ (223) | \$ 10,525 |
| Liabilities and Shareholders' Equity | | | |
| Accounts payable and accrued expenses | \$1,551 | \$ (9) | \$ 1,542 |
| Current maturities of long-term debt | 452 | — | 452 |
| Contract liabilities | 317 | 95 | 412 |
| Total current liabilities | 2,320 | 86 | 2,406 |
| Long-term debt | 4,823 | — | 4,823 |
| Deferred income taxes | 715 | (74) | 641 |
| Long-term contract liabilities | 75 | 21 | 96 |
| Other long-term liabilities | 154 | — | 154 |
| Total liabilities | 8,087 | 33 | 8,120 |
| Total shareholders' equity | 2,661 | (256) | 2,405 |

Total liabilities and shareholders' equity \$10,748 \$ (223) \$ 10,525

16

Table of Contents

Consolidated Statement of Cash Flows

(In millions, unaudited)

| | Impact of changes in accounting policies | | Balances without adoption of ASC 606 |
|--|---|-------------|--|
| | As reported | Adjustments | |
| Nine Months Ended September 30, 2018 | | | |
| Cash flows from operating activities: | | | |
| Net income | \$901 | \$ (49) | \$ 852 |
| Adjustments to reconcile net income to net cash provided by operating activities from continuing operations: | | | |
| Depreciation and other amortization | 286 | (54) | 232 |
| Amortization of acquisition-related intangible assets | 120 | — | 120 |
| Share-based compensation | 54 | — | 54 |
| Deferred income taxes | 105 | (14) | 91 |
| Gain on sale of business | (227) | (3) | (230) |
| Loss on early debt extinguishment | 8 | — | 8 |
| Income from investments in unconsolidated affiliates | (8) | — | (8) |
| Dividends from unconsolidated affiliates | 1 | — | 1 |
| Non-cash impairment charges | 3 | — | 3 |
| Changes in assets and liabilities, net of effects from acquisitions and dispositions: | | | |
| Trade accounts receivable | (29) | 41 | 12 |
| Prepaid expenses and other assets | (63) | (1) | (64) |
| Contract costs | (107) | 67 | (40) |
| Accounts payable and other liabilities | 48 | (4) | 44 |
| Contract liabilities | (111) | 17 | (94) |
| Net cash provided by operating activities from continuing operations | 981 | — | 981 |
| Cash flows from investing activities: | | | |
| Capital expenditures, including capitalization of software costs | (263) | — | (263) |
| Proceeds from sale of businesses | 419 | — | 419 |
| Other investing activities | (13) | — | (13) |
| Net cash provided by investing activities from continuing operations | 143 | — | 143 |
| Cash flows from financing activities: | | | |
| Debt proceeds | 3,627 | — | 3,627 |
| Debt repayments, including redemption and other costs | (3,256) | — | (3,256) |
| Proceeds from issuance of treasury stock | 60 | — | 60 |
| Purchases of treasury stock, including employee shares withheld for tax obligations | (1,254) | — | (1,254) |
| Other financing activities | 4 | — | 4 |
| Net cash used in financing activities from continuing operations | (819) | — | (819) |
| Net change in cash and cash equivalents from continuing operations | 305 | — | 305 |
| Net change in cash and cash equivalents from discontinued operations | 43 | — | 43 |
| Cash and cash equivalents, beginning balance | 325 | — | 325 |
| Cash and cash equivalents, ending balance | \$673 | \$ — | \$ 673 |
| Discontinued operations cash flow information: | | | |
| Net cash used in operating activities | \$(7) | \$ — | \$(7) |
| Net cash provided by investing activities | 50 | — | 50 |
| Net change in cash and cash equivalents from discontinued operations | \$43 | \$ — | \$ 43 |

Table of Contents

4. Acquisitions and Dispositions

Acquisitions

On January 17, 2017, the Company completed its acquisition of Online Banking Solutions, Inc. (“OBS”), a provider of cash management and digital business banking solutions that complement and enrich the Company’s existing solutions. On July 31, 2017, the Company acquired the assets of PCLender, LLC (“PCLender”), a leader in internet-based mortgage software and mortgage lending technology solutions. The OBS and PCLender acquisitions are included in the Financial segment as their products are integrated across a number of the Company’s account processing solutions and will enable the Company’s bank and credit union clients to better serve their commercial and mortgage customers. On August 18, 2017, the Company acquired Dovetail Group Limited (“Dovetail”), a leading provider of bank payments and liquidity management solutions. On September 1, 2017, the Company completed its acquisition of Monitise plc (“Monitise”), a provider of digital solutions that enables innovative digital banking experiences for leading financial institutions worldwide. The Dovetail and Monitise acquisitions are included in the Payments segment and will further enable the Company to help financial institutions around the world transform their payments infrastructure and to expand its digital leadership, respectively.

The Company acquired these four businesses for an aggregate purchase price of \$384 million, net of \$33 million of acquired cash, along with earn-out provisions estimated at a fair value of \$15 million. The purchase price allocations for these acquisitions resulted in acquired software and technology and customer related intangible assets totaling \$163 million and goodwill of \$217 million. The other net assets of \$19 million included \$50 million of assets held for sale and approximately \$20 million of deferred tax liabilities. The purchase price allocations were finalized for the OBS and PCLender acquisitions in 2017 and for the Dovetail and Monitise acquisitions in the first quarter of 2018, and did not materially change from the preliminary allocations. The goodwill from these acquisitions is primarily attributed to synergies and the anticipated value created by selling the products and services that these businesses provide into the Company’s existing client base. Approximately \$70 million of the goodwill is expected to be deductible for tax purposes.

The results of operations for these acquired businesses have been included in the accompanying consolidated statements of income from the dates of acquisition. This includes revenue of \$21 million and \$12 million in the three months ended September 30, 2018 and 2017, respectively, and \$63 million and \$16 million in the nine months ended September 30, 2018 and 2017, respectively, and impacts to operating income in each period of less than \$6 million excluding acquired intangible asset amortization. Pro forma information for the Company’s acquisitions is not provided because they did not have a material effect on the Company’s consolidated results of operations.

On October 31, 2018, the Company acquired the debit card processing, ATM Managed Services, and Money Pass[®] surcharge-free network of Elan Financial Services, a unit of U.S. Bancorp, for approximately \$690 million, subject to post-closing adjustments.

Disposition

On May 11, 2017, the Company sold its Australian item processing business, which was reported within the Financial segment, for approximately \$17 million, consisting of \$19 million in cash received at closing less a closing adjustment of \$2 million finalized in the fourth quarter of 2017. The Company recognized a gain on the sale of \$10 million, with the related tax expense of \$5 million recorded through the income tax provision, in the consolidated statements of income for the nine months ended September 30, 2017.

5. Discontinued Operations

On January 10, 2018, the Company completed the sale of the retail voucher business, MyVoucherCodes, acquired as part of its acquisition of Monitise in September 2017 for proceeds of £37 million (\$50 million). The corresponding assets of \$50 million, consisting primarily of goodwill, were presented as held for sale in the Company’s consolidated balance sheet at December 31, 2017, and the corresponding proceeds received during the nine months ended September 30, 2018 are presented within discontinued operations since the business was never considered part of the Company’s ongoing operations. There was no impact to operating income or gain/loss recognized on the sale in the nine months ended September 30, 2018.

Cash flows from discontinued operations in 2018 also included tax payments of \$7 million related to income recognized in 2017 from a prior disposition.

Table of Contents

6. Investments in Unconsolidated Affiliates

Lending Joint Ventures

On March 29, 2018, the Company completed the sale of a 55% controlling interest of each of Fiserv Automotive Solutions, LLC and Fiserv LS LLC, which were subsidiaries of the Company that owned its Lending Solutions business (collectively, the “Lending Joint Ventures”), to funds affiliated with Warburg Pincus LLC. The Lending Joint Ventures, which were reported within the Financial segment, included all of the Company’s automotive loan origination and servicing products, as well as its LoanServ™ mortgage and consumer loan servicing platform. The Company received gross sale proceeds of \$419 million from the transactions. The Company recognized a pre-tax gain on the sale of \$227 million, with the related tax expense of \$77 million recorded through the income tax provision, in the consolidated statements of income. The pre-tax gain includes \$124 million related to the remeasurement of the Company’s 45% retained interests based upon the estimated enterprise value of the Lending Joint Ventures. Contingent consideration of up to \$20 million under defined special distribution provisions within the transaction agreements is being accounted for by the Company as a gain contingency and will therefore be recognized in future periods to the extent the contingency is resolved and thereby realized. The Company’s remaining 45% ownership interests in the Lending Joint Ventures are accounted for as equity method investments, with the Company’s share of net income reported as income from investments in unconsolidated affiliates and the related tax expense reported within the income tax provision in the consolidated statements of income. The Company’s investment in the Lending Joint Ventures was \$65 million at September 30, 2018 and is reported within other long-term assets in the consolidated balance sheet. The revenues and expenses of the Lending Joint Ventures after the sale transactions are not included in the Company’s consolidated statements of income. The Company’s consolidated financial statements for all periods prior to the sale transactions include the revenues, expenses and cash flows of the Lending Joint Ventures.

Prior to the sale transactions described above, the Lending Joint Ventures entered into variable-rate term loan facilities for an aggregate amount of \$350 million in senior unsecured debt and variable-rate revolving credit facilities for an aggregate amount of \$35 million with a syndicate of banks, which transferred to the Lending Joint Ventures as part of the sale. The Company has guaranteed this debt of the Lending Joint Ventures and does not anticipate that the Lending Joint Ventures will fail to fulfill their debt obligations. These debt facilities mature in March 2023, and there are no outstanding borrowings on the revolving credit facilities as of September 30, 2018. The Company recorded an initial \$34 million liability as a reduction to the gain on sale transactions for the estimated fair value of its obligations to stand ready to perform over the term of the guarantees, which is reported primarily within other long-term liabilities in the consolidated balance sheet. Such guarantees will be amortized in future periods over the contractual term. During the three and nine months ended September 30, 2018, the Company recognized \$1 million and \$3 million, respectively, within non-operating income in its consolidated statements of income related to its release from risk under the guarantees. The Company has not made any payments under the guarantees, nor has it been called upon to do so. In conjunction with the sale transactions described above, the Company also entered into certain transition services agreements to provide, at fair value, various administration, business process outsourcing, technical and data center related services for defined periods to the Lending Joint Ventures. Amounts transacted through these agreements approximated \$10 million and \$20 million during the three and nine months ended September 30, 2018, respectively, and were primarily recognized as processing and services revenue in the consolidated statements of income.

StoneRiver Group, L.P.

The Company owns a 49% interest in StoneRiver Group, L.P. (“StoneRiver”), which is accounted for as an equity method investment. The Company reports its share of StoneRiver’s net income as income from investment in unconsolidated affiliate, with the related tax expense reported within the income tax provision, in the consolidated statements of income. During the three months ended March 31, 2017, StoneRiver recognized a gain on the sale of a business. The Company’s pre-tax share of the gain was \$26 million, with related tax expense of \$9 million. During the nine months ended September 30, 2017, the Company received cash dividends of \$44 million from StoneRiver, which were funded from recent sale transactions and recorded as reductions in the Company’s investment in StoneRiver. These dividends exceeded the Company’s investment carrying amount, resulting in the reduction of its investment balance to zero, with the excess cash dividend of \$5 million recorded as income, with related tax expense of \$2

million, for the three and nine months ended September 30, 2017. The dividends, in their entirety, represented returns on the Company's investment and are reported in cash flows from operating activities.

Table of Contents

7. Share-Based Compensation

The Company recognized \$18 million and \$54 million of share-based compensation expense during the three and nine months ended September 30, 2018, respectively, and \$15 million and \$48 million of share-based compensation expense during the three and nine months ended September 30, 2017, respectively. The Company's annual grant of share-based awards generally occurs in the first quarter. During the nine months ended September 30, 2018 and 2017, stock options to purchase 2.2 million and 2.7 million shares, respectively, were exercised.

A summary of stock option, restricted stock unit and performance share unit grant activity is as follows:

| | Nine Months Ended | | September 30, | | 2018 | | 2017 | |
|-------------------------|-------------------|------------------|----------------|------------------|----------------|------------------|----------------|------------------|
| | Shares | Weighted-Average | Shares | Weighted-Average | Shares | Weighted-Average | Shares | Weighted-Average |
| | Granted | Grant Date Fair | Granted | Grant Date Fair | Granted | Grant Date Fair | Granted | Grant Date Fair |
| | (In thousands) | (In thousands) | (In thousands) | (In thousands) | (In thousands) | (In thousands) | (In thousands) | (In thousands) |
| Stock options | 1,283 | \$ 22.48 | 1,417 | \$ 18.73 | | | | |
| Restricted stock units | 525 | 70.62 | 603 | 57.65 | | | | |
| Performance share units | 165 | 75.39 | 110 | 56.91 | | | | |

8. Income Taxes

Income tax provision as a percentage of income before income from investments in unconsolidated affiliates was 25.4% and 30.1% in the three months ended September 30, 2018 and 2017, respectively, and was 24.5% and 31.5% in the nine months ended September 30, 2018 and 2017, respectively. The lower rates in 2018 were primarily attributable to the enactment of the Tax Act, which reduced the U.S federal corporate tax rate from 35 percent to 21 percent beginning in 2018, and is further described below. The rates include \$77 million of income tax expense associated with the \$227 million gain on the sale of a 55% interest of the Company's Lending Solutions business in the first quarter of 2018 and \$9 million of income tax expense associated with the Company's share of the gain on the sale of a business at StoneRiver in the first quarter of 2017.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as The Tax Cuts and Jobs Act. The Tax Act makes broad changes to the U.S. tax code, including, but not limited to, (1) reducing the U.S. federal corporate tax rate from 35 percent to 21 percent beginning in 2018; (2) requiring companies to pay a one-time transition tax on certain un-repatriated earnings of foreign subsidiaries; (3) generally eliminating U.S. federal income taxes on dividends from foreign subsidiaries; (4) requiring U.S. federal taxable income to include certain earnings of controlled foreign corporations; and (5) creating a new limitation on deductible interest expense.

The Company recorded a provisional income tax benefit totaling \$275 million in 2017 related to the reduction of the U.S. federal corporate tax rate and other provisions of the Tax Act. During the three months ended September 30, 2018, the Internal Revenue Service issued new guidance affecting the computation of the Company's 2017 federal income tax liability. As a result of this new guidance and additional analysis of the impacts of the Tax Act, the Company revised its prior estimates and recorded \$19 million of tax expense related to the Tax Act during the three months ended September 30, 2018. The Company's accounting for certain elements of the Tax Act continues to be evaluated and remains incomplete as of September 30, 2018; however, any associated impacts are not expected to be material.

9. Shares Used in Computing Net Income Per Share

The computation of shares used in calculating basic and diluted net income per common share is as follows:

| (In millions) | Three Months | | Nine Months | |
|---|---------------|---------------|---------------|---------------|
| | Ended | Ended | Ended | Ended |
| | September 30, | September 30, | September 30, | September 30, |
| | 2018 | 2017 | 2018 | 2017 |
| Weighted-average common shares outstanding used for the calculation of net income per share – basic | 403.8 | 420.2 | 408.4 | 424.3 |
| Common stock equivalents | 8.2 | 8.9 | 8.2 | 9.1 |
| | 412.0 | 429.1 | 416.6 | 433.4 |

Weighted-average common shares outstanding used for the calculation of net income
per share – diluted

20

Table of Contents

For the three months ended September 30, 2018 and 2017, stock options for 1.2 million and 1.4 million shares, respectively, were excluded from the calculation of diluted weighted-average outstanding shares because their impact was anti-dilutive. For the nine months ended September 30, 2018 and 2017, stock options for 1.0 million and 1.5 million shares, respectively, were excluded from the calculation of diluted weighted-average outstanding shares because their impact was anti-dilutive.

10. Fair Value Measurements

The Company applies fair value accounting for all assets and liabilities that are recognized or disclosed at fair value in its consolidated financial statements on a recurring basis. Fair value represents the amount that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, the Company considers the principal or most advantageous market and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability.

The fair values of cash equivalents, trade accounts receivable, settlement assets and obligations, accounts payable, and client deposits approximate their respective carrying values due to the short period of time to maturity. The estimated fair value of total debt was \$5.3 billion at September 30, 2018 and \$5.0 billion at December 31, 2017. The Company's contingent consideration liability arising from the OBS acquisition had an estimated fair value of \$15 million at both September 30, 2018 and at December 31, 2017, which was based on the present value of a probability-weighted assessment approach derived from the likelihood of achieving the various earn-out criteria (level 3 of the fair value hierarchy). This estimated fair value has not changed since the acquisition date. The aggregate fair values of the Company's debt guarantee arrangements with the Lending Joint Ventures approximate the \$31 million carrying values at September 30, 2018. The contingent consideration and debt guarantee liabilities are reported primarily in other long-term liabilities in the consolidated balance sheets.

11. Intangible Assets

Intangible assets consisted of the following:

| (In millions) | Gross Carrying Amount | Accumulated Amortization | Net Book Value |
|--|-----------------------------|-----------------------------|-------------------|
| September 30, 2018 | | | |
| Customer related intangible assets | \$ 2,292 | \$ 1,260 | \$ 1,032 |
| Acquired software and technology | 578 | 483 | 95 |
| Trade names | 117 | 69 | 48 |
| Capitalized software development costs | 783 | 301 | 482 |
| Purchased software | 262 | 117 | 145 |
| Total | \$ 4,032 | \$ 2,230 | \$ 1,802 |
| (In millions) | | | |
| December 31, 2017 | | | |
| Customer related intangible assets | \$ 2,293 | \$ 1,168 | \$ 1,125 |
| Acquired software and technology | 579 | 460 | 119 |
| Trade names | 117 | 64 | 53 |
| Capitalized software development costs | 737 | 282 | 455 |
| Purchased software | 241 | 111 | 130 |
| Total | \$ 3,967 | \$ 2,085 | \$ 1,882 |

The Company estimates that annual amortization expense with respect to acquired intangible assets recorded at September 30, 2018, which include customer related intangible assets, acquired software and technology, and trade names, will be approximately \$160 million in each of 2018 and 2019, \$130 million in each of 2020 and 2021, and \$120 million in 2022. Amortization expense with respect to capitalized and purchased software recorded at September 30, 2018 is estimated to approximate \$180 million in 2018.

Table of Contents

12. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following:

| (In millions) | September 30, December 31, | |
|-----------------------------------|----------------------------|----------|
| | 2018 | 2017 |
| Trade accounts payable | \$ 97 | \$ 80 |
| Client deposits | 523 | 481 |
| Settlement obligations | 499 | 379 |
| Accrued compensation and benefits | 166 | 198 |
| Other accrued expenses | 266 | 221 |
| Total | \$ 1,551 | \$ 1,359 |

13. Long-Term Debt

In September 2018, the Company entered into an amended and restated revolving credit agreement that restated its existing \$2.0 billion revolving credit agreement with a syndicate of banks and extended its maturity from April 2020 to September 2023. Borrowings under the amended and restated revolving credit facility continue to bear interest at a variable rate based on LIBOR or on a base rate, plus in each case a specified margin based on the Company's long-term debt rating in effect from time to time. There are no significant commitment fees and no compensating balance requirements. The amended and restated revolving credit facility contains various restrictions and covenants that require the Company, among other things, to (1) limit its consolidated indebtedness as of the end of each fiscal quarter to no more than three and one-half times the Company's consolidated net earnings before interest, taxes, depreciation, amortization, non-cash charges and expenses and certain other adjustments ("EBITDA") during the period of four fiscal quarters then ended, subject to certain exceptions, and (2) maintain EBITDA of at least three times its consolidated interest expense as of the end of each fiscal quarter for the period of four fiscal quarters then ended.

In September 2018, the Company completed an offering of \$2.0 billion of senior notes comprised of \$1.0 billion aggregate principal amount of 3.8% senior notes due in October 2023 and \$1.0 billion aggregate principal amount of 4.2% senior notes due in October 2028. The notes pay interest semi-annually on April 1 and October 1, commencing on April 1, 2019. The interest rate applicable to these notes is subject to an increase of up to one percent in the event that the credit rating assigned to such notes is downgraded below investment grade. The indentures governing the senior notes contain covenants that, among other matters, limit (1) the Company's ability to consolidate or merge with or into, or convey, transfer or lease all or substantially all of its properties and assets to, another person, (2) the Company's and certain of its subsidiaries' ability to create or assume liens, and (3) the Company's and certain of its subsidiaries' ability to engage in sale and leaseback transactions.

The Company used the net proceeds from the offering described above to repay the outstanding principal balance of \$540 million under its term loan and the outstanding borrowings under its amended and restated revolving credit facility totaling \$1.1 billion. In addition, the Company commenced a cash tender offer in September 2018 for any and all of its outstanding \$450 million aggregate principal amount of 4.625% senior notes due October 2020. Upon expiration of the tender offer on September 26, 2018, \$246 million was tendered and \$253 million was paid to all holders of such tendered notes in October 2018. The Company recorded a pre-tax loss on early debt extinguishment of \$8 million in the third quarter of 2018 related to the tender offer. At September 30, 2018, the Company's \$450 million aggregate principal amount of 4.625% senior notes were classified in the consolidated balance sheet as short-term given the planned full redemption of such notes. In October 2018, the Company retired the remaining outstanding \$204 million aggregate principal amount of 4.625% senior notes, resulting in a pre-tax loss on early debt extinguishment of \$6 million.

Table of Contents

14. Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive loss by component, net of income taxes, consisted of the following:

| (In millions) | Cash Flow Hedges | Foreign Currency Translation | Other | Total |
|---|---------------------|------------------------------------|---------|--------|
| Balance at December 31, 2017 | \$ (14) | \$ (38) | \$ (2) | \$(54) |
| Net current-period other comprehensive loss | (11) | (14) | — | (25) |
| Cumulative-effect adjustment of ASU 2017-12 adoption from retained earnings | 3 | — | — | 3 |
| Cumulative-effect adjustment of ASU 2018-02 adoption to retained earnings | (3) | — | — | (3) |
| Balance at September 30, 2018 | \$ (25) | \$ (52) | \$ (2) | \$(79) |

| (In millions) | Cash Flow Hedges | Foreign Currency Translation | Other | Total |
|--|---------------------|------------------------------------|---------|--------|
| Balance at December 31, 2016 | \$ (24) | \$ (50) | \$ (2) | \$(76) |
| Other comprehensive income before reclassifications | 2 | 14 | — | 16 |
| Amounts reclassified from accumulated other comprehensive loss | 5 | — | — | 5 |
| Net current-period other comprehensive income | 7 | 14 | — | 21 |
| Balance at September 30, 2017 | \$ (17) | \$ (36) | \$ (2) | \$(55) |

Based on the amounts recorded in accumulated other comprehensive loss at September 30, 2018, the Company estimates that it will recognize approximately \$6 million in interest expense during the next twelve months related to settled interest rate hedge contracts.

Derivatives are recorded in the consolidated balance sheets as either an asset or liability measured at fair value. For a derivative designated as a cash flow hedge, changes in the fair value of the derivative are recorded as a component of accumulated other comprehensive loss with an offsetting adjustment to the basis of the item being hedged. Changes in fair value are then recognized in the consolidated statements of income when the hedged item affects earnings, reported within the same line as the hedged item. The Company's policy is to enter into derivatives with creditworthy institutions and not to enter into such derivatives for speculative purposes.

The Company has entered into foreign currency forward exchange contracts, which have been designated as cash flow hedges, to hedge foreign currency exposure to the Indian Rupee. As of September 30, 2018, the notional amount of these derivatives was \$167 million, and the fair value totaling \$11 million is reported in accounts payable and accrued expenses in the consolidated balance sheet. As of December 31, 2017, the notional amount of these derivatives was \$150 million, and the fair value totaling \$8 million is reported in prepaid expenses and other current assets in the consolidated balance sheet. Based on the amounts recorded in accumulated other comprehensive loss at September 30, 2018, the Company estimates that it will recognize losses of approximately \$8 million in cost of processing and services during the next twelve months as foreign currency forward exchange contracts settle.

15. Cash Flow Information

Supplemental cash flow information consisted of the following:

| (In millions) | Nine Months Ended | |
|---|-----------------------|-------|
| | September 30, 2018 | 2017 |
| Interest paid | \$ 98 | \$ 88 |
| Income taxes paid | 203 | 315 |
| Treasury stock purchases settled after the balance sheet date | 20 | 18 |

Table of Contents

16. Business Segment Information

The Company's operations are comprised of the Payments segment and the Financial segment. The Payments segment primarily provides electronic bill payment and presentment services, internet and mobile banking software and services, account-to-account transfers, person-to-person payment services, debit and credit card processing and services, payments infrastructure services, and other electronic payments software and services. The businesses in this segment also provide card and print personalization services, investment account processing services for separately managed accounts, and fraud and risk management products and services. The Financial segment provides financial institutions with account processing services, item processing and source capture services, loan origination and servicing products, cash management and consulting services, and other products and services that support numerous types of financial transactions. Corporate and Other primarily consists of intercompany eliminations, amortization of acquisition-related intangible assets, unallocated corporate expenses and other activities that are not considered when management evaluates segment performance, such as gains on sales of businesses and associated transition services.

| (In millions) | Payments | Financial | Corporate and Other | Total |
|---------------------------------------|----------|-----------|------------------------|----------|
| Three Months Ended September 30, 2018 | | | | |
| Processing and services revenue | \$ 674 | \$ 535 | \$ 14 | \$ 1,223 |
| Product revenue | 170 | 39 | (20) | 189 |
| Total revenue | \$ 844 | \$ 574 | \$ (6) | \$ 1,412 |
| Operating income | \$ 267 | \$ 187 | \$ (98) | \$ 356 |
| Three Months Ended September 30, 2017 | | | | |
| Processing and services revenue | \$ 621 | \$ 576 | \$ 2 | \$ 1,199 |
| Product revenue | 175 | 43 | (17) | 201 |
| Total revenue | \$ 796 | \$ 619 | \$ (15) | \$ 1,400 |
| Operating income | \$ 253 | \$ 204 | \$ (87) | \$ 370 |
| Nine Months Ended September 30, 2018 | | | | |
| Processing and services revenue | \$ 1,992 | \$ 1,646 | \$ 30 | \$ 3,668 |
| Product revenue | 531 | 134 | (61) | 604 |
| Total revenue | \$ 2,523 | \$ 1,780 | \$ (31) | \$ 4,272 |
| Operating income | \$ 807 | \$ 590 | \$ (75) | \$ 1,322 |
| Nine Months Ended September 30, 2017 | | | | |
| Processing and services revenue | \$ 1,818 | \$ 1,738 | \$ 7 | \$ 3,563 |
| Product revenue | 551 | 124 | (58) | 617 |
| Total revenue | \$ 2,369 | \$ 1,862 | \$ (51) | \$ 4,180 |
| Operating income | \$ 750 | \$ 614 | \$ (257) | \$ 1,107 |

Goodwill in the Payments segment was \$3.8 billion as of both September 30, 2018 and December 31, 2017. Goodwill in the Financial segment was \$1.7 billion and \$1.8 billion as of September 30, 2018 and December 31, 2017, respectively.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This quarterly report contains "forward-looking statements" intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. Forward-looking statements include those that express a plan, belief, expectation, estimation, anticipation, intent, contingency, future development or similar expression, and can generally be identified as forward-looking because they include words such as "believes," "anticipates," "expects," "could," "should" or words of similar meaning. Statements that describe our future plans, objectives or goals are also forward-looking statements. The forward-looking statements in this report involve significant risks and uncertainties, and a number of factors, both foreseen and unforeseen, could cause actual results to differ materially from our current expectations. The factors that may affect our results include, among others: pricing and other actions by competitors; the capacity of our technology to keep pace with a rapidly evolving marketplace; the impact of a security breach or operational failure on our business; the effect of legislative and regulatory actions in the United States and internationally; our ability to comply with government regulations; our ability to successfully identify, complete and integrate acquisitions, and to realize the anticipated benefits associated with the same, including with respect to the acquisition of the third-party debit processing solutions of Elan Financial Services; the impact of our strategic initiatives; the impact of market and economic conditions on the financial services industry; and other factors identified in our Annual Report on Form 10-K for the year ended December 31, 2017 and in other documents that we file with the Securities and Exchange Commission. You should consider these factors carefully in evaluating forward-looking statements and are cautioned not to place undue reliance on such statements, which speak only as of the date of this report. We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this report.

Management's discussion and analysis of financial condition and results of operations is provided as a supplement to our unaudited consolidated financial statements and accompanying notes to help provide an understanding of our financial condition, the changes in our financial condition and our results of operations. Our discussion is organized as follows:

Overview. This section contains background information on our company and the services and products that we provide, acquisitions and dispositions, our enterprise priorities, and the trends affecting our industry in order to provide context for management's discussion and analysis of our financial condition and results of operations.

Changes in critical accounting policies and estimates. This section contains a discussion of changes since our Annual Report on Form 10-K for the year ended December 31, 2017 in the accounting policies that we believe are important to our financial condition and results of operations and that require judgment and estimates on the part of management in their application.

Results of operations. This section contains an analysis of our results of operations presented in the accompanying unaudited consolidated statements of income by comparing the results for the three and nine months ended September 30, 2018 to the comparable periods in 2017.

Liquidity and capital resources. This section provides an analysis of our cash flows and a discussion of our outstanding debt as of September 30, 2018.

Overview

Company Background

We are a leading global provider of financial services technology. We provide account processing systems, electronic payments processing products and services, internet and mobile banking systems, and related services. We serve over 12,000 clients worldwide, including banks, credit unions, investment management firms, leasing and finance companies, billers, retailers, and merchants. The majority of our revenue is generated from recurring account- and transaction-based fees under contracts that generally have terms of three to five years and high renewal rates. Most of

the services we provide are necessary for our clients to operate their businesses and are, therefore, non-discretionary in nature.

Our operations are principally located in the United States and are comprised of the Payments and Industry Products (“Payments”) segment and the Financial Institution Services (“Financial”) segment. The Payments segment primarily provides electronic bill payment and presentment services, internet and mobile banking software and services, account-to-account transfers, person-to-person payment services, debit and credit card processing and services, payments infrastructure services, and other electronic payments software and services. Our businesses in this segment also provide card and print personalization services, investment account processing services for separately managed accounts, and fraud and risk management products

Table of Contents

and services. The Financial segment provides financial institutions with account processing services, item processing and source capture services, loan origination and servicing products, cash management and consulting services, and other products and services that support numerous types of financial transactions. Corporate and Other primarily consists of intercompany eliminations, amortization of acquisition-related intangible assets, unallocated corporate expenses and other activities that are not considered when management evaluates segment performance, such as gains on sales of businesses and associated transition services.

On February 21, 2018, our board of directors declared a two-for-one stock split of our common stock and a proportionate increase in the number of our authorized shares of common stock. The additional shares were distributed on March 19, 2018 to shareholders of record at the close of business on March 5, 2018. Our common stock began trading at the split-adjusted price on March 20, 2018. All share and per share amounts are retroactively presented on a split-adjusted basis.

Acquisitions and Dispositions

We frequently review our portfolio to ensure we have the right set of businesses to execute on our strategy. We expect to acquire businesses when we identify: a compelling strategic need, such as a product, service or technology that helps meet client demand; an opportunity to change industry dynamics; a way to achieve business scale; or similar considerations. We expect to divest businesses that are not in line with our market, product or financial strategies.

On October 31, 2018, we acquired the debit card processing, ATM Managed Services, and Money Pass[®] surcharge-free network of Elan Financial Services, a unit of U.S. Bancorp, for approximately \$690 million, subject to post-closing adjustments.

In March 2018, we sold a 55% interest of our Lending Solutions business, which was reported within the Financial segment, retaining 45% ownership interests in the joint ventures (the “Lending Joint Ventures”). In conjunction with this transaction, we entered into certain transition services agreements to provide, at fair value, various administration, business process outsourcing, technical and data center related services for defined periods to the Lending Joint Ventures. We received gross sale proceeds of \$419 million from the transactions. In addition, in January 2018, we completed the sale of the retail voucher business acquired in our 2017 acquisition of Monitise for proceeds of £37 million (\$50 million), and in May 2017, we sold our Australian item processing business, which was reported within the Financial segment, for approximately \$17 million.

During 2017, we completed four acquisitions for an aggregate purchase price of \$384 million, net of \$33 million of acquired cash, along with earn-out provisions estimated at a fair value of \$15 million. In January 2017, we completed our acquisition of Online Banking Solutions, Inc. (“OBS”), a provider of cash management and digital business banking solutions that complement and enrich our existing solutions. In July 2017, we acquired the assets of PCLender, LLC (“PCLender”), a leader in internet-based mortgage software and mortgage lending technology solutions. The OBS and PCLender acquisitions are included in the Financial segment as their products are integrated across a number of our account processing solutions and will enable our bank and credit union clients to better serve their commercial and mortgage customers. In August 2017, we acquired Dovetail Group Limited (“Dovetail”), a leading provider of bank payments and liquidity management solutions. In September 2017, we completed our acquisition of Monitise plc (“Monitise”), a provider of digital solutions that enables innovative digital banking experiences for leading financial institutions worldwide. The Dovetail and Monitise acquisitions are included in the Payments segment and will further enable us to help financial institutions around the world transform their payments infrastructure and to expand our digital leadership, respectively.

Enterprise Priorities

We continue to implement a series of strategic initiatives to move money and information in a way that moves the world. These strategic initiatives include active portfolio management of our businesses, enhancing the overall value of our existing client relationships, improving operational effectiveness, being disciplined in our allocation of capital, and differentiating our products and services through innovation. Our key enterprise priorities for 2018 are: (i) to continue to build high-quality revenue while meeting our earnings goals; (ii) to enhance client relationships with an emphasis on digital and payment solutions; and (iii) to deliver innovation and integration which enables differentiated value for our clients.

Industry Trends

The market for products and services offered by financial institutions continues to evolve rapidly. The traditional financial industry and other market entrants regularly introduce and implement new payment, deposit, lending, investment and risk management products, and the distinctions among the products and services traditionally offered by different types of financial institutions continue to narrow as they seek to serve the same customers. At the same time, the evolving regulatory and cybersecurity landscape has continued to create a challenging operating environment for financial institutions. For example, legislation such as the Dodd-Frank Wall Street Reform and Consumer Protection Act has generated, and may continue to

Table of Contents

generate, new regulations impacting the financial industry. These conditions are driving heightened interest in solutions that help financial institutions win and retain customers, generate incremental revenue, comply with regulations and enhance operating efficiency. Examples of these solutions include electronic payments and delivery methods such as internet, mobile and tablet banking, sometimes referred to as “digital channels.”

The focus on digital channels by both financial institutions and their customers, as well as the growing volume and types of payment transactions in the marketplace, continues to elevate the data and transaction processing needs of financial institutions. We expect that financial institutions will continue to invest significant capital and human resources to process transactions, manage information, maintain regulatory compliance and offer innovative new services to their customers in this rapidly evolving and competitive environment. We anticipate that we will benefit over the long term from the trend of financial institutions moving from in-house technology to outsourced solutions as they seek to remain current on technology changes in an evolving marketplace. We believe that economies of scale in developing and maintaining the infrastructure, technology, products, services and networks necessary to be competitive in such an environment are essential to justify these investments, and we anticipate that demand for products that facilitate customer interaction with financial institutions, including electronic transactions through digital channels, will continue to increase, which we expect to create revenue opportunities for us.

In addition to the trends described above, the financial institutions marketplace has experienced change in composition as well. During the past 25 years, the number of financial institutions in the United States has declined at a relatively steady rate of approximately 3% per year, primarily as a result of voluntary mergers and acquisitions. Rather than reducing the overall market, these consolidations have transferred accounts among financial institutions. If a client loss occurs due to merger or acquisition, we receive a contract termination fee based on the size of the client and how early in the contract term the contract is terminated. These fees can vary from period to period. Our revenue is diversified, and we have clients that span the entire range of financial institutions in terms of asset size and business model, with our 50 largest financial institution clients representing less than 25% of our annual revenue. Our focus on long-term client relationships and recurring, transaction-oriented products and services has also reduced the impact that consolidation in the financial services industry has had on us. We believe that the integration of our products and services creates a compelling value proposition for our clients by providing, among other things, new sources of revenue and opportunities to reduce their costs. Furthermore, we believe that our sizable and diverse client base, combined with our position as a leading provider of non-discretionary, recurring revenue-based products and services, gives us a solid foundation for growth.

Changes in Critical Accounting Policies and Estimates

Our consolidated financial statements and accompanying notes have been prepared in accordance with accounting principles generally accepted in the United States, which require management to make estimates, judgments and assumptions that affect the reported amount of assets, liabilities, revenue and expenses. In our Annual Report on Form 10-K for the year ended December 31, 2017, we identified our critical accounting policies and estimates. We continually evaluate the accounting policies and estimates that we use to prepare our consolidated financial statements, including for recently adopted accounting pronouncements, and base our estimates on historical experience and assumptions that we believe are reasonable in light of current circumstances. Actual amounts and results could differ materially from these estimates. Significant changes to our critical accounting policies and estimates as a result of adopting ASU 2014-09, Revenue from Contracts with Customers, and its related amendments (collectively “ASC 606”) are as follows:

Revenue Recognition

We adopted ASC 606 effective January 1, 2018 using the modified retrospective transition approach applied to all contracts. Additional information about our revenue recognition policies and the related impact of the adoption is included in Notes 2 and 3 to the consolidated financial statements.

There have been no other material changes to our critical accounting policies and estimates from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.

Table of Contents

Results of Operations

The following table presents certain amounts included in our consolidated statements of income, the relative percentage that those amounts represent to revenue and the change in those amounts from year to year. This information should be read together with the unaudited consolidated financial statements and accompanying notes.

| (In millions) | Three Months Ended September 30, | | | | | | | |
|---|----------------------------------|---------|---------------|---------|---------------------|------|---|--|
| | 2018 | 2017 | Percentage of | | Increase (Decrease) | | | |
| | | | Revenue (1) | | \$ | % | | |
| Revenue: | | | | | | | | |
| Processing and services | \$1,223 | \$1,199 | 86.6 % | 85.6 % | \$ 24 | 2 | % | |
| Product | 189 | 201 | 13.4 % | 14.4 % | (12) | (6) | % | |
| Total revenue | 1,412 | 1,400 | 100.0 % | 100.0 % | 12 | 1 | % | |
| Expenses: | | | | | | | | |
| Cost of processing and services | 568 | 572 | 46.4 % | 47.7 % | (4) | (1) | % | |
| Cost of product | 181 | 174 | 95.8 % | 86.6 % | 7 | 4 | % | |
| Sub-total | 749 | 746 | 53.0 % | 53.3 % | 3 | — | | |
| Selling, general and administrative | 305 | 284 | 21.6 % | 20.3 % | 21 | 7 | % | |
| Loss on sale of business | 2 | — | 0.1 % | — | 2 | n/m | | |
| Total expenses | 1,056 | 1,030 | 74.8 % | 73.5 % | 26 | 3 | % | |
| Operating income | 356 | 370 | 25.2 % | 26.5 % | (14) | (4) | % | |
| Interest expense | (47) | (45) | (3.3)% | (3.2)% | 2 | 4 | % | |
| Loss on early debt extinguishment | (8) | — | (0.6)% | — | 8 | n/m | | |
| Non-operating income | 3 | — | 0.2 % | — | 3 | n/m | | |
| Income before income taxes and income from investments in unconsolidated affiliates | \$304 | \$325 | 21.5 % | 23.2 % | \$ (21) | (6) | % | |

| (In millions) | Nine Months Ended September 30, | | | | | | | |
|---|---------------------------------|---------|---------------|---------|---------------------|------|---|--|
| | 2018 | 2017 | Percentage of | | Increase (Decrease) | | | |
| | | | Revenue (1) | | \$ | % | | |
| Revenue: | | | | | | | | |
| Processing and services | \$3,668 | \$3,563 | 85.9 % | 85.2 % | \$ 105 | 3 | % | |
| Product | 604 | 617 | 14.1 % | 14.8 % | (13) | (2) | % | |
| Total revenue | 4,272 | 4,180 | 100.0 % | 100.0 % | 92 | 2 | % | |
| Expenses: | | | | | | | | |
| Cost of processing and services | 1,696 | 1,715 | 46.2 % | 48.1 % | (19) | (1) | % | |
| Cost of product | 551 | 531 | 91.2 % | 86.1 % | 20 | 4 | % | |
| Sub-total | 2,247 | 2,246 | 52.6 % | 53.7 % | 1 | — | | |
| Selling, general and administrative | 930 | 837 | 21.8 % | 20.0 % | 93 | 11 | % | |
| Gain on sale of businesses | (227) | (10) | (5.3)% | (0.2)% | 217 | n/m | | |
| Total expenses | 2,950 | 3,073 | 69.0 % | 73.5 % | (123) | (4) | % | |
| Operating income | 1,322 | 1,107 | 31.0 % | 26.5 % | 215 | 19 | % | |
| Interest expense | (137) | (131) | (3.2)% | (3.1)% | 6 | 5 | % | |
| Loss on early debt extinguishment | (8) | — | (0.2)% | — | 8 | n/m | | |
| Non-operating income | 6 | 2 | 0.1 % | — | 4 | n/m | | |
| Income before income taxes and income from investments in unconsolidated affiliates | \$1,183 | \$978 | 27.7 % | 23.4 % | \$ 205 | 21 | % | |

(1)

Percentage of revenue is calculated as the relevant revenue, expense, income or loss amount divided by total revenue, except for cost of processing and services and cost of product amounts which are divided by the related component of revenue.

Table of Contents

| (In millions) | Three Months Ended September 30, | | | |
|------------------------------------|----------------------------------|-----------|------------------------|------------|
| | Payments | Financial | Corporate and Other | Total |
| Total revenue: | | | | |
| 2018 | \$844 | \$574 | \$ (6) | \$1,412 |
| 2017 | 796 | 619 | (15) | 1,400 |
| Revenue growth | \$48 | \$(45) | \$ 9 | \$12 |
| Revenue growth percentage | 6 % | (7)% | | 1 % |
| Operating income: | | | | |
| 2018 | \$267 | \$187 | \$ (98) | \$356 |
| 2017 | 253 | 204 | (87) | 370 |
| Operating income growth | \$14 | \$(17) | \$ (11) | \$(14) |
| Operating income growth percentage | 6 % | (8)% | | (4)% |
| Operating margin: | | | | |
| 2018 | 31.5 % | 32.7 % | | 25.2 % |
| 2017 | 31.7 % | 33.1 % | | 26.5 % |
| Operating margin growth (1) | (20) bps | (40) bps | | (130) bps |
| (In millions) | Nine Months Ended September 30, | | | |
| | Payments | Financial | Corporate and Other | Total |
| Total revenue: | | | | |
| 2018 | \$2,523 | \$1,780 | \$ (31) | \$4,272 |
| 2017 | 2,369 | 1,862 | (51) | 4,180 |
| Revenue growth | \$154 | \$(82) | \$ 20 | \$92 |
| Revenue growth percentage | 7 % | (4)% | | 2 % |
| Operating income: | | | | |
| 2018 | \$807 | \$590 | \$ (75) | \$1,322 |
| 2017 | 750 | 614 | (257) | 1,107 |
| Operating income growth | \$57 | \$(24) | \$ 182 | \$215 |
| Operating income growth percentage | 8 % | (4)% | | 19 % |
| Operating margin: | | | | |
| 2018 | 32.0 % | 33.2 % | | 31.0 % |
| 2017 | 31.6 % | 33.0 % | | 26.5 % |
| Operating margin growth (1) | 40 bps | 20 bps | | 450 bps |

(1) Represents the basis point growth or decline in operating margin.

Total Revenue

Total revenue increased \$12 million, or 1%, in the third quarter of 2018 and increased \$92 million, or 2%, in the first nine months of 2018 compared to the prior year periods.

Revenue in our Payments segment increased \$48 million, or 6%, during the third quarter of 2018 and \$154 million, or 7%, during the first nine months of 2018 compared to 2017. Revenue growth at our card services and biller solutions businesses contributed approximately 3% and 1%, respectively, to the Payments segment growth in both the third quarter and first nine months of 2018 largely due to increased transaction volumes. In addition, revenue from businesses acquired in 2017 contributed 1% and 2% to Payments segment revenue growth in the third quarter and first nine months of 2018, respectively.

Revenue in our Financial segment decreased \$45 million, or 7%, and \$82 million, or 4%, during the third quarter and first nine months of 2018, respectively, compared to 2017. The Financial segment revenue decline was attributable to dispositions, which reduced Financial segment revenue growth by 11% and 8% in the third quarter and first nine

months of 2018, respectively,

29

Table of Contents

compared to 2017. Partially offsetting this decline, our account processing businesses contributed 3% to the Financial segment revenue growth in both the third quarter and first nine months of 2018.

Revenue at Corporate and Other increased \$9 million and \$20 million during the third quarter and first nine months of 2018, respectively, compared to 2017, primarily due to transition services revenue from the Lending Joint Ventures.

Total Expenses

Total expenses increased \$26 million, or 3%, and decreased \$123 million, or 4%, in the third quarter and first nine months of 2018, respectively, compared to the prior year periods. Total expenses as a percentage of total revenue increased to 74.8% in the third quarter of 2018 and decreased to 69.0% in the first nine months of 2018, compared to the prior year periods. Total expenses and total expenses as a percentage of total revenue in the first nine months of 2018 were reduced by the \$227 million gain on sale of a 55% interest of our Lending Solutions business.

Cost of processing and services as a percentage of processing and services revenue decreased to 46.4% in the third quarter of 2018 compared to 47.7% in the third quarter of 2017 and decreased to 46.2% in the first nine months of 2018 compared to 48.1% in the first nine months of 2017. Cost of processing and services as a percentage of processing and services revenue was favorably impacted by scalable revenue growth in our Payments segment by approximately 80 basis points and 100 basis points in the third quarter and first nine months of 2018, respectively. In addition, our account processing businesses contributed approximately 100 basis points and 80 basis points to the improvement in cost of processing and services as a percentage of processing and services revenue in the third quarter and first nine months of 2018, respectively, driven by product mix and expense management. Cost of processing and services as a percentage of processing and services revenue was negatively impacted by approximately 70 basis points and 20 basis points in the third quarter and first nine months of 2018, respectively, as a result of client-focused incremental investments.

Cost of product as a percentage of product revenue increased to 95.8% in the third quarter of 2018 compared to 86.6% in the third quarter of 2017 and increased to 91.2% in the first nine months of 2018 compared to 86.1% in the first nine months of 2017. Cost of product as a percentage of product revenue in each period of 2018 was primarily impacted by additional expenses associated with product development. In addition, cost of product as a percentage of product revenue in the third quarter of 2018 was negatively impacted by approximately 400 basis points due to a decrease in higher-margin software license revenue.

Selling, general and administrative expenses as a percentage of total revenue increased to 21.6% in the third quarter of 2018 compared to 20.3% in the third quarter of 2017 and increased to 21.8% in the first nine months of 2018 compared to 20.0% in the first nine months of 2017. Increased costs associated with acquisitions negatively impacted selling, general and administrative expenses as a percentage of total revenue by approximately 20 basis points and 70 basis points in the third quarter and first nine months of 2018, respectively. The disposition of a 55% interest of our Lending Solutions business increased selling, general and administrative expenses as a percentage of total revenue in each of the 2018 periods compared to 2017 by approximately 60 basis points.

The gain on sale of businesses of \$227 million in 2018 and \$10 million in 2017 was driven by the sales of a 55% interest of our Lending Solutions business and our Australian item processing business, respectively.

Operating Income and Operating Margin

Total operating income decreased \$14 million, or 4%, and increased \$215 million, or 19%, in the third quarter and first nine months of 2018, respectively, compared to the prior year periods. Total operating margin decreased to 25.2% in the third quarter of 2018 and increased to 31.0% in the first nine months of 2018 compared to the prior year periods.

Operating income in our Payments segment increased \$14 million, or 6%, in the third quarter and \$57 million, or 8%, in the first nine months of 2018 compared to 2017. Operating margin decreased 20 basis points to 31.5% in the third quarter of 2018 and increased 40 basis points to 32.0% in the first nine months of 2018 compared to 2017. Scalable revenue growth positively impacted Payments segment operating margin in each period of 2018 by approximately 130 basis points. Payments segment operating margin was negatively impacted in the third quarter and first nine months of 2018 by 30 basis points and 80 basis points, respectively, from the 2017 Payments segment acquisitions and by approximately 80 basis points and 30 basis points, respectively, from client-focused incremental investments.

Operating income in our Financial segment decreased \$17 million, or 8%, and \$24 million, or 4%, in the third quarter and first nine months of 2018, respectively, compared to 2017, as a result of dispositions. Operating margin decreased 40 basis points to 32.7% in the third quarter of 2018 and increased 20 basis points to 33.2% in the first nine months of 2018 compared to 2017. Financial segment operating margin in each period of 2018 was reduced by approximately 150 basis points due to the

30

Table of Contents

disposition of a 55% interest of our Lending Solutions business, offset primarily by contributions from our account processing businesses related to product mix and expense management.

The operating loss in Corporate and Other increased by \$11 million and decreased by \$182 million in the third quarter and first nine months of 2018, respectively, compared to the prior year periods. An increase in variable compensation expenses negatively impacted Corporate and Other in the third quarter of 2018 compared to the third quarter of 2017. Corporate and Other was favorably impacted by gains of \$227 million and \$10 million from the sales of a 55% interest of our Lending Solutions business in the first quarter of 2018 and the sale of our Australian item processing business in the second quarter of 2017, respectively. Corporate and Other activity also reflects increased acquisition and related integration costs of \$13 million and increased data center consolidation costs of \$10 million in the first nine months of 2018 compared to 2017.

Interest Expense

Interest expense increased \$2 million, or 4%, and \$6 million, or 5%, in the third quarter and first nine months of 2018, respectively, compared to the prior year periods, primarily due to higher variable interest rates in 2018.

Loss on Early Debt Extinguishment

In September 2018, we commenced a cash tender offer for any and all of our outstanding \$450 million aggregate principal amount of 4.625% senior notes due October 2020, of which \$246 million was tendered, resulting in a pre-tax loss on early debt extinguishment of \$8 million recorded in the third quarter of 2018.

Non-Operating Income

Non-operating income in the third quarter and first nine months of 2018 includes \$2 million and \$3 million, respectively, of interest income, and \$1 million and \$3 million, respectively, related to the fulfillment of our stand-ready obligations to perform over the term of the Lending Joint Ventures debt guarantees and the associated release from risk. Non-operating income of \$2 million in the first nine months of 2017 was primarily attributable to an unrealized gain on a foreign currency hedge related to our Monitise acquisition.

Income Tax Provision

Income tax provision as a percentage of income before income from investments in unconsolidated affiliates was 25.4% and 30.1% in the third quarter of 2018 and 2017, respectively, and was 24.5% and 31.5% in the first nine months of 2018 and 2017, respectively. The lower rates in 2018 were primarily attributable to federal tax reform which reduced the U.S. federal corporate tax rate from 35 percent to 21 percent beginning in 2018. The rates include \$77 million of income tax expense associated with the \$227 million gain on the sale of a 55% interest of our Lending Solutions business in the first quarter of 2018 and \$9 million of income tax expense associated with our share of the gain on the sale of a business in the first quarter of 2017 at StoneRiver Group, L.P. (“StoneRiver”), an unconsolidated affiliate. In addition, during the third quarter of 2018, the Internal Revenue Service issued new guidance affecting the computation of our 2017 federal income tax liability. As a result of this new guidance and additional analysis of the impacts of The Tax Cuts and Jobs Act (the “Tax Act”), we recorded \$19 million of tax expense related to the Tax Act during the third quarter of 2018.

Income from Investments in Unconsolidated Affiliates

Our share of net income from the Lending Joint Ventures and StoneRiver is reported as income from investments in unconsolidated affiliates and the related tax expense is reported within the income tax provision in the consolidated statements of income. Income from investments in unconsolidated affiliates was \$1 million and \$8 million in the third quarter and first nine months of 2018, respectively, and was primarily comprised of our share of operational earnings from the Lending Joint Ventures. Our share of StoneRiver’s net income was \$31 million in the first nine months of 2017 and was attributable to the net gain on the sale of a business at StoneRiver in the first quarter.

Net Income Per Share – Diluted

Net income per share-diluted was \$0.55 and \$0.54 in the third quarter of 2018 and 2017, respectively, and was \$2.16 and \$1.62 in the first nine months of 2018 and 2017, respectively. Net income per share-diluted was favorably impacted in the first nine months of 2018 by a gain of \$0.36 per share on the sale of a 55% interest of our Lending Solutions business. Amortization of acquisition-related intangible assets reduced net income per share-diluted by \$0.08 and \$0.06 per share in the third quarter of 2018 and 2017, respectively, and by \$0.23 and \$0.18 per share in the first nine months of 2018 and 2017, respectively. In addition, net income per share-diluted was negatively impacted

by \$0.05 per share in both the third quarter and first nine months of 2018 as a result of new guidance issued by the Internal Revenue Service regarding the Tax Act.

31

Table of Contents

Liquidity and Capital Resources

General

Our primary liquidity needs are: (i) to fund normal operating expenses; (ii) to meet the interest and principal requirements of our outstanding indebtedness; and (iii) to fund capital expenditures and operating lease payments. We believe these needs will be satisfied using cash flow generated by our operations, along with our cash and cash equivalents of \$673 million and available borrowings under our revolving credit facility of \$2.0 billion at September 30, 2018. The following table summarizes our operating cash flow and capital expenditure amounts for the nine months ended September 30, 2018 and 2017, respectively.

| (In millions) | Nine Months | | Increase (Decrease) | |
|--|-------------|---------------|---------------------|-------|
| | Ended | September 30, | | |
| | 2018 | 2017 | \$ | % |
| Net income | \$901 | \$700 | \$ 201 | |
| Depreciation and amortization | 406 | 330 | 76 | |
| Share-based compensation | 54 | 48 | 6 | |
| Deferred income taxes | 105 | 20 | 85 | |
| Gain on sale of businesses | (227) | (10) | (217) | |
| Loss on early debt extinguishment | 8 | — | 8 | |
| Income from investments in unconsolidated affiliates | (8) | (31) | 23 | |
| Dividends from unconsolidated affiliates | 1 | 44 | (43) | |
| Non-cash impairment charges | 3 | 17 | (14) | |
| Net changes in working capital and other | (262) | (103) | (159) | |
| Operating cash flow | \$981 | \$1,015 | \$ (34) | (3)% |
| Capital expenditures | \$263 | \$208 | \$ 55 | 26 % |

Our net cash provided by operating activities, or operating cash flow, was \$981 million in the first nine months of 2018, a decrease of 3% compared with \$1.02 billion in the first nine months of 2017. This decrease was attributable to an approximate \$50 million impact of accounts receivable timing, other working capital fluctuations including a \$23 million tax payment resulting from new guidance issued by the Internal Revenue Service regarding the Tax Act, and \$43 million of lower cash dividends received from StoneRiver, partially offset by improved operating results. The dividends received in 2018 and 2017 represented returns on our investment and are reported in cash flows from operating activities.

Our current policy is to use our operating cash flow primarily to fund capital expenditures, share repurchases and acquisitions, and to repay debt rather than to pay dividends. Our capital expenditures were approximately 6% and 5% of our total revenue in the first nine months of 2018 and 2017, respectively.

Share Repurchases

We purchased \$1.23 billion and \$983 million of our common stock during the first nine months of 2018 and 2017, respectively. On each of November 16, 2016 and August 8, 2018, our board of directors authorized the purchase of up to 30.0 million shares of our common stock. As of September 30, 2018, we had approximately 34.9 million shares remaining under these authorizations. Shares repurchased are generally held for issuance in connection with our equity plans.

Acquisitions and Dispositions

During the first nine months of 2018, we sold a 55% interest of our Lending Solutions business, retaining 45% ownership interests in the joint ventures. We received gross sale proceeds of \$419 million from the transactions. In addition, we completed the sale of the retail voucher business acquired in our 2017 acquisition of Monitise for proceeds of £37 million (\$50 million).

On October 31, 2018, we acquired the debit card processing, ATM Managed Services, and Money Pass® surcharge-free network of Elan Financial Services, a unit of U.S. Bancorp, for approximately \$690 million, subject to post-closing adjustments.

During the first nine months of 2017, we completed four acquisitions for an aggregate purchase price of \$383 million, net of \$33 million of acquired cash, with earn-out provisions of up to \$20 million. We funded the acquisitions by utilizing a combination of available cash and existing availability under our revolving credit facility. In addition, we sold our Australian

32

Table of Contents

item processing business in May 2017 for approximately \$17 million, consisting of \$19 million in cash received at closing less a closing adjustment of \$2 million finalized in the fourth quarter of 2017.

Indebtedness

| (In millions) | September 30, December | |
|---|------------------------|----------|
| | 2018 | 31, 2017 |
| 2.7% senior notes due 2020 | \$ 847 | \$ 846 |
| 4.625% senior notes due 2020 | 449 | 449 |
| 4.75% senior notes due 2021 | 399 | 398 |
| 3.5% senior notes due 2022 | 696 | 696 |
| 3.8% senior notes due 2023 | 992 | — |
| 3.85% senior notes due 2025 | 895 | 894 |
| 4.2% senior notes due 2028 | 990 | — |
| Revolving credit facility | — | 1,068 |
| Term loan | — | 540 |
| Other borrowings | 7 | 9 |
| Total debt (including current maturities) | \$ 5,275 | \$ 4,900 |

At September 30, 2018, our debt consisted primarily of \$5.3 billion of fixed-rate senior notes. Interest on our senior notes is paid semi-annually. During the first nine months of September 30, 2018, we were in compliance with all financial debt covenants.

Revolving Credit Facility

In September 2018, we entered into an amended and restated revolving credit agreement that restated our existing \$2.0 billion revolving credit agreement with a syndicate of banks and extended its maturity from April 2020 to September 2023. Borrowings under the amended and restated revolving credit facility continue to bear interest at a variable rate based on LIBOR or on a base rate, plus in each case a specified margin based on our long-term debt rating in effect from time to time. There are no significant commitment fees and no compensating balance requirements. The amended and restated revolving credit facility contains various restrictions and covenants that require us, among other things, to (1) limit our consolidated indebtedness as of the end of each fiscal quarter to no more than three and one-half times our consolidated net earnings before interest, taxes, depreciation, amortization, non-cash charges and expenses and certain other adjustments (“EBITDA”) during the period of four fiscal quarters then ended, subject to certain exceptions, and (2) maintain EBITDA of at least three times our consolidated interest expense as of the end of each fiscal quarter for the period of four fiscal quarters then ended.

Senior Notes

In September 2018, we completed an offering of \$2.0 billion of senior notes comprised of \$1.0 billion aggregate principal amount of 3.8% senior notes due in October 2023 and \$1.0 billion aggregate principal amount of 4.2% senior notes due in October 2028. The notes pay interest semi-annually on April 1 and October 1, commencing on April 1, 2019. The interest rate applicable to these notes is subject to an increase of up to one percent in the event that the credit rating assigned to such notes is downgraded below investment grade. The indentures governing the senior notes contain covenants that, among other matters, limit (1) our ability to consolidate or merge with or into, or convey, transfer or lease all or substantially all of our properties and assets to, another person, (2) our and certain of our subsidiaries’ ability to create or assume liens, and (3) our and certain of our subsidiaries’ ability to engage in sale and leaseback transactions.

We used the net proceeds from the offering described above to repay the outstanding principal balance of \$540 million under our term loan and the outstanding borrowings under our amended and restated revolving credit facility totaling \$1.1 billion. In addition, we commenced a cash tender offer in September 2018 for any and all of our outstanding \$450 million aggregate principal amount of 4.625% senior notes due October 2020. Upon expiration of the tender offer on September 26, 2018, \$246 million was tendered and \$253 million was paid to all holders of such tendered notes in October 2018. In October 2018, we also retired the remaining outstanding \$204 million aggregate principal amount of 4.625% senior notes.

Table of Contents

Debt Guarantees

In connection with the sale of a 55% interest of our Lending Solutions business in March 2018, we have guaranteed underlying debt of the Lending Joint Ventures and do not anticipate that the Lending Joint Ventures will fail to fulfill their debt obligations. This debt is comprised of variable-rate term loan facilities for an aggregate amount of \$350 million in senior unsecured debt and variable-rate revolving credit facilities for an aggregate amount of \$35 million with a syndicate of banks. These debt facilities mature in March 2023, and there are no outstanding borrowings on the revolving credit facilities as of September 30, 2018. We have not made any payments under the guarantees, nor have we been called upon to do so.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The quantitative and qualitative disclosures about market risk required by this item are incorporated by reference to Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2017 and have not materially changed since December 31, 2017.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934 (the “Exchange Act”), our management, with the participation of our chief executive officer and chief financial officer, evaluated the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of September 30, 2018.

Changes in internal control over financial reporting

There was no change in our internal control over financial reporting that occurred during the quarter ended September 30, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the normal course of business, we or our subsidiaries are named as defendants in lawsuits in which claims are asserted against us. In the opinion of management, the liabilities, if any, which may ultimately result from such lawsuits are not expected to have a material adverse effect on our consolidated financial statements.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

All share and per share amounts are presented on a split-adjusted basis to retroactively reflect the two-for-one stock split that was completed in the first quarter of 2018.

The table below sets forth information with respect to purchases made by or on behalf of the company or any “affiliated purchaser” (as defined in Rule 10b-18(a)(3) under the Exchange Act) of shares of our common stock during the quarter ended September 30, 2018:

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1) | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1) |
|----------------------|----------------------------------|------------------------------|--|--|
| July 1-31, 2018 | 1,575,000 | \$ 76.39 | 1,575,000 | 8,871,000 |
| August 1-31, 2018 | 1,635,000 | 78.46 | 1,635,000 | 37,236,000 |
| September 1-30, 2018 | 2,340,000 | 80.73 | 2,340,000 | 34,896,000 |
| Total | 5,550,000 | | 5,550,000 | |

(1) On each of November 16, 2016 and August 8, 2018, our board of directors authorized the purchase of up to 30.0 million shares of our common stock. These authorizations do not expire.

Table of Contents

ITEM 6. EXHIBITS

The exhibits listed in the accompanying exhibit index are filed as part of this Quarterly Report on Form 10-Q.

Exhibit Index

| Exhibit Number | Exhibit Description |
|----------------|--|
| 4.1 | <u>Third Amended and Restated Credit Agreement, dated as of September 19, 2018, among Fiserv, Inc. and the financial institutions party thereto (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of Fiserv, Inc. filed September 20, 2018).</u> |
| 4.2 | <u>Fourteenth Supplemental Indenture, dated as of September 25, 2018, between Fiserv, Inc. and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of Fiserv, Inc. filed September 25, 2018).</u> |
| 4.3 | <u>Fifteenth Supplemental Indenture, dated as of September 25, 2018, between Fiserv, Inc. and U.S. Bank National Association (incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K of Fiserv, Inc. filed September 25, 2018).</u> |
| 31.1 | <u>Certification of the Chief Executive Officer, dated November 1, 2018</u> |
| 31.2 | <u>Certification of the Chief Financial Officer, dated November 1, 2018</u> |
| 32 | <u>Certification of the Chief Executive Officer and Chief Financial Officer, dated November 1, 2018</u> |
| 101.INS* | XBRL Instance Document |
| 101.SCH* | XBRL Taxonomy Extension Schema Document |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase Document |

Filed with this quarterly report on Form 10-Q are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Income for the three and nine months ended September 30, 2018 and 2017, (ii) the Consolidated Statements of Comprehensive Income for the three and nine months ended *September 30, 2018 and 2017, (iii) the Consolidated Balance Sheets at September 30, 2018 and December 31, 2017, (iv) the Consolidated Statement of Shareholders' Equity for the nine months ended September 30, 2018, (v) the Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 and 2017, and (vi) Notes to Consolidated Financial Statements.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FISERV, INC.

Date: November 1, 2018 By: /s/ Robert W. Hau
Robert W. Hau
Chief Financial Officer and Treasurer

Date: November 1, 2018 By: /s/ Kenneth F. Best
Kenneth F. Best
Chief Accounting Officer