

FISERV INC  
Form 10-Q  
May 01, 2019  
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 March 31, 2019

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 April 25, 2019, there were 392,439,838 shares of common stock, \$.01 par value, of the registrant outstanding.

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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 Statements of Cash Flows</u>   | <u>4</u>  |
| <u>Notes to Consolidated Financial Statements</u>  | <u>5</u>  |
| Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>18</u> |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>                            | <u>26</u> |
| Item 4. <u>Controls and Procedures</u>   | <u>26</u> |
| <u>PART II – OTHER INFORMATION</u>   |           |
| Item 1. <u>Legal Proceedings</u>   | <u>26</u> |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                           | <u>27</u> |
| Item 6. <u>Exhibits</u>  | <u>27</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<br>Ended<br>March 31, |         |
|---|------------------------------------|---------|
|   | 2019                               | 2018    |
| Revenue:  |                                    |         |
| Processing and services   | \$1,293                            | \$1,238 |
| Product   | 209                                | 202     |
| Total revenue   | 1,502                              | 1,440   |
| Expenses:   |                                    |         |
| Cost of processing and services   | 624                                | 568     |
| Cost of product   | 174                                | 191     |
| Selling, general and administrative   | 341                                | 305     |
| Gain on sale of business  | (10 )                              | (232 )  |
| Total expenses  | 1,129                              | 832     |
| Operating income  | 373                                | 608     |
| Interest expense  | (59 )                              | (45 )   |
| Debt financing activities   | (59 )                              | —       |
| Non-operating income  | 3                                  | —       |
| Income before income taxes and loss from investments in unconsolidated affiliates | 258                                | 563     |
| Income tax provision  | (31 )                              | (140 )  |
| Loss from investments in unconsolidated affiliates                                | (2 )                               | —       |
| Net income  | \$225                              | \$423   |
| Net income per share – basic  | \$0.58                             | \$1.02  |
| Net income per share – diluted  | \$0.56                             | \$1.00  |

Shares used in computing net income per share:

|         |       |       |
|---------|-------|-------|
| Basic   | 391.7 | 413.1 |
| Diluted | 399.1 | 421.6 |

See accompanying notes to consolidated financial statements.

Table of Contents

Fiserv, Inc.

Consolidated Statements of Comprehensive Income

(In millions)

(Unaudited)

|  | Three<br>Months<br>Ended<br>March 31, |       |
|--|---------------------------------------|-------|
|  | 2019                                  | 2018  |
| Net income   | \$225                                 | \$423 |
| Other comprehensive (loss) income:   |                                       |       |
| Fair market value adjustment on cash flow hedges, net of income tax benefit of \$8 million and zero  | (23 )                                 | (1 )  |
| 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 | —                                     | (2 )  |
| Reclassification adjustment for net realized losses on cash flow hedges included in interest expense, net of income tax provisions of zero                   | 1                                     | 1     |
| Foreign currency translation   | 4                                     | —     |
| Total other comprehensive (loss)   | (18 )                                 | (2 )  |
| Comprehensive income   | \$207                                 | \$421 |

See accompanying notes to consolidated financial statements.

Table of Contents

Fiserv, Inc.

Consolidated Balance Sheets

(In millions)

(Unaudited)

|  | March 31,<br>2019 | December 31,<br>2018 |
|--|-------------------|----------------------|
| Assets   |                   |                      |
| Cash and cash equivalents  | \$ 452            | \$ 415               |
| Trade accounts receivable, net   | 1,044             | 1,049                |
| Prepaid expenses and other current assets  | 779               | 760                  |
| Total current assets   | 2,275             | 2,224                |
| Property and equipment, net  | 409               | 398                  |
| Intangible assets, net   | 2,117             | 2,143                |
| Goodwill   | 5,703             | 5,702                |
| Contract costs, net  | 435               | 419                  |
| Other long-term assets   | 737               | 376                  |
| Total assets   | \$ 11,676         | \$ 11,262            |
| Liabilities and Shareholders' Equity   |                   |                      |
| Accounts payable and accrued expenses  | \$ 1,718          | \$ 1,626             |
| Current maturities of long-term debt   | 7                 | 4                    |
| Contract liabilities   | 395               | 380                  |
| Total current liabilities  | 2,120             | 2,010                |
| Long-term debt   | 5,868             | 5,955                |
| Deferred income taxes  | 745               | 745                  |
| Long-term contract liabilities   | 103               | 89                   |
| Other long-term liabilities  | 446               | 170                  |
| Total liabilities  | 9,282             | 8,969                |
| 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   | 1,034             | 1,057                |
| Accumulated other comprehensive loss   | (85)              | (67)                 |
| Retained earnings  | 11,860            | 11,635               |
| Treasury stock, at cost, 399.1 million and 398.9 million shares                                | (10,423)          | (10,340)             |
| Total shareholders' equity   | 2,394             | 2,293                |
| Total liabilities and shareholders' equity   | \$ 11,676         | \$ 11,262            |
| See accompanying notes to consolidated financial statements.                                   |                   |                      |

Table of Contents

Fiserv, Inc.

Consolidated Statements of Cash Flows

(In millions)

(Unaudited)

|  | Three<br>Months<br>Ended<br>March 31, |        |
|--|---------------------------------------|--------|
|  | 2019                                  | 2018   |
| Cash flows from operating activities:  |                                       |        |
| Net income   | \$225                                 | \$423  |
| Adjustments to reconcile net income to net cash provided by operating activities from continuing operations: |                                       |        |
| Depreciation and other amortization  | 100                                   | 93     |
| Amortization of acquisition-related intangible assets  | 45                                    | 40     |
| Amortization of financing costs and debt discounts   | 60                                    | 1      |
| Share-based compensation   | 19                                    | 19     |
| Deferred income taxes  | 8                                     | 77     |
| Gain on sale of business   | (10 )                                 | (232 ) |
| Loss from investments in unconsolidated affiliates   | 2                                     | —      |
| Other operating activities   | (2 )                                  | —      |
| Changes in assets and liabilities, net of effects from acquisitions and dispositions:                        |                                       |        |
| Trade accounts receivable  | 6                                     | 67     |
| Prepaid expenses and other assets  | (26 )                                 | (44 )  |
| Contract costs   | (58 )                                 | (50 )  |
| Accounts payable and other liabilities   | (26 )                                 | 38     |
| Contract liabilities   | 30                                    | (60 )  |
| Net cash provided by operating activities from continuing operations   | 373                                   | 372    |
| Cash flows from investing activities:  |                                       |        |
| Capital expenditures, including capitalization of software costs   | (98 )                                 | (77 )  |
| Proceeds from sale of business   | —                                     | 419    |
| Payments for acquisition of business, including working capital adjustments                                  | 56                                    | —      |
| Purchases of investments   | —                                     | (1 )   |
| Other investing activities   | 6                                     | (10 )  |
| Net cash (used in) provided by investing activities from continuing operations                               | (36 )                                 | 331    |
| Cash flows from financing activities:  |                                       |        |
| Debt proceeds  | 587                                   | 509    |
| Debt repayments  | (680 )                                | (806 ) |
| Payments of debt financing, redemption and other costs   | (56 )                                 | —      |
| Proceeds from issuance of treasury stock   | 32                                    | 28     |
| Purchases of treasury stock, including employee shares withheld for tax obligations                          | (183 )                                | (427 ) |
| Net cash used in financing activities from continuing operations   | (300 )                                | (696 ) |
| Net change in cash and cash equivalents from continuing operations   | 37                                    | 7      |
| Net cash flows from discontinued operations provided by investing activities                                 | —                                     | 50     |
| Cash and cash equivalents, beginning balance   | 415                                   | 325    |
| Cash and cash equivalents, ending balance  | \$452                                 | \$382  |
| See accompanying notes to consolidated financial statements.   |                                       |        |



Table of Contents

Fiserv, Inc.

Notes to Consolidated Financial Statements  
(Unaudited)

1. Basis of Presentation

The consolidated financial statements for the three months ended March 31, 2019 and 2018 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, 2018. Certain prior period amounts have been reclassified to conform to current period presentation.

Effective January 1, 2019, the Company adopted Accounting Standards Update (“ASU”) No. 2016-02, Leases (Topic 842) (“ASU 2016-02”), and its related amendments using the optional transition method applied to all leases. Prior period amounts have not been restated. Additional information about the Company’s lease policies and the related impact of the adoption is included in Notes 2 and 14 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.

2. Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In June 2018, the Financial Accounting Standards Board (“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 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. 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 adopted ASU 2018-07 on January 1, 2019, and the adoption did not have any impact on its consolidated financial statements.

In February 2016, the FASB issued 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 and statement of cash flow purposes, the standard retains the dual model with leases classified as either operating or finance. Operating leases result in straight-line expense while finance leases 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. ASU 2016-02 was subsequently amended by ASU No. 2018-01, Land Easement Practical Expedient for Transition to Topic 842; ASU No. 2018-10, Codification Improvements to Topic 842; ASU No. 2018-11, Leases (Topic 842) - Targeted Improvements; and ASU No. 2018-20, Narrow-Scope Improvements for Lessors. ASU No. 2018-11 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.

The Company adopted the new standard effective January 1, 2019 using the optional transition method in ASU 2018-11. Under this method, the Company has not adjusted its comparative period financial statements for the effects of the new standard or made the new, expanded required disclosures for periods prior to the effective date. The Company elected the package of practical expedients permitted under the transition guidance in ASU 2016-02 to not reassess prior conclusions related to contracts containing leases, lease classification and initial direct costs. The Company also elected the practical expedient not to separate the non-lease components of a contract from the lease component to which they relate.

Table of Contents

The adoption of the new lease standard resulted in the recognition of lease liabilities of \$383 million and right-of-use assets of \$343 million, which include the impact of existing deferred rents and tenant improvement allowances on the consolidated balance sheet as of January 1, 2019 for real and personal property operating leases. The adoption of ASU 2016-02 did not have a material impact on the Company's consolidated statements of income or consolidated statements of cash flows.

**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 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.

**3. Revenue Recognition**

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.

**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 6% and 5% of total revenue in the three months ended March 31, 2019 and 2018, respectively.

Table of Contents

| (In millions)                     | Reportable Segments |           |                     | Total   |
|-----------------------------------|---------------------|-----------|---------------------|---------|
|                                   | Payments            | Financial | Corporate and Other |         |
| Three Months Ended March 31, 2019 |                     |           |                     |         |
| Major Business                    |                     |           |                     |         |
| Digital Money Movement            | \$367               | \$ —      | \$ —                | \$367   |
| Card and Related Services         | 469                 | —         | —                   | 469     |
| Other                             | 78                  | —         | —                   | 78      |
| Total Payments                    | 914                 | —         | —                   | 914     |
| Account and Item Processing       | —                   | 533       | —                   | 533     |
| Other                             | —                   | 65        | —                   | 65      |
| Total Financial                   | —                   | 598       | —                   | 598     |
| Corporate and Other               | —                   | —         | (10 )               | (10 )   |
| Total Revenue                     | \$914               | \$ 598    | \$ (10 )            | \$1,502 |

| (In millions)                     | Reportable Segments |           |                     | Total   |
|-----------------------------------|---------------------|-----------|---------------------|---------|
|                                   | Payments            | Financial | Corporate and Other |         |
| Three Months Ended March 31, 2018 |                     |           |                     |         |
| Major Business                    |                     |           |                     |         |
| Digital Money Movement            | \$352               | \$ —      | \$ —                | \$352   |
| Card and Related Services         | 414                 | —         | —                   | 414     |
| Other                             | 76                  | —         | —                   | 76      |
| Total Payments                    | 842                 | —         | —                   | 842     |
| Account and Item Processing       | —                   | 506       | —                   | 506     |
| Lending Solutions                 | —                   | 56        | —                   | 56      |
| Other                             | —                   | 54        | —                   | 54      |
| Total Financial                   | —                   | 616       | —                   | 616     |
| Corporate and Other               | —                   | —         | (18 )               | (18 )   |
| Total Revenue                     | \$842               | \$ 616    | \$ (18 )            | \$1,440 |

**Contract Balances**

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

| (In millions)        | March 31, December 31, |        |
|----------------------|------------------------|--------|
|                      | 2019                   | 2018   |
| Contract assets      | \$ 184                 | \$ 171 |
| Contract liabilities | 498                    | 469    |

Contract assets, reported within other long-term assets in the consolidated balance sheets, 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. The Company recognized \$139 million of revenue during the three months ended March 31, 2019 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.

Table of Contents

## 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:       |       |       |       |            |
| March 31, 2019          | 2019      | 2020  | 2021  | 2022  | Thereafter |
| Processing and services | \$ 794    | \$876 | \$712 | \$520 | \$ 654     |
| Product                 | 26        | 31    | 22    | 12    | 11         |

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.

## 4. Acquisitions

On October 31, 2018, the Company acquired the debit card processing, ATM Managed Services, and MoneyPass® surcharge-free network of Elan Financial Services, a unit of U.S. Bancorp ("Elan"), for approximately \$660 million. Such purchase price includes an initial cash payment of \$691 million, less the receipt of post-closing working capital adjustments of \$57 million in 2019, plus contingent consideration related to earn-out provisions estimated at a fair value of \$12 million and future payments under a transition services agreement estimated to be in excess of fair value of \$14 million. This acquisition, included within the Payments segment, deepens the Company's presence in debit card processing, broadens its client reach and scale, and provides new solutions to enhance the value proposition for its existing debit solution clients.

The preliminary allocation of purchase price recorded for Elan was as follows:

| (In millions)                                  |       |
|--|-------|
| Trade accounts receivable                      | \$20  |
| Prepaid expenses and other current assets      | 94    |
| Property and equipment                         | 9     |
| Intangible assets                              | 353   |
| Goodwill                                       | 240   |
| Accounts payable and other current liabilities | (56 ) |
| Total purchase price                           | \$660 |

The amounts allocated to goodwill and intangible assets were based on preliminary valuations and are subject to final adjustment. Goodwill, expected to be deductible for tax purposes, is primarily attributed to synergies, including the migration of Elan's clients to the Company's debit platform, and the anticipated value created by selling the Company's products and services outside of card payments to Elan's existing client base. The values allocated to intangible assets are as follows:

| (In millions)                      | Gross           |                              |
|------------------------------------|-----------------|------------------------------|
|                                    | Carrying Amount | Weighted-Average Useful Life |
| Customer related intangible assets | \$ 350          | 15 years                     |
| Trade name                         | 3               | 8 years                      |
|                                    | \$ 353          | 15 years                     |

In conjunction with the acquisition, the Company entered into a transition services agreement for the provision of certain processing, network, administrative and managed services for a period of two years. The results of operations for Elan,

8

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Table of Contents

consisting of \$46 million of revenue and \$9 million of operating income including \$6 million of acquired intangible asset amortization, have been included within the accompanying consolidated statement of income for the three months ended March 31, 2019.

On January 16, 2019, the Company announced that it had entered into a definitive merger agreement to acquire First Data Corporation (“First Data”) in an all-stock transaction for an equity value of approximately \$22 billion as of the announcement. The transaction is expected to close during the second half of 2019, subject to customary closing conditions and regulatory approvals. See Note 13 for a description of related debt financing activities.

#### 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 proceeds received during the three months ended March 31, 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 during the three months ended March 31, 2018.

#### 6. Investments in Unconsolidated Affiliates

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. During the three months ended March 31, 2018, the Company recognized a pre-tax gain on the sale of \$232 million, with the related tax expense of \$78 million recorded through the income tax provision, in the consolidated statements of income. The pre-tax gain included \$124 million related to the remeasurement of the Company’s 45% retained interests based upon the estimated enterprise value of the Lending Joint Ventures. During the three months ended March 31, 2019, the Company recognized a pre-tax gain on the sale of \$10 million, with the related tax expense of \$2 million recorded through the income tax provision, as contingent special distribution provisions within the transaction agreement were 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 (loss) reported as income (loss) from investments in unconsolidated affiliates and the related tax expense (benefit) reported within the income tax provision in the consolidated statements of income. The Company’s investment in the Lending Joint Ventures was \$63 million and \$65 million at March 31, 2019 and December 31, 2018, respectively, and is reported within other long-term assets in the consolidated balance sheets. The revenues, expenses and cash flows of the Lending Joint Ventures after the sale transactions are not included in the Company’s consolidated financial statements.

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 March 31, 2019. 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 sheets. Such guarantees will be amortized in future periods over the contractual term. During the three months ended March 31, 2019, the Company recognized \$1 million 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 \$9 million during the three months ended March 31, 2019, and were primarily recognized as processing and services revenue in the consolidated

statement of income.

9

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Table of Contents

## 7. Share-Based Compensation

The Company recognized \$19 million of share-based compensation expense in each of the three months ended March 31, 2019 and 2018. The Company's annual grant of share-based awards generally occurs in the first quarter. During the three months ended March 31, 2019 and 2018, stock options to purchase 1.3 million and 1.6 million shares, respectively, were exercised.

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

|                         | Three Months Ended |                  | Three Months Ended |                  |
|-------------------------|--------------------|------------------|--------------------|------------------|
|                         | March 31, 2019     |                  | March 31, 2018     |                  |
|                         | Shares             | Weighted-Average | Shares             | Weighted-Average |
|                         | Granted            | Grant Date Fair  | Granted            | Grant Date Fair  |
|                         | (In thousands)     | (In thousands)   | (In thousands)     | (In thousands)   |
| Stock options           | 1,171              | \$ 28.43         | 1,193              | \$ 22.40         |
| Restricted stock units  | 317                | 84.34            | 374                | 69.77            |
| Performance share units | —                  | —                | 165                | 75.39            |

## 8. Income Taxes

Income tax provision as a percentage of income before loss from investments in unconsolidated affiliates was 11.9% and 24.9% in the three months ended March 31, 2019 and 2018, respectively. The rate in the first quarter of 2019 includes discrete benefits due to a loss from subsidiary restructuring. The rate in the first quarter of 2018 included \$78 million of income tax expense associated with the \$232 million gain on the sale of a 55% interest of the Company's Lending Solutions business (see Note 6).

## 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 Ended |                |
|---|--------------------|----------------|
|   | March 31, 2019     | March 31, 2018 |
| Weighted-average common shares outstanding used for the calculation of net income per share – basic   | 391.7              | 413.1          |
| Common stock equivalents  | 7.4                | 8.5            |
| Weighted-average common shares outstanding used for the calculation of net income per share – diluted | 399.1              | 421.6          |

For the three months ended March 31, 2019 and 2018, stock options for 1.4 million and 0.7 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 based on quoted prices in active markets for the Company's senior notes (level 1 of the fair value hierarchy). The fair value of the Company's revolving credit facility borrowings approximates carrying value as the underlying interest rate is variable based on LIBOR. The estimated fair value of total debt was \$6.0 billion at both March 31, 2019 and December 31, 2018. The estimated fair value of the treasury lock agreements ("Treasury Locks") was based on forward U.S. Treasury interest rates (level 2 of the fair value hierarchy), which totaled \$35 million at March 31, 2019 (see Note 16).



Table of Contents

The estimated fair value of the contingent consideration liability of \$12 million at March 31, 2019 related to the acquisition of Elan (see Note 4) was based on the present value of a probability-weighted assessment approach derived from the likelihood of achieving the 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 (see Note 6) with the Lending Joint Ventures approximate the \$28 million carrying values at March 31, 2019 (level 3 of the fair value hierarchy). 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<br>Carrying<br>Amount | Accumulated<br>Amortization | Net Book<br>Value |
|--|-----------------------------|-----------------------------|-------------------|
| March 31, 2019                         |                             |                             |                   |
| Customer related intangible assets     | \$ 2,642                    | \$ 1,330                    | \$ 1,312          |
| Acquired software and technology       | 591                         | 497                         | 94                |
| Trade names                            | 120                         | 72                          | 48                |
| Capitalized software development costs | 846                         | 331                         | 515               |
| Purchased software                     | 266                         | 118                         | 148               |
| Total                                  | \$ 4,465                    | \$ 2,348                    | \$ 2,117          |

| (In millions)                          | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net Book<br>Value |
|--|-----------------------------|-----------------------------|-------------------|
| December 31, 2018                      |                             |                             |                   |
| Customer related intangible assets     | \$ 2,642                    | \$ 1,294                    | \$ 1,348          |
| Acquired software and technology       | 591                         | 490                         | 101               |
| Trade names                            | 120                         | 71                          | 49                |
| Capitalized software development costs | 810                         | 314                         | 496               |
| Purchased software                     | 261                         | 112                         | 149               |
| Total                                  | \$ 4,424                    | \$ 2,281                    | \$ 2,143          |

The Company estimates that annual amortization expense with respect to acquired intangible assets recorded at March 31, 2019, which include customer related intangible assets, acquired software and technology, and trade names, will be approximately \$180 million in 2019, \$160 million in 2020, \$150 million in each of 2021 and 2022, and \$140 million in 2023. Amortization expense with respect to capitalized and purchased software recorded at March 31, 2019 is estimated to approximate \$210 million in 2019.

## 12. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following:

| (In millions)                       | March 31,<br>2019 | December 31,<br>2018 |
|-------------------------------------|-------------------|----------------------|
| Trade accounts payable              | \$ 98             | \$ 127               |
| Client deposits                     | 583               | 564                  |
| Settlement obligations              | 498               | 480                  |
| Accrued compensation and benefits   | 112               | 199                  |
| Current operating lease liabilities | 78                | —                    |
| Other accrued expenses              | 349               | 256                  |
| Total                               | \$ 1,718          | \$ 1,626             |

Table of Contents

## 13. Long-Term Debt

On January 16, 2019, in connection with the definitive merger agreement to acquire First Data (see Note 4), the Company entered into a bridge facility commitment letter pursuant to which a group of financial institutions committed to provide a 364-day senior unsecured bridge term loan facility in an aggregate principal amount of \$17.0 billion for the purpose of refinancing certain indebtedness of First Data and its subsidiaries on the closing date of the merger, making cash payments in lieu of fractional shares as part of the merger consideration, and paying fees and expenses related to the merger, the refinancing and the related transactions. The Company recorded \$59 million of expenses, reported within debt financing activities in the consolidated statement of income, related to the bridge term loan facility during the three months ended March 31, 2019. There are no outstanding borrowings under the bridge term loan facility at March 31, 2019.

On February 6, 2019, the Company entered into an amendment to its amended and restated revolving credit facility to (i) amend the maximum leverage ratio covenant to permit it to elect to increase the permitted maximum leverage ratio from 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") to either four times or four and one-half times the Company's EBITDA for a specified period following certain acquisitions and (ii) permit it to make drawings under the revolving credit facility on the closing date of its acquisition of First Data subject to only limited conditions. In addition, on February 15, 2019, the Company entered into a second amendment to its existing revolving credit agreement in order to increase the aggregate commitments available thereunder by \$1.5 billion and to make certain additional amendments to facilitate the operation of the combined business following the acquisition of First Data. The increased commitments and additional amendments related to the revolving credit facility will become effective upon the satisfaction or waiver of conditions that are substantially similar to the conditions to funding under the term loan facility described below.

On February 15, 2019, the Company entered into a new term loan credit agreement with a syndicate of financial institutions pursuant to which such financial institutions have committed to provide the Company with a senior unsecured term loan facility in an aggregate principal amount of \$5.0 billion, consisting of \$1.5 billion in commitments to provide loans with a three-year maturity and \$3.5 billion in commitments to provide loans with a five-year maturity. The aggregate principal amount of the commitments under the term loan credit agreement have replaced a corresponding amount of the commitments in respect of the bridge facility in accordance with the terms of the bridge facility commitment letter. As a result, there are now \$12.0 billion in bridge facility commitments remaining. The Company expects to replace these remaining commitments with permanent financing in the form of the issuance of debt securities prior to the closing of the acquisition of First Data.

The availability of loans under the term loan facility is subject to the satisfaction or waiver of certain conditions that are substantially consistent with the conditions to the funding of the bridge facility, including (i) the closing of the acquisition substantially concurrently with the funding of such loans, (ii) the absence of a material adverse effect with respect to First Data since January 16, 2019, (iii) the truth and accuracy in all material respects of certain representations and warranties, (iv) the receipt of certain certificates, and (v) the receipt of certain financial statements. Loans drawn under the term loan facility will be subject to amortization at an annual rate of 5% for the first two years and 7.5% thereafter (with loans outstanding under the five-year tranche subject to amortization at an annual rate of 10% after the fourth anniversary of the commencement of amortization), with accrued and unpaid amortization amounts required to be paid on the last business day in December of each year. Borrowings under the term loan facility will bear interest at variable rates 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. The Company is also required to pay a ticking fee that will accrue on the aggregate undrawn commitments under the term loan facility at a per annum rate based upon the Company's long-term debt rating in effect from time to time. The term loan credit agreement contains affirmative, negative and financial covenants, and events of default, that are substantially the same as those set forth in the Company's existing revolving credit facility, as amended as described above.

## 14. Leases

The Company adopted ASU 2016-02 and its related amendments (collectively known as "ASC 842") effective January 1, 2019 using the optional transition method in ASU 2018-11. Therefore, the reported results for the three months

ended March 31, 2019 reflect the application of ASC 842 while the reported results for the three months ended March 31, 2018 were not adjusted and continue to be reported under the accounting guidance, ASC 840, Leases (“ASC 840”), in effect for the prior period.

The Company determines if an arrangement is a lease at inception. The lease term begins on the commencement date, which is the date the Company takes possession of the property, and may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. The lease term is used to determine lease classification as an operating or finance lease and is used to calculate straight-line lease expense for operating leases. The Company elected the package of

Table of Contents

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.

Right-of-use (“ROU”) assets represent the Company’s right to use an underlying asset for the lease term and lease liabilities represent the Company’s obligation to make lease payments arising from the lease. As a practical expedient, lease agreements with lease and non-lease components are accounted for as a single lease component for all asset classes, which are comprised of real estate leases and equipment leases. ROU assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. ROU assets also include prepaid lease payments and exclude lease incentives received. The Company estimates contingent lease incentives when it is probable that the Company is entitled to the incentive at lease commencement. As the Company’s leases typically do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date for both real estate and equipment leases. The determination of the incremental borrowing rate requires judgment. The Company determines the incremental borrowing rate using the Company’s current unsecured borrowing rate, adjusted for various factors such as collateralization and term to align with the terms of the lease. The Company elected the short-term lease recognition exemption for all leases that qualify. Therefore, leases with an initial term of 12 months or less are not recorded on the balance sheet; instead, lease payments are recognized as lease expense on a straight-line basis over the lease term.

The Company leases certain office space, data centers, and equipment. The Company’s leases have remaining lease terms of 1 to 11 years. Most leases contain renewal options for varying periods, which are at the Company’s sole discretion. For leases where the Company is reasonably certain to exercise a renewal option, such option periods have been included in the determination of the Company’s ROU assets and lease liabilities. Certain leases require the Company to pay taxes, insurance, maintenance, and other operating expenses associated with the leased asset. Such amounts are not included in the measurement of the lease liability to the extent they are variable in nature. These variable lease costs are recognized as a variable lease expense when incurred. Certain leases include options to purchase the leased asset at the end of the lease term, which is assessed as a part of the Company’s lease classification determination. The depreciable life of the ROU assets and leasehold improvements are limited by the expected lease term unless the Company is reasonably certain of a transfer of title or purchase option.

#### Lease Transactions During the Three Months Ended March 31, 2019

| (In millions)                              | March 31,<br>2019 |
|--|-------------------|
| Assets                                     |                   |
| Operating lease assets <sup>(1)</sup>      | \$ 343            |
| Finance lease assets <sup>(2)</sup>        | 17                |
| Total lease assets                         | \$ 360            |
| Liabilities                                |                   |
| Current                                    |                   |
| Operating lease liabilities <sup>(1)</sup> | \$ 78             |
| Finance lease liabilities <sup>(2)</sup>   | 7                 |
| Noncurrent                                 |                   |
| Operating lease liabilities <sup>(1)</sup> | 304               |
| Finance lease liabilities <sup>(2)</sup>   | 6                 |
| Total lease liabilities                    | \$ 395            |

<sup>(1)</sup> Operating lease assets are included within other long-term assets, and operating lease liabilities are included within accounts payable and accrued expenses (current portion) and other long-term liabilities (noncurrent portion) in the Company’s consolidated balance sheet. Operating lease assets are recorded net of accumulated amortization of \$21 million as of March 31, 2019.

<sup>(2)</sup> Finance lease assets are included within property and equipment, net and finance lease liabilities are included within current maturities of long-term debt (current portion) and long-term debt (noncurrent portion) in the Company’s consolidated balance sheets. Finance lease assets are recorded net of accumulated amortization of \$9 million as of

March 31, 2019.

13

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Table of Contents

## Components of Lease Cost

| (In millions)                       | Three<br>Months<br>Ended<br>March<br>31,<br>2019 |
|-------------------------------------|--|
| Operating lease cost <sup>(1)</sup> | \$ 39  |
| Finance lease cost <sup>(2)</sup>   |  |
| Amortization of right-of-use assets | 1  |
| Interest on lease liabilities       | —  |
| Total lease cost                    | \$ 40  |

<sup>(1)</sup> Operating lease expense is included within cost of processing and services, cost of product and selling, general & administrative expense, dependent upon the nature and use of the ROU asset, in the Company's consolidated statements of income. Operating lease cost includes approximately \$13 million of variable lease costs.

<sup>(2)</sup> Finance lease expense is recorded as depreciation and amortization expense within cost of processing and services, cost of product and selling, general & administrative expense, dependent upon the nature and use of the ROU asset, and interest expense in the Company's consolidated statements of income.

## Supplemental Cash Flow Information

| (In millions)  | Three<br>Months<br>Ended<br>March<br>31,<br>2019 |
|--|--|
| Cash paid for amounts included in the measurement of lease liabilities |  |
| Operating cash flows from operating leases                             | \$ 28  |
| Operating cash flows from finance leases                               | —  |
| Financing cash flows from finance leases                               | 5  |

## Right-of-use assets obtained in exchange for lease liabilities

|                  |       |
|------------------|-------|
| Operating leases | \$ 24 |
| Finance leases   | 9     |

## Lease Term and Discount Rate

|                                       | March<br>31, 2019 |
|---------------------------------------|-------------------|
| Weighted-average remaining lease term |                   |
| Operating leases                      | 6 years           |
| Finance leases                        | 3 years           |
| Weighted-average discount rate        |                   |
| Operating leases                      | 3.5 %             |
| Finance leases                        | 3.8 %             |

## Maturity of Lease Liabilities under ASC 842

Future minimum rental payments on leases with initial non-cancellable lease terms in excess of one year were due as follows at March 31, 2019:

(In millions)

| Year ending December 31, | Operating<br>Leases <sup>(1)</sup> | Finance<br>Leases |
|--------------------------|------------------------------------|-------------------|
|                          |                                    |                   |

|                                    |        |       |
|------------------------------------|--------|-------|
| 2019                               | \$ 69  | \$ 2  |
| 2020                               | 77     | 5     |
| 2021                               | 65     | 6     |
| 2022                               | 53     | —     |
| 2023                               | 42     | —     |
| Thereafter                         | 123    | —     |
| Total lease payments               | 429    | 13    |
| Less: Interest                     | (47 )  | —     |
| Present value of lease liabilities | \$ 382 | \$ 13 |

14

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Table of Contents

(1) Operating lease payments include \$32 million related to options to extend lease terms that are reasonably certain of being exercised and exclude \$8 million of legally binding minimum lease payments for leases signed but not yet commenced. Operating leases that have been signed but not yet commenced are for equipment and will commence in 2019 with lease terms of 3 to 7 years.

## Maturity of Lease Liabilities under ASC 840

Future minimum rental payments on operating leases with initial non-cancellable lease terms in excess of one year were due as follows at December 31, 2018:

(In millions)

| Year ending December 31, |       |
|--------------------------|-------|
| 2019                     | \$94  |
| 2020                     | 75    |
| 2021                     | 62    |
| 2022                     | 51    |
| 2023                     | 40    |
| Thereafter               | 108   |
| Total                    | \$430 |

Rent expense for all operating leases was \$118 million and \$126 million during the year ended December 31, 2018 and 2017, respectively.

## 15. Shareholders' Equity

The following tables provide changes in shareholders' equity during the three months ended March 31, 2019 and 2018.

| Three Months Ended March 31, 2019                    | Number of Shares |                 | Amount       |                            | Accumulated Other Comprehensive Loss | Retained Earnings | Treasury Stock | Total Equity |
|--|------------------|-----------------|--------------|----------------------------|--------------------------------------|-------------------|----------------|--------------|
| (In millions)  | Common Shares    | Treasury Shares | Common Stock | Additional Paid-In Capital |                                      |                   |                |              |
| Balance at December 31, 2018                         | 791              | 399             | \$8          | \$1,057                    | \$ (67 )                             | \$11,635          | \$(10,340)     | \$2,293      |
| Net income   |                  |                 |              |                            |                                      | 225               |                | 225          |
| Other comprehensive loss                             |                  |                 |              |                            | (18 )                                |                   |                | (18 )        |
| Share-based compensation                             |                  |                 |              | 19                         |                                      |                   |                | 19           |
| Shares issued under stock plans                      | (2 )             |                 | (42 )        |                            |                                      |                   | 37             | (5 )         |
| Purchases of treasury stock                          |                  | 2               |              |                            |                                      |                   | (120 )         | (120 )       |
| Balance at March 31, 2019                            | 791              | 399             | \$8          | \$1,034                    | \$ (85 )                             | \$11,860          | \$(10,423)     | \$2,394      |
| Three Months Ended March 31, 2018                    | Number of Shares |                 | Amount       |                            | Accumulated Other Comprehensive Loss | Retained Earnings | Treasury Stock | Total Equity |
| (In millions)  | Common Shares    | Treasury Shares | Common Stock | Additional Paid-In Capital |                                      |                   |                |              |
| Balance at December 31, 2017                         | 791              | 376             | \$8          | \$1,031                    | \$ (54 )                             | \$10,240          | \$(8,494)      | \$2,731      |
| Net income   |                  |                 |              |                            |                                      | 423               |                | 423          |
| Other comprehensive loss                             |                  |                 |              |                            | (2 )                                 |                   |                | (2 )         |
| Share-based compensation                             |                  |                 |              | 19                         |                                      |                   |                | 19           |
| Shares issued under stock plans                      | (2 )             |                 | (45 )        |                            |                                      |                   | 35             | (10 )        |
| Purchases of treasury stock                          |                  | 6               |              |                            |                                      |                   | (398 )         | (398 )       |
| Cumulative-effect adjustment of ASU 2014-09 adoption |                  |                 |              |                            |                                      | 208               |                | 208          |

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|   |     |     |     |          |        |   |          |                   |
|---|-----|-----|-----|----------|--------|---|----------|-------------------|
| Cumulative-effect adjustment of ASU<br>2017-12 adoption |     |     |     | 3        | (3     | ) |          | —                 |
| Cumulative-effect adjustment of ASU<br>2018-02 adoption |     |     |     | (3       | )      | 3 |          | —                 |
| Balance at March 31, 2018                               | 791 | 380 | \$8 | \$ 1,005 | \$ (56 | ) | \$10,871 | \$(8,857) \$2,971 |

15

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Table of Contents

## 16. Accumulated Other Comprehensive Loss

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

| (In millions)  | Cash Flow<br>Hedges | Foreign<br>Currency<br>Translation | Other   | Total  |
|--|---------------------|------------------------------------|---------|--------|
| Balance at December 31, 2018                                   | \$ (16 )            | \$ (49 )                           | \$ (2 ) | \$(67) |
| Other comprehensive loss before reclassifications              | (23 )               | 4                                  | —       | (19 )  |
| Amounts reclassified from accumulated other comprehensive loss | 1                   | —                                  | —       | 1      |
| Net current-period other comprehensive loss                    | (22 )               | 4                                  | —       | (18 )  |
| Balance at March 31, 2019                                      | \$ (38 )            | \$ (45 )                           | \$ (2 ) | \$(85) |

  

| (In millions)   | Cash Flow<br>Hedges | Foreign<br>Currency<br>Translation | Other   | Total  |
|---|---------------------|------------------------------------|---------|--------|
| Balance at December 31, 2017  | \$ (14 )            | \$ (38 )                           | \$ (2 ) | \$(54) |
| Other comprehensive loss before reclassifications                           | (1 )                | —                                  | —       | (1 )   |
| Amounts reclassified from accumulated other comprehensive loss              | (1 )                | —                                  | —       | (1 )   |
| Net current-period other comprehensive loss                                 | (2 )                | —                                  | —       | (2 )   |
| 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 March 31, 2018   | \$ (16 )            | \$ (38 )                           | \$ (2 ) | \$(56) |

Based on the amounts recorded in accumulated other comprehensive loss at March 31, 2019, 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 and 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 March 31, 2019, the notional amount of these derivatives was \$214 million, and the fair value totaling \$4 million is reported in prepaid expenses and other current assets in the consolidated balance sheet. As of December 31, 2018, the notional amount of these derivatives was \$202 million, and the fair value was nominal. Based on the amounts recorded in accumulated other comprehensive loss at March 31, 2019, the Company estimates that it will recognize losses of approximately \$2 million in cost of processing and services during the next twelve months as foreign currency forward exchange contracts settle.

In March 2019, the Company entered into Treasury Locks, designated as cash flow hedges, in the aggregate notional amount of \$5 billion to manage exposure to fluctuations in benchmark interest rates in anticipation of the possible issuance of fixed rate debt in connection with the refinancing of certain indebtedness of First Data and its subsidiaries (see Note 13). The fair value of the Treasury Locks, which totaled \$35 million at March 31, 2019 was recorded primarily within accounts payable and accrued expenses in the consolidated balance sheet with a corresponding amount recorded in accumulated other comprehensive loss, net of income taxes.

Table of Contents

## 17. Cash Flow Information

Supplemental cash flow information consisted of the following:

|   | Three<br>Months<br>Ended<br>March 31, |       |
|---|---------------------------------------|-------|
| (In millions)   | 2019                                  | 2018  |
| Interest paid   | \$ 11                                 | \$ 12 |
| Income taxes paid   | 9                                     | 8     |
| Treasury stock purchases settled after the balance sheet date | —                                     | 14    |

## 18. 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<br>and Other | Total    |
|-----------------------------------|----------|-----------|------------------------|----------|
| Three Months Ended March 31, 2019 |          |           |                        |          |
| Processing and services revenue   | \$ 726   | \$ 554    | \$ 13                  | \$ 1,293 |
| Product revenue                   | 188      | 44        | (23 )                  | 209      |
| Total revenue                     | \$ 914   | \$ 598    | \$ (10 )               | \$ 1,502 |
| Operating income                  | \$ 287   | \$ 199    | \$ (113 )              | \$ 373   |
| Three Months Ended March 31, 2018 |          |           |                        |          |
| Processing and services revenue   | \$ 653   | \$ 582    | \$ 3                   | \$ 1,238 |
| Product revenue                   | 189      | 34        | (21 )                  | 202      |
| Total revenue                     | \$ 842   | \$ 616    | \$ (18 )               | \$ 1,440 |
| Operating income                  | \$ 271   | \$ 202    | \$ 135                 | \$ 608   |

Goodwill in the Payments segment was \$4.0 billion as of both March 31, 2019 and December 31, 2018. Goodwill in the Financial segment was \$1.7 billion as of both March 31, 2019 and December 31, 2018.

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: the possibility that Fiserv and First Data Corporation may be unable to achieve expected synergies and operating efficiencies from the proposed merger within the expected time frames or at all or to successfully integrate the operations of First Data Corporation into those of Fiserv; such integration may be more difficult, time-consuming or costly than expected; revenues following the transaction may be lower than expected, including for possible reasons such as unexpected costs, charges or expenses resulting from the transaction; operating costs, customer loss and business disruption (including, without limitation, difficulties in maintaining relationships with employees, customers, clients or suppliers) may be greater than expected following the transaction; the retention of certain key employees; the occurrence of any event, change or other circumstances that could give rise to the termination of the merger agreement; the outcome of any legal proceedings that may be instituted against Fiserv, First Data Corporation and others related to the merger agreement; unforeseen risks relating to liabilities of Fiserv or First Data Corporation may exist; the conditions to the completion of the transaction may not be satisfied, or the regulatory approvals required for the transaction may not be obtained on the terms expected or on the anticipated schedule; the amount of the costs, fees, expenses and charges related to the transaction, including the costs, fees, expenses and charges related to any financing arrangements entered into in connection with the transaction; the parties' ability to meet expectations regarding the timing, completion and accounting and tax treatments of the transaction. Fiserv and First Data Corporation are subject to, among other matters, changes in customer demand for their products and services; pricing and other actions by competitors; general changes in local, regional, national and international economic conditions and the impact they may have on Fiserv and First Data Corporation and their customers and Fiserv's and First Data Corporation's assessment of that impact; rapid technological developments and changes, and the ability of Fiserv's and First Data Corporation's technology to keep pace with a rapidly evolving marketplace; the impact of a security breach or operational failure on Fiserv's and First Data Corporation's business; the effect of proposed and enacted legislative and regulatory actions in the United States and internationally affecting the financial services industry as a whole and/or Fiserv and First Data Corporation and their subsidiaries individually or collectively; regulatory supervision and oversight, and Fiserv's and First Data Corporation's ability to comply with government regulations; the impact of Fiserv's and First Data Corporation's strategic initiatives; Fiserv's and First Data Corporation's ability to continue to introduce competitive new products and services on a timely, cost-effective basis; the ability to contain costs and expenses; the protection and validity of intellectual property rights; the outcome of pending and future litigation and governmental proceedings; acts of war and terrorism; and other factors identified in our Annual Report on Form 10-K for the year ended December 31, 2018 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, 2018 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 months ended March 31, 2019 to the comparable period in 2018.

## Table of Contents

Liquidity and capital resources. This section provides an analysis of our cash flows and a discussion of our outstanding debt as of March 31, 2019.

### 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 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.

#### 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<sup>®</sup> surcharge-free network of Elan Financial Services, a unit of U.S. Bancorp, for approximately \$660 million, including post-closing working capital adjustments, estimated contingent consideration related to earn-out provisions and future payments under a transition services agreement in excess of estimated fair value. This acquisition, included within the Payments segment, deepens our presence in debit card processing, broadens our client reach and scale, and provides new solutions to enhance the value proposition for our existing debit solution clients.

On January 16, 2019, we announced that we had entered into a definitive merger agreement to acquire First Data Corporation (“First Data”) in an all-stock transaction for an equity value of approximately \$22 billion as of the announcement. The transaction is expected to close during the second half of 2019, subject to customary closing conditions and regulatory approvals. First Data is a global leader in commerce-enabling technology and solutions for merchants, financial institutions, and card issuers.

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 two joint ventures (the “Lending Joint Ventures”). In conjunction with this transaction, we entered into 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.

#### 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 2019 are to: (i) continue to build high-quality revenue while meeting our earnings goals; (ii) enhance client relationships with an emphasis on digital and payment solutions;

Table of Contents

and (iii) deliver innovation and integration which enables differentiated value for our clients. We also expect to devote significant resources to completing the First Data merger and, subject to closing, to integrating First Data into our operations.

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, risk management, lending, and investment 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 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, 2018, 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. There have been no 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, 2018.

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 March 31, |         | Percentage of          |          | Increase (Decrease) |        |
|---|------------------------------|---------|------------------------|----------|---------------------|--------|
|   | 2019                         | 2018    | Revenue <sup>(1)</sup> |          | \$                  | %      |
|   |                              |         | 2019                   | 2018     |                     |        |
| Revenue:  |                              |         |                        |          |                     |        |
| Processing and services   | \$1,293                      | \$1,238 | 86.1 %                 | 86.0 %   | \$ 55               | 4 %    |
| Product   | 209                          | 202     | 13.9 %                 | 14.0 %   | 7                   | 3 %    |
| Total revenue   | 1,502                        | 1,440   | 100.0 %                | 100.0 %  | 62                  | 4 %    |
| Expenses:   |                              |         |                        |          |                     |        |
| Cost of processing and services   | 624                          | 568     | 48.3 %                 | 45.9 %   | 56                  | 10 %   |
| Cost of product   | 174                          | 191     | 83.3 %                 | 94.6 %   | (17 )               | (9 )%  |
| Sub-total   | 798                          | 759     | 53.1 %                 | 52.7 %   | 39                  | 5 %    |
| Selling, general and administrative   | 341                          | 305     | 22.7 %                 | 21.2 %   | 36                  | 12 %   |
| Gain on sale of business  | (10 )                        | (232 )  | (0.7 )%                | (16.1 )% | 222                 | 96 %   |
| Total expenses  | 1,129                        | 832     | 75.2 %                 | 57.8 %   | 297                 | 36 %   |
| Operating income  | 373                          | 608     | 24.8 %                 | 42.2 %   | (235 )              | (39 )% |
| Interest expense  | (59 )                        | (45 )   | (3.9 )%                | (3.1 )%  | 14                  | 31 %   |
| Debt financing activities   | (59 )                        | —       | (3.9 )%                | —        | 59                  | n/m    |
| Non-operating income  | 3                            | —       | 0.2 %                  | —        | 3                   | n/m    |
| Income before income taxes and loss from investments in unconsolidated affiliates | \$258                        | \$563   | 17.2 %                 | 39.1 %   | \$ (305 )           | (54 )% |

<sup>(1)</sup> 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.

| (In millions)                          | Three Months Ended March 31, |           |                     |              |
|--|------------------------------|-----------|---------------------|--------------|
|  | Payments                     | Financial | Corporate and Other | Total        |
| Total revenue:                         |                              |           |                     |              |
| 2019                                   | \$914                        | \$598     | \$ (10 )            | \$1,502      |
| 2018                                   | 842                          | 616       | (18 )               | 1,440        |
| Revenue growth                         | \$72                         | \$(18 )   | \$ 8                | \$62         |
| Revenue growth percentage              | 9 %                          | (3 )%     |                     | 4 %          |
| Operating income:                      |                              |           |                     |              |
| 2019                                   | \$287                        | \$199     | \$ (113 )           | \$373        |
| 2018                                   | 271                          | 202       | 135                 | 608          |
| Operating income growth                | \$16                         | \$(3 )    | \$ (248 )           | \$(235 )     |
| Operating income growth percentage     | 6 %                          | (1 )%     |                     | (39 )%       |
| Operating margin:                      |                              |           |                     |              |
| 2019                                   | 31.4 %                       | 33.3 %    |                     | 24.8 %       |
| 2018                                   | 32.2 %                       | 32.8 %    |                     | 42.2 %       |
| Operating margin growth <sup>(1)</sup> | (80 ) bps                    | 50 bps    |                     | (1,740 ) bps |

<sup>(1)</sup> Represents the basis point growth or decline in operating margin.



Table of Contents**Total Revenue**

Total revenue increased \$62 million, or 4%, in the first quarter of 2019 compared to the first quarter of 2018. Revenue in our Payments segment increased \$72 million, or 9%, during the first quarter of 2019 compared to 2018. Revenue from the acquired Elan business contributed 5.5% to Payments segment revenue growth in 2019. The remaining revenue growth in our Payments segment in the first quarter of 2019 was driven by growth in our recurring revenue businesses, with our electronic payments, card services and biller solutions businesses each contributing approximately 1% to Payments segment revenue growth.

Revenue in our Financial segment decreased \$18 million, or 3%, during the first quarter of 2019 compared to 2018. The Financial segment revenue decline was attributable to the disposition of a 55% interest of our Lending Solutions business in late March 2018, which reduced Financial segment revenue growth by 9% in the first quarter of 2019. Partially offsetting this decline, our bank processing business contributed 4% revenue growth to the Financial segment, attributed equally to an increase in account processing and software license revenue.

Revenue at Corporate and Other increased \$8 million during the first quarter of 2019 compared to 2018 primarily due to transition services revenue from the Lending Joint Ventures.

**Total Expenses**

Total expenses increased \$297 million, or 36%, and total expenses as a percentage of total revenue increased to 75.2% in the first quarter of 2019 compared to 57.8% in the first quarter of 2018. Total expenses and total expenses as a percentage of total revenue were reduced by gains of \$10 million and \$232 million in the first quarter of 2019 and 2018, respectively, from the sale of a 55% interest of our Lending Solutions business.

Cost of processing and services as a percentage of processing and services revenue increased to 48.3% in the first quarter of 2019 compared to 45.9% in the first quarter of 2018. Cost of processing and services as a percentage of processing and services revenue increased by 60 basis points from our Elan acquisition and 70 basis points as a result of expenses shifting from cost of product to cost of processing and services as financial institutions continue to move from in-house technology to outsourced solutions. The remaining increase was primarily driven by growth-focused investments.

Cost of product as a percentage of product revenue decreased to 83.3% in the first quarter of 2019 compared to 94.6% in the first quarter of 2018. Cost of product as a percentage of product revenue in the first quarter of 2019 was favorably impacted by approximately 400 basis points as a result of expenses shifting from cost of product to cost of processing and services as financial institutions continue to move from in-house technology to outsourced solutions. The remaining reduction in cost of product as a percentage of product revenue in the first quarter of 2019 was attributable to product mix, including a reduction of approximately 450 basis points from an increase in higher-margin software license revenue.

Selling, general and administrative expenses as a percentage of total revenue increased to 22.7% in the first quarter of 2019 compared to 21.2% in the first quarter of 2018. The increase in selling, general and administrative expenses as a percentage of total revenue in the first quarter of 2019 was primarily due to increased costs associated with the announced merger agreement to acquire First Data.

The gains on sale of businesses of \$10 million and \$232 million in the first quarter of 2019 and 2018, respectively, resulted from the sale of a 55% interest of our Lending Solutions business, including contingent consideration received in 2019.

**Operating Income and Operating Margin**

Total operating income decreased \$235 million, or 39%, in the first quarter of 2019 compared to 2018. Total operating margin decreased to 24.8% in the first quarter of 2019 compared to 42.2% in 2018.

Operating income in our Payments segment increased \$16 million, or 6%, and operating margin decreased 80 basis points to 31.4% in the first quarter of 2019 compared to 2018. The reduction in the Payment segment operating margin was primarily attributable to additional investments to support client service and business growth. In addition, the Payments segment operating margin was reduced by 20 basis points from our Elan acquisition.

Operating income in our Financial segment decreased \$3 million, or 1%, and operating margin increased 50 basis points to 33.3% in the first quarter of 2019 compared to 2018. The improvement in the Financial segment operating margin was primarily attributable to higher-margin software license revenue growth, which positively impacted

Financial segment operating margin by approximately 70 basis points. Financial segment operating margin favorability was partially offset by growth-focused investments in our account processing businesses.

Table of Contents

Corporate and Other reported an operating loss of \$113 million in the first quarter of 2019 compared to operating income of \$135 million in the first quarter of 2018. Corporate and Other was favorably impacted by gains of \$10 million and \$232 million in the first quarter of 2019 and 2018, respectively, from the sale of a 55% interest of our Lending Solutions business. In addition, Corporate and Other includes acquisition costs of \$23 million in the first quarter of 2019 related to the announced merger agreement to acquire First Data.

Interest Expense

Interest expense increased \$14 million, or 31% in the first quarter of 2019 compared to 2018, primarily attributable to the September 2018 issuance of \$2.0 billion of fixed-rate senior notes.

Debt Financing Activities

In connection with the definitive merger agreement on January 16, 2019 to acquire First Data, we entered into a bridge facility commitment letter providing a 364-day senior unsecured bridge term loan facility in an aggregate principal amount of \$17.0 billion for the purpose of refinancing certain indebtedness of First Data on the closing date of the acquisition. We recorded \$59 million of expense in the first quarter of 2019 associated with such bridge term loan facility. See below under “First Data Acquisition Financing” for a description of our planned financing to fund the First Data acquisition.

Non-Operating Income

Non-operating income in the first quarter of 2019 includes \$2 million of interest income and \$1 million 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.

Income Tax Provision

Income tax provision as a percentage of income before loss from investments in unconsolidated affiliates was 11.9% and 24.9% in the first quarter of 2019 and 2018, respectively. The rate in the first quarter of 2019 includes discrete benefits due to a loss from subsidiary restructuring. The rate in the first quarter of 2018 included \$78 million of income tax expense associated with the \$232 million gain on the sale of a 55% interest of our Lending Solutions business.

Loss from Investments in Unconsolidated Affiliates

Our share of net loss from the Lending Joint Ventures is reported as loss from investments in unconsolidated affiliates and the related tax benefit is reported within the income tax provision in the consolidated statements of income. Loss from investments in unconsolidated affiliates, including acquired intangible asset amortization, was \$2 million in the first quarter of 2019.

Net Income Per Share – Diluted

Net income per share-diluted was \$0.56 and \$1.00 in the first quarter of 2019 and 2018, respectively. Net income per share-diluted in the first quarter of 2019 included expenses of \$0.16 per share related to the previously announced merger agreement to acquire First Data. Net income per share-diluted was favorably impacted in the first quarter of 2018 by a gain of \$0.37 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 \$0.09 and \$0.07 per share in the first quarter of 2019 and 2018, respectively.

Table of Contents

## Liquidity and Capital Resources

## General

Our primary liquidity needs in the ordinary course of business are to: (i) fund normal operating expenses; (ii) meet the interest and principal requirements of our outstanding indebtedness; and (iii) 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 \$452 million and available borrowings under our revolving credit facility of \$940 million at March 31, 2019. See below under “First Data Acquisition Financing” for a description of our planned financing to fund the First Data acquisition. The following table summarizes our operating cash flow and capital expenditure amounts for the three months ended March 31, 2019 and 2018, respectively.

| (In millions)                                      | Three Months Ended |                | Increase (Decrease) |      |
|--|--------------------|----------------|---------------------|------|
|  | March 31, 2019     | March 31, 2018 | \$                  | %    |
| Net income   | \$225              | \$423          | \$ (198 )           |      |
| Depreciation and amortization                      | 205                | 134            | 71                  |      |
| Share-based compensation                           | 19                 | 19             | —                   |      |
| Deferred income taxes                              | 8                  | 77             | (69 )               |      |
| Gain on sale of business                           | (10 )              | (232 )         | 222                 |      |
| Loss from investments in unconsolidated affiliates | 2                  | —              | 2                   |      |
| Net changes in working capital and other           | (76 )              | (49 )          | (27 )               |      |
| Operating cash flow                                | \$373              | \$372          | \$ 1                | n/m  |
| Capital expenditures                               | \$98               | \$77           | \$ 21               | 27 % |

Our net cash provided by operating activities, or operating cash flow, was \$373 million in the first three months of 2019, up slightly from the \$372 million in the first three months of 2018.

Our current policy is to use our operating cash flow primarily to fund capital expenditures, share repurchases (after the closing of the First Data acquisition), and acquisitions, and to repay debt rather than to pay dividends. Our capital expenditures were approximately 7% and 5% of our total revenue in the first three months of 2019 and 2018, respectively.

## Share Repurchases

We purchased \$120 million and \$398 million of our common stock during the first three months of 2019 and 2018, respectively. We deferred share repurchases as of January 16, 2019 until the close of the First Data acquisition, which is expected to occur during the second half of 2019, subject to customary closing conditions and regulatory approvals. As of March 31, 2019, we had approximately 24.3 million shares remaining under our current repurchase authorizations. Shares repurchased are generally held for issuance in connection with our equity plans.

## Acquisitions and Dispositions

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 \$660 million including post-closing working capital adjustments, estimated contingent consideration related to earn-out provisions and future payments under a transition services agreement in excess of fair value. We funded this acquisition by utilizing existing availability under our revolving credit facility.

On January 16, 2019, we announced that we had entered into a definitive merger agreement to acquire First Data in an all-stock transaction for an equity value of approximately \$22 billion as of the announcement. The transaction is expected to close during the second half of 2019, subject to customary closing conditions and regulatory approvals. First Data is a global leader in commerce-enabling technology and solutions for merchants, financial institutions, and card issuers.

In March 2018, we sold a 55% interest of our Lending Solutions business, retaining 45% ownership interests in two 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).

24

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Table of Contents

## Indebtedness

| (In millions)   | March 31, December |          |
|---|--------------------|----------|
|   | 2019               | 31, 2018 |
| Revolving credit facility                                     | \$ 1,039           | \$ 1,129 |
| 2.7% senior notes due 2020                                    | 850                | 850      |
| 4.75% senior notes due 2021                                   | 400                | 400      |
| 3.5% senior notes due 2022                                    | 700                | 700      |
| 3.8% senior notes due 2023                                    | 1,000              | 1,000    |
| 3.85% senior notes due 2025                                   | 900                | 900      |
| 4.2% senior notes due 2028                                    | 1,000              | 1,000    |
| Unamortized discount and unamortized deferred financing costs | (28 )              | (29 )    |
| Other borrowings  | 14                 | 9        |
| Total debt (including current maturities)                     | \$ 5,875           | \$ 5,959 |

At March 31, 2019, our debt consisted primarily of \$4.9 billion of fixed-rate senior notes and \$1.0 billion of revolving credit facility borrowings. Interest on our senior notes is paid semi-annually. During the first three months of 2019, we were in compliance with all financial debt covenants.

## Variable Rate Debt

We maintain a \$2.0 billion revolving credit agreement with a syndicate of banks. Outstanding borrowings under the revolving credit facility bear interest at a variable rate based on LIBOR or on a base rate, plus a specified margin based on our long-term debt rating in effect from time to time. The variable interest rate was 3.51% on the revolving credit facility borrowings at March 31, 2019. There are no significant commitment fees and no compensating balance requirements on the revolving credit facility, which matures in September 2023.

On February 6, 2019, we entered into an amendment to the amended and restated revolving credit facility to (i) amend the maximum leverage ratio covenant to permit us to elect to increase the permitted maximum leverage ratio from three and one-half times our consolidated net earnings before interest, taxes, depreciation, amortization, non-cash charges and expenses and certain other adjustments (“EBITDA”) to either four times or four and one-half times our EBITDA for a specified period following certain acquisitions and (ii) permit us to make drawings under the revolving credit facility on the closing date of our acquisition of First Data subject to only limited conditions. On February 15, 2019, we entered into a second amendment to our existing revolving credit agreement in order to increase the aggregate commitments available thereunder by \$1.5 billion and to make certain additional amendments to facilitate the operation of the combined business following the acquisition of First Data. The increased commitments and additional amendments will become effective upon the satisfaction or waiver of conditions that are substantially similar to the conditions to funding under the term loan facility described below.

## First Data Acquisition Financing

On January 16, 2019, in connection with the definitive merger agreement to acquire First Data, we entered into a bridge facility commitment letter pursuant to which a group of financial institutions committed to provide a 364-day senior unsecured bridge term loan facility in an aggregate principal amount of \$17.0 billion for the purpose of refinancing certain indebtedness of First Data and its subsidiaries on the closing date of the merger, making cash payments in lieu of fractional shares as part of the merger consideration, and paying fees and expenses related to the merger, the refinancing and the related transactions. There are no outstanding borrowings under the bridge term loan facility at March 31, 2019.

On February 15, 2019, we entered into a new term loan credit agreement with a syndicate of financial institutions pursuant to which such financial institutions have committed to provide us with a senior unsecured term loan facility in an aggregate principal amount of \$5.0 billion, consisting of \$1.5 billion in commitments to provide loans with a three-year maturity and \$3.5 billion in commitments to provide loans with a five-year maturity. The aggregate principal amount of the commitments under the term loan credit agreement have replaced a corresponding amount of the commitments in respect of the bridge facility in accordance with the terms of the bridge facility commitment letter. As a result, there are now \$12.0 billion in bridge facility commitments remaining. We expect to replace these remaining commitments with permanent financing in the form of the issuance of debt securities prior to the closing of

the acquisition of First Data.

The availability of loans under the term loan facility is subject to the satisfaction or waiver of certain conditions that are substantially consistent with the conditions to the funding of the bridge facility, including (i) the closing of the acquisition substantially concurrently with the funding of such loans, (ii) the absence of a material adverse effect with respect to First Data

25

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Table of Contents

since January 16, 2019, (iii) the truth and accuracy in all material respects of certain representations and warranties, (iv) the receipt of certain certificates, and (v) the receipt of certain financial statements. Loans drawn under the term loan facility will be subject to amortization at an annual rate of 5% for the first two years and 7.5% thereafter (with loans outstanding under the five-year tranche subject to amortization at an annual rate of 10% after the fourth anniversary of the commencement of amortization), with accrued and unpaid amortization amounts required to be paid on the last business day in December of each year. Borrowings under the term loan facility will bear interest at variable rates 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. We are also required to pay a ticking fee that will accrue on the aggregate undrawn commitments under the term loan facility at a per annum rate based upon our long-term debt rating in effect from time to time. The term loan credit agreement contains affirmative, negative and financial covenants, and events of default, that are substantially the same as those set forth in our existing revolving credit facility, as amended as described above.

In March 2019, we entered into treasury lock agreements (“Treasury Locks”), designated as cash flow hedges, in the aggregate notional amount of \$5 billion to manage exposure to fluctuations in benchmark interest rates in anticipation of the possible issuance of fixed rate debt in connection with the refinancing of certain indebtedness of First Data and its subsidiaries. The fair value of the Treasury Locks, which totaled \$35 million at March 31, 2019 was recorded primarily within accounts payable and accrued expenses in the consolidated balance sheet with a corresponding amount recorded in accumulated other comprehensive loss, net of income taxes. A 10 basis point increase or decrease in interest rates would impact the fair value of the Treasury Locks by approximately \$50 million.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Other than the Treasury Locks described above, which description is incorporated by reference herein, there have been no other material changes to the quantitative and qualitative disclosures about market risk as required by this item which are incorporated by reference to Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2018.

**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 March 31, 2019.

Changes in internal control over financial reporting

There was no change in our internal control over financial reporting that occurred during the quarter ended March 31, 2019 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.

Table of Contents

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

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 March 31, 2019:

| 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) |
|---------------------|----------------------------------|------------------------------|--|--|
| January 1-31, 2019  | 1,640,000                        | \$ 73.29                     | 1,640,000  | 24,320,000   |
| February 1-28, 2019 | —                                | —                            | —  | 24,320,000   |
| March 1-31, 2019    | —                                | —                            | —  | 24,320,000   |
| Total               | 1,640,000                        |                              | 1,640,000  |  |

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. On January 16, 2019, we announced (1) that we had entered into a definitive merger agreement to acquire First Data. We deferred share repurchases as of January 16, 2019 until the close of the First Data acquisition, as described above, which is expected to occur during the second half of 2019, subject to customary closing conditions and regulatory approvals.

## ITEM 6. EXHIBITS

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

Table of Contents

Exhibit Index

| Exhibit Number | Exhibit Description   |
|----------------|---|
| 2.1            | <u>Agreement and Plan of Merger, dated as of January 16, 2019, among Fiserv, Inc., 300 Holdings, Inc. and First Data Corporation (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K of Fiserv, Inc. filed January 18, 2019).</u>                                   |
| 4.1            | <u>Amendment No. 1 to Third Amended and Restated Credit Agreement, dated as of February 6, 2019, 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 February 7, 2019).</u>   |
| 4.2            | <u>Amendment No. 2 to Third Amended and Restated Credit Agreement, dated as of February 15, 2019, among Fiserv, Inc. and the financial institutions party thereto (incorporated by reference to Exhibit 4.3 to the Annual Report on Form 10-K of Fiserv, Inc. filed February 21, 2019).</u> |
| 4.3            | <u>Shareholder Agreement, dated as of January 16, 2019, between Fiserv, Inc. and New Omaha Holdings L.P. (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of Fiserv, Inc. filed January 18, 2019).</u>   |
| 4.4            | <u>Registration Rights Agreement, dated as of January 16, 2019, between Fiserv, Inc. and New Omaha Holdings L.P. (incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K of Fiserv, Inc. filed January 18, 2019).</u>   |
| 4.5            | <u>Term Loan Credit Agreement, dated as of February 15, 2019, among Fiserv, Inc. and the financial institutions party thereto (incorporated by reference to Exhibit 4.13 to the Annual Report on Form 10-K of Fiserv, Inc. filed February 21, 2019).</u>                                    |
| 10.1           | <u>Voting and Support Agreement, dated as of January 16, 2019, between Fiserv, Inc. and New Omaha Holdings L.P. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Fiserv, Inc. filed January 18, 2019).</u>   |
| 10.2           | <u>Bridge Facility Commitment Letter, dated as of January 16, 2019, between Fiserv, Inc. and JPMorgan Chase Bank, N.A. (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of Fiserv, Inc. filed January 18, 2019).</u>  |
| 31.1           | <u>Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>   |
| 31.2           | <u>Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>   |
| 32.1           | <u>Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>   |
| 101.INS*       | XBRL Instance Document  |
| 101.SCH*       | XBRL Taxonomy Extension Schema Document   |
| 101.CAL*       | XBRL Taxonomy Extension Calculation Linkbase Document   |

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101.DEF\* XBRL Taxonomy Extension Definition Linkbase Document

101.LAB\* XBRL Taxonomy Extension Label Linkbase Document

101.PRE\* XBRL Taxonomy Extension Presentation Linkbase Document

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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 months ended March 31, 2019 and \*2018, (ii) the Consolidated Statements of Comprehensive Income for the three months ended March 31, 2019 and 2018, (iii) the Consolidated Balance Sheets at March 31, 2019 and December 31, 2018, (iv) the Consolidated Statements of Cash Flows for the three months ended March 31, 2019 and 2018, and (v) Notes to Consolidated Financial Statements.

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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: May 1, 2019 By: /s/ Robert W. Hau  
Robert W. Hau  
Chief Financial Officer and Treasurer

Date: May 1, 2019 By: /s/ Kenneth F. Best  
Kenneth F. Best  
Chief Accounting Officer