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KKR Banks on Bisignano Forging Apple Deal at First Data

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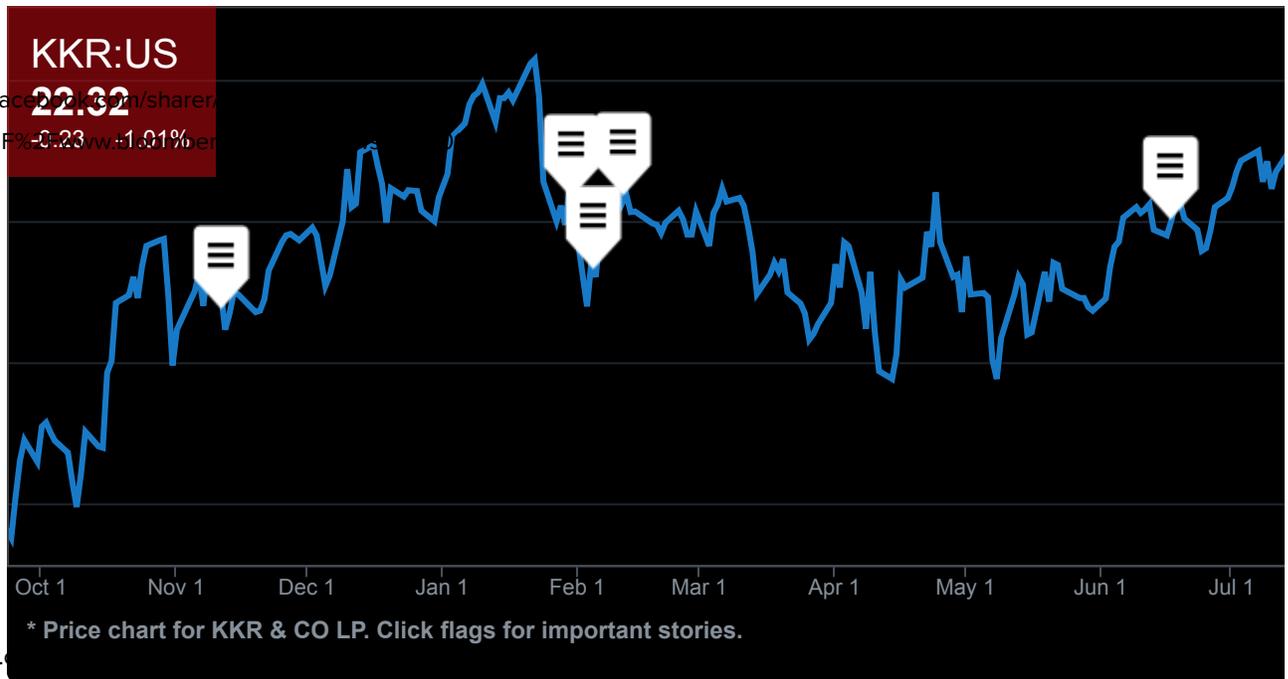
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Frank Bisignano has been busy forging ties with Silicon Valley since leaving **JPMorgan Chase & Co. (JPM)** (<http://www.bloomberg.com/quote/JPM:US>) 17 months ago to run **First Data** (<http://topics.bloomberg.com/first-data/>) Corp.

The company he inherited was a payment-industry giant with a client base that included Wal-Mart Stores Inc. and McDonald's Corp. At the same time, it was mired in almost \$23 billion of **debt** ([/quote/FDC:US](http://www.bloomberg.com/quote/FDC:US)), the result of a leveraged buyout done just before the financial crisis, and struggling to find areas for growth. A pack of ambitious competitors such as **Vantiv Inc. (VNTV)** (<http://www.bloomberg.com/quote/VNTV:US>) and Square Inc., a startup led by Twitter co-founder Jack Dorsey, was nipping at its heels.

"It was an unparalleled property that had been run like a utility," Bisignano, 55, said in an interview in the company's New York office. "We came in and said: 'We're going to grow this thing.'"

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This month, as **Apple Inc. (AAPL)** (<http://www.bloomberg.com/quote/AAPL:US>) unveiled new iPhones featuring digital credit cards, his effort paid off: First Data will provide encryption technology for the transaction system, called Apple Pay, a deal that could attract new clients and help turn around a seven-year-old losing bet by **KKR & Co. (KKR)** (<http://www.bloomberg.com/quote/KKR:US>)

For KKR, the private-equity firm run by billionaires **Henry Kravis** (<http://topics.bloomberg.com/henry-kravis/>) and **George Roberts** (<http://topics.bloomberg.com/george-roberts/>), a lot is riding on the success of Bisignano, the former co-chief operating officer at JPMorgan and trusted troubleshooter for its head **Jamie Dimon** (<http://topics.bloomberg.com/jamie-dimon/>). Since buying First Data in 2007 for \$29.8 billion, including debt and fees, KKR's original investment has lost about 20 percent in value. For its chief executive officers came and went as the payment company was hit by a pullback in consumer spending (<http://topics.bloomberg.com/consumer-spending/>).

'Real Deal'

KKR was ready to divest part of the business when Bisignano persuaded it to wait. Instead of selling, KKR in June increased its investment in First Data to \$3.9 billion to help shore up the Atlanta-based company's balance sheet, making it the buyout firm's biggest bet ever on one company.

"This guy is the real deal," said **Scott Nuttall** (<http://topics.bloomberg.com/scott-nuttall/>), KKR's chief of asset management and capital markets. "He gets hard stuff done fast, to a level that I have never seen."



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Photographer: Scott Eells/Bloomberg

First Data Corp. Chief Executive Officer Frank Bisignano shakes a reporter's hand on... **Read More**

Nuttall said KKR "overpaid and overleveraged" the First Data deal, which was part of a surge of debt-fueled, supersized takeovers that peaked before the 2008 financial crisis. Another of its megadeals, Texas utility Energy Future Holdings Corp., filed for bankruptcy this year. Hospital operator **HCA Holdings Inc. (HCA)** (<http://www.bloomberg.com/quote/HCA:US>) has generated a profit.

JPMorgan Years

More than its debt, Nuttall said, what weighed on First Data was a dearth of energy and innovation. Since KKR bought it, First Data's market share at U.S. check-out counters had fallen to 39 percent of transactions from 44 percent, according to research firm Nilson Report. It needed a jolt, he said, and Bisignano, a Brooklyn native who speaks with a Joe Pesci inflection, was the man to supply it.

At Citigroup Inc. in the early 2000s, he built and led the bank's global transaction services unit, whose revenue grew to \$6 billion. At JPMorgan, which he joined in 2005, Bisignano rose to become co-chief operating officer. Dimon trusted him with integrating the bank's purchases of a foundering Bear Stearns Cos. and bankrupt Washington Mutual Inc. during the crisis and running the bank's massive mortgage operations.

Before he joined, KKR had weighed other ways than risking more of its own money to pare debt. In particular, it explored selling the company's financial services unit, which handles back-office services like statement mailings for **American Express Co. (AXP)** (<http://www.bloomberg.com/quote/AXP:US>) and other card issuers and generates about a quarter of First Data's cash flow and half its \$6 billion-plus in adjusted revenue. The flagging unit was a drag on margins.

'Don't Sell!'

Bisignano halted the sale effort.

"One of the first things Frank said to me was, 'Don't sell it! I think I can fix it,' " Nuttall says.

KKR was leery of wagering more. The history of private-equity firms' upping the ante in faltering deals was mixed, Nuttall said. After KKR purchased **RJR Nabisco** (<http://topics.bloomberg.com/rjr-nabisco/>) in 1989 for \$31.3 billion, the biggest buyout up to that time, the firm was forced to prop up the company the following year to stave off bankruptcy. In the end, KKR posted an \$816 million loss on its \$3.6 billion equity investment, according to a marketing document obtained by **Bloomberg News** (<http://topics.bloomberg.com/bloomberg-news/>).

KKR also wanted to see Bisignano produce results before opening its wallet. Previous CEOs, starting with Michael Capellas, who had previously run MCI Inc. and Compaq Computer Corp. and had a reputation as a cost cutter, had failed to lift First Data from the doldrums. Capellas, who had run First Data since 2007, left in 2010 after the recession eroded profits.

Replacing Executives

Bisignano repopulated the executive ranks from top to bottom -- something no previous CEO had done. Some of his recruits he'd worked with at JPMorgan and Citi. Guy Chiarello, First Data's president, had been chief information officer at JPMorgan and Morgan Stanley. Bisignano poached three other JPMorgan executives and brought in Joseph Plumeri, the former chairman and CEO at Willis Group Holdings, a company KKR previously owned, to retool the sales force and be vice chairman. More than 45 senior executives signed on.

By mid-2014, Bisignano was making strides. Earnings before interest, taxes, depreciation and amortization -- a common yardstick for **cash flow** (<http://topics.bloomberg.com/cash-flow/>) --- rose 11 percent from the previous year to \$1.28 billion in the first half. In financial

services, the business KKR had considered selling, adjusted revenue in the quarter ended June 30 increased 6 percent, the highest top-line growth for the unit in six years.

Raising Cash

“Things were starting to happen. We wanted more of it, and we decided to increase our exposure,” Nuttall said.

In June, the company raised \$3.5 billion through a private placement, with \$2.3 billion coming from **hedge funds** (<http://topics.bloomberg.com/hedge-funds/>), mutual funds and institutions and KKR kicking in \$1.2 billion. First Data used the cash to shrink debt to \$20.7 billion.

The move freed up \$440 million annually, which Nuttall said gives First Data latitude to make acquisitions, develop new products and repay more debt. Before the move, interest consumed 75 percent of First Data’s \$2.4 billion of Ebitda, and **capital spending** (<http://topics.bloomberg.com/capital-spending/>) ate up most of the rest.

Bisignano’s biggest test -- and the real payoff for KKR -- hinges on his efforts to transform First Data into a provider of new technology for small- and medium-sized businesses. Over the past two years, First Data and KKR vetted more than 60 startups, eventually buying three: Clover Network Inc., a cloud-based payment software developer; Perka Inc., a digital rewards-program designer; and mobile-gift-card company Gyft Inc., which Google Ventures had helped seed. It purchased Clover four months before Bisignano arrived and the other companies under his watch.

CIA Connection

According to Chiarello, First Data paid less than \$100 million for the three. A fourth new product, Insightics, extracts customer spending and demographic information from merchants’ credit-card records. First Data created Insightics in tandem with Palantir Technologies Inc., an analytics software startup co-founded by venture capitalist and Facebook Inc. board member **Peter Thiel** (<http://topics.bloomberg.com/peter-thiel/>) and backed by In-Q-Tel, the venture arm of the Central Intelligence Agency.

First Data took Clover’s software and styled a sleek, white-plastic-sheathed payment terminal equipped with a touchscreen tablet. It sold more than 17,000 of such Clover Stations since they hit the market in March, Chiarello said. By First Data’s count, Clover Station’s total unit sales have pulled ahead of all tablet-based terminals including those of Square Stand, Square Inc.’s competing offering.

“We designed Clover to do for small businesses what iPhones and Android phones do for consumers,” Chiarello said. Square Inc. didn’t respond to an e-mail seeking comment.

Apple Pact

First Data met with Apple officials in March and quickly struck a deal. First Data will contribute encryption software to protect account information that people store on their iPhones. It also will process iPhone-enabled payments for its retail clients that have said they will use Apple Pay. Apple has signed up chains as such as Target Corp., Panera Bread Co. and Whole Foods Market Inc. and a number of credit card companies. Clover Stations will soon incorporate Apple Pay.

Guy Baron, a high-yield analyst at **RBC Capital Markets** (<http://topics.bloomberg.com/rbc-capital-markets/>) in New York, said Bisignano's appointment, the capital raising and the new products are positive developments for the firm.

Bondholders have already seen the benefits. First Data's \$3 billion of 12.625 percent bonds due in 2021 have jumped to 120.5 cents on the dollar from 110.3 cents last September. A turnaround though is far from complete, Baron said. KKR currently marks its investment in First Data at 80 percent of cost.

Bisignano said that First Data's array of marketing alliances with Bank of America Corp., **Wells Fargo & Co** (<http://topics.bloomberg.com/wells-fargo-%26-co/>), and other banks gives it a weapon that smaller rivals like Vantiv, Square, and Heartland Payment Systems Inc. lack: an external sales force of 1,700, on top of its internal sales team.

"Keep watching, baby," said Bisignano. "We're just getting started."

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