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NCR - Q1 2017 NCR Corp Earnings Call

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OVERVIEW:

Co. reported 1Q17 YoverY constant-currency revenue growth of 9%. Expects FY17 GAAP EPS to be \$2.20-2.32 and non-GAAP EPS to be \$3.32-3.42. Expects 2Q17 adjusted constant-currency revenue growth to be 4-6% and non-GAAP EPS to be \$0.72-0.77.



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PRESENTATION

Operator

Good day, and welcome to the NCR Corporation First Quarter Fiscal Year 2017 Earnings Conference Call. Today's conference is being recorded.

And at this time, I'd like to turn the conference over to Mr. Michael Nelson, Vice President of Investor Relations. Please go ahead, sir.

Michael Gary Nelson - NCR Corporation - VP of IR

Good afternoon, and thank you for joining our First Quarter 2017 Earnings Call. Joining me on the call today as our host is Bill Nuti, Chairman and CEO; along with Mark Benjamin, President and COO; and Bob Fishman, CFO. After prepared remarks, Bill, Mark and Bob will take your questions. Before we get started, let me remind you that our presentation and discussions will include forward-looking statements. These statements reflect our current expectations and beliefs, but they're subject to risks and uncertainties that could cause actual results to differ materially from those expectations. These risks and uncertainties are described in our earnings release and our periodic filings with the SEC, including our annual report. On today's call, we will also be discussing certain non-GAAP financial measures. These non-GAAP measures are described and reconciled to their GAAP counterparts in the presentation materials and on the Investor Relations page of our website. A replay of this call will be available later today on our website, ncr.com.

With that, I would now like to turn the call over to Mark.

Mark D. Benjamin - NCR Corporation - President and COO

Thank you, Michael, and thanks to everyone for joining us today for our first quarter conference call. I'll start by highlighting key developments and performance metrics for our business. Bob will then walk you through the financials in further detail as well as our updated guidance. Then Bill, Paul, Bob and I will take your questions.

Overall, we're off to a solid start to the year as our performance exceeded our expectations and places us on track to overachieve our initial full year financial and operating goals. Our first quarter results speak to the consistent high level of execution across NCR, our global omnichannel and



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channel transformation leadership as well as our success converting diversified top line growth and productivity initiatives into meaningful gross margin expansion.

You've heard us talk about the benefits of the business and market diversification in the past. Our Q1 results directly speak to and illustrate the importance and impact of that diversity. We entered 2017 with strong momentum. And through focused execution, we transformed that momentum into solid revenue growth and balanced margin expansion across our Software, Services and Hardware segments.

While key highlights of our performance are evident across each of our business segments, we were particularly pleased by the continued strong growth in our Software revenue, which increased 8%, including cloud revenue growth of 6% and software license revenue growth of 30%. When taken together, our unique combination of robust software and cloud offerings, expansive services capabilities and leading hardware solutions uniquely positions NCR to capitalize on the strong momentum in the omnichannel, channel transformation and digital enablement markets. Our sales teams continue to successfully execute against this growing omnichannel market demand and expand our customer base while also deepening our existing relationships.

Every day, we are helping drive success for customers of all sizes across different industries around the globe. In Q1, we also fulfilled our commitment to return cash to stockholders as we repurchased \$350 million of stock. Today, we are also raising our full year revenue and non-GAAP EPS guidance while maintaining our free cash flow outlook for the year.

Slide 4 shows our strong financial performance. Revenue was up 9% on a constant currency basis and above the high end of our guidance range driven by higher revenue across each of our business segments. Our revenue growth was also aided by the further expansion of our recurring revenue, which was up 2% and now comprises 47% of our total revenue.

Our non-GAAP gross margin rate expanded 210 basis points on a constant currency basis to 29.2% and was clearly a highlight of the quarter. Margin expansion has been a significant area of focus at NCR and our performance this quarter speaks to our strong execution, the value our offerings bring to market as well as success we have had improving productivity and gaining scale across our segments.

Non-GAAP EPS also came in above the high end of our guidance range and on a constant currency basis was up an impressive 51% year-over-year. Lastly, free cash flow was better-than-expected and puts us firmly on the path to achieve our full year free cash flow guidance.

Slide 5 is a slide you have seen before. It's an overview of NCR's strategic offers within the omnichannel market. This speaks to our global leadership and unmatched solutions portfolio in the 3 areas pivotal to conducting business in an increasingly digital economy: omnichannel software, channel transformation and digital enablement. Moreover, as the industrial Internet market expands, primarily as a result of the Internet of Things, cloud technologies, big data and machine learning, NCR is uniquely positioned to further help our customers migrate high-cost, low-value transactions to high-value, low-cost channels, reducing their costs in quantum ways while meeting the needs of the new consumer experience.

In addition, we will continue to invest in cloud platforms that enable cognitive insights, engagement and automation, which will provide our customers with predictive analytics and agents that employ cognitive technology to engage with their customers. This next generation of NCR software technology will provide our customers with the next generation of productivity gains, untapped sources of revenue growth and significantly enhance customer loyalty.

The key takeaway is our belief that NCR is the strongest and most capable partner for customers as they modernize their businesses, processes and consumer interfaces to compete effectively in a rapidly changing world.

Every day, we have conversations with existing or potential customers, and more often than not, the end needs are strikingly similar. Every industry is undergoing rapid change and consumer expectations are the primary driving force behind that evolution. In the midst of all this transition, to be successful, businesses need to grow their revenues, increase their productivity, drive loyalty gains, capture ROI on their marketing platforms and expand their touch points with consumers.



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Businesses are increasingly turning to our solutions and capabilities as NCR delivers proven value across each and every one of these critical areas. This is evident in the financial services market where Banorte, one of the biggest banks in Mexico, will be utilizing more than 1,600 SelfServ ATMs as it looks to migrate banking transactions from a traditional to a self-service model. The primary goals for Banorte are identical to some of the ones I just highlighted: increased efficiency and consumer satisfaction gains via a digitized experience.

Our leadership is demonstrated in the software market as well. We continue to gain traction with our cloud-based digital banking solution. Teachers Federal Credit Union based in Long Island, New York has been a longtime NCR customer. The financial institution shares NCR's omnichannel vision and recently signed a 5-year digital banking agreement, which will enable the credit union the ability to offer its customers with a feature-rich mobile and online banking platform.

Additionally, we recently secured our largest kiosk win with Sprint, one of the U.S.'s largest mobile operators. Sprint is leveraging NCR's newest generation of kiosk hardware to enable their Store of the Future with new digital content and customer applications. The deal includes hardware, deployment, professional services and maintenance for over 600 bill payment kiosks. This win speaks to the global momentum behind omni-commerce and channel transformation, but also our ability to deliver competitive advantages to our customers. It also demonstrates the benefits of the diversified software, services and hardware solution we can deliver to customers.

A key component of our success is continued innovation. NCR's SelfServ 90 and FastLane SelfServ checkout solutions were recently rewarded for excellence in product design at the iF DESIGN AWARDS 2017. We also recently announced an extension to the NCR Aloha platform that will enable restaurants to increase speed of service, improve order accuracy and increase overall customer satisfaction by providing their customers with a self-ordering kiosk.

The investments we have made in our omnichannel solutions are delivering favorable results and well positions NCR to continue to benefit from the macro trends across our industries.

With that, I'll turn it over to Bob, who will walk through our financial performance and outlook in more detail. Bob?

Robert P. Fishman - NCR Corporation - CFO, CAO and EVP

Thank you, Mark. Slide 6 shows our segment results for the first quarter with increases in revenue and gross margin across all our segments. Software revenue was up 8%, Services revenue was up 4%, and Hardware revenue was up 15%, all adjusted constant currency. The strong hardware revenue is expected to drive higher margin attached Software and Services revenue and future recurring revenue. The growth in Software revenue was driven by software license, cloud and professional services. In Services, our hardware maintenance and implementation revenues were both higher in the quarter. Hardware revenue growth was the result of continued momentum in self-checkout and strong performance in point of sale.

Software gross margin expanded 90 basis points, Services gross margin expanded 190 basis points and Hardware gross margin increased 190 basis points. The gross margin rate expansion reflects the results of our strategic focus on business transformation, a positive revenue mix, efficiency and scale gains. Now let's move on to Slide 7 to discuss our Software results.

Software-related revenue increased 8% year-over-year driven by software license, which increased 30% due to significant unattached license growth and continued demand for channel transformation solutions. Cloud revenue continued to grow, up 6% driven by prior period bookings. We also remain pleased with the momentum of new cloud bookings in the quarter as reflected by net ACV of \$18 million, up 29% from the prior year. We have refined the net ACV calculation and we continue to believe it is the best indicator of future cloud revenue growth. While software maintenance declined slightly primarily due to favorable onetime items in the prior year, we expect software maintenance growth in the balance of the year. Software gross margin rate expanded 90 basis points driven by strong software license revenue growth, increased efficiency and scale benefits.

Slide 8 shows our first quarter Services results. Services revenue increased 4% driven by hardware maintenance growth as a result of improving channel transformation trends, combined with increased managed and implementation services. We are pleased with the higher file value, which is the backlog metric for our Services business.



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Services gross margin rate increased 190 basis points as a result of business process improvement initiatives and a mix shift towards higher-value managed services. Incremental services margin expansion remains a key focus as we execute our strategy.

Turning to Slide 9. Hardware had a strong quarter with revenue up 15% attributed to the strength of channel transformation, particularly in the retail and hospitality industries. ATM revenue was down as expected due to lower backlog entering the year and lower conversion rates in the first quarter. We expect ATM growth in the back half of the year as larger customer rollouts take place.

We are seeing a very favorable response to the global launch of our 80 Series, which we see as a competitive differentiator. We are taking a balanced approach to certifying our products as we advance our global deployments throughout 2017. The key drivers to Hardware revenue growth were self-checkout and point-of-sale revenues, which increased 124% and 17%, respectively. SCO and POS revenues increased due to store transformation growth, which continues to gain momentum globally as consumer preferences shift. Our new point-of-sale hardware portfolio continues to gain traction with solid market demand for both our ePOS and mPOS solutions.

Hardware gross margin rate improved 190 basis points as we are gaining scale from new product introductions. Additionally, recent market share gains across our hardware portfolio are expected to drive incremental higher margin attached revenue and recurring revenue streams in the future.

On Slide 10, you can see free cash flow for the quarter. Free cash outflow was \$12 million in Q1 2017, an improvement from an outflow of \$29 million in the prior year. The company started the year strong, driven primarily by higher operating income in the period. As a reminder, the first quarter is typically a use of cash and then free cash flow increases as the business ramps over the remainder of the year.

Slide 11 shows our net debt-to-EBITDA metric with a net debt leverage ratio of 2.7x for Q1 2017 as compared to 3.2x for Q1 2016. Although the ratio was up slightly from the prior year-end due to the share repurchases in Q1, we anticipate strong free cash flow for the remainder of the year, which will enable us to reduce our leverage multiple throughout the year. As a reminder, in Q1, we repurchased roughly 7.4 million shares of outstanding stock at a value of approximately \$350 million.

On Slide 12, you will find our revised full year 2017 guidance. We are raising our full year 2017 revenue and non-GAAP diluted earnings per share guidance. Revenue guidance is expected to be \$6.63 billion to \$6.75 billion, up from previous guidance of \$6.6 billion to \$6.72 billion due to improving foreign exchange rates. We expect revenue growth of 1% to 3% as reported and 5% to 7% adjusted constant currency. We are including expected FX headwinds on revenue of approximately \$65 million compared to our previous guidance of \$95 million.

Our non-GAAP EPS is now expected to be \$3.32 to \$3.42 for the year, up from previous guidance of \$3.27 to \$3.37 or growth of 10% to 14% versus the prior year on a constant currency basis. The increased guidance reflects reduced FX headwinds and our confidence in the business going forward. We are including FX headwinds on diluted EPS of \$0.01 compared to our previous guidance of \$0.03. Our GAAP EPS guidance has been adjusted to reflect the impact of the Q1 Blackstone transaction and is now expected to be \$2.20 to \$2.32. The impact from the Q1 Blackstone transaction was due to the repurchase of preferred shares at a price in excess of the carrying value, which is considered a deemed dividend for GAAP EPS purposes. We are reaffirming our expectation for free cash flow to be in the range of \$500 million to \$525 million or approximately 95% to 100% of non-GAAP net income.

Slide 13 shows our revenue guidance by segment for the full year. The guidance has been revised upward to reflect the more positive FX environment. Software is expected to grow 6% to 8% on a constant currency basis, with cloud expected to grow at a similar rate. Services will grow 3% to 5% and Hardware will grow 5% to 8%.

Slide 14 includes our Q2 2017 guidance. We expect revenue to be up 4% to 6% adjusted constant currency. Our non-GAAP EPS is expected to be \$0.72 to \$0.77 or up 1% to 8% from the prior year. Our guidance also includes FX headwinds of \$30 million in revenue and \$0.01 in diluted EPS.

Finally, on Slide 15, you can see our revenue and EPS trending over the last 3 years. Consistent with prior years, the guidance has more revenue and earnings in the back half of the year. Revenue is trending similar to last year and is supported by our backlog and funnel at the end of the first quarter. Our earnings per share is trending more favorably than last year, mainly due to the benefit of our share repurchases in the first quarter. This trending analysis and the momentum in the business provides us with confidence in achieving our full year guidance.



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With that, I'll turn it over to Mark for closing comments.

Mark D. Benjamin - NCR Corporation - President and COO

Thanks, Bob. Turning to Slide 16. In summary, we're off to a solid start to the year and are confident in the underlying momentum across our business as well as our ability to deliver on our full year goals. Through foresight and innovation, we have effectively aligned our teams, solutions and capabilities to deliver against the market forces transforming how our customers and consumers interact and transact every day across the globe. Our solid performance in Q1 and full year outlook is supported by our healthy business metrics.

Margin remains a major area of focus. While we had a great quarter from this perspective, there is additional margin improvement we can capture as we drive further Software revenue growth and continue building a more efficient NCR through our business transformation program.

Today, you've heard about omnichannel, channel transformation and digital enablement, areas that are strong growth drivers moving forward and where we have an established global leadership position. NCR is a critical partner for customers across industries, countries and sizes, and we are committed to continue delivering the competitive advantages and market differentiation that helps them succeed. We are on track to achieve our free cash flow target for the year and are executing a balanced capital allocation strategy that will enable us to continue to innovate while also delivering direct returns to our shareholders.

Overall, I'm excited about NCR's future and our participation in the 650 million-plus transactions we enable each and every day. I want to thank the entire NCR team for their tireless commitment to driving success for our customers.

That concludes our prepared remarks. Joining Bob and me for Q&A are Bill and Paul Langenbahn, Head of our Software business.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we'll take our first question from Katy Huberty with Morgan Stanley.

Kathryn Lynn Huberty - Morgan Stanley, Research Division - MD and Research Analyst

Really impressive turn in gross margins across the segments. So I wonder if you could maybe rank by segment where you see the most opportunity for further expansion and sort of consistency in the expansion that you saw in the first quarter. From the outside, it feels like there's a lot more to go in Services and Hardware, but I'm less clear on Software because there was what looks like a temporary boost in license mix in the one -- in the first quarter. I'm not sure how sustainable that is. Then I have a follow-up.

Mark D. Benjamin - NCR Corporation - President and COO

Okay, Katy, it's Mark. Thanks for the question. So certainly, we're really pleased with the quarter really across the key segments. And we continue to believe that Software really is the great opportunity for our future of NCR as well as on the margin story, really as our cloud offerings as far as we scale that business, and we've talked about that in the past. I think we're especially pleased with the Hardware gross margins in the quarter. And that's really a combination of the mix of the solutions, the hardware solutions as well as last year was a year for NCR to really launch several new key products that drive costs, aren't at scale, and we did that in the ATM and self-checkout solutions. So we're especially pleased with the start in our Hardware gross margin. In Services, we had a great quarter. We've invested into that end of our business to improve the client experience. The team had a great first quarter around SLAs in the field, which tend to drive order and volume growth for us. And we'll continue to see margin improvements coming out of Services for the future. I have Paul here who runs Software. So maybe I'll have you comment.



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Paul Langenbahn - *NCR Corporation - EVP of Global Software*

Yes, thanks, Mark. Katy, Software is a huge opportunity for us to improve margins. I think it's important to remember this is really the first time we've had all of NCR software under one roof and under one leadership team where we can start to get some economies of scale. We think over the next several years, we have the opportunity to improve our Software margins by about 1,000 basis points. That won't happen all in 1 year, but we've got a plan to get there. And the main levers are these. First of all, the simple ones, just increased revenue on what is largely a fixed expense base. We're being very intentional about architecting our mix of license, cloud and professional services. We've started 2 initiatives this year around better managing and rationalizing our portfolio. We've acquired a lot of software products over the years that do similar things and there's a big opportunity for us to gain a lot of efficiency from that. We're investing heavily in our platform. And so if you think about it today, we have very few services that are shared across multiple software products. We've tended to build everything in the full stack from the ground up. And we're investing -- part of the NCR platform story is really an investment in services that we can leverage across a lot of products. And then I would say, the last one would be around our people and our workforce. So we're investing in centers of excellence. We're bringing more people together in larger R&D centers where we can have the right people doing the right work, the right balance of high cost versus low cost. And so all of these things that will drive efficiency for us, that will not only increase our margins, but they'll allow us to invest more in our bigger ideas, right? So we've got some areas where we want to invest more and we think we can actually drive more growth, and this kind of allows us to do that.

Robert P. Fishman - *NCR Corporation - CFO, CAO and EVP*

Katy, for us to improve the gross margin rate and to have it as broad-based in each of the segments is very exciting for us. It reflects a lot of the investments and hard work we've done over the last few years.

Kathryn Lynn Huberty - *Morgan Stanley, Research Division - MD and Research Analyst*

Great. I agree. Just quick follow-up. Obviously, there was some excitement around deregulation in the financial industry coming into the year. And you should have an easier comp in the first half versus the back half just given the timing of the product ramps last year. So just curious why you think there is weakness in the ATM business. Was there particular geographies or customer deals that got pushed? And that's it for me.

Mark D. Benjamin - *NCR Corporation - President and COO*

Yes. So Katy, it's a fair question. I think we're still waiting on the impacts of any regulatory or administrative-type policy impacts to really impact our order and backlog growth rate, if you will. I think we had, as you know, we had an incredibly strong fourth quarter in '16. Again, Bob will keep me straight, but revenues up 30%.

Robert P. Fishman - *NCR Corporation - CFO, CAO and EVP*

Yes, up -- and that was coming off a Q3 up 11%.

Mark D. Benjamin - *NCR Corporation - President and COO*

Right.

Robert P. Fishman - *NCR Corporation - CFO, CAO and EVP*

So strong back half of the year.



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Mark D. Benjamin - NCR Corporation - President and COO

Two great back halves. So as you'd imagined, we come into Q1 rebuilding the backlog. So the good news is, we're executing on the business. We feel very good about the year. You see that today in our guidance. And our new solutions, specifically on the ATM side, our 80 Series, which was essentially a soft launch last year with a few FIs, is now broadly available in North America. We continue now to expand it through Europe and seek the certifications. So again, similar to last year, it will be a front half, back half story when it comes to financial revenues.

Operator

And we'll take our next question from Kartik Mehta with Northcoast Research.

Kartik Mehta - Northcoast Research Partners, LLC - Principal, Executive MD, Director of Research and Equity Research Analyst

Bob, I just wanted to ask you a little bit about the free cash flow. You raised guidance obviously for revenue. I know that's FX-related, raised guidance for EPS and a little bit of it is FX-related. And you said you're pretty comfortable with how business is trending. And I'm wondering just maintaining your free cash flow guidance, is that conservatism? Is there something else in the business? Or could working capital be a drag as the second half is very strong?

Robert P. Fishman - NCR Corporation - CFO, CAO and EVP

Yes, no, we were pleased with our free cash flow progress in the first quarter. Typically, the first quarter is an outflow of cash. And then as we build inventory, revenue starts to ramp in the back half of the year. So we thought it was prudent to maintain free cash flow guidance at this time. But overall, it's a good start to the year for us and should follow a similar trend to the prior year.

Kartik Mehta - Northcoast Research Partners, LLC - Principal, Executive MD, Director of Research and Equity Research Analyst

And then just looking at the ATM industry and if you kind of look at what's happening in the U.S., just worldwide, I'm wondering if you could just give some commentary on the fundamentals in terms of demand and price, if there's any pockets that are doing really well or doing really bad and just your general thoughts.

Mark D. Benjamin - NCR Corporation - President and COO

Sure, Kartik. So this is Mark. So I'd say we had some pretty healthy ATM growth throughout Europe, really throughout EMEA, if you will. The Americas, certainly North America, was consistent, and APAC as well was, I think, consistent with our run rates.

Kartik Mehta - Northcoast Research Partners, LLC - Principal, Executive MD, Director of Research and Equity Research Analyst

So Mark, just so I understand, when you say consistent APAC and North America, would that mean that North America and APAC were down as the Hardware was down in the quarter or would that mean something else?

Mark D. Benjamin - NCR Corporation - President and COO

No. I think just consistent with our plans that we've built and what we've been guiding to and again, as we compare year-over-year and sequentially quarter-to-quarter with order and backlog growth.



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Kartik Mehta - *Northcoast Research Partners, LLC - Principal, Executive MD, Director of Research and Equity Research Analyst*

So it sounds like North America you'd expect, I think you had in the past low single digit growth; Asia Pac, maybe mid- to high single digit growth. Is that a fair characterization?

Mark D. Benjamin - *NCR Corporation - President and COO*

I think it's close, Kartik. I think it's close.

Operator

And we'll take our next question from Ian Zaffino with Oppenheimer.

Ian Alton Zaffino - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

The question would be, I know, Bob, you mentioned about some share gains in Hardware. Can you maybe give us a specific idea of where those share gains might have been, maybe either the region or the business line? If you could give us a little flavor, that'd be great.

Robert P. Fishman - *NCR Corporation - CFO, CAO and EVP*

Yes. We've made the comment last couple of quarters that the ATM growth in Q3 and Q4 drove market share gains for us. That has helped drive that higher margin recurring revenue. So that's what we were referring to, Ian.

William R. Nuti - *NCR Corporation - Chairman and CEO*

And Ian, the share gains were mainly in the Americas and in Western Europe.

Ian Alton Zaffino - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

Okay. And is that big banks, small banks? Any other detail you'd give us on that?

William R. Nuti - *NCR Corporation - Chairman and CEO*

Both Tier 1 and FI.

Ian Alton Zaffino - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

Okay, great. And then a follow-up question would be on the buyback. I know you completed this large buyback earlier this year. As you look at your free cash flow going forward, I know you have a builder basket that you have to work with, but what is sort of the buyback commitment for free cash flow in the second quarter, third quarter and fourth quarter?

William R. Nuti - *NCR Corporation - Chairman and CEO*

We don't have that worked out yet, Ian. That's a board-level decision. The good news is the board authorized an additional \$300 million of buyback. So our current posture is, number one, pay down debt; number two, be opportunistic on the buyback side when and if the board chooses; and number three, small M&A.



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Ian Alton Zaffino - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

Okay. And on the M&A side, I guess, since you threw that out there, is there anything in particular you're looking for? Is it maybe more on omnichannel? Is it more on new services? What are you looking to do there?

William R. Nuti - *NCR Corporation - Chairman and CEO*

The broad categories are software, cloud and services.

Operator

We'll take our next question from Dan Kurnos with Benchmark Company.

Daniel Louis Kurnos - *The Benchmark Company, LLC, Research Division - Analyst*

You guys have touched on this a little bit already, but if you could just give us a little bit more color exactly where you're at on the local certification progress abroad with the new 80 Series. I know you talked to kind of like a balanced approach. I don't know if you're intentionally sort of making sure that you've got your ducks in a row or if you're waiting for approval in certain countries. And then separately, I know it's also a little bit early, but are you seeing any delta in software uptake from all the new product launches? Obviously, we know what kind of the historical uptake has been, so if you could give us any learnings that you have so far, that would be helpful.

Mark D. Benjamin - *NCR Corporation - President and COO*

Sure. So I'd say that we're on a fairly aggressive path around certification of the 80 Series. We have 20 markets in addition to the current North America market that we're in for certification. The demand is growing. The reception of the solution is making its way through Europe literally as we speak with great excitement and great interest. So 20 right now is the road map for this calendar year. And when we see opportunities to go faster and get certifications done, we will. Can you go ahead and repeat the second part of your question?

Daniel Louis Kurnos - *The Benchmark Company, LLC, Research Division - Analyst*

Yes, sure. So obviously, you guys have spent a lot of time and money investing in new product launches, including some new hardware solutions. We know what kind of historical uptake rates on software have been. I'm just wondering if you're seeing -- because of some of the competitive advantages you called out, if you're seeing any improvements in software uptake relative to historical rates based on those new product launches.

Paul Langenbahn - *NCR Corporation - EVP of Global Software*

Yes. Ian, this is Paul. So our software license business had a really good quarter on all metrics. And it's really driven by 2 things. Number one, the uptake on our enterprise software products. These are the ones that are not directly tied to our hardware endpoints, largely in the digital enablement area, things like loyalty, transaction processing, inventory management. So we're seeing a lot of momentum in our enterprise applications. And then secondly, in our channel transformation solutions, things like SCO and POS software, we're seeing more customers make enterprise commitments to those solutions rather than buying them as they buy the hardware. So they're making a commitment to an enterprise software purchase. So those 2 things, which is a mix of new products and things we've been investing in for a while, are really driving the growth.



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Mark D. Benjamin - *NCR Corporation - President and COO*

Yes. One thing that I would also add just about the overall software performance of NCR, the mix of revenues continues to, I think, follow the strategy of growing our Software business. And you see that really in the representation of Software revenues to overall NCR really showing a nice year-over-year growth. So revenues in Software today representing 31% of our total revenues versus, call it, that 28%, 29% last year. So I think it's a nice way of calling out the strategy and really how we're shaping the business.

Daniel Louis Kurnos - *The Benchmark Company, LLC, Research Division - Analyst*

And then just one more -- that's helpful. Just one more, if I could. Obviously, we know kind of the typical drivers of cloud. Is there anything else specific to call out around the accel in cloud bookings?

Mark D. Benjamin - *NCR Corporation - President and COO*

So I'll let Paul follow up. I would say, as we expressed on the last quarter, we've been very pleased with our DI business and our digital banking success. And if you've followed NCR for just even a couple of years, you would know that, that's been, I think, a long road, a hard road but well fought. And we saw an inflection last quarter with that business really turning positive from a growth, organic growth rate, from a customer utilization and usage rate as well as an improvement just in customer sat and a reduction in churn. So I'd say that's a change story for us in these now 2 quarters consecutively. So Paul?

Paul Langenbahn - *NCR Corporation - EVP of Global Software*

Yes. I would say it's absolutely that and then continued really solid double-digit growth performance of our hospitality SaaS stack and our Silver offerings. So you really put all that together and the growth rates are starting to turn for us.

Operator

And we'll take our next question from Matt Summerville with Alembic Global Advisors.

Matt J. Summerville - *Alembic Global Advisors - MD and Senior Analyst*

A couple of questions. First, I want to ask a question on the service business. I think it was Bob. In your prepared remarks, you mentioned the file value in that business. Can you put some numbers and framework around that? What is the file value? How much is it up year-over-year? And is that a regular metric that you'll be reporting back to us on going forward? And then similarly, in service, if this is sort of a permanent step function improvement in -- I'm looking at operating margin here, in the operating margins in that segment, i.e., is this 8% or so that you did in Q1 basically the new low-water mark for that business?

Robert P. Fishman - *NCR Corporation - CFO, CAO and EVP*

Yes. Certainly, Matt. The file value, which is the -- think of that as the backlog for the Services business, we've not historically given that. The good news is, it's growing and that's what drives the hardware maintenance piece. We also have implementation services that are sort of following the channel transformation trend and benefiting from that. On margin, I'm as excited about Services gross margin as Paul is about Software gross margin expansion. So those are the 2 areas, Matt, that we really think we have an opportunity to expand margins. So the increase in the first quarter, which is reflective of a couple of things. One is, we've made investments over the years around that business in terms of the technology that we use, the call centers, really, all of the things that we use to improve our SLAs in customer service. We've done things around remote and predictive and have a number of items that will improve the runway. So again, you call it a kind of a low-water mark. We would agree with that. We think there's a tremendous opportunity to improve our Services gross margins.



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Matt J. Summerville - *Alembic Global Advisors - MD and Senior Analyst*

And then just as my follow-up, and kind of getting back to Katy's question. You entered the year with a backlog, I believe, up 20% or more on the Hardware side of the business. Did the ATM business, therefore, not participate in that? I guess I'm still surprised by the lack of growth there. And then in the prepared remarks, you mentioned lower conversions on the ATM business. What exactly does that mean? Are there delays with the Series 80? Are there more challenging -- and we know that, that can happen from time to time -- certification issues that you're encountering that are pushing all this off? Because let's face it, you are up against tough comps in the back half of the year. So help give me confidence with all those things in mind that this business is going to grow in the back half of the year.

Robert P. Fishman - *NCR Corporation - CFO, CAO and EVP*

Yes. And that's fair, Matt. Yes, in the 20% backlog up coming into the year, ATM backlog was down. And that was on the heels of 11% revenue growth in Q3 and 30% in Q4. So we knew we needed to rebuild the backlog. Within that backlog, it's a very similar phenomenon that we saw in '16, where customers are doing the majority of their rollouts in the Q3 and Q4, so the back half of the year. So the lower backlog, more of it converting in the back half of the year gives us the confidence that, that business will grow even off those tougher compares. So that's what we're seeing. For me, Matt, it's the same play we ran last year. We continue to drive the orders and then drive the revenue in the back half.

Operator

(Operator Instructions) We'll go next to Paul Coster with JPMorgan.

Paul Coster - *JP Morgan Chase & Co, Research Division - Senior Analyst, Alternative Energy, and Applied and Emerging Technologies*

You're obviously having a lot of success in the retail segment at last and point of sales was up 17% year-on-year for the quarter. There's a lot happening in retail though, right? Some of your customers or your customers are obviously investing in technology, again, presumably in response to Amazon and other things. But there's also the shift from retail to e-tail, which is putting some of your customers, I mentioned, out of business in some cases. So how do we sort of handicap the risk associated with that part of your business taking a slightly longer-term view?

Mark D. Benjamin - *NCR Corporation - President and COO*

Paul, thanks for the question. This is Mark. So I'd start off by saying our concentration in the retail space is not necessarily overlapped heavily with the fashion or large department store footprint, if you will. The ones that are probably making headlines fairly regularly. So for starters, we have a little bit of a different footprint within retail. And certainly, to your point, the retail space and the bricks-and-mortars turning to their electronic or digital methods and transformations are all good for NCR. So whether it's a hardware, software or services solution that drive all-digital, physical and channel transformations, it's really a unique solution that NCR offers the market. So if perhaps a smaller footprint location or even reduced number of sites, but with tighter concentration, NCR essentially is on all of the pieces of that journey with our retail customers. So certainly, not an easy time in retail, but our solutions, our channel transformation and omnichannel really are what the market needs today.

Paul Coster - *JP Morgan Chase & Co, Research Division - Senior Analyst, Alternative Energy, and Applied and Emerging Technologies*

I mean, what is it that reactivated growth for Digital Insights a couple of quarters ago? Can you pinpoint the cause?

Mark D. Benjamin - *NCR Corporation - President and COO*

What we're seeing in Digital Insights are really 2 things. We have really, I think, reestablished ourselves as a leader in the digital banking space and a high-quality provider. In fact, last quarter, we reported that we were supporting 8 of the top 10 digital banking solutions with DI in the market.



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And what we're also seeing, really, as also the FIs, Paul, continue to transform their customer experience, driving more digital high-cost, low-value to low value -- or low-cost, high-value transactions digitally, we're seeing an uptick in the end consumer utilization rates within the FIs using DI. And that obviously also drives revenue growth. So we're quite pleased with how they're performing. Our releases, we continue to enrich in the solution and we remain very competitive. So it's an all-around good story.

Robert P. Fishman - *NCR Corporation - CFO, CAO and EVP*

I'd say, in addition to that, Paul, we did do a good job post the DI acquisition of investing in the data centers, making sure that availability was high and improve customer satisfaction. And then we could leverage that and start investing in the functionality and grow the business to the points Mark made.

Paul Coster - *JP Morgan Chase & Co, Research Division - Senior Analyst, Alternative Energy, and Applied and Emerging Technologies*

Do you have any by any chance data around head-to-head situations where you've won against an incumbent?

William R. Nuti - *NCR Corporation - Chairman and CEO*

Paul, we routinely win in that space against large incumbents like Fiserv and FIS and then small [indiscernible]. Paul, do you have any view on that?

Paul Langenbahn - *NCR Corporation - EVP of Global Software*

Well, it's a large industry. There are close to 1,000 FIs that are kind of in the sweet spot for that sort of solution. So it's a big market. And we feel, as Mark said, really good about our position right now. In fact, we'll continue to increase the number of NCR salespeople who can address that market. So we have other levers we can pull as well.

William R. Nuti - *NCR Corporation - Chairman and CEO*

And Paul, there are 2 things that I can point to that we did. Number one, we significantly improved customer sat by virtue of improving the data center that we were using or data centers and innovation. That team has come up with a variety of new applications and new solutions that we're now adding to our portfolio.

Operator

And ladies and gentlemen, that does conclude today's Q&A session. At this time, I'd like to turn the call back over to Mr. Nuti for any closing remarks.

William R. Nuti - *NCR Corporation - Chairman and CEO*

Okay. Well, thank you all for joining us. We'll see you in July.

Operator

And ladies and gentlemen, this does conclude today's conference. We appreciate your participation.



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