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# EDITED TRANSCRIPT

## NCR - Q4 2016 NCR Corp Earnings Call

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**OVERVIEW:**

Co. reported 4Q16 non-GAAP EPS of $1.07. Expects 2017 revenues to grow 5-7% on adjusted basis and non-GAAP EPS to be $3.25-3.35. Also, expects 1Q17 adjusted constant currency revenue growth to be 7-9% and non-GAAP EPS to be $0.43-0.48.





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## CORPORATE PARTICIPANTS

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**Mark Benjamin** *NCR Corporation - President, COO*

**Bob Fishman** *NCR Corporation - EVP, CFO, Chief Accounting Officer*

**Bill Nuti** *NCR Corporation - CEO, Chairman*

**Bob Ciminera** *NCR Corporation - EVP Hardware Product Operations*

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

## CONFERENCE CALL PARTICIPANTS

**Katy Huberty** *Morgan Stanley - Analyst*

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**Dan Perlin** *RBC Capital Markets - Analyst*

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## PRESENTATION

**Operator**

Good day, everyone, and welcome to the NCR Corporation fourth-quarter fiscal year 2016 earnings conference call. Today's conference is being recorded. At this time, I would like to turn the call over to Mr. Michael Nelson, Vice President of Investor Relations. Please go ahead.

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**Michael Nelson** - *NCR Corporation - VP IR*

Good afternoon and thank you for joining our fourth-quarter 2016 earnings call. Joining me on the call today is our host is Bill Nuti, Chairman and Chief Executive Officer, along with Mark Benjamin, President and Chief Operating Officer, and Bob Fishman, Chief Financial Officer. After prepared remarks, Bill, Mark, and Bob will then take your questions.

Before we get started, let me remind you that our presentation and discussions today include forward-looking statements. Forward-looking statements reflect our current expectations and beliefs, but they are subject to risks and uncertainties that could cause actual results to differ materially from our expectations and projections. These risks and uncertainties are described in our earnings release and in 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 most directly comparable GAAP measures in today's presentation materials and on the Investor Relations section 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.

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**Mark Benjamin** - *NCR Corporation - President, COO*

Thanks, Michael, and thank you to everyone for joining us today for our fourth-quarter and full-year 2016 earnings conference call. I'll begin the call by providing an update on key highlights of our business as well as the continued progress we have made to advance our omnichannel, channel transformation, and digital enablement solution. Bob will then walk you through the financials in further detail and our guidance. And then Bill, Bob, and I will take your questions.

Overall, NCR had a great 2016, and I want to recognize our employees and thank our customers as well as our partners for the important role they play in our success. We had strong performance in virtually every metric we track but, particularly, revenue, earnings, and free cash flow.

Throughout 2016, a common theme for NCR was the underlying momentum in our business driven by improved operational execution and strategic traction with our omnichannel focus which led to strong revenue trends and cash flow generation. Additionally, we delivered consistent results as software and recurring revenue continued to demonstrate improving growth trends. This theme is clearly evident in our fourth-quarter results, which, despite worse than forecasted currency headwinds, exceeded our guidance for revenue, earnings, and cash flow and marked to the end to a highly successful year for NCR. We drove higher revenue growth throughout the year and delivered an impressive $628 million of free cash flow in 2016.

I mentioned that we are seeing increased interest in our omnichannel strategy, which includes the strong competitive position we've built in omnichannel software, channel transformation, and digital enablement. The strength of our solution offering has driven our diversified topline growth.

In Q4, software revenues finished up an impressive 10% in constant currency, which included a 9% increase in cloud SaaS revenue. You will recall on previous quarterly calls that we have been foretelling higher cloud growth on the back of strengthening ACV, and this remains an area of strategic focus. That being said, we enter 2017 in a position of strength with positive momentum in orders and a strong backlog position. The guidance we announced this afternoon demonstrates the confidence we have in our business, strategy, team, and market position.

In 2017, we expect revenue to increase 5% to 7% in constant currency, non-GAAP EPS to grow 9% to 12% constant currency, and drive a free cash flow conversion rate of 95% to 100%. And the confidence we have in our business, combined with our strong 2016 free cash flow, has led us to announce our intention to repurchase $300 million of shares during 2017.

Turning to Slide 4, you can see the positive mix shift in our business towards software. As this chart shows, operating income from our software segment represents the largest component of our operating income. We've made solid and consistent progress in our software business and it remains our top strategic priority.

Importantly, the favorable mix shift to software has been a driver to our strong free cash flow growth and conversion rate. I needn't to remind you of how important this particular metric is both internally and externally and, like software, remains a top priority going forward.

Slide 5 is a slide you've seen before. It's an overview of NCR's strategic offers within the omnichannel market. NCR enables over 650 million transactions every single day. When consumers are interacting and transacting with businesses, they increasingly demand a seamless digital and converged experience. Through strategic foresight and consistent innovation, NCR is uniquely positioned at the front of this megatrend. We possess an unmatched portfolio of solutions and an understanding of underlying market and consumer forces that is allowing us to distinguish ourselves from the competition.

We consistently hear from our customers of all sizes and in all markets about the value we are delivering today, allowing them to increase revenue, drive the next generation of productivity gains, improve customer loyalty by delivering an innovative consumer experience, and help them gain market share. The strength of our technology and our reputation as a global omnichannel partner is reflected in our recent agreement with Nedbank, one of South Africa's largest banks. Nedbank will be the first bank in the country to introduce NCR Interactive Teller. Built on a contemporary hardware platform, this software driven solution allows the user to complete up to 80% of transactions, typically completed inside a physical branch with a live video teller at an ATM.

The unique value we deliver can also be seen in recent developments in retail channel transformation, the adoption of our Scan & Go application.

Globus hypermarkets in Russia recently became the first supermarket chain in Europe to introduce our NCR FastLane Mobile Shopper solution. This solution gives shoppers the opportunity to scan the barcodes of merchandise as they shop using an intuitive, store-provided handheld or using their smartphone and then quickly finalize their transaction at a checkout area without the need for unpacking or using a checkout belt. This redesigned shopping experience saves time for consumers and significantly reduces store queue time. And our solution is designed to leverage the existing infrastructure in the retail environment, requiring limited incremental investment.

Global customer adoption of our solution is confirmation of our strategy and execution. NCR is modernizing the consumer experience, and true to our tagline "NCR Solutions Make Life Easier".

Our global leadership and superior innovation is evidenced by the strong third-party industry accolades. To highlight a few, RBR's latest global point-of-sale software 2016 report identified NCR as the number one global point-of-sale software provider. This is a first. Magnified Money's mobile banking app study found that eight out of the top 10 consumer rated mobile banking apps are powered by NCR's Mobile Banking app. This industry recognition extends to our hardware offerings as well. NCR's SelfServ 91 ATM was recognized for its innovative product design with the prestigious German Design Award of 2017. And our new 80 series ATM was recognized as an International Design Excellence Award 2016 finalist.

And finally, the excitement surrounding our product offerings was most recently on display last month in New York at NRF 2017 where our expanded presence was met with heavy foot traffic and broad enthusiasm for the solutions and offerings we bring to market.

So, as you can see, the investments we've made in our technology, platforms, and people are in fact delivering results, and this truly is an exciting time for NCR.

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

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**Bob Fishman** - *NCR Corporation - EVP, CFO, Chief Accounting Officer*

Thank you Mark. Slide 6 shows our financial highlights for Q4. Revenue was up 14% on an adjusted constant currency basis, which exceeded our guidance of 8% to 10% despite an unfavorable FX impact that was $25 million higher than we expected at the beginning of the quarter. Our recurring revenue was up 4% constant currency and comprises 40% of our total revenue.

Looking at margins, Q4 non-GAAP gross margin was 29.4%, which was down 80 basis points on a constant currency basis. The margin rate decline was attributed primarily to a higher mix of hardware revenue, partially offset by gross margin rate improvement in our software business. Our strong hardware revenue will benefit future periods by driving higher-margin attached and recurring revenue. In addition, gross margin and expenses were negatively impacted by higher employee related costs year-on-year that we highlighted at the beginning of the quarter.

Q4 non-GAAP EPS was $1.07, above our guidance range of $1.01 to $1.06 despite an additional FX headwind of $0.07 from what we had expected at the beginning of the quarter. The FX headwind was primarily driven by the unexpected devaluation of the Egyptian pound. Q4 non-GAAP EPS increased 30% year-over-year constant currency.

We were especially pleased with free cash flow of $449 million in the quarter, which improved $265 million year-over-year due to increased operating income and improvement in networking capital. Free cash flow was also significantly above the top end of our guidance range.

Slide 7 shows our financial highlights for the full year. We had strong topline growth in 2016. Revenue was up 7% on an adjusted constant currency basis. Recurring revenue comprised 43% of our total revenue in the year. Non-GAAP gross margin was 28.8%, which was down 30 basis points on a constant currency basis as a result of a higher costs related to new hardware product introductions and higher employee related expenses. This was partially offset by improved software gross margins. Our current-year guidance includes gross margin rate expansion in 2017 due to a higher mix of software and continued improvement in productivity and cost efficiency.

Earnings growth was also very strong in 2016. Non-GAAP EPS was $3.02, which represented a 15% increase from the prior year in constant currency. Free cash flow for 2016 was $628 million, up 54% from 2015 and well above the top end of our guidance range of $475 million.

Slide 8 shows our segment results for the fourth quarter. Software revenue was up 10%, services revenue was up 3%, and hardware revenue was up 30%. The growth in software revenue drove an increase in operating income in the quarter as the software segment is our highest gross margin business at roughly 54% and represents the largest component of our operating income at 65% of our total operating income in Q4. The hardware growth reflects the momentum with hedge offerings and channel transformation with growth of ATMs and Self-checkout. Hardware is being driven by our focus on end-to-end solutions as customers continue to look for an experienced omnichannel partner who delivers integrated solutions.

Now let's move on to Slide 9 to discuss our software results. Software-related revenue accelerated to 10% growth year-over-year, driven by growth in all of our software revenue streams with significant growth in software license and cloud revenue. Software license increased 22%, driven primarily by channel transformation, point-of-sale and loyalty solutions. Cloud revenue continued to accelerate, up 9%, driven by prior-period bookings and higher mobile banking growth.

We also remain pleased with the momentum of new SaaS bookings in the quarter as reflected by net ACV of $16 million, which brought our year-to-date net ACV to $70 million as compared to $39 million in the prior year. Software gross margin rate expanded 70 basis points, driven by strong top line growth.

Slide 10 shows our third-quarter services results. Services revenue increased 3%, driven by channel transformation offers, implementation services, and hardware maintenance opportunities for large, complex deals. Services gross margin rate declined 60 basis points owing to the investments we are making in business process improvement initiatives, which are expected to drive future margin rate improvement. We are also continuing to focus on delivering incremental productivity gains, which should drive future margin rate improvement. Employee related costs also negatively impacted our margins and expenses year-on-year, as we previously discussed.

Although the performance in our services segment met expectations, we believe we can do a much better job. Our key areas of focus to drive improved performance include a higher mix of managed services, productivity and efficiency improvements, remote diagnostics, and repair and product lifecycle management.

Turning to Slide 11, hardware had another strong quarter with revenue up 30% driven by continued momentum in channel transformation across financial services, retail, and hospitality industries. ATM revenue was up 29%, driven by strong customer demand for our new products, acceptance of our newly introduced omnichannel ready products, and strong roll-out of backlog during the quarter.

Another key driver for hardware revenue growth was Self-checkout revenue, which increased 140% due to global store transformation growth, which continued to gain momentum in the retail segment. Self-checkout performance continued to be positively impacted by the convergence of shifting consumer transaction preferences along with global labor availability and cost trends. Store transformation initiatives are driving an increase in the number of stores as well as an increase in the number of lanes within the stores that are deploying Self-checkout solutions.

Hardware gross margin rate declined 210 basis points due to continued investments in new product introductions. We are gaining market share across our hardware portfolio, and hardware revenue growth should drive higher-margin attached revenue and recurring revenue streams in the future.

On Slide 12, you can see free cash flow for the quarter and full year. Free cash flow was $449 million in Q4 2016, up $265 million from the prior year. The $628 million of free cash flow for the full year significantly exceeded the $475 million of free cash flow at the top end of our guidance range. The Company executed extremely well on all aspects of free cash flow, including higher operating income, working capital, capital expenditures, and cash tax rate to name a few.

We ended the year with a cash flow conversion rate of approximately 132% of non-GAAP net income versus 86% in the prior year. We have been hard at work improving working capital during our transformation to get back to pre-acquisition levels. For example, our DSO improved significantly in 2016 by approximately six days and is a reflection of investments in service billings and invoice accuracy and higher collection rates. In addition, higher revenue in the back half of the year provided us with a larger basket of receivables to collect.

Inventory and payable metrics have also been managed well. Days payable outstanding, at close to 55 days, is now at our targeted level. In general, every day improvement in receivables leads to an additional $20 million in cash and every day improvement in payables leads to an additional $15 million in cash. The improvement in working capital benefited 2016 free cash flow by roughly $100 million above our expectations. These improved working capital metrics now set a new baseline for us as we continue to improve and benefit from the investments we have made. Although free cash flow will be down year-on-year due to this incremental working capital benefit in 2016, we are pleased with our 2017 free cash flow guidance of $500 million to $525 million at a conversion rate of 95% to 100%.

Slide 13 shows our net debt to EBITDA metric with a net debt leverage ratio of 2.4 times for full-year 2016, which is a significant improvement from the 2.9 times entering the year. The additional free cash flow generated in 2016 enabled us to reduce our leverage multiple further than we had originally expected.

NCR remains committed to a balanced capital allocation strategy, and we expect a similar capital allocation strategy in 2017 to that in 2016. We will continue to return cash to shareholders, pay down debt, and evaluate small M&A transactions.

As noted in our earnings release, we plan to repurchase approximately $300 million of our common stock under our existing share repurchase program during 2017. So far in Q1, we have repurchased outstanding stock at a value of approximately $70 million.

On Slide 14, you will find full-year 2017 guidance. We are very pleased with the guidance that we are providing and it reflects the momentum coming into the year. Revenue growth is expected to be up 5% to 7% adjusted for FX and excluding our IPS divestiture in May of 2016. We are expecting unfavorable FX headwinds of $95 million in revenue in 2017. Our non-GAAP EPS is expected to be $3.25 to $3.35 for the year, up 9% to 12% versus the prior year on a constant currency basis. We are including expected FX headwinds of approximately $0.03 in our current guidance.

Included in our guidance is operating margin improving driven by our strategic shift to more software and higher value services and our productivity improvements. We remain on track to achieve the cost take-out benefit that we mentioned at investor day. We expect productivity improvements of roughly $100 million in 2017 with half dropping to the bottom line. We have assumed other income and expense of approximately $210 million to $215 million, a tax rate of 25%, and a share count of 158 million, which assumes the planned $300 million in share repurchases, as previously discussed, offset by dilution.

We expect free cash flow to be in the range of $500 million to $525 million, approximately 95% to 100% of non-GAAP net income. We expect free cash flow linearity to follow a similar pattern to previous years with the majority of free cash flow generated in the fourth quarter and higher working capital requirements earlier in the year. As we continue our transformation, we expect approximately $60 million of cash payments for severance activities in 2017 which are included in our free cash flow guidance for the year.

Slide 15 shows our revenue guidance by segment for the full year. Our guidance is consistent with the strategic mix shift in the business that will help drive operating margin improvement. 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 include an improved mix of higher value services and hardware will grow 5% to 8%.

Slide 16 includes our Q1 2017 guidance and reflects a fast start to the year compared to 2016. We expect revenue to be up 7% to 9%, adjusted constant currency. Our non-GAAP EPS is expected to be $0.43 to $0.48, up 23% to 37%. Our guidance also includes FX headwinds of $17 million in revenue and $0.03 in diluted EPS.

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

**Mark Benjamin** - *NCR Corporation - President, COO*

Thanks Bob. In closing, over the past decade, NCR has taken bold steps to transform itself into the omnichannel technology leader we are today. Our people design those experiences. Our software creates those experiences. Our edge devices deliver those experiences, and our services differentiate them.

We are seeing the many benefits of that vision and strategy as, today, we are the global leader in omnichannel software, channel transformation, and digital enablement solutions. Our market position, strong backlog, and key business metrics support our guidance, and the entire NCR team is excited about the year ahead. We are focused on maintaining the momentum in our business, a high level of execution, and continuing to drive strong order growth and revenues in the year ahead.

As I mentioned, continuing to drive the mix shift in our revenues, software, and cloud will continue to drive attractive margin expansion. Our efforts here will be supported by a continued focus on innovation and ongoing productivity initiatives as we work to build a stronger and more effective NCR.

As we look ahead, we remain committed to partnering with our customers and enabling their success by helping them take the necessary steps in the development and implementation of their omnichannel and digital conversion strategies. Today, NCR has the vision, strategy, team, and innovative solutions portfolio to accomplish this goal. We are focused on driving sustainable revenue, profit, and free cash flow growth led by software and value-added industry focused end-to-end solutions. Longer-term, we are focused on accelerating revenue growth for software and cloud.

That concludes our prepared remarks. Joining Bob and I for Q&A are Bill, who always loves a great question, as well as Paul Langenbahn, Head of Software, Rick Marquardt, Head of Services, and Bob Ciminera, Head of Hardware and Operations. We will now open the call for questions.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions). Katy Huberty, Morgan Stanley.

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**Katy Huberty** - *Morgan Stanley - Analyst*

A big congrats on the free cash flow. So, I want to start there. Clearly, the $300 million buyback is positive news. But curious how you thought about buyback versus maybe introducing a dividend, given the outperformance on free cash flow, the strong guidance for 2017, and then also the outperformance on the leverage ratio this year? Then I have a follow-up.

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**Bill Nuti** - *NCR Corporation - CEO, Chairman*

You know, Katy, we always look at capital structure in a way where we look at every single possible opportunity to deliver cash back to shareholders, and dividends are on the table every year, but we are not quite ready yet from our point of view. However, you know, I would say that, going into 2018, that topic will be on the agenda again and the board will make that final call. So, be assured we look at buybacks, dividends, M&A, debt paydowns, all with an equal eye. Right now, however, I and the board feel like, given where we are, the confidence we have in the business, the fact that we are still undervalued, we think that a buyback makes more sense along with debt pay down and perhaps some small M&A.

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**Katy Huberty** - *Morgan Stanley - Analyst*

Okay, that's helpful. And then Bob, I'm a little surprised to see hardware gross margins down 210 basis points. I think that was for the year. Just given the mix shift towards ATMs and Self-checkout, which I would think would carry higher margins, could you just talk about some of the pressures in the hardware business that you saw in 2016 and how that reverses this year?

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**Bob Fishman** - *NCR Corporation - EVP, CFO, Chief Accounting Officer*

Yes, on hardware gross margin rate -- and I want to make sure we answered your leverage multiple question too. I don't know if we covered that one, but, on hardware and gross margin rate, it was really a reflection of the new products that we introduced in-year. Until those products ramp to the volumes we are expecting, we'll have some pressure on margin, which we saw in 2016. As those products ramp in 2017, we'll see margins in hardware that are at least flat with what we saw in 2016.

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**Bill Nuti** - *NCR Corporation - CEO, Chairman*

And Katy, on that note, I might ask Bob Ciminera to weigh in, but we did introduce a record number of new hardware platforms in 2016. Beyond the Series 80, we introduced a new Self-checkout device, the Version 6, and a number of new POS platforms. But Bob, did you want to weigh in?

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**Bob Ciminera** - *NCR Corporation - EVP Hardware Product Operations*

That's right Bill. Last year, 2016, was a record year for new product introduction for NCR. As Bill said, we turned over our entire point-of-sale product line to have costs associated with that. We began the launch of a new Self-checkout model. And as Bob mentioned, we launched our 80 Series product. So we had some cost pressure as we introduced those products even while we had record volumes.

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**Katy Huberty** - *Morgan Stanley - Analyst*

Okay. And then just one last one from me. You had strong hardware revenue growth the last couple of quarters helped by the Self-checkout rollouts and the new ATM products. How should we think about the makeup of the 5% to 8% hardware growth in 2017? Is it still a story of ATMs and Self-checkout growing and point-of-sale declining, or does the mix shift a little bit?

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**Bob Fishman** - *NCR Corporation - EVP, CFO, Chief Accounting Officer*

Katy, within our 5% to 8% hardware revenue, we do expect growth in all of those businesses, point-of-sale, Self-checkout, and ATMs. I would say that the mix will follow very much the 5% to 8%. So you would see ATMs, self-checkout, and point-of-sale all somewhat within that range, maybe point-of-sale a little bit lower but still growing.

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**Katy Huberty** - *Morgan Stanley - Analyst*

Great. Thanks so much. Congrats on the quarter.

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**Operator**

Paul Coster, JPMorgan.

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**Paul Coster** - *JPMorgan - Analyst*

I'd like to dig in a bit deeper on the retail side a little bit if you don't mind. The first one is explain a little bit the delta in the growth rate between self-checkout and point-of-sale. It sounds like it's going to close a little bit next year. But I'm curious why one is doing so well and the other is a relative laggard.

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**Bill Nuti** - *NCR Corporation - CEO, Chairman*

Paul, in the quarter I think POS was largely flat, down 1%, on the year down 2%. There are two reasons for that. One is around mix. We have a higher volume in terms of the number of units going out the door but at lower price given that configurations are lower cost, lower price. That will change a bit in 2017.

Number two, while the number of SKO deliveries implicates more competitive POS than our own. Remember, every time we sell a SKO, it does replace traditional point-of-sale. And look, I'll take that trade all day long. However, the good news for us is that, in 2016, the number of SKO shipments we had replaced more competitive kits than our own. However, it does have an impact on us.

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**Paul Coster** - *JPMorgan - Analyst*

So, it brings me to my second question, which is a vision seems to be coming together of a new customer experience centered on the mobile phone using existing infrastructure. It's a paradigm in which there's a lot less hardware inside the retail environment. Can you comment upon that as well? Because it's sort of points to one where the value per sale might decrease.

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**Bill Nuti** - *NCR Corporation - CEO, Chairman*

No, Paul, quite the opposite. I'll give you my point of view and then I'll have Paul Langenbahn jump in. But what you need to understand is that, at the front end of retail, banking, hospitality, travel, in the physical channel, there are significant changes that are taking place and, by the way, that will accelerate in the next decade. At the front end, you are seeing a combination of automation and digital coming together. So, technology like SKO, our mobile point-of-sale, our software that attaches to that, omnichannel software, PS and services will thrive in physical channel transformation.

On the Internet side, digital, that's really moving to our mobile technologies. Here, it's mainly a software play in that channel. However, do not forget that, at the edge of the transformation going on is usually a piece of hardware. Paul?

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

Yes, I think that says it well. Paul, the way I would think about it is we are at the very beginning of this ramp up in channel transformation in terms of transforming from assisted to self-service at the front of the store. That's happening primarily -- and think of it as kind of large-format retail stores at this point, but we see it very early stages in the other segments that we serve as well. So, for instance, in smaller format retail or in restaurants, what we see is customers planning a shift towards actually more hardware endpoints in a store. I'll give you an example.

In a quick service restaurant, in the future, you will see a mixture of mobile point-of-sale devices and customer self-service kiosks. Kind of think of those almost like a self-checkout for a restaurant and probably less fixed position terminals, but the total number of endpoints actually going up. The other thing I'd say is important is, as we move through the generations of channel transformation, the infrastructure, the software infrastructure, we are laying now with things like FastLane, self-checkout, and our Retail ONE platform is the same infrastructure that will plug in things like Mobile Shopper too. So we are building an infrastructure for our customers that they can very much grow into as they go through these different waves of channel transformation. But I think we are very early -- there's a lot of room to run the left in this retail self-checkout transformation phase.

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**Paul Coster** - *JPMorgan - Analyst*

Excellent. Thank you so much.

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**Operator**

Dan Perlin, RBC Capital Markets.

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**Dan Perlin** - *RBC Capital Markets - Analyst*

Nice quarter and good guide. I had a question on the software license growth, again, it was strong in the quarter. But I'm looking at the growth rates third quarter to fourth quarter in the unattached line. I think, in the fourth quarter, it was up 5%; third quarter, it was up 26% constant currency. So I'm just wondering what's the call out there for the deceleration? Was it a difficult comp or was it just a mix issue? Anything you can provide would be great.

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**Bob Fishman** - *NCR Corporation - EVP, CFO, Chief Accounting Officer*

Yes, I think, by its nature, unattached software license can be a little bit lumpier. We had a very strong hardware quarter, so, as a result, the software attached in Q4 was strong. So, I think what's important to us is that both of them have continued growth momentum. We have a number of different offerings within unattached software licenses. Unattached software licenses grew for the year roughly 8%. Software attached grew for the year close to 20%. So, we will continue to add to our unattached software license portfolio but also benefit through channel transformation and the edge offerings and capture software attach.

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**Bill Nuti** - *NCR Corporation - CEO, Chairman*

Paul, any feedback from you?

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

I think it's a great question. I think the thing I'm always reminded by is if you look back not too many years, a huge percentage of NCR's software revenue would have been attached. And so we've gotten to the point where it's actually very balanced. And Bob said it well about attached revenue will generally follow things like SKO and ATM shipments. And that's clearly where our customers' priorities were in Q4 if you look at the revenue associated with those.

But if you think about our enterprise solutions that really make up unattached, things like transaction processing software and financial institutions, payment software in retail and hospitality, loyalty and consumer marketing applications, and soon-to-be our omnichannel platform software, these are the things we've been investing in significantly over recent years, and they've become a very meaningful share now of our software license revenue, and I expect them to actually be our fastest growing portion of our catalog over the coming years.

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**Mark Benjamin** - *NCR Corporation - President, COO*

Yes (multiple speakers)

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**Dan Perlin** - *RBC Capital Markets - Analyst*

A lot of the things you just (multiple speakers)

**Mark Benjamin** - *NCR Corporation - President, COO*

Go ahead. I think what Bob and Paul are really highlighting is that we are really pleased with driving our hardware sales because of our catch -0 great attached software that comes along with it. And downstream, we get great attach of professional services, transaction services, and really the ability to go back with unattached offerings, really an end-to-end solution, if you will, driving the transformation, whether it's our vertical and retail or hospitality or financial. So, for us, it's all good news. I think Bob accurately points out the unattached lumpiness that we are susceptible because hardware drives the attached very predictably.

**Dan Perlin** - *RBC Capital Markets - Analyst*

Yes. No, I think it's a great mix. We've been around long enough to certainly appreciate that mix for sure.

One of the questions I had, though, as you were outlining all of those unattached solutions, I just want to make sure. Is there -- do you predict some seasonality in how this should play out as opposed to maybe just lumpiness? A lot of those things I would think retailers in particular aren't putting into the fourth quarter for the holiday, but they certainly want in the third quarter. And so just as I'm modeling next year, I want to make sure I don't get surprised by this.

And then the second question I had is completely unrelated. I'm just wondering. In the conversations you are having with your financial services companies, in particular banks, kind of post-election and this kind of euphoria about rolling back regulation and higher rates, what are they saying and what are they looking for? It would seem like DI is in a pretty good position to capture that.

And then the 80 Series ATM, can you just kind of flesh out what exactly incremental -- I know that's a new series. It's been a long time since you introduced one like that. But I'm not exactly sure what exactly it's bringing to the market. Thanks.

**Bill Nuti** - *NCR Corporation - CEO, Chairman*

Paul, why don't you take question number one and then Mark will take number two and three.

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

Sure. On the seasonality, that's a great question. And my sense is it's a little less seasonality. Our orders of unattached software were actually really strong in Q4. It might be a little bit of deployment seasonality, but I think it's more just, as that business grows, it's going to smooth out and become a little less lumpy. So, I think that would be our goal. As our sales force every year gets more and more proficient at enterprise software sales, as the portfolio gets bigger, as the number of customers we have gets bigger, I actually think it will smooth out over time.

**Mark Benjamin** - *NCR Corporation - President, COO*

Yes. And Dan, I would also add on the other parts of your question, obviously we work very closely in partnership with really all financial institutions today. I think there's some optimism around the interest rate environment and potentially some policy changes coming from the administration. But I still think it's a bit early to understand the implications to their budgets and perhaps any changes. We haven't seen anything noticeably.

As far as the Series 80 you ask about, it's a very exciting new product launch for us, one of many this year. It really is our flagship financial ATM. It provides truly superior functionality as compared to the market today, from technology in the actual hardware around recycling and just great functionality essentially replacing up to 80% or greater of what a teller function can actually provide to a customer, really making that seamless to an end consumer, as well as really tying in our Interactive Teller and really all of our software solutions to provide that omnichannel experience for the customer in addition to some of our other solutions around digital insights or banking, our mobile banking applications, and some others. So, it's very exciting. It's in the market today with a few of our large customers and we continue to see good promise there.

**Unidentified Company Representative**

Bob, Bob Ciminera, did you want to add anything from a serviceability or common parts platform perspective?

**Bob Ciminera** - *NCR Corporation - EVP Hardware Product Operations*

Yes. The 80 Series is -- has a nice industrial design. We were finalists in an International Design for Excellence Award. Customers love it. It's better performance, as Mark said. It's mobile-enabled so that you can, with our software, you can leverage a dislocated omnichannel experience where you can start a transaction on your mobile phone, walk up to the ATM and withdraw cash. And it's more serviceable and more reliable. So, all of those features are elements of what our customers require as -- not only as they have the ATM outside their branches but also, as Mark said, these ATMs will become integral as a piece of furniture inside of the branch.

**Dan Perlin** - *RBC Capital Markets - Analyst*

That's great. Thank you guys.

**Operator**

Ian Zaffino, Oppenheimer.

**Ian Zaffino** - *Oppenheimer & Co. - Analyst*

The question would be on the competitive environment. What are you seeing as far as -- particularly on the ATM side but then also on the point-of-sale side? As far as competition, pricing, maybe walk us through some of the trends you are seeing and whether or not they've kind of changed or maybe improved over the past call it six months, nine months. Thanks.

**Mark Benjamin** - *NCR Corporation - President, COO*

Sure, sure. On the competitive front, we are really seeing an unchanged market. It remains competitive really across our verticals. You know, we had a consolidation in the financial side of the ATM business with two competitors of ours. And certainly when two become one, that's one less that we have to face in the market, so we feel that's a benefit to NCR. We also feel as if we are winning market share. And you know, our results we are very pleased with. Certainly, in the quarter, we had great growth rates around our hardware sales, and we are really pleased. I think that our sales force is really energized with our new offers in the field, and I think that will continue to help drive more market share gains and some really nice competitive wins.

**Ian Zaffino** - *Oppenheimer & Co. - Analyst*

Okay, thanks. And then, Bob, you know, a question for you might be on the share count. How should we be thinking about the share count, just given that you have this buyback in place? So, you would expect it to go down throughout the year or is there something else, another moving part I'm not thinking of?

**Bob Fishman** - *NCR Corporation - EVP, CFO, Chief Accounting Officer*

On our full-year guidance page, we've listed out the share counts, roughly 158 million, which is flat year on year. Included in there is -- actually, it was 157 million in 2016, so a little bit up. But we have built in the $300 million share repurchase in that 158 million number. It's offsetting that dilution that happens during the year.

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**Ian Zaffino** - *Oppenheimer & Co. - Analyst*

The dilution from what?

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**Bob Fishman** - *NCR Corporation - EVP, CFO, Chief Accounting Officer*

It's the dilution from (multiple speakers) the Blackstone pick and just the general equity grants.

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**Ian Zaffino** - *Oppenheimer & Co. - Analyst*

Okay, okay. And then the final question would be -- the environment, what are you seeing as far as the European banks right now? You know, the ATMs over there are extraordinarily old. They kind of skipped over the last upgrade cycle. Are you seeing any desire now for those to be upgraded, or are they still kind of working their way out I guess (inaudible) news again. What are you seeing there?

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**Mark Benjamin** - *NCR Corporation - President, COO*

I'd say, in general, we are fairly pleased with our ATM growth in Europe. There's certainly -- it's a little bit of a country-by-country story. We had a good fourth quarter as far as our sales activity and orders, which we were pleased with. And truly branch transformation is we still believe in the early innings and certainly Europe will certainly continue to expand that model for us and drive ATMs and attached business. So, we feel pretty good where we are right now.

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**Ian Zaffino** - *Oppenheimer & Co. - Analyst*

Okay. Thank you very much.

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**Operator**

Kartik Mehta, Northcoast Research.

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**Kartik Mehta** - *Northcoast Research - Analyst*

I wanted to ask you a little bit about Digital Insight in the progress you are making. I noticed, in the presentation, you said that ACV was increased $16 million in this quarter. And if I remember correctly, that's mostly DI. I was hoping that you could maybe provide kind of the current environment for DI and what you anticipate for 2017 for that business.

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**Mark Benjamin** - *NCR Corporation - President, COO*

It's a good question and actually we are thrilled you asked. 2016 for DI was really I think a great turning point for the business, really since joining the NCR family. We saw great organic growth within the business. We saw utilization rates among the end users of our existing customers climb. So -- and we've seen the churn, which we experienced in the initial period post-acquisition, really decline and start to turn positive. So, you see the cloud growth that it's helping the business drive. And we love our market position. We love the solution. In fact, if you heard in my earlier comments, eight out of the 10 top mobile banking apps are run with an NCR digital app solution. So we are thrilled with the way that business is performing for us and we feel it has a great future.

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**Bill Nuti** - *NCR Corporation - CEO, Chairman*

Paul, anything to add there?

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

Just real quickly, I'd say that it was also a record year for our net promoter score on that solution. And so you see churn down, new sales up, usage up by consumers. I think it all kind of follows the investments we've made in that business over the last several years to make our customers the FIs, and their customers, the consumers, extremely happy with the app. And so you see it through in all those dimensions now.

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**Bob Fishman** - *NCR Corporation - EVP, CFO, Chief Accounting Officer*

And then the only thing I would add is DI makes up roughly two-thirds of our cloud business. So we do have cloud businesses within retail and hospitality as well.

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**Kartik Mehta** - *Northcoast Research - Analyst*

Bill, I wanted to ask you a little bit about the Wincor acquisition and maybe the impact both to NCR and the industry. I guess the near-term impact where it's -- I believe you said you are gaining some market share. I was hoping you could talk about maybe what the near-term impact is to NCR from this acquisition, maybe longer-term impact for the industry as well and to NCR.

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**Bill Nuti** - *NCR Corporation - CEO, Chairman*

The first thing I would say, Kartik, is they are a really good competitor, and they are run by smart, capable people. We do not take them for granted at all. Now, they do have a tough road ahead in terms of integration, everything from people to process, technology, platforms. And depending on how they execute, that will either be a bigger opportunity for us or not. Now, we are expecting them to execute really well. So, I would say that, in the interim, to Mark's point, the industry is smaller today.

So, for example, if you are a combined Diebold and Wincor account and you are dedicated to being dual-vendor, that's an opportunity for NCR. And there are plenty of customers out there that are combined Diebold and Wincor. (inaudible) We do feel good about the fact that we are not in a position where we are disrupted by anything. We are moving forward with great speed and vigor in terms of new products, services, innovation, and so on.

So, I would say, look, right now, I think our share gains are as a result of the basic fundamental challenges you have when two large companies come together of that size and complexity. But, they will get their act together and hopefully the industry being a bit smaller is helpful to all of us.

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**Kartik Mehta** - *Northcoast Research - Analyst*

Thanks Bill. I really appreciate it.

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**Operator**

Matt Summerville, Alembic Global Advisors.

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**Matt Summerville** - *Alembic Global Advisors - Analyst*

A couple of questions. First, I just want to talk about margins at the segment level, starting with software. At what point do we start seeing those margins start to gap up more meaningfully on a year-over-year basis? When you look at the revenue performance up 10% on constant currency, margins were up 10 basis points. That to me just seems a little underwhelming.

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**Bill Nuti** - *NCR Corporation - CEO, Chairman*

Matt, it's a great question. I'm going to give it to Paul Langenbahn.

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

Well, Matt, we share your sentiments. We are investing a lot in the software business now, and that's starting to show through in the growth rates improving. We have -- if you look at the way we've assembled the business over the last several years, we do have opportunities to make the business more efficient, and we are at the point this year were that's becoming a pretty big focus for us. So through better product lifecycle management, portfolio management, and as we build our platform and share more components across solutions, we start to make that software business a lot more efficient. So, it's a very important part of how we shape our vision for what the software business looks like in the future. You know, it's revenue growth. It's a focus on true SaaS, and it's margin expansion that comes largely from those three things that I mentioned. Those will be top of mind and top of our internal goals, if you will, for the next few years for sure.

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**Mark Benjamin** - *NCR Corporation - President, COO*

And Matt, this is Mark. So what I would also add if you recall that we reorganized NCR into our lines of business, and we see the opportunities that you are recognizing here and as Paul has taken you through. So, today, Paul runs NCR software business, which is essentially a $2 billion business with upwards of 8,000 NCR associates. So for us to go find the margin improvements, which we know we can, we feel greater efficiency, greater line of sight into the software business will help us. And we've structured the Company in such a way where that will be one of the major benefits and focus items for the software business.

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**Matt Summerville** - *Alembic Global Advisors - Analyst*

And then just in terms of the cost inefficiency you saw in hardware during the quarter, when you look at revenue was up 70 basis points, profit was down 12, so you lost $0.17 on every incremental revenue dollar. When does that trend specifically? Is it in the first half of the year? Is it in the second half of the year? When does that reverse? And it would probably be helpful to also remind us. For every box you sell on average, how much do you get in software and services as a percent of the box sale? Thank you.

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**Bob Fishman** - *NCR Corporation - EVP, CFO, Chief Accounting Officer*

I think, Matt, you've hit on exactly the right point there, which is, for us, the hardware revenue drives the higher-margin attach and the recurring revenue. And Bob Ciminera, I'll turn it over to you to kind of describe those pieces. But when we're talking about the additional revenue streams, you are talking about adding professional services, implementation services. You've obviously got the hardware and software maintenance on the recurring piece. Those are all drivers. So, don't get me wrong, Matt. We're laser focused on margin within hardware and being as efficient as we can. But for us, it's about driving those more profitable revenue streams. I do think you'll see 2017 as the new product introductions that Bob talked about roll out, you'll see hardware margins start to flatten as opposed to decreasing. Bob?

**Bob Ciminera** - *NCR Corporation - EVP Hardware Product Operations*

You captured it on attach, Bob. For hardware, as Bob said and we talked about earlier, it comes down to scaling the volumes on the new models and then the incremental cost reduction that we'll drive this year. We have a very intense focus on cost, not only just for a solution going out the door but also for the total cost of ownership through its lifecycle. So, that is an intense focus for us and we expect to see improvement this year.

**Matt Summerville** - *Alembic Global Advisors - Analyst*

Thank you.

**Operator**

And with no further questions in the queue at this time, I'd like to turn the conference back to Mr. Bill Nuti for any additional or closing remarks.

**Bill Nuti** - *NCR Corporation - CEO, Chairman*

Thank you all for joining us today and we'll see you in April.

**Operator**

Again, that does conclude today's presentation. We thank you for your participation.