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NCR - Q1 2014 NCR Corporation Earnings Conference Call

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OVERVIEW:

NCR reported 1Q14 YonY reported revenue growth of 8%. Expects 2014 revenue growth to be 10-12%.

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PRESENTATION

Operator

Good day, and welcome to the NCR Corporation first-quarter fiscal year 2014 earnings conference call. Today's conference is being recorded. At this time I'd like to turn the conference over to Ms. Tracy Krumme, Vice President Investor Relations. Please go ahead, ma'am.

Tracy Krumme - *NCR Corporation - VP of IR*

Good afternoon, everyone, and thank you for joining our first-quarter 2014 earnings call. Joining me on the call today are Bill Nuti, Chairman and Chief Executive Officer; Jon Bruneau, Executive Vice President; and Bob Fishman, Chief Financial Officer.

Our presentations and discussions today include forecasts and other information that are considered forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. While these statements reflect our current outlook, expectations and beliefs, they are subject to a number of risks and uncertainties that could cause actual results to vary materially. These risks and uncertainties are described in our earnings release and in our periodic filings with the SEC, including our annual report to stockholders.

On today's call, we will be referring to presentation materials posted on our website. We will also be discussing certain non-GAAP financial information such as free cash flow and results excluding the impact of pension and other items. Reconciliations of these non-GAAP financial measures to our reported and forecasted GAAP results and other information concerning such measures are included in the presentation materials and our earnings release and are also available on the investor section of NCR's website.

A replay of this conference call will be available later today on our website, NCR.com. For those listening to the replay, please keep in mind that the information discussed is as of April 29, 2014, and NCR assumes no obligation to update or revise the information included in this call whether as a result of new information or future events.

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

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

Thank you, Tracy. And good afternoon to all of you, and thank you for joining our Q1 call. I am now on slide number 3, and I'm going through the Q1 2014 financial highlights.

Let me start with revenue. Revenue was up 8% year on year, 10% when you take into effect constant currency. And inside that revenue stream, something that we're tracking and providing you more color on, recurring revenue is up 22% year on year, mainly as a result of the influence that Digital Insight had on recurring revenue. And now recurring revenue represents 44% of total revenue. Remember that recurring revenue for us is hardware maintenance, software maintenance and SaaS. So quite a strict definition of recurring revenue.

Operational gross margins up 120 basis points year on year. Again, a solid quarter year on year in terms of growth on operational gross margins driven by software and SaaS primarily. I will talk more about that in a moment.

We had a record quarter in NPOI, up to $155 million year on year, and that compares to $129 million in the prior year. Bob will give you some color on the $129 million, given that you'll remember in Q1 last year we had one-time accounting item for severance that featured prominently as a positive impact on the NPOI in Q1 last year.

But we did achieve an all-time high in NPOI margin in Q1 of over 10%. We're now into double digits in Q1. And Q1 is, without question from a seasonality perspective, always our most difficult quarter.

Free cash flow came in as expected in Q1. Incidentally, free cash flow -- or I should say cash flow from operations -- was up year on year. And free cash flow was down year on year mainly as a result of investments in CapEx -- primarily software, CapEx and disc operations was higher year on year by $17 million. Again, Bob will give you some more color on that.

I'm now on slide number 4. And something I want to make sure you are all aware of as we continue to execute this reinvention of NCR about continued investment. Built within these results today, and they have been for quite some time and also built into our guidance on the year, continue to be significant investments we are making in R&D, services, as well as sales. I want to take you through a couple of those so you are aware of what we're doing and the impact it's having.

First, let me start by saying it is our goal to continue to balance this business model transformation effort we're going through to a hardware-enabled, software-driven business with the right investments to achieve that goal. And this is a quarter where you saw R&D as a percent of revenue reach an all-time high for NCR of over 4% of revenues. It also happened to be up, R&D, 15% year on year; so growing about twice as fast as the top line.

Much of that is being invested in software and SaaS. However, as we balance those investments with hardware, we'll continue to see more investments going up in software and coming down in more of the commodity spaces.

Over the last several quarters and going forward, we're also investing in services. We are absolutely riveted on delivering a competitively differentiated solution to our customers and making services a competitive advantage for NCR. And you should be aware that those investments are quite significant as we've looked at the amount we're investing in headcount, carts and process along with tools and new systems for our services workforce.

In each of our lines of business, we are also making point investments as well. So for example, you are well aware of the investments we are making in [BI]. In services, I just went through that -- took you through the net effects of all lines of business. And as (inaudible) hospitality where we are investing in international expansion, sales, software and SaaS. And then emerging industries, where we're making investments to onboard and make us a lot more capable provider of managed services long term.

I'm now on slide 5. And here's what I want to break out for you on software-related revenues in Q1 and update you on guidance on the full year. The net on guidance is there's no change to our full-year guidance in terms of software-related revenues. However, we had a great Q1, a good start to the year towards that long-term 2014 goal.

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As we see on the left, software-related revenue was up 45% year on year. And even if I adjust for Digital Insight, organic growth was quite significant and positive in the quarter. However, you can see we are becoming quite a large SaaS business, with SaaS now up 242% year on year representing a significant portion of our overall software revenues.

On the right, we still have a view towards our software-related revenues as follows. You can see PS at the top; in the middle, SaaS; and on the bottom in gray, software licenses and software maintenance. And we're still expecting 2014 software-related revenue growth of 40% to 44%.

I'm now on slide number 6. And this is a new chart for all of you. It's a breakout of our product categories. And within that, what percent each one represents of our total NCR revenues; to give you a sense for the confidence we have and the confidence we think you should have in our ability to continue to expand our gross margins.

And what you can see is a very significant impact that software-related revenue is having on total revenue today as well as the decline in hardware-related revenue and the steady state for the most part of the services revenue, in particular the last few years.

As software revenues have increased, you're seeing an impact to the other services line, and what you're seeing overall is a very positive impact on gross margin.

On that note, let me ask John Bruno to take you through a few slides related to this commentary on the impact that these new revenue streams are having on NCR more from a strategic point of view. John?

John Bruno - *NCR Corporation - EVP, Industry & Field Operations and Corporate Development*

Thank you, Bill. And to that point, I'm on page 7, and it's entitled uniquely positioned in an omni-commerce landscape. And I wanted to talk to this slide for a moment and start here because we're a complex business in that we serve multiple industries in multiple ways. But what's not complex and what makes NCR unique is that we are uniquely positioned in the market.

NCR sits at the intersection of business model innovation and the ever-evolving consumer experience. In fact, we've always been positioned at this intersection, and year in and year out we innovate to enable our customers to deliver improved sales growth, operating efficiency and consumer satisfaction in all the ways consumers conduct business -- through cash, credit, debit, store value promotion and even loyalty.

And we do so in the industries consumers care the most about -- where they bank, shop, eat, drink and travel on lines of business. Perhaps most importantly, we enable all of this across all of the channels consumers use to connect, interact and transact their business online, tablet, mobile, kiosk and store, et cetera. That's why the complete solutions of hardware, services and now multi-channel software and SaaS offerings are a compelling and differentiated part of our portfolio.

On page 8, we want to also make the point that the rapidly growing transaction processing we deliver across all the industries we serve is done so across both physical and digital platforms. This is important because whether it's a retail bank or retailers across all segments we serve inclusive of travel and hospitality, what is consistent is that our customers are leveraging all of their assets to reach consumers through more touch points as they evolve their business model.

More convenient access delivered through an integrated cross-channel platform is at the center of our hardware-enabled, software-driven business model and is key to our customers' success. That's why more of our discussions are now in the seat suite versus operations and procurement.

In retail consumer transaction technologies, it's important to shape the consumer experience and focus on where you can differentiate and offer strategic value and when the software content is high -- branch transformation; mobile banking; mobile order pay; self checkout; client talent; loyalty. These are all really good examples of value creation in that space.

We have an expensive software solutions portfolio, and on page 9 you can see a number of examples by line of business where our value proposition to customers has changed around our software offering. At NCR, we have a strategic and purposeful plan to take advantage of the open space in the market and define what that is. We are committed to continuous innovation by line of business and being the number one technology solutions provider by industry.

What may not be as well understood is that the majority of our software solutions are now unattached software solutions, meaning they can be sold independent of our hardware solutions. This translates to quite a different go-to-market delivery model for NCR and is a result of our multi-year strategy and is catalyst to our operating structure.

As examples, our goal is to not only be the number one global provider of ATM units but also the number one in ATM multi-vendor software. We are also number one among US restaurant point-of-sale, software and the number one vendor under consideration for future retail software purchases according to [IHL RAS] study that was published in January 2014.

Now please turn to page 10. On the next five slides, we are attempting to provide you financial highlights and performance highlights by line of business as opposed to the consolidated view we provided you previously. We'll also include commentary on NEC developments by line of business that we believe are important to share, as each business is either in varying states of transformation or strategic execution. Hopefully, you'll find this format more useful as you better understand each of our lines of businesses.

Starting with financial services, we were pleased with the strong results in the quarter. Revenue was up 11% year on year, with strong margin improvement of 500 basis points primarily due to a favorable revenue mix including a higher percentage of software-related revenue of 92% year on year. We had strong orders quota driven by North American orders growth of 28% excluding Digital Insight and growth in the small and medium-sized banks, branch transformation and software.

We entered Q2 with a strong backlog both in terms of volume and mix, as there is more software and professional services in that mix. Excluding Digital Insight, the quarter also had solid performance, with operating margin improvement of 310 basis points and software-related revenue growth of 17%.

The key developments for financial services I'd like to call your attention to will include balanced performance globally while we're keeping an eye on Russia; continued momentum in branch transformation -- in fact, branch transformation revenues were up 300% year on year. And we had 17 new APTRA interactive service customers of which five are international customers. And we had a strong start to Digital Insight.

On Digital Insight, please turn to page 11. As we committed to do (inaudible) historically with the acquisitions of Radiant and Retalix, we want to provide you a quarterly update on our integration activities for a full year as we assimilate these companies into NCR's operating model. After a year, they become core to our business and an integral part to our overall business execution.

Let's start with an update on Digital Insight. First, I'll point out that our main objective was to demonstrate commitment to be a global leader in omnichannel retail banking transformation. This is critical because of the way consumers are interacting with retail banking, but it's also critical to the markets we serve. Its small to medium-size banks are a very important part of our growth strategy not only domestic but internationally.

Another key acquisition objective is we expect to be slightly accretive to non-GAAP diluted EPS for fiscal-year 2014 and $0.15 accretive to fiscal-year 2015.

First, let's start with the numbers. Q1 revenue of $76 million and operating income of $23 million came in, and that's in line with our expectation. Qualitatively, we've had very good feedback with existing Digital Insight customers on the power of NCR's omnichannel banking solutions. And the investments we've made are in line with the transition to run this business within the NCR data centers.

We've had good win rates for offers such as mobile in our existing customer base, up approximately 49%. In fact, 83% year-on-year increase in mobile active user rates; 5.5 million total mobile users versus 3 million just last year.

On page 12, our retail line of business experienced choppy execution in the quarter. Revenue was flat year on year and up 1% on a constant currency basis, in line with our expectations given the tough comp in Q1 of the prior year. The operating income decline of 12% was due to an unfavorable mix of revenue and continued investments in the business. While retail software-related revenues were up significantly, up 27% year on year, they were below our internal expectations.

As we transform to a more software-driven business model with larger software deal sizes, we're focused to improve linearity within the quarter and execution in this space overall.

Orders were down mid-single digits year on year, driven by North America. We did have strong orders in the rest of the world. Backlog is up significantly, however, and rollout of large orders pushing revenues to the end of the year and into 2015.

Key developments in the quarter for retailers that we want to call your attention to include strong revenue and order growth in Europe, Middle East and Africa. Retalix continuing to perform very well; experienced strong demand for R10. And NCR at the top in new leadership rankings. Number one point-of-sale software vendor, leader in traditional North America ePOS and self checkout terminal providers, leader in North America POS share gain, and strong order growth in self checkouts.

From a market development perspective, we are experiencing capital spending priorities changing due to a change in focus to data privacy and security, and we are seeing consolidation within the US grocery segment.

In the quarter, we've also introduced new innovative SaaS solutions such as NCR Cloud Connect and NCR Command Center to respond to some of these key developments the market.

Let's turn to page 13 to review our hospitality line of business. Revenue came in at $149 million, up 14% year on year with revenue growth across all theaters. Operating income of $12 million was down 43% year on year. This decline was due to unfavorable revenue mix and investments in international expansion.

Software-related revenue was up 2%, with SaaS revenue up 11% and SaaS application sites up 20% year on year showing strong growth in this important part of this segment.

The key developments in the quarter we would like to call your attention to were solid geographic expansion showing our traction in these areas with revenue growth in Europe, Asia, Middle East and Africa. We had new international customers primarily in Brazil and Germany, and we had a continued focus on our North American small to medium business market with 22% revenue year on year.

Also continued investments in software and our capabilities and new opportunities in applications with the fast adoption of software, SaaS and mobile solutions. In fact, NCR was recognized by the Technology Association of Georgia as one of the top 10 most innovative companies for our mobile payment solution.

So (inaudible) hospitality (inaudible) dealing with beacon, mobile pay, loyalty, ordering and customer voice shows that NCR remains a lead innovator.

On page 14, you will find a summary of our American industry line of business. This consists of telecom and technology, travel and now small business.

From a financial highlights perspective in the quarter, revenue was $85 million, up 12% year on year, with growth in T&T. Operating (inaudible) income of $4 million was down 60% year on year partly due to lower software-related revenue and the increased cost and investments in ramping up our managed service contracts in T&T.

We are constantly reshaping our services revenue stream because commoditization of break/fix services can negatively impact margins over the long-term, and we want to be more value added to move away from the commodity to more managed services. Over that long-term, we will do this across services and what we have done on our product portfolio, which we move up the value chain and offer more software than hardware.

The key developments in the quarter that we felt were the highlights are in telecom and technology, expanded service offerings by providing on-site maintenance and support for customers.

In travel, we have a continued focus on airport and airline innovation in emerging countries such as China and Oman. And we delivered a record 15 million mobile airline boarding passes, up 90% year on year.

In small business, we will continue to invest in our small business segment to build SaaS-based business model, which over time we expect to deliver very good results. We've seen an increase in adoption of our NCR Silver customer base to over 7000, and we now have over 15,000 devices within the Silver product portfolio.

This emerging industry segment is an important area where we'll continue to make investments as we feel they are critical to generate growth in the future.

With that, let me turn the call back to Bill to provide summary comments on our overall execution highlighted on page 15. Bill?

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

Thank you, John. As I summarized Q1, our revenue growth in the quarter was clearly led by strong financial services, hospitality and emerging industries; and retail was up slightly in the quarter, but again on a difficult compare year over year.

What's driving revenue growth is interesting. As you look under the covers, brands transformation, mobile, self checkout and demand from our omnichannel software is driving both orders and revenue. And as I mentioned, recurring revenue is growing as a percent of total revenue as well as on the year-on-year basis.

And certainly strong software growth and SaaS growth in the quarter lifted our margins and will continue to in the out quarters. I was pleased with the performance of DI in Q1, and their Q1 results were solid and the integration plan we have in place on track.

It should be noted as well that we are equally pleased with Retalix and hospitality, even in light of the quarterly operational income margin decline.

We are making significant investments in NCR along the way, and I wanted to remind you of those. Our investments in R&D, services and the pinpointed investments we're making on a line of business will impact both the current quarter, future quarters and provide long-term growth sustainability for our investors.

Cash flow from operations was up year on year, but free cash flow down as a result of continued investment mainly in software capitalization. And a higher discontinued operations quarter for us, but we remain on track for our guidance on the year.

We are going to modify guidance on the top line and take it down 2 percentage points from the high and low end. Bob will take you through the reasons why. But think about that -- it's partially a higher expectation on FX impact and lower retail revenues primarily. And we will also maintain our full-year NPOI and EPS guidance; however, we feel like at this time it's coming in at the low end of that range.

Bob?

Bob Fishman - *NCR Corporation - SVP, CFO and Chief Accounting Officer*

Thank you, Bill. I'm on page 17, which shows the Q1 operational results for the Company. Here you can see the strong revenue growth, up 8% as reported and 10% on a constant currency basis. As Bill mentioned, the operational gross margin rate was 28.6%, or 120 basis points higher than last year, driven by significantly more software and SaaS.

Expenses were in line with the prior year at 18.4%, reflecting solid expense management. NPOI was at a record high of 10.2%. EPS was lower than last year for a couple of reasons. Last year, we had a $13 million benefit in NPOI relating to the amendment to the US separation plan. This year, we also had higher interest expense. The effective tax rate in the quarter was 17%, slightly higher than the prior year of 16%. Last year's tax rate benefited from tax (inaudible) spenders being passed. This year's rate benefited from audit settlements in the quarter.

Page 18 breaks out the Q1 GAAP results. We've included a new page in the back of section; it's on page 33. It does a nice job of breaking the GAAP to non-GAAP results for Q1. It includes a number of enhancements like splitting out SG&A and R&D and also more clearly breaks out the non-GAAP adjustments. I think you'll find it is and improvement quite helpful.

On page 19, you can see the revenue split by line of business. We were pleased with the revenue growth in the quarter. Financial services up 14% constant currency and excluding Digital Insight up 4% constant currency. It's nice to see growth in financial again, and it's reflective of the order growth we saw in Q4 and the backlog position start in the year.

Backlog continues to grow in financial based on strong orders in Q1, especially in North America and branch transformation, and backlog is up 9% in overall financial entering Q2.

Retail growth of 1% on a constant currency basis was as expected, as the prior-year Q1 included a significant amount of revenue from the Wal-Mart self checkout rollout.

Hospitality and emerging industries continued with strong growth. Overall, total revenue was up 10% constant currency, and the core business excluding Digital Insight was up 4%.

On page 20, you can see the operating margin by line of business. Financial services was at 13% for the quarter and up 500 basis points. Excluding Digital Insight, the core business operating margin was up 310 basis points. Retail solutions and hospitality was down from the previous year. Both businesses experienced an unfavorable mix of revenue and continued investment. While software was up significantly in retail, it was lower than we had expected. In hospitality, we continued to make investments to expand internationally.

Our emerging industry line of business consists of telecom and technology, travel and small business. Margins were lower than last year as we incurred onboarding costs associated with new managed services contracts. Emerging industry continues to be an area where we'll make investments to generate growth in the future.

On a full-year basis, we expect operating margins to improve significantly in retail, hospitality and emerging. I expect retail to be slightly better than the prior year, hospitality to be roughly in line with the prior year, and emerging to be around 10% to 12% for the full year as we continue to invest in small business and travel and grow our managed services. We expect that financial services will continue to be strong throughout the year.

On page 21, we've shown a split of the revenue by software, hardware and other services. You can see the strong growth in SaaS, PS and total software-related revenue. Other services, which primarily includes our traditional break/fix business, showed nice growth at 3%.

Hardware revenue in the quarter reflects a similar trend that we're seeing as the Company continues to focus on more software and recurrent services. Software was 26% of revenue in the quarter.

As we continue with our transformation to a hardware-enabled software and services business, we think this additional information will help you value NCR more effectively and provide a better understanding into our business. We also think that some of the parts analysis shows we are significantly undervalued.

In terms of the profitability of each stream, you can think of software, excluding PS, being around 60% to 65% gross margin, total software-related revenue including PS of around 50% to 55% gross margin, hardware is typically between 20% and 25%, and other services around 25%. These are annual gross margin rates, including all corporate allocation, and give you a sense of the profitability of each stream.

On page 22, you can see free cash flow for the quarter. Cash provided by operating activities improved by $10 million primarily related to improved profitability. CapEx was higher by $21 million, with roughly half of that in software capital. Disc ops was [worse] by $17 million primarily related to recoveries received in the year-ago period related to Fox River.

Moving to slide 23, you can see how our target of $300 to $350 million of free cash flow bills to an adjusted free cash flow between $440 million to $510 million when you exclude non-operational items. This is around 90% of non-GAAP net income versus 80% in the prior-year period.

On slide 24, you can see our net debt position at the end of Q1 2014 after the closing of the Digital Insight transaction. We ended the quarter with a net debt leverage multiple of around 3.7 times. As we mentioned based on our free cash flow generation and EBITDA growth, we delever quickly and anticipate ending the year at around 3 times leverage, which is much better than what we had signaled earlier.

The EBITDA calculation that we use is detailed in the back of sections in the charts. Forecasting our EBITDA provides another opportunity to help our investors value NCR.

Slide 25 outlines our guidance for the year. The only change is bringing revenue down to 10% to 12% from a previous 12% to 14% growth rate. Part of the decrease is due to a 1-point negative impact from FX. Excluding Digital Insight, NCR is expected to grow the core revenue 4% to 6%. We are pleased to be able to reaffirm NPOI and EPS guidance even with the revenue headwind.

At this point, we feel more comfortable with the low end of the range for NPOI and EPS. And as always, we'll continue to update you as the year progresses.

On the next page, slide 26, you can see that we are reaffirming our guidance for financial and emerging. We are bringing retail down to reflect a number of negative headwinds. We are seeing a change in capital spending priorities as a result of a heightened focus on data privacy and security, and we are also seeing a number of consolidations in the US grocery segment.

We are experiencing a slower rollout of some of our larger orders. Finally, we are transforming the retail business to be less reliant on one-time software licenses and more focused on a recurring revenue stream. We are bringing hospitality down slightly to reflect a slower start to the year than expected. Growth in hospitality still strong at 8% to 10%.

Our Q2 guidance is listed on page 27. We expect NPOI growth of 13% to 18%. The core business, excluding DI, continues to perform well but faces a challenging OI compare as the prior-year Q2 included a large one-time software deal and a vendor settlement.

We expect the tax rate to be 29% and other expense, including interest expense, to be $50 million. I expect revenue growth to be roughly in line with the growth rate that we saw in Q1. The one exception being hospitality, which will be more in line with the revised revenue guidance -- think of mid-to-high single digits for hospitality in the second quarter.

In general, revenue will ramp higher in the back half of the year as we grow orders in Q2 and build backlog.

The final chart lists our 2014 goals for the year. We continue to focus on growing our business, driving more software SaaS and recurring revenue, improving our free cash flow, and delevering. And with that, I will open up the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Dan Perlin, RBC Capital Markets.

Dan Perlin - *RBC Capital Markets - Analyst*

Thank you, and thanks so much for all this additional disclosure; it's super helpful. I want to start off on a few things. One is when you look at the contribution from Digital Insight in the quarter, the margins on that business were materially higher than I'd anticipated despite kind of a little bit of a partial-quarter ownership. And I would've thought right off the bat it's a pretty significant investment.

So is this kind of run rate that we are seeing in this quarter sustainable, or should we bring that down because the investments are really just now kicking in?

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

Hey Dan. This is Bill. Thank you. I think that you should be thinking about the guidance we gave at the beginning of the year still holds right now.

We have -- it was a good -- it was a great start, let me just say that, to our relationship with Digital Insight. We've all spent a lot of time in California with our team and are building a relationship, getting to know that business. And I would not yet want to commit to any higher rates of improvement than we have already given for guidance until we get another quarter under our belt. But suffice it to say, we're pleased with the start.

Dan Perlin - *RBC Capital Markets - Analyst*

Okay.

Bob Fishman - *NCR Corporation - SVP, CFO and Chief Accounting Officer*

Yes, we've given guidance on our last call of $85 million, so it's a $90 million of NPOI. We're still comfortable with that. Again, it does include some duplicate costs in terms of the data centers. So those will be incurred as well to -- that's included in the number.

Dan Perlin - *RBC Capital Markets - Analyst*

Okay. We had been hearing that you were expanding your sales force pretty dramatically there. Is that something you can confirm, or is that just kind of hearsay in the market?

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

No, I think we are. We are working towards that goal. We are working on that now, Dan. It's part of the investments we've made in Q1. We think there's a lot of latent opportunity in that segment of the market.

By the way, we had a great quarter in Q1 in financial services and the small and medium-size bank segment; our orders in that segment were 49% year on year, partially driven by better-than-expected synergies with DI, revenue synergies in that segment. So we're seeing a better run rate there than we expected.

Dan Perlin - *RBC Capital Markets - Analyst*

Okay. If I could just jump over to retail for a second. Did the capital spending focus change kind of post-Target? And as we think about the kind of pace of play in the mix shift, the things that are going on there, are you finding that some of your legacy kind of hardware business in retail is kind of falling off a little bit faster than you are able to ramp some of this more recurring SaaS revenue, as an example? So the rate of change between those two dynamics is also causing a little bit of the curtailment of the guidance?

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

Yes, let me give you a more specific response. So in Q1, two things, two macro changes occurred -- and I'll get to this strategic focus we have in a moment. But one was we began to see our customers shift more attention to data privacy as a result of the obvious impact that Target has had in the market; appropriately, I think, given the issues that all retailers are faced with. And so priorities have changed a bit.

Now, that's a pro and a con for us. In one dimension, it pushes off a bit some of the opportunities we are working on with them in hardware and perhaps even in software. But we do have solutions we sell into that segment that we're encouraged by; mainly their SaaS solutions. So we're seeing a shift there from what would be a one-time hardware sale to more of a longer-term SaaS-based sale.

So as an example, we sell a new product called Connected Payments, which is a SaaS-based payment solution that is a software offering that is quite popular now as a result of the positive impact it has on data privacy.

Secondly, we had the consolidation of three major grocers in the US in March -- Supervalu, Albertsons and Safeway. And all three were hardware customers of ours, and that has somewhat of an impact short term on us as well in the quarter. So those two macro factors.

And then, we're consciously, Dan, beginning to transition more of our revenues over to more recurring revenue streams over time. So those are the three things that are underway that caused us to feel like we needed to take the revenue guidance down for retail on the year.

Dan Perlin - *RBC Capital Markets - Analyst*

Okay. And I'll ask one more, and then I'll jump off. On hospitality, you call it a slower start to the year. I'm just wondering is there a competitive dynamic that's occurring in the market, or do you think that's just broad-based industrywide? In particular, it's obviously going to be more focused in the US. But it would seem to be that micros has gotten a lot more aggressive in the space since new management has come on board. And I'm just wondering if this is an early indication of you guys battling it out a little bit more. Thanks. I'll jump off.

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

I don't see that, Dan. And by the way, we don't have our heads in the sand on competition, so I want to be clear -- we look at the competition closely. I don't see that yet. I think Q1 -- for us, it's a good quarter in terms of top-line growth, and the operating margin is a bit of a one-time anomaly based on the combination of mix and a very significant year-on-year investment quarter for us in hospitality.

So, as Bob said, we'll get those margins back to where they were last year on the operating margin line in the next several quarters. But we felt that it was prudent, given the start to the year, just to adjust slightly their growth.

And remember a couple of points on that business is not a lot in aggregate dollar volume; it's about $15 million or $20 million. So it's not a significant move. But we'll keep you updated on that. I do think that we're making good progress internationally, but we certainly invested a bit to do that. And I expect that to pick up in 2015 for us. John?

John Bruno - *NCR Corporation - EVP, Industry & Field Operations and Corporate Development*

The only thing I'd add, Dan, is it's plain and simple, revenue growth story which we are proud of and expense growth story which exceeds it, and that's something that we typically don't (inaudible) in the business except for one that we [believe] invested to grow. It really makes a whole lot of sense.

So if we can see the deals in the funnel, the international growth of the capability, I have a different feeling. But the fact that we're [stating] what we are around the margins really tells you we feel good about the business. We want to make sure that we [absorb] the expense growth appropriately and we execute against the plans and investments that we have. That's really our focus.

So I look at it more as execution than I do competition, but we are aware of the competition. That is not a competitive headwind.

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

Yes, Dan, I would say one more thing. I'm not a big fan of investing significantly ahead of revenue growth as we have. Just to put that in perspective, in Q1 expense growth for hospitality was 26% year on year. So it's a big number in terms of what we're investing there.

Dan Perlin - *RBC Capital Markets - Analyst*

Excellent. Thank you. That's very helpful.

Operator

Paul Koster, JPMorgan.

Paul Koster - *JPMorgan - Analyst*

Thanks. I'd like to dwell upon this investment activity a little bit. I'm trying to understand what the point of the focus on R&D expenditure on slide 2 or 3 is. Is it that you're saying there's going to be more than we anticipated, or are you just trying to remind us that the Company's investing whilst sort of doing other things? I'm not quite sure I understand the message yet.

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

Well, I think it's reminder, Paul, along the way to make sure people understand that we are investing significantly. I would say Q1 was a higher investment quarter for us and a bit anomalistic. But I can't time every 90 days when we have to make certain investments. We're also making significant investments this year in CapEx, particularly software CapEx.

So I think the escape velocity of our P&L in future years is such that as we begin to level off on some of these investments and businesses, we should have upside as a result of two things. One, the ROI on these current investments we're making; and then secondarily, the leveling off at some point of the significant investments we're making in certain businesses along the way. But I do want to make sure that we are clear on it.

Also I'd say, Paul, in general we have an opportunity to improve in the area of services efficiency, productivity. In other words, I would say today that the investment we're making in services is costing us -- and by the way, it's in our guidance; around $10 million a quarter of profit that will eventually turn into productivity as you work on programs to improve along those lines.

But we see a wonderful opportunity now in the market to make services delivery a competitive advantage. We've had great success the last six months, Paul, in service delivery based on these investments. We see some of our peers reducing costs, reducing investment and going in a different direction than us.

We think that part of the success we've had in financial services the last six months has to do with a direct correlation to a service delivery in that space.

Paul Koster - *JPMorgan - Analyst*

Okay. The guidance -- combining full-year guidance for the second-quarter outlook is just slightly more back-end loaded than we and I think maybe the Street were anticipating. Is this a more back-end loaded year than normal, or was the Street just a little bit sloppy about its expectations here? And if it is back-end loaded more than usual, what is it that gives you the confidence in the numbers and not taking down full-year guidance a bit more?

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

No, Paul, this year it's about -- from a seasonality perspective about normal for us in terms of profit. I wouldn't call the Street sloppy, but I'll leave that with you. Ultimately, though, we measure each quarter from a seasonality point of view. It's about normal for us in terms of what kind of profit contribution as a percent of total profit we see in Q1, Q2, Q3, Q4. However, we do have more confidence in the back half as a result mainly of financial services. That business had a very strong Q1. Order growth and financial was up globally 7% on the quarter.

We talked about North America growth of 28% in orders. We also saw good order growth in Asia-Pacific. We had a great balanced quarter there. I can tell you as well that while the backlog is up 9% year on year going into Q2 for financial, margins in the backlog were up 36%. So it was a lot more software and PS in that backlog.

So this operating margin advances we began to signal to you all a few quarters ago by giving you this information around margins in the backlog continues now in Q2. We also had, Paul, a terrific branch transformation quarter. Orders were up 100%; revenue up over 300%.

And now they are real numbers. For example, our order flow in Q1 for branch is over $32 million. So it's real money, and we're seeing significant traction there. And that of course helps along with the great software growth we've had.

Paul Koster - *JPMorgan - Analyst*

All right. I'll just wrap up with two quick questions. One is can you comment on IBM's sale of its point-of-sales business and what that means in terms of the competitive landscape? And also, on branch transformation it looks like your nearest competitor feels that the sales cycle was a bit longer than you and certainly didn't see the same orders as you in North America. They cited, amongst other things, a longer sales cycle for branch transformation because it's all real estate associated. Can you comment on those two things -- IBM and branch transformation sales (multiple speakers)?

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

Yes, the IBM sale of their POS business is helping us in many dimensions. We've won a few large contracts as a result of that. So we think that is a net positive for us, and we're seeing some more consolidation around our platform as a result of that.

And remember, now, we go to market with a complete end-to-end solution -- hardware, software and services. And that helps us quite significantly both in the US and outside.

In terms of branch, Paul, I have to tell you we still feel very positive about that being around $150 million to a $200 million business this year. It's a very high-growth business for us. The order cycle is not longer than an ATM order cycle generally. Once you get in a proof of concept, things move quickly.

Now remember, we began our proof of concepts in this space a long time ago. We were first to market with Lucent in this space. And we're now in production mode with many dozens of banks around the world, not just in the US. So we have a great pipeline in this space. We now have two quarters in a row of orders over $30 million in this space, and I think Q2 will be even bigger.

John Bruno - *NCR Corporation - EVP, Industry & Field Operations and Corporate Development*

The only other thing I would add on the sales cycle discussion really relates to the IBM comment. Being -- I would come down to the only pure play now total solution provider for retail, we have a pretty expansive portfolio and something that customers are very interested in talking with us. But those install bases have been around for quite some time with lots of legacy infrastructures. So the sales cycle of displacement in that space is longer than typically it would be in a small cycle or otherwise because these are incumbent relations for quite some time.

What we are pleased is (inaudible) -- we are pleased with the conversations we are having and the funnel of activity that we are driving in that space to try to get a handle on those conversion timelines. And that has a bit to do with some of the stuff we're seeing inside of our retail business itself.

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

Yes, Paul, two more facts for you. I think if you look at Q1, North America order growth for financial was up 28%. And that was driven by branch transformation and software.

Now remember, branch transformation is a higher-margin solution as well. And then we had, in North America, a strong quarter overall in terms of software as well. So it was a very solid start to the year there, and I think we're well on our way to achieving our goals.

Paul Koster - *JPMorgan - Analyst*

Thank you.

Operator

Ian Zaffino, Oppenheimer.

Ian Zaffino - *Oppenheimer - Analyst*

The question would be on -- Bob, you mentioned the FX of 1%. What does that flow down to on the NPOI line? I'm just trying to get the moving parts. I know you talked about maybe looking at the lower end of NPOI. I'm just trying to get to that and figure out how much is fundamental and how much is FX -- and if you could help us with that.

Bob Fishman - *NCR Corporation - SVP, CFO and Chief Accounting Officer*

Yes, from an overall perspective, FX wasn't a huge impact for us in the quarter. Certainly when you looked at the revenue and financials, the India and Brazil currencies hurt us from a top-line perspective. Overall for NPOI, though, it was still fairly flat impact, Ian.

Ian Zaffino - *Oppenheimer - Analyst*

I guess I'm asking (multiple speakers) --

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

Ian, on the year, if you think about the revenue and you think about a drop of around $100 million or so in revenue on the year, partially that's FX driven, partially retail driven. Think about the flow-through of that of around $15 million to NPOI in that range. So we thought the beginning of the year, $900 million to $920 million was about where we would come in. And of course, we believe more $920 million -- in line with $920 million. If we are taking about $100 million off the top line with a flow-through of about 15%, it gets you to $900 million to $910 million or $905 million, in that range. So we just thought it was prudent.

FX is a portion of that, but I can't give you a sense for how much FX would -- was driving NPOI down by to have a --

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Bob Fishman - *NCR Corporation - SVP, CFO and Chief Accounting Officer*

Yes, I would say somewhere around $5 million impact maybe from FX for the full year, if that's your question. Obviously, the weaker yen does help us in terms of suppliers that we are buying from. So that's how I think of the overall impact of the bottom line, Ian.

Ian Zaffino - *Oppenheimer - Analyst*

Okay. Thank you very much.

Operator

Meghna Ladha, Susquehanna.

Meghna Ladha - *Susquehanna Financial Group - Analyst*

Thanks for taking my question. The two self checkout order that was announced in Q3, Bob, how should we think about the revenue contribution from these orders at retail this year?

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

I think no change, Meghna. I think we still have a solid year ahead of us in self checkout. I think we feel good about that. By the way, orders for self checkout in Q1 were up 28% year on year. So it was a good solid order quarter for self checkout for us. And I think we gave guidance on the last call mid-single digits for revenue growth of self checkout. We feel good about that.

Meghna Ladha - *Susquehanna Financial Group - Analyst*

Okay. And in light of today's guidance revision, how comfortable do you feel today with the 2015 target which you reiterated last quarter?

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

No change, Meghna. We feel the same.

Meghna Ladha - *Susquehanna Financial Group - Analyst*

So despite the weakness that you are seeing in retail or hospitality, you still seem very comfortable with the numbers that you put out for 2015?

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

Yes, we do.

Meghna Ladha - *Susquehanna Financial Group - Analyst*

Okay. Thank you.

Operator

Mat Lipton, Autonomous Research.

Mat Lipton - *Autonomous Research - Analyst*

Thanks for taking my questions. I'll keep it quick. So Bill, you said last quarter as 1Q goes, my year goes. And I'm just thinking now that you have three more months of data, and you've seen what's happening in retail. Do you feel that the guidance is now appropriately conservative going forward for the rest of the year?

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

Yes, I think it's right. I mean, the thing for me, Mat, is to get guidance right. We have a good track record here of meeting or exceeding our guidance for a long, long time. And getting it right is a key.

So as I look back on Q1, I'm -- obviously, I'm very pleased with the start for financial services. And oftentimes as financial services goes, so goes NCR sometimes, too. But it's a great start for that team. I'm encouraged by our backlog going into Q2. Our backlog is up in both -- by the way, the retail backlog is up 16% or 17% year on year as well going into Q2. But a number of those projects are going to roll out in Q4 and Q1 of 2015. They have been pushed a bit by this refocus on data privacy more than they have on some of the hardware offerings that we have. But we feel good about that.

And then hospitality as a matter of just making sure that we continue our plan for the year in terms of the balanced investment portfolio with results and -- and so I think Q1 was a good start. I think I would've liked to have a few more million in NPOI, but I feel good about where we are. And at the same time, making the significant investments we did in Q1 by still achieving what we have, I feel positive going into Q2.

Mat Lipton - *Autonomous Research - Analyst*

Yes, I agree financial looks good in Q1. And you reported Digital Insight user growth of 83%. If you don't have the historical data, could you put that in context for us? And then how correlated is user growth and revenue growth to that business?

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

What was that first question? I'm sorry for --

Mat Lipton - *Autonomous Research - Analyst*

Yes, 83% user growth in Digital Insight; I was just hoping you might be able to give us some historical context of previous growth (multiple speakers) and how correlated it is to revenues -- user growth.

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

Yes, very [slow]. Mobile user growth in DI is highly correlated to our overall growth in general but more importantly in margins. That is a higher-margin business for us. We look at the revenue per user in that space and feel good about where we're going.

That has a lot of room for improvement, to be very candid with you. Although we are still at rough 83% year on year, that number should double in the next 18 months, Mat. I would be very disappointed if we weren't able to achieve that. And candidly, as we begin to move outside the US in 2016 in that timeframe, see even more considerable growth.

John Bruno - *NCR Corporation - EVP, Industry & Field Operations and Corporate Development*

And remember it's not just 83% net new users, just to be clear. How we look at the 83% is active users that might be using our line (inaudible) in banking and bill paying taking on the module for mobile.

So since mobile is a faster-growing part of that business as we've guided and discussed on part of the acquisition rationale, we see that mobile being the most attractive (inaudible) segment for the part of the offering that the industry is most interested in.

That offsets the flattishness of the online bill pay part of the business, as we've described. So that's why it's a very good indicator to see that level of growth that's consistent with what our investment thesis was. Very consistent with what our diligence was, and we're pleased to see the active users increase in mobile within the customer base.

Mat Lipton - *Autonomous Research - Analyst*

Great. And then one just quick housekeeping for Bob. Is organic software growth around 15% for the quarter a good estimate? Thanks guys.

Bob Fishman - *NCR Corporation - SVP, CFO and Chief Accounting Officer*

It is a good -- I was thinking that $395 million, less the $74 million or $70 million guides (multiple speakers) --

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Mat Lipton - *Autonomous Research - Analyst*

Is there (inaudible) in there as well? Just on top of that.

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

Let us get that to you real quickly, Mat. You're about right, though. You are in the range. It was a good quarter for organic software growth. And the answer would be yes, it obviously will be in there.

Mat Lipton - *Autonomous Research - Analyst*

All right. Thank you very much.

Bob Fishman - *NCR Corporation - SVP, CFO and Chief Accounting Officer*

So around 17% or 18% organic software growth.

John Bruno - *NCR Corporation - EVP, Industry & Field Operations and Corporate Development*

Yes, excluding Digital.

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

Hopefully, you got that, Mat. It was 17% or 18%.

Mat Lipton - *Autonomous Research - Analyst*

(multiple speakers) we are all set, appreciate it. Thanks guys. Great.

Operator

Kartik Mehta, Northcoast Research.

Kartik Mehta - *Northcoast Research - Analyst*

Bill, I just wanted to make sure I understand the branch transformation numbers that you gave out. You said you are hoping for about $100 million to $200 million in revenue this quarter -- I apologize -- for this year. Would that mean that there's part of the ATM business that you would expect that maybe isn't doing so well? Because that's about 5% organic growth on last year's number. Or am I thinking about that maybe wrong?

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

No, Kartik, we're not seeing the cannibalization of in-lobby ATMs as a result of customers buying interactive teller or (inaudible) banking kiosks from us. So while I think there will be a longer-term impact, I don't think it is going to be significant in that space, although we really don't know yet right now.

I think given the volume we now have, we'll begin to monitor that a bit more than what we have been able to because we're shipping en masse. John, any comments (inaudible)?

John Bruno - *NCR Corporation - EVP, Industry & Field Operations and Corporate Development*

The way I think about it, and it's the way I would describe it to the analysts, is it is a pure play adjacency for us as anything else would be. Because if you look at our whole branch transformation portfolio, it includes all things inside the branch which was [benefiting] from (inaudible) to interactive teller to express kiosks to all the (inaudible) and the software that runs alongside it, plus the services that go along with it. Those things are not -- were not apart from the revenue and profit areas that we had within the business previously.

Now, do we look at what would that impact potentially be to invest a deal or to through the wall, or to drive up? We do, but we see very little. In fact, we're designing around that because we see that that cannibalization will be offset by us bringing to market over the coming years a lower cost point of service for an ATM because our financial services customers are looking for more points of service, not less.

So as they change and transform their physical branch space, that bodes extremely well for branch transformation. And as they do that, reinvest that capital to more points of service, for me that bodes well for us to have even a better ATM portfolio as we bring lower-cost variances to the market. So, no, we do not see that as cannibalization, and those are the reasons why.

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

Kartik, I'd say this. The investments we are now making in R&D, we're not going to talk about the new solutions today. But what we have coming out in the next two or three quarters in terms of new ATM solutions are really and truly disruptive and groundbreaking.

Kartik Mehta - *Northcoast Research - Analyst*

Okay. So it seems as though, at least for 2014, you'll get this branch transformation revenue plus whatever traditional ATM revenue you would have anticipated for the year. Is that a fair assessment, then, of it?

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

Yes, that's fair. Yes. It is. And remember, for us, in large part while we'll monitor the impact of in-lobby ATM shift potentially from in-branch transformation kiosks, most of our ATM business is outside the US. So we will not see a tangible impact because we have such a big footprint outside the US.

Kartik Mehta - *Northcoast Research - Analyst*

And then, Bill, what type of exposure do you have to [rush]? I know that's a little bit tricky right now. And I'm wondering what type of exposure you have and maybe what you've seen from a fundamental standpoint. Any change in behavior or buying patterns you'd anticipate?

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

Yes, we do have -- obviously we have a big business in Russia and Eastern Europe. We've not seen anything material as yet. We're keeping a close eye on it -- to be candid with you, Kartik. If there is any great news about that, it is an impact -- that part of the world for us is less profitability, less gross margin than others. But we'll keep you guys updated. But right now it's immaterial.

Kartik Mehta - *Northcoast Research - Analyst*

And then just one final question. Bill, as you look at the Digital Insight business and since that business has changed hands couple of times, have you seen any change in customer behavior when it comes to renewals? Are they asking for shorter renewals or, maybe on the other hand, longer renewals -- longer terms as their contracts come up?

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

No, we're not. (multiple speakers) Not right now. I would say that there's been a -- we've seen a tangible positive out of the move to NCR in terms of this business. Now, both in terms of our employees who feel like they are working for a financial services technology company focused on omnichannel and digital banking as a platform within the context of that solution; and customers who feel like NCR can provide now a total end-to-end solution in that space.

So the good news about this acquisition is, both internally and externally, people feel good about us owning the asset. In terms of customer buying behavior and what we're seeing there, no change that I can speak to, John.

THOMSON REUTERS

John Bruno - *NCR Corporation - EVP, Industry & Field Operations and Corporate Development*

Not yet because it's too early. As I said, we wanted to really do this year to begin to test where we would apply the revenue synergies first within their customer base and their traditional customers within ours. That's number one.

And number two, what would the buying behaviors and buying cycles be, and what can incent them? Remember, the incentives in the revenue synergy line that we contemplate in the investment thesis and business cases is potential to bundle offers and having the capability to sell transformation to a bank, which includes a little bit of branch, perhaps an upgrade to deposit automation, along with what it is that Digital Insight traditionally sold in the marketplace. Because today those buying decisions are independent buying decisions but from the same buyer. For the first time, we have an opportunity to put them together to that buyer. And we think that there's value in that. But we don't know enough yet to say anything more than buying behavior is inconsistent. The sale cycle is a bit about the same, and the contract terms and conditions on and so forth have been about the same.

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

And look, the metric, Kartik, I'd look at is orders for the small and medium-sized banks that we call the national banks here at NCR. That order flow in Q1 was up 49% year on year. And I would say that probably -- well, we know for a fact call it [3 million] to 5 million of those orders were from customers buying ATMs that were DI customers now buying from NCR as opposed to a competitor. We're not the first bank. (multiple speakers)

Kartik Mehta - *Northcoast Research - Analyst*

Well, thank you very much. Appreciate it.

Operator

(Operator Instructions) Matt Summerville, KeyBanc.

Matt Summerville - *KeyBanc Capital Markets - Analyst*

Just two quick ones. First, Retalix was not fully anniversaried until February of this year, so what was the incremental revenue and NPOI contribution from that in the quarter?

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

Hey, Matt, that we can't give it to you this quarter. And the reason why we can't is, candidly, they are fully integrated now. And we could not break out what was Retalix versus NCR if we tried. There's been too much confusion between what solutions were selling internally to customers, and they're overlapping with NCR.

So I can tell you that Retalix itself, R10, had a great quarter. The solution R10 as a software solution had a great quarter; well above our expectations. But I can't tell you how Retalix in total did any longer.

Matt Summerville - *KeyBanc Capital Markets - Analyst*

Maybe a different way of looking at it, how would you characterize the Retalix funnel pipeline backlog of -- what's the best way, I guess, to look at that?

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

Matt, I would say that Retalix is performing well above the organic for NCR.

Matt Summerville - *KeyBanc Capital Markets - Analyst*

And then with respect to hospitality, we've been hearing pretty consistently since you purchased Radiant that you've been investing in the business every quarter very heavily. It's been a consistent drag on margins. And then you really had a big drop this quarter. You just took your revenue guidance down by a third. Are these investments that you've been making the last two years not coming through at the rate you would have thought? Or what's going on there? I see a real disconnect there.

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

Yes, I think they have come through. We've delivered wonderful results as a result of making those investments. There will be quarters in a business of this size, it's (inaudible) big business; call it $700 million in revenue, where we'll over-invest in one period and then look to reap the benefits of that investment in others.

But we have to make investments in international expansion in that space. The next bastion for us of growth is not going to be to exhaust the US SMB and direct accounts. We have to have success internationally and invest to do so.

So while I think the investments we have made have paid dividends the last few years in terms of growth, I think they will in the future as well. But I would not be concerned if you think that it's unsustainable.

John Bruno - *NCR Corporation - EVP, Industry & Field Operations and Corporate Development*

Bill, I think you used the word and you probably should again -- it absolutely from everything I've seen is an anomaly. Timing of those expenses to revenue is not anything systemic or have concerns about. If it was, we would be taking very different actions.

Matt Summerville - *KeyBanc Capital Markets - Analyst*

Got you. Thanks guys.

Operator

Migid [Kahn], (inaudible) Capital.

Unidentified Participant

I know you guys have only barely owned Digital Insight for a quarter now, but I was wondering if you could help us understand maybe the year-over-year metrics on the business? Specifically, the revenue numbers and the operating income that you've given. How does that look year over year? Because the mobile user numbers certainly when you bought it was 4.8 million and it's already 5.5 million, so that's pretty strong quarter-over-quarter growth.

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

I'll take a crack at this. I don't think we have the pro forma view. They were on a different fiscal year than we were, so we don't have the pro forma view. But we'll do our best to get that back to you if we can pull that together. I would say that, though, that we characterize Q1 for DI as a really good start.

And a lot has gone on in that business. We were pleased with revenue growth, very pleased with margins and profit growth -- but on the back of user growth in the areas that count like mobile. So for us, I couldn't be more pleased with the start of that marriage. We'll try to probably get it up as best we can the pro forma for you, but I think you'll find it's a pretty good year-over-year compare.

Unidentified Participant

And of this user growth are you able to give us a breakdown of how much are new wins versus organic growth with current customers?

John Bruno - *NCR Corporation - EVP, Industry & Field Operations and Corporate Development*

The majority of the 83% year-over-year growth was expanded user base -- (inaudible) expanded features and functionalities within the existing user base, as I mentioned earlier. But when we put together that bridge that you are asking for, we'll be able to break that out. There's absolutely (multiple speakers), but we're very pleased (multiple speakers) --

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

And very candidly, we won't have the kind of organic growth we want, but it will be (inaudible) until we get the sales force built.

John Bruno - *NCR Corporation - EVP, Industry & Field Operations and Corporate Development*

Right.

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

And up and running. It's a small -- what we acquired was a relatively small sales force of about 15 people -- Direct. And so we need to substantially increase the size of that sales force. And then when we do, I think sales cycles in that business are about 12 to 18 months, in that range. So I expect that we'll begin to see traction on those investments come 2016.

Operator

And that does conclude our question-and-answer session for today. And at this time I'd like to turn the conference back over to bill for any further remarks or closing.

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

Well, thank you all for attending today we look forward to reporting back to you in July. Have a great evening.

Operator

And that does conclude our conference for today. Thank you for your participation.