

NCR CORP. | NYSE: NCR

INVESTMENT RESEARCH REPORT

"Financial Statements Are Non-Sense"

RECOMMENDATION: *Strong Sell*



Damn it!
Appears Beyond
Repair...

SYMBOL

OUT OF SERVICE
NO CASH
ACCOUNTING
PROBLEMS

SYMBOL

OUT OF SERVICE
NO CASH
ACCOUNTING
PROBLEMS

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Additional Details on NCR's Bad Capital Allocation Emerge (NYSE: NCR)

Last week we profiled our short thesis on NCR Corp, a company we believe has limited strategic alternatives as it struggles to execute a levered acquisition transformation strategy, a history of bad capital allocation, aggressive accounting, and a management team with a questionable legacy at Symbol Technologies. In our follow-up report, we will profile a blatant example of poor judgment and capital allocation to support our opinion that NCR's shareholders should demand immediate change at the executive level. But first, let's review NCR's recent quarter and further dispel any notion that value enhancing alternatives are imminent and that NCR had a stellar quarter where it "Beat" street estimates

Executive Summary:

- NCR disappointed on top line revenue this quarter, but engineered a 4c Non-GAAP EPS "beat," a closer look reveals questionable acct'g adjustments are the culprit
- NCR's reported operating cash flow appears overstated. Balance sheet changes in deferred revenue don't tie to the cash flow statement
- Investors hoping for an imminent catalyst to unlock value had their hopes dashed as the company suggested this would be "value destructive"
- Questionable business relationship with Empower Software analyzed and hiring of a Global VP of Business Development with a checkered past are revealed
- Shareholders should demand swift executive changes to restore confidence at NCR

Dissecting NCR's Lackluster Q1 2015 Results:

First off, contrary to a hasty and "recycled" [news story](#) by the Wall St Journal last week that NCR was seeking strategic alternatives, the company sent a somber message to overly optimistic investors that nothing imminent is brewing. As Spruce Point suggested earlier, NCR has few (if any alternatives) and that the mostly like path forward will be a slow decline of its business. NCR outlined its view of the situation with the following quote:

"There would be, if you pull the business apart significant dyssynergy for example, all of my divisions here of a common services delivery infrastructure around the world, I don't have a separate services business for retail and financial and hospitality. All of them share a common supply chain infrastructure; plants, distribution centers, and of course we get lots of value from that scale. And they all share a common G&A infrastructure and it will also – it'd be very difficult if not value destructive to rather pull it apart."

To support our view that NCR's business is declining, consider that it reported \$1.47 billion and \$0.23c GAAP / \$0.43c Non-GAAP for Q1. Street analysts were calling for \$1.49 billion and \$0.39c Non-GAAP. So NCR missed revenues by ~1% but on the surface beat bottom line estimates by \$0.04c. We will dissect this \$0.04c Non-GAAP earnings beat further, but first we must point out the following.



Consider that all of NCR GAAP financial results produced significant YoY declines:

1. Gross margin contracted from 27.4% to 26.4% (100bps)
2. Segment Operating Income declined from \$155m to \$146m (5.8% decline / margin contracted 30bps from 10.2% to 9.9%)
3. Income from operations declined from \$108m to \$95m (12% decline / 70bp margin contraction)
4. GAAP Diluted EPS declined from \$0.31c to \$0.23 (26%)

NCR can try to blame all its problems on currency movements, but digging beneath the surface shows there's much more to the story. Getting back to NCR's magical \$0.04c earnings beat, let's take a closer look at its bridge between GAAP / Non-GAAP results.

Consider that this quarter NCR took a \$16m restructuring charge, and says that \$0.07c should be added back to get to Non-GAAP EPS.

Reconciliation of Diluted Earnings Per Share (GAAP) to Non-GAAP Diluted Earnings Per Share (non-GAAP)

	Q1 2015 Actual	Q1 2014 Actual	2015 Guidance	2014 Actual
Diluted EPS (GAAP)	\$ 0.23	\$ 0.31	\$1.80 - \$2.10	\$ 1.06
Pension (benefit) expense	—	—	0.01	0.38
Restructuring plan	0.07	—	0.18 - 0.28	0.68
Acquisition-related costs	0.01	0.06	0.04	0.12
Acquisition-related amortization of intangibles	0.12	0.11	0.47	0.47
Acquisition-related purchase price adjustments	—	0.01	—	0.02
OFAC and FCPA Investigations ⁽¹⁾	—	0.01	—	0.01
Non-GAAP Diluted EPS	\$ 0.43	\$ 0.50	\$2.60 - \$2.80	\$ 2.74

Reconciliation of Income from Operations (GAAP) to Non-pension Operating Income (non-GAAP)

	Q1 2015 Actual	Q1 2014 Actual	2015 Guidance	2014 Actual	Q2 2015 Guidance	Q2 2014 Actual
\$ in millions						
Income from Operations (GAAP)	\$ 95	\$ 108	\$625 - \$690	\$ 353	\$140 - \$150	\$ 169
Pension (benefit) expense	—	(1)	3	152	1	2
Restructuring plan	16	—	39 - 64	160	14	—
Acquisition-related costs	2	14	10	27	3	6
Acquisition-related amortization of intangibles	32	30	127	119	32	30
Acquisition-related purchase price adjustments	—	3	—	6	—	2
OFAC and FCPA Investigations ⁽¹⁾	1	1	1	3	—	1
Non-pension Operating Income (non-GAAP)	\$ 146	\$ 155	\$830 - \$870	\$ 820	\$190 - \$200	\$ 210

Now in just the prior quarter, Q4'14 NCR took a \$33m restructuring charge, and it added back \$0.10c to get to Non-GAAP EPS



Reconciliation of Diluted Earnings Per Share (GAAP) to Non-GAAP Diluted Earnings Per Share (non-GAAP)

	Q4 2014 Actual	Q4 2013 Actual	2015 Guidance	2014 Actual
Diluted EPS (GAAP)	\$ 0.22	\$ 1.21	\$1.80 - \$2.10	\$ 1.06
Pension (benefit) expense	0.43	(0.41)	0.01	0.38
Restructuring plan	0.10	—	0.18 - 0.28	0.68
Acquisition-related costs	0.01	0.03	0.04	0.12
Acquisition-related amortization of intangibles	0.11	0.07	0.47	0.47
Acquisition-related purchase price adjustments	—	0.01	—	0.02
OFAC and FCPA Investigations ⁽¹⁾	0.01	0.01	—	0.01
Japan valuation reserve release	—	(0.09)	—	—
Non-GAAP Diluted EPS	\$ 0.88	\$ 0.83	\$2.60 - \$2.80	\$ 2.74

Reconciliation of Income from Operations (GAAP) to Non-pension Operating Income (non-GAAP)

\$ in millions	Q4 2014 Actual	Q4 2013 Actual	2015 Guidance	2014 Actual	Q1 2015 Guidance	Q1 2014 Actual
Income from Operations (GAAP)	\$ 35	\$ 297	\$625 - \$690	\$ 353	\$90 - \$100	\$ 108
Pension (benefit) expense	150	(99)	4	152	1	(1)
Restructuring plan	33	—	39 - 64	100	15	—
Acquisition-related costs	2	2	10	27	2	14
Acquisition-related amortization of intangibles	30	17	127	119	32	30
Acquisition-related purchase price adjustments	—	3	—	6	—	3
OFAC and FCPA Investigations ⁽¹⁾	1	1	—	3	—	1
Non-pension Operating Income (non-GAAP)	\$ 261	\$ 221	\$830 - \$870	\$ 820	\$140 - \$150	\$ 155

So if investors and analysts are to believe that a \$33m charge is equal to a \$0.10c add back in Q4'14, why should they believe that in Q1'15 a \$16m charge (approximately 50%) should be equal to a \$0.07c add back? The diluted share count barely budged between quarters from 171.3 to 171.6m this quarter. The only other variable would be the effective tax rate, which Spruce Point believe should be normalized and applied consistently. Therefore, we estimate the real add-back should be approximately \$0.05c and not \$0.07c. In other words, NCR appears to have picked up a \$0.02c benefit from a fuzzy and opaque calculation.

NCR Still Appears to Be Overstating Operating Cash Flows

On the conference call, NCR's CFO made the following comment:

"The AR facility - that was really a better way to finance than our revolver. So we're using our AR base to effectively borrow and that's treated similar to the revolver as part of the financing cash flows. So that's part of financing."

However, it is quite clear that something seems fishy at first glance of NCR's financials. Consider that in 2014, it reported that Payments on revolving credit facilities were (\$1,050)m while "Borrowings on revolving credit facilities" were +\$1,146m. Therefore, the net inflow from revolving credit borrowings was \$96m



Financing activities

Short term borrowings, net	—	(1)	—
Payments on term credit facilities	(37)	(35)	—
Borrowings on term credit facilities	250	329	150
Payments on revolving credit facilities	(1,050)	(1,009)	(860)
Borrowings on revolving credit facilities	1,146	1,009	720
Proceeds from bond offerings	—	1,100	1,100
Debt issuance costs	(5)	(36)	(19)
Tax withholding payments on behalf of employees	(28)	(30)	(12)
Proceeds from employee stock plans	13	57	53
Purchase of noncontrolling interest	—	(24)	—
Other financing activities	(5)	(3)	(1)
Net cash provided by financing activities	284	1,357	1,131

Curiously, this \$96m borrowing amount is stated in the notes as having been drawn on the A/R securitization facility of its financials, not its revolving credit facility. NCR lists its ending revolving facility balance at zero for both 2013 and 2014.

6. DEBT OBLIGATIONS

In millions, except percentages	December 31, 2014		December 31, 2013	
	Amount	Weighted-Average Interest Rate	Amount	Weighted-Average Interest Rate
Short-Term Borrowings				
Current portion of Senior Secured Credit Facility ⁽¹⁾	\$ 85	2.91%	\$ 28	2.55%
Trade Receivables Securitization Facility	96	0.83%	—	—%
Other ⁽²⁾	6	7.31%	6	7.11%
Total short-term borrowings	\$ 187		\$ 34	
Long-Term Debt				
Senior Secured Credit Facility:				
Term loan facility due 2018 ⁽¹⁾	\$ 1,246	2.91%	\$ 1,087	2.55%
Revolving credit facility due 2018 ⁽¹⁾	—		—	
Senior notes:				
5.00% Senior Notes due 2022	600		600	
4.625% Senior Notes due 2021	500		500	
5.875% Senior Notes due 2021	400		400	
6.375% Senior Notes due 2023	700		700	
Other ⁽²⁾	26	7.23%	33	7.21%
Total long-term debt	\$ 3,472		\$ 3,320	

If investors and analysts are confused by this, they certainly aren't alone. Either NCR has clearly made an error in its financial reporting, or it is attempting to obfuscate results.

It's also worth taking a closer look at NCR's [8-K filing](#) on the establishment of the A/R facility on November 21, 2014. NCR makes the following disclosure:

*"The Company is independently liable for its own customary representations, warranties, covenants and indemnities as the originator and as the servicer of the receivables, and to the extent additional originators become party to the A/R Facility, will be obligated to guaranty the performance of the obligations of such originators. **The***



Company will include NCR Receivables' assets, liabilities and results of operations in its consolidated financial statements"

So here we have a statement that says NCR is running the results of NCR Receivables through its results of operations in its consolidated financial statements. Could it be any clearer now that NCR's operating cash flow is indeed benefiting from the A/R facility?

Cloud Sales Growth of 20% Matched With Zero Growth in Deferred Revenue...Seriously:

NCR continues to tout that is "Cloud" (formerly software-as-a-service) revenue grew from \$113m to \$134m year-over-year, or 20% on a constant currency basis. When analyzing cloud companies, it's important to look at deferred revenue as a key measure for the health of the business. In this case, NCR reported Q1'2015 "deferred revenue and customer deposit" of \$588m. Curiously, in Q1'2014 NCR [reported](#) "deferred revenue and customer deposit" balance sheet account was listed as \$587m. In other words, NCR's cloud revenue growth of 20% was match with virtually zero growth in deferred revenue. We challenge investors to find another SaaS/Cloud company with this sort of financial profile

		Schedule C	
NCR CORPORATION CONSOLIDATED BALANCE SHEETS (Unaudited) (in millions, except per share amounts)			
		March 31, 2015	December 31, 2014
Assets			
Current assets			
Cash and cash equivalents	\$ 462	\$	511
Accounts receivable, net	1,415		1,404
Inventories	676		669
Other current assets	549		504
Total current assets	3,102		3,088
Property, plant and equipment, net	351		396
Goodwill	2,754		2,760
Intangibles, net	893		926
Prepaid pension cost	535		551
Deferred income taxes	344		349
Other assets	534		537
Total assets	\$ 8,513		\$ 8,607
Liabilities and stockholders' equity			
Current liabilities			
Short-term borrowings	\$ 172	\$	187
Accounts payable	642		712
Payroll and benefits liabilities	176		196
Deferred service revenue and customer deposits	588		494
Other current liabilities	446		481
Total current liabilities	2,024		2,070



Schedule D

NCR CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in millions)

	For the Periods Ended March 31	
	Three Months	
	2015	2014
Operating activities		
Net income	\$ 42	\$ 54
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from discontinued operations	—	—
Depreciation and amortization	76	69
Stock-based compensation expense	9	10
Deferred income taxes	4	3
Gain on sale of property, plant and equipment and other assets	(1)	(1)
Impairment of long-lived and other assets	14	—
Changes in assets and liabilities:		
Receivables	(46)	(66)
Inventories	(21)	(30)
Current payables and accrued expenses	(66)	(66)
Deferred service revenue and customer deposits	110	59
Employee benefit plans	(21)	(21)
Other assets and liabilities	(4)	(46)
Net cash provided by operating activities	79	31

Be Careful Leverage is Rising and Intangible Amortization is Most of the Non-GAAP Adjustment:

NCR's Adjusted EBITDA declined in Q1'15, and while its debt declined, so did its excess cash. The net result is that NCR's leverage ratio ticked higher QoQ from 3.1x to 3.2x. We still argue this leverage is understated due to its unfunded pension liability, capital leases, etc.

NET DEBT & EBITDA METRICS

	Q1 2014	Q4 2014	Q1 2015
Debt	\$3,949	\$3,659	\$3,615
Cash	515	511	462
Net Debt	\$3,434	\$3,148	\$3,153
Adjusted EBITDA	\$904 ⁽¹⁾	\$1,000	\$996 ⁽¹⁾
Net Debt / Adjusted EBITDA	3.8x	3.1x	3.2x

⁽¹⁾ Adjusted EBITDA for the trailing twelve-month period.

\$ in millions, except metrics

Goal for Net Debt / Adjusted EBITDA under 3x in 2015



A majority of NCR's Non-GAAP EPS "beat" came from a \$0.12c add-back due to acquisition-related amortization of intangibles. These are real costs related to NCR's recent acquisition spree, but have been capitalized on the balance. We argued before that we believe they have made terrible recent acquisitions. What we find unusual is that NCR splits these costs among three income statement categories: Cost of products, services, and SG&A.

GAAP TO NON-GAAP RECONCILIATION

Q1 2015 QTD

in millions (except per share amounts)

	Q1 QTD 2015 GAAP	Restructuring plan	Acquisition- related amortization of intangibles	Acquisition- related costs	Acquisition- related purchase price adjustments	OFAC and FCPA investigations	Pension (expense) benefit	Q1 QTD 2015 non-GAAP
Product revenue	\$604	\$—	\$—	\$—	\$—	\$—	\$—	\$604
Service revenue	872	—	—	—	—	—	—	872
Total revenue	1,476	—	—	—	—	—	—	1,476
Cost of products	483	(1)	(10)	—	—	—	—	472
Cost of services	603	—	(6)	—	—	—	—	597
Gross margin	390	1	16	—	—	—	—	407
Gross margin rate	26.4%	0.1%	1.1%	—%	—%	—%	—%	27.8%
Selling, general and administrative expenses	225	—	(16)	(2)	—	(1)	—	206
Research and development expenses	55	—	—	—	—	—	—	55
Restructuring-related charges	15	(15)	—	—	—	—	—	—
Total expenses	295	(15)	(16)	(2)	—	(1)	—	261
Total expense as a % of revenue	20.0%	(1)%	(1.1)%	(0.1)%	—%	(0.1)%	—%	17.7%
Income (loss) from operations	95	16	32	2	—	1	—	146
Income (loss) from operations as a % of revenue	6.4%	1.1%	2.2%	0.1%	—%	0.1%	—%	9.9%
Interest and Other (expense) income, net	(51)	—	—	—	—	—	—	(51)
Income (loss) from continuing operations before income taxes	44	16	32	2	—	1	—	95
Income tax expense (benefit)	2	5	11	1	—	1	—	20
Effective tax rate	5%	—	—	—	—	—	—	21%
Income (loss) from continuing operations	42	11	21	1	—	—	—	75
Net income (loss) attributable to noncontrolling interests	2	—	—	—	—	—	—	2
Income (loss) from continuing operations (attributable to NCR)	\$40	\$11	\$21	\$1	\$—	\$—	\$—	\$73
Diluted earnings per share	\$0.23	\$0.07	\$0.12	\$0.01	\$—	\$—	\$—	\$0.43
Diluted shares outstanding	171.6							171.6

Pattern of Bad Capital Allocation and Leadership:

As disciplined investors, we take every precaution to understand the executive team in charge of guiding the strategic decisions of the company, and make sure they are diligent, and focused on creating long-term value. We avoid investing in companies that are excessively promotional with "Celebrity CEOs." There is ample evidence to suggest that companies with Celebrity CEOs are bad for companies ([here](#)). A research reported entitled "Understanding and managing CEO celebrity" ([here](#)) offers both pros and cons, and suggested a matrix with four types of CEOs based upon degree of Fame and Reputation. In our initial report, we provided evidence to suggest that NCR's CEO had among the worst reputations ([here](#)). NCR may not be a household brand name, and it receives a low score on Ranking The Brands ([here](#));



therefore, we believe its CEO's fame score is low. According to the matrix, and in our opinion, NCR's CEO is best classified among the "Silent Killers."

Figure 1. Four types of CEOs

High	<i>Scoundrels</i> (e.g., Leona Helmsley, Kenneth Lay)	<i>Icons</i> (e.g., Mary Kay Ash, Warren Buffett)
CEO Fame	<i>Silent Killers</i> (e.g., Harding Lawrence, Lee Scott)	<i>Hidden Gems</i> (e.g., Anne Mulcahy, Robert Wegman)
Low	Low	High
	CEO Reputation	

One way in which we believe NCR's CEO has been a Silent Killer is by engaging promotional deals and wasteful capital allocation decisions with his "buddies" that don't appear to benefit NCR's shareholders.

For example, in 2011 NCR [announced](#) (with no financial details) that "*NCR and Empower Software Solutions sign referral agreement.*" Empower is described as having a Workforce Management software designed to provide customers, particularly in the retail industry, with a strategic resource to help them deploy staff more effectively.

Commenting on the announcement, EVP John Bruno said "*Empower's technology can create new value for customers, especially when combined with our assisted- and self-service solutions, and is highly aligned with our hardware-enabled, software-driven business model.*"

Now if you're confused as to why a workforce management product has any synergy with NCR's retail point-of-sale checkout devices, you're not alone!

Commenting on the deal from Empower's side, its CEO Seth Bernstein said "*We are pleased to create a dynamic new sales channel for Empower while providing NCR's customers with an opportunity to leverage their technology investments.*"

Who is Seth Bernstein and What Do People Think of Him?

Seth Bernstein is currently listed as both a Director of Outerwall (Nasdaq: OUTR), a \$1.3 billion market cap company known for its Redbox kiosks, as well as a Director of Lighting Science Group (OTCBB: LSCG),



a penny stock that has burned \$165m in the past three years and has an accumulated shareholder deficit of \$487m as of its last [Annual Report](#) on March 30, 2015.

There are various public biographies available for Mr. Bernstein. According to LSCG's proxy statement [filed](#) August 1, 2014 Mr. Bernstein is 38 years old and:

“Seth Bernstein serves as Global Vice-President for Business Development and Strategy for NCR Corporation, a global technology company. He is also a Senior Advisor to Craig Cogut and Pegasus Capital and Pegasus Capital and Mr. Bernstein have entered into a general consulting agreement pursuant to which Mr. Bernstein provides consulting services to Pegasus Capital. Prior to joining NCR, from 2007 to 2011, Mr. Bernstein was owner and chief executive officer of Empower Software Solutions, a leading national provider of innovative and state-of-the-art human resources solutions. Mr. Bernstein is also a member of the Board of Advisors of KPMG LLP, a director of Forstmann Little and Company, a member of the University of Central Florida’s Board and Athletic Board, and the Board of the American Spectator. He and his wife founded the Kids House organization where he currently serves as a board member. He is also the Chairman of the Compound Foundation. Mr. Bernstein is a graduate of the University of Connecticut. Pegasus Capital intends to elect Mr. Bernstein to serve as a director pursuant to certain rights set forth in the Series I Certificate of Designation and described elsewhere in this Proxy Statement.”

According to Outerwall, Mr Bernstein was elected to its Board on December 4, 2014 ([8-K Filing](#)) and sits on its Compensation Committee ([here](#)).

“Seth Bernstein was named as a director of Outerwall in December 2014. He has served as the president of Pegasus Advisory Group (a private equity firm) since October 2014. Mr. Bernstein served as global vice president for business development and strategy for NCR Corporation (a global technology company) from 2012 to 2014. Prior to joining NCR, he was owner and chief executive officer of Empower Software Solutions (a national provider of human resources solutions) from 2007 to 2011. Mr. Bernstein is also a director of Lighting Science Group Corporation (a provider of light emitting diode lighting technology), and serves on the board of directors of Spirit Music Group (a music publishing company), Six Senses Hotels Resorts Spas (a hospitality management company) and several other private companies.”

There are various other public references that detail Mr. Bernstein's past, such as the Orlando Business Journal where he says he attended University of Connecticut ([here](#)), an [article](#) about Stromberg where he was appointed CEO in Jan. 2003, and prior to that was described as “one of the pioneers” of Zurich Payroll. There are also internet articles ([here](#)) and ([here](#)) that suggest Mr. Bernstein is a billionaire, part-time sports agent/advisor ([here](#)), and a fixture on the Hamptons social scene ([here](#)).

However, most interesting is that Mr. Bernstein appears to be a close social friend of NCR's CEO Bill Nuti. In the picture at Pinterest ([here](#)), Bernstein (second from left) can be seen with Nuti. There are other public photographs ([here](#)) and ([here](#)) showing Mr. Nuti and Mr. Bernstein attending various social events with athletes and entertainers. Mr. Bernstein appears to have a history of associating himself with professional athletes such as former Celtic Dee Brown, who he [hired](#) as COO of Stromberg in 2003, but appears to have “left the firm just a few weeks later,” according to a Bernstein [quote](#).



Having later sold Stromberg in April 2004 to Paychex, a multibillion dollar company, it would appear to be a deal to lend credibility to Mr. Stromburg’s career. Paychex reported in its [Annual Report](#), that it paid \$13.6m for the business, while the press release indicated Stromburg had sales exceeding \$20m. A sales multiple of just 0.7x revenues may indicate that Stromburg was struggling at the time of the sale, or a very low margin business. One [review](#) of Stromburg on Glassdoor.com indicates that, *“The salary was decent and good benefits...until the house of cards crashed. Seth Bernstein pointed it towards a volcano and lept off before anyone was able to look out the window.”*

Mr. Bernstein would next get involved with a company called Empagio, the [predecessor](#) of Empower Software via a name change, and stay there through June 29, 2012 when a new CEO was [appointed](#), and Mr. Bernstein was given the title of “Founder and Chairman Emeritus.” During this period, it appears that Mr. Bernstein created a loyal following of detractors. In fact, a [blog](#) was created called *“Seth Bernstein – Bad Capitalism.”* A selection of quotes are provided below:

Date and Poster	Quote
“The Shocker” – April 25, 2008	I was looking at Empagio web site again recently and noticed Seth's bogus claim to have been president of paychex is no longer there. Looks like the paychex lawyers got wise to it and forced it's removal. I am sure he will still claim this in person though. In addition, his bogus story of purchasing Stromberg and growing by a grossly inflated amount and selling it to paychex has also been removed. When will this boy realize he cant continue to spread these types of lies and get away with it. The past will always catch up with you.
“Interested Observer” – May 15, 2008	Seth does watch the internet and thinks he can cover his tracks and keep people from finding out other people's opinions of him. And yes, he continues to try to "clean up his image" in written form - like removing his bold-face lies from his bio on the Empagio website (I hear he was legally forced to remove the "fabrications").
“Dana” – May 26, 2008	What’s even more frightening is this new company he’s took over, Empagio (located in downtown Orlando, FL) is related to Human resources outsourcing for HR executives. Seth Bernstein and Human Resources... uggg. Kinda makes me feel like the last guy... with spit-up in my mouth. You should see the massive number of lies he wrote about himself on the Empagio, Company -> Management Team -> webpage. Seth Bernstein is obviously delusional... and now the truth comes out. Freedom of Speech rocks! I guess you forgot about those simple little constitutional rights, huh Seth?
“Interested” – January 27, 2009	At the root level, I think he's the definition of psychopath: completely self-absorbed with no regard for others. However, they say 70% of psychopaths active in society are in business as salespeople. He lives in a world where morals are fuzzy, and he's been taken advantage of by lawyers and bankers as often as he's tried to take advantage of others.

Our background checks on Mr. Bernstein suggest the following:

1. His description that he was a “pioneer” of Zurich, a small payroll services company, is embellishment, and that his role was as a salesman, not the CEO, founder, or business strategist that would lead one to believe he was the pioneer
2. The media’s characterization of him as a “billionaire” may be exaggerated. He has never appeared on any of the Forbes billionaire lists we can find ([here](#)). Also, does it stand to reason that a billionaire would need to take the job of Vice President of Business Development role for NCR?



3. His description as to having served as a member of the Board of Advisors of KPMG may not be accurate. We cannot find any indication that KPMG even has a Board on its website ([here](#))
4. His description as first being a Senior Advisor to Pegasus Capital and then later President of Pegasus Advisory Group offer conflicting descriptions of his role
5. His description of being approximately 38 or 39 years old may not be accurate. His work history dates back to at least prior to 1997 when he was with Zurich, and further states that he won awards with ADP for two consecutive years. This suggests he would have been in the work force by at least 1995 at the young age of 19 or 20, an age range where most kids are completing their early college years. Our background check indicates Mr. Bernstein may be closer in age to 47 or 48 years old
6. Our attempt to verify that Mr. Bernstein graduated from the University of Connecticut came back with the following comment: **“Applied, Never Attended”**

degreeverify@studentclearinghouse.org

Apr 27 (1 day ago)

This e-mail was sent from a notification-only address that cannot accept incoming e-mail. Please DO NOT reply to this message.

IMPORTANT, PLEASE READ the following comment(s) provided by the institution:
Applied, never attended

We are unable to verify a degree for this individual based on the information you provided. Possible reasons are:

1. The information you entered (name, date of birth, and/or Social Security number) does not match the name, date of birth, and/or Social Security number provided by the educational organization.
2. The individual has chosen to keep his or her student records private.
3. The school has blocked the release of the individual's records. In this instance the individual must contact the school directly to release his or her records.
4. The individual never received a degree from the selected school. Ensure that you have selected the correct school. Many schools are similarly named. Use the location to assist you in your selection process.
5. The individual never enrolled. Ensure that you have selected the correct school. Many schools are similarly named. Use the location to assist you in your selection process.

If you are able to obtain a copy of the degree from the individual, fax it to the Clearinghouse at 703-358-8050, along with the Transaction ID for this request. We will work with the school to determine whether or not the record(s) is genuine.

INFORMATION YOU PROVIDED

Subject Name _____
First Name: BETH
Middle Name: _____
Last Name: BERNSTEIN

School Name: UNIVERSITY OF CONNECTICUT (091417-00)

Attempt To: Verify dates of attendance for someone who has not received a degree.

Reference ID: _____

Disclaimer: All information verified was obtained directly and exclusively from the individual's educational institution. The Clearinghouse disclaims any responsibility or liability for errors or omissions, including direct, indirect, incidental, special or consequential damages based in contract, tort or any other cause of action, resulting from the use of information supplied by the educational institution and provided by the Clearinghouse. The Clearinghouse also does not verify the accuracy or correctness of any information provided by the requestor.

Source: UCONN degree and enrollment verification ([here](#)) and National Student Clearinghouse ([here](#))

Now we pose the million dollar questions to NCR's management:

1. Why was Mr. Bernstein hired as Global Vice-President for Business Development and Strategy for NCR Corporation – a very senior role within the organization – in the face of publicly available evidence that suggests Mr. Bernstein past business experiences were problematic
2. Why didn't NCR issue a press release announcing the hiring of Mr. Bernstein or the creation of a very senior role
3. What role did Andrea Ledford, NCR's Senior Vice President of Human Resources, have in approving the hire of Mr. Bernstein? Andrea's career has followed Mr. Nuti's career very closely. According to her [biography](#), before joining NCR in February 2006, Ms. Ledford was EMEA



Leader, Human Resources, at Symbol Technologies, Inc. from 2002 to February 2006 and held a variety of leadership roles at Cisco Systems, Inc. in EMEA, Asia/Pacific and Latin America

4. Why has NCR never disclosed any tangible business resulting from the Empower Software / NCR “referral alliance”
5. Mr. Bernstein recently left to become a Director at another public company called Outerwall. Is there a connection or coincidence with the fact the NCR has done business with Outerwall in the past, and sold its money-losing entertainment division to it in 2012 ([here](#))

About Spruce Point Capital Management, LLC

Spruce Point Capital Management, LLC is a New York based investment manager founded in 2009. The firm focuses on short-selling, special situations, and value investment opportunities. The firm conducts in depth forensic fundamental research and takes an activist approach to investing. Our research challenges conventional thinking with deep fundamental analysis, analytical rigor, conclusions rooted in objective facts, and a passion for investing. For more information visit us at <http://www.sprucepointcap.com> and follow us on Twitter [@Sprucepointcap](#)

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presentation, report or letter, we intend to continue transacting in the securities covered therein, and we may be long, short, or neutral at any time hereafter regardless of our initial recommendation.

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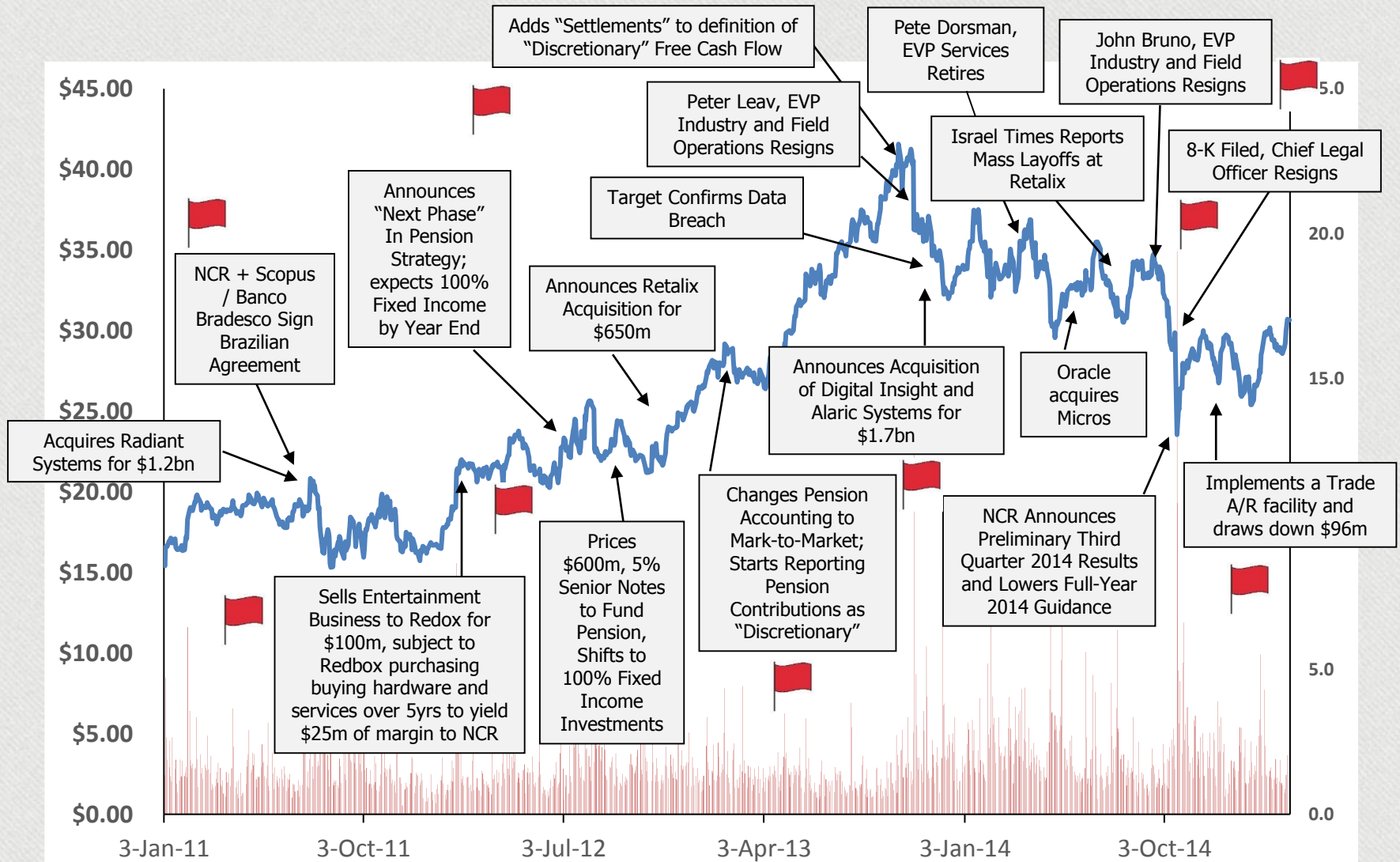
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Executive Summary



NCR's Stock Price Rise Defies Numerous Red Flags





Spruce Point Sees 45 - 70% Downside in NCR Corp (NCR) For the Following Reasons:

1

NCR is Facing Secular Headwinds; Levered Transformation Likely to Fail w/Limited Strategic Alternatives:

- NCR is selling investors on its ability to transform from a hardware to software provider while market fundamentals move rapidly against it; alternative and digital payment platforms (Square, Venmo, Apple Pay, Google Wallet) are eroding demand for its core ATM hardware, while its “banking transformation” opportunity is a melting ice cube. Plenty of examples of failed hardware/software transformations (e.g. IBM and HP)
- NCR has paid an avg. enterprise value to sales and EBITDA of 4x and 23x, respectively, for the acquisitions of Retailix, Radiant, and Digital Insight. In the process, it has bloated its balance sheet with goodwill and intangibles of \$3.7bn and has adjusted leverage >5x
- We will present evidence to suggest NCR has botched its acquisitions, has almost no organic growth, and has limited strategic options to recover value by selling assets. German Wincor-Nixdorf recently pre-warned (its stock plunged 18%), and is also exploring alternatives. The two companies are unlikely to create value together or buy one another. NCR has no ability to buyback stock or pay a dividend

2

History Lesson: Many NCR Executives Came From Symbol Technologies, a Former Accounting Fraud:

- NCR’s CEO Bill Nuti joined Symbol in 2002 during an accounting scandal and was elevated to its CEO. His record suggests he overpromised and undelivered a turnaround, while not having a clear handle on unresolved accounting problems
- Nuti recruited many former Symbol employees, including his lieutenant and Symbol’s Chief Information Officer John Bruno, who Nuti hailed as a “visionary.” Bruno recently resigned from NCR along with at least a dozen senior NCR executives according to our research
- We observe many striking similarities between what unfolded during Nuti’s tenure at Symbol and NCR’s current predicament

3

Numerous Signs of Aggressive Accounting: Adj Free Cash Flow, EBITDA, EPS Appear 30-70% Overstated:

- NCR appears to be playing multiple accounting tricks to embellish its financials, and paint a picture of improving results. Our alternative view suggests otherwise. The most egregious case is mgmt.’s portrayal that its “Adjusted Free Cash Flow” should be adjusted for its “Discretionary” pension contribution “and settlements” on a “pre-tax” basis. NCR has also made changes to its pension acct’g, distorted its EBIT with various non-operating gains, under-reserved for doubtful accounts, and presented securitized receivables as operating cash flows
- Our cash-based analysis suggests NCR’s Adj. EBITDA, EPS and FCF are overstated by approximately 30, 40%, and 70%, respectively

4

NCR’s Pension Transformation Folly:

- NCR’s sold investors on its ability to deal with its large unfunded US pension. It raised debt at 5% only to shift its entire US pension to fixed income in 2012, and miss the greatest stock market rally in history. This supports our criticism of NCR’s capital allocation follies
- NCR’s pension strategy also had the goals of 1) reducing the GAAP/Non-GAAP differential of its financial results, and 2) reducing on-going pension contributions. Evidence suggests that NCR has failed on both counts and has struggled with its int’l pension, which it claims is overfunded, yet continues to make regular contributions labelled as “discretionary” but may be covered up as “settlements”

5

Insider Selling and Valuation Disconnect:

- The CEO and CFO own a pitiful 0.40% of the stock; CEO Nuti started increasing share sales in 2013. The Street thinks NCR’s shares are fairly valued, but have missed the accounting gimmicks, and are basing its valuation on meaningless adjusted figures. The bulls also see a team of activists capable of saving a sinking ship, and “alternatives” to increase its share price, but we see little value at NCR using various valuation methods, including a sales-based sum-of-the parts approach, we reach a price range of \$9 - \$16/sh (45–70% downside)

NCR's "Adjusted Free Cash Flow" is Flawed, Overstated by at Least 70%

NCR's "Adjusted Free Cash Flow Presentation" is worthless as an indicator of its financial health: NCR has focused investors exclusively on its US pension issue, but its Int'l pension also appears plagued with problems. **NCR appears to be including contributions to its overfunded international pension plan as discretionary and may be covering this up by changing its discretionary definition to include "settlements!"** NCR asks investors to evaluate its cash flow excluding "discretionary" pension contribution on a **pre-tax basis**, when we believe it should be evaluated on an **after-tax basis** for an apples-to-apples comparison with operating cash flow. To support our case, we have identified numerous multinationals that show discretionary pensions on an after-tax basis (see Appendix). Yet, even these may be inappropriate ways of viewing pension payments, as we believe the distinction between "discretionary" and "non-discretionary" is semantics that distracts from its core problems. The credit rating agencies such as Moody's and S&P view pension contributions as forms of debt repayment, and not operating cash flows (See Appendix). NCR has taken its approach to the extreme, and even changed its bonus plan to reward its management team for a blatantly distorted calculation, and appears to have misled investors about the change to its definition (See Appendix).

Spruce Point Correctly Adjusts NCR's Free Cash Flow

\$ in millions

	2012	2013	2014
GAAP Operating Cash Flow	(\$180.0)	\$281.0	\$524.0
Capex and additions to software	(\$160.0)	(\$226.0)	(\$258.0)
Net Cash Used in Discontinued Ops	(\$114.0)	(\$52.0)	(\$1.0)
Traditional Free Cash Flow	(\$454.0)	\$3.0	\$265.0
Add: NCR's "Discretionary" Pension Contribution and Settlements	\$600.0	\$204.0	\$48.0
NCR's Adjusted Free Cash Flow	\$146.0	\$207.0	\$313.0
Less: Estimated Settlement Charge and/or Int'l Contribution (1)	--	(\$17.0)	(\$30.0)
Less: Tax adjustment on Discretionary Pension Contribution (2)	(\$210.0)	(\$65.5)	(\$6.3)
Less: Reclassification of Acct's Receivable Securitization (3)	--	--	(\$96.0)
Spruce Point Adjusted Free Cash Flow	(\$64.0)	\$124.6	\$180.7
Difference in Free Cash Flow	\$210.0	\$82.5	\$132.3
% Overstated	328.1%	66.2%	73.2%

(1)

Disclosure in Footnotes of U.S. Pension Contribution Amount	\$651.0	\$187.0	\$18.0
Discretionary Contribution Reported by NCR	\$600.0	\$204.0	\$48.0
Estimated Settlement Charges or Int'l Pension Plan Contrib.	--	\$17.0	\$30.0

(2)

Disclosure in Footnotes of Pension Contribution Amount	\$600.0	\$187.0	\$18.0
Adjusted at 35% tax rate	\$390.0	\$121.6	\$11.7
Tax Adjustment	\$210.0	\$65.5	\$6.3

(3) NCR classifies its A/R facility as short-term debt, but doesn't include the \$96m as a financing cash flow. We adjust operating cash by deducting \$96m as a reclassification (See Accounting section for more detail)

Source: NCR and Spruce Point estimates

NCR's Original Adjusted FCF Definition in 2012

Free Cash Flow

	For the Periods Ended December 31			
	Three Months		Twelve Months	
	2012	2011	2012	2011
Net cash provided by (used in) operating activities (GAAP)	\$ 100	\$ 274	\$ (180)	\$ 388
Less capital expenditures for:				
Property, plant and equipment	(27)	(18)	(80)	(61)
Capitalized software	(22)	(17)	(80)	(62)
Total capital expenditures, net	(49)	(35)	(160)	(123)
Net cash used in discontinued operations *	(29)	(10)	(114)	(77)
Free cash flow (used) (non-GAAP)⁽²⁾	22	229	(454)	188
Add discretionary pension contributions	100	--	600	--
Adjusted free cash flow (non-GAAP)⁽¹⁾	\$ 122	\$ 229	\$ 146	\$ 188

NCR Later Adds "Settlements" To Definition

Free Cash Flow

\$ in millions	Fourth Quarter		Full Year	
	2014	2013	2014	2013
Net cash provided by operating activities	\$ 289	\$ 265	\$ 524	\$ 281
Total capital expenditures	(61)	(71)	(258)	(226)
Net cash provided by (used in) discontinued operations	(29)	(1)	(1)	(52)
Pension discretionary contributions and settlements	30	124	48	204
Free cash flow	\$ 229	\$ 317	\$ 313	\$ 207

Source: NCR FY 2014 Earning Release ([here](#))

Note: NCR has not disclosed any settlement amounts for 2013 and 2014 in its SEC filings

Spruce Point Believes All of NCR's GAAP/Non-GAAP Financials Are Overstated

We view NCR's "Net Pension Operating Income (NPOI)," "Adjusted EBITDA" and "Adjusted EPS" as unreliable indicators of the company's performance

Our analysis attempts to adjust NCR's results for the numerous accounting distortions plaguing its financials. We believe the two biggest issues are
1) pension accounting and
2) its tax expense

We believe the best way to evaluate NCR's major accounting distortions is on a cash basis, not an accrual basis.

Fortunately, buried deep in its footnotes, NCR discloses cash contributions to various pension and benefit programs, cash taxes paid, and cash interest expense.

Our analysis suggests that NCR's key financial metrics are significantly overstated

\$ in millions

	2012	2013	2014	Comments and Observations
NCR GAAP Operating Income (EBIT)	\$748.0	\$666.0	\$353.0	
Less: Gain on Sale of PP&E	(\$10.0)	(\$14.0)	(\$5.0)	Remove non-operating gains and reclassify below
Less: Incremental Bad Debt Expense	(\$9.2)	(\$12.0)	(\$13.4)	Estimated based on historical methods
Less: Estimated Legal Reserve	\$0.00	\$0.00	(\$33.0)	Midpoint of range for Brazilian tax dispute
Spruce Point Non-GAAP Adjusted EBIT	\$728.8	\$640.0	\$301.6	
Total Plan (Benefits) Expenses	(\$201.0)	(\$75.0)	\$226.0	Includes acct'g charges of all benefit plans
Spruce Point Adjusted Non-GAAP EBIT (A)	\$527.8	\$565.0	\$527.6	postretirement, postemployment + pensions
NCR's Adjusted Non-GAAP NPOI	\$589.0	\$717.0	\$820.0	NCR's NPOI adjusts just for pension expense
% overstated	12%	27%	55%	
Cash Contributions to Benefit Plans				
US Pension	\$651.0	\$187.0	\$18.0	All contributions based on NCR estimated and actual cash contribution. Cash contributions are recurring in nature, and significantly more than the associated accounting benefits/expenses
Int'l Pension	\$101.0	\$96.0	\$69.0	
Executive Pension	\$10.0	\$10.0	\$18.0	
Postretirement Plan	\$7.0	\$5.0	\$4.0	
Postemployment	\$60.0	\$42.0	\$30.0	
Total Cash Contributions to benefit plans (B)	\$829.0	\$340.0	\$139.0	
Spruce Point Adjusted Non-GAAP EBIT (A - B)	(\$301.2)	\$225.0	\$388.6	Deduct Spruce Point Adjusted Non-GAAP EBIT by Total Cash Contributions to all plans
Depreciation and Amortization	\$166.0	\$208.0	\$284.0	
Non-Cash Stock Comp	\$49.0	\$41.0	\$31.0	
Spruce Point Non-GAAP Adjusted EBITDA	(\$86.2)	\$474.0	\$703.6	
NCR's Adjusted Non-GAAP EBITDA	\$804.0	\$870.0	\$1,000.0	
% overstated	NM	84%	42%	
Spruce Point Adjusted Non-GAAP EBIT	(\$301.2)	\$225.0	\$388.6	
Less: Cash interest expense	\$15.0	\$71.0	\$170.0	Disclosed at the bottom of cash flow st. in 10-K
Other expense (income), net	\$8.0	\$9.0	\$35.0	Includes interest income, FX, bank fees, misc items
Add: gain on sale of PP&E	\$10.0	\$14.0	\$5.0	Reclassified from above
Adjusted other expense (income), net	(\$2.0)	(\$5.0)	\$30.0	
Less: Cash taxes paid	\$32.0	\$70.0	\$75.0	Disclosed at the bottom of cash flow st. in 10-K
Spruce Point Non-GAAP Cash Net Income	(\$346.2)	\$89.0	\$113.6	
Diluted shares outstanding	163.8	169.3	171.2	
Spruce Point Non-GAAP Cash Diluted EPS	(\$2.11)	\$0.53	\$0.66	
NCR GAAP Diluted EPS	\$0.85	\$2.67	\$1.06	
% overstated	NM	408%	60%	
NCR Non-GAAP Diluted EPS	\$2.49	\$2.81	\$2.74	
% overstated	NM	434%	313%	

Source: NCR and Spruce Point estimates

Warning: NCR Appears To Be Using Many Accounting Gimmicks To Portray Earnings Growth + Financial Stability

Tactic	Description	Example 1	Example 2	Our Observations
Creative M&A Accounting	With limited/no organic growth NCR has structured several strategic and M&A deals in aggressive ways intended to bolster its financials	Announced the sale of its money losing Entertainment business to Redbox in Q1'12. Took a write down in Q4'11 only to book a gain in Q2'12 when the deal closed. Deal stipulates a 'short-term' services agreement with a minimum of \$25m of margin over 5yrs	Paid huge premium for Digital Insight (DI). Its current GAAP EBIT of ~29% bears no resemblance to DI's previous EBIT as a stand alone entity, or under Intuit's ownership where it was in the 4-6% range	NCR appears to be running free margin through its income st, claiming it has no relation to the assets it sold. DI transaction generated goodwill and intangibles of \$1.8bn, which may have enabled capitalization of costs on its balance sheet
Creative Pension Accounting	NCR has historically had a large unfunded pension. Pension accounting is arcane and often overlooked by investors. NCR has made various aggressive moves to paper over the problem	NCR changed its pension accounting in 2013 to recognize changes in fair value of assets and net actuarial gains/losses into P+L faster than in its prior method. NCR changed its discount rate curve in 2012 from Citigroup to Aon, which increased the rate, lowered the PBO	NCR allocates its pension expense across product and service costs, SG&A, and R&D expense lines, which blurs the analysis of its continuing operating results	NCR's change in pension acct'g method is rare in practice. NCR's goal was to shrink the difference between GAAP/Non-GAAP results and reduce pension costs, but the exact opposite has occurred
Failure to Accrue for Liabilities	Accruing for loss contingencies is subject to mgmt. discretion regarding the loss being probable and the ability to estimate a range. An accrual would result in a charge to earnings	Mid 2014, NCR disclosed a potentially material tax issue in Brazil related to imports that it said it would appeal; initially it could not quantify the problem, but now estimates a range of loss to be \$0 - \$66m (up to 36% of its 2014 GAAP net income)	--	Tax dispute has potential to be highly material. It coincides with the termination of the Scopus/Bradesco relationship. Previous errors with Brazilian tax accounts (see below). Symbol Tech. also disclosed errors in its Brazilian acct'g
One-time Items Affecting SG&A	One time property gains have been used to reduce continuing operating expenses such as SG&A. Recurring gains on PP&E sales are higher than \$ proceeds	2011: \$4m increase to SG&A to correct certain tax accounts in Brazil determined to be unrecoverable (may be related to Scopus; what do tax accounts have to do with SG&A?)	2012 and 2013: \$5m and \$7m property gains classified as a reduction to SG&A expense	We believe property and PP&E gains are not-continuing in nature, and should be in other income/expense. As a result EBIT and NPOI are overstated

Many More Accounting Gimmicks

Tactic	Description	Example 1	Example 2	Our Observations
Under-Accruing for Trade Receivables, Allowance for Doubtful Accounts	Acct'g for Allowance for Doubtful Accounts is subject to mgmt. discretion and under-reserving could indicate that NCR is not taking appropriate charges for bad debt expense	When NCR acquired Retalix, its acct's receivable growth started outpacing sales growth; 6 months later, when allocating the deal price, NCR boosted Retalix's accounts receivable by 45%, but NCR's consolidated allowance went up by just \$4m	Digital insights carve-out financials from Intuit contained almost no allowance for doubtful accounts. When it was a standalone public entity, it accrued at ~4% of gross receivables. NCR's consolidated allowance account did not increase at all!	NCR's allowance has declined steadily since 2012 to just 1.3% of gross receivables. Each of NCR's recent acquisitions accrued for allowances at a significantly higher rate than NCR at approximately 3% – 9%
Tax Valuation Allowance Reversals	Reversals in valuation allowances are very subjective decisions made by mgmt. and can be used to manipulate earnings. We believe mgmt. may be using aggressive tactics to manage its tax rate	In 2014, NCR cited a \$9m reduction in the U.S. valuation allowance and a favorable mix of earnings by country, driven by actuarial pension losses due to a change in the U.S. mortality table.	In 2013, NCR took a favorable release of a \$10m valuation allowance due to the implementation of a tax planning strategy, a \$15m reduction in allowance related to a Japan subsidiary, and a favorable mix of earnings by country, primarily related to lower pension benefit	NCR's effective tax rate has varied wildly: (35)% in 2014, 18% in 2013, and 32% in 2012. Its valuation reversals are material. As a % of GAAP reported income tax expense, these reversals amount to 17% and 26% for 2013 and 2014 (\$0.15c and \$0.05c benefit per share). NCR reported paying cash taxes of \$70 and \$75m in 2013 and 2014.
Misclassification of Operating and Financing Cash Flow Leading to Distorted Free Cash Flow	We believe NCR's earnings quality is low, and it's important to focus on its free cash flow. We believe mgmt. is presenting a misleading view of both operating and adjusted free cash flow	NCR utilized \$96m of its Trade A/R facility in Q4'14 and listed it as an increase in short-term debt in its balance sheet and footnotes, but reported no increase in short-term debt through its financing section on the cash flow statement. Operating cash flows appear to be overstated by \$96m (18% of 2014 total)	NCR tries to sell to investors that its pension expense is 'discretionary' and should be added back to free cash flow. However, NCR quietly changed its definition to include "Settlements" and presents its pension expense on a pre-tax basis, resulting in a misleading view. To make matters worse, NCR's mgmt. is rewarding themselves with bonuses tied to an egregious free cash flow definition	NCR sold its receivables to a special purpose subsidiary, which then pledges the receivables. NCR is accounting for it as an operating cash flow, but we view it as a financing structure. We view the 'discretionary' nomenclature as misleading, as it is largely a capital allocation decision by mgmt. Our pro forma adjusted estimates suggest that NCR's free cash flow is >70% overstated

Warning: CEO Nuti's NCR Tenure Looking More Like Symbol Days

	Symbol Technologies	NCR Corp
Acquisition Strategy	7/24/2004: Nuti's largest acquisition was Matrics for \$230m in cash; dilutive to earnings w/substantial goodwill (\$195m), a bet on RFID growth driver as an apparent attempt to cover slowing growth elsewhere. The deal would later called a disaster by an analyst	Recent acquisitions since 2011 include Radiant, Retalix and Digital Insight have bloated NCR's balance sheet with goodwill and leverage. Paid substantial \$600m premium for Digital Insight 5 months after Thoma Bravo acquired it from Intuit. Various indicators suggest these acquisitions are hampering growth and have been poorly executed
Aggressive Accounting	Though Nuti was not directly charged, while at Symbol " <i>This was a veritable playbook of corporate fraud,</i> " the prosecutor, Roslynn R. Mayskopf, said of Symbol. " <i>They cooked the books every which way they could.</i> " - channel stuffing, candy deals, tango sheets and cookie jar reserves to manage earnings, manipulation of inventory levels and acct's receivable data to conceal effects of bad revenue recognition	Indicators of aggressive acct'g show strains in NCR's financials include: Days Sales Outstanding rising rapidly, Acct's Receivable growing much faster than sales, changes to pension accounting, widening rift between GAAP/Non-GAAP results, reversals of tax valuation allowances, crediting one-time gains towards reductions in operating expenses, obfuscating dependence on short-term financing with trade A/R facility
Brazil Dealings	March 2002, sold 49% ownership in Symbol Brazil; later in Dec 2003 admitted an accounting error where certain expenses should have been charged to earnings. Federal indictment cited channel stuffing linked to a "South American" distributor and also referenced Brazil	July 2011, sold 49% of NCR Brazil to Scopus (owned by Banco Bradesco). In mid 2014, Bradesco sold Scopus; NCR has not disclosed what liability it has for the repurchase of Scopus' stake, but instead has said a 'tax dispute' may result in a range of losses between 0 - \$66m. In 2011, made adjustments to SG&A to correct Brazil tax accounts
Overly Optimistic Guidance	After his hire in 2012, Nuti guided investors to 15% operating margins (not achieved), a " <i>massive opportunity,</i> " and the chance to rival Cisco <u>6/28/2005</u> : Slashed previous guidance issued in May 2015 from the range of \$460 - \$470m, to ~\$440m <u>7/14/2005</u> : Two weeks after the previous guide down, Symbol again slashed revenue to a new range of \$425 - \$430m; CFO resigns	<u>11/11/2013</u> : Sets long-term FY16 sales goal of \$7.3 - \$7.7bn, Gross margin to grow over 31% (Note: Nuti would later say gross margins could go to 35%), NPOI (% of sales) to 17% vs. 11.7% in FY13 and 37% of sales to be recurring <u>Q1'14</u> : Lowers revenue growth range by 2%, maintains NPOI and EPS guidance <u>10/20/14</u> : Pre-announces Q3 results; blames worsening retail env't (spending shift and consolidation), FX, and macro headwinds. Full sales lowered from \$6.75 - \$6.85bn to \$6.575 - \$6.625bn, full yr. NPOI from \$900 - \$920m to \$810 - \$840m and Non-GAAP EPS from \$3.00 - \$3.10 to \$2.60-\$2.70/sh
Restructuring	6/28/05: Announced a restructuring plan to reduce costs and drive profits, due to "economic sluggishness particularly in the global retail market." Expects to take a total pre-tax, charge of \$75 - \$95m associated w/cost saving initiatives, of which 2/3rds will be cash charges and the remaining 1/3 rd will be non-cash charges. Expects to record roughly half of the total pre-tax charges in the Q2'2005, with the rest in the next two quarters	7/29/14: Announced a restructuring "to strategically reallocate our resources to our highest growth, highest margin opportunities." Expects to incur a pre-tax charge in the range of ~\$150 - \$200m that will be included in income from operations, with ~\$150m recorded in 2014 and the remainder in 2015. The estimate includes both severance and asset related charges. The cash impact of the restructuring is expected to be ~\$50m in 2014 and \$50m in 2015. Annualized savings are expected to reach ~\$90m by 2016.
Key Mgmt Hires	Various Hires from Nuti's previous employer Cisco include: John Bruno, Peter Leav, Andrea Ledford, Michael Bayer	Nuti followers from Symbol: John Bruno (fmr CIO). Peter Leav (fmr Director of Sales), Richard Bravman (fmr CEO), Adam Mallah (fmr Financial, Planning and Analysis), Andrea Ledford (fmr HR Director), Michael Bayer (fmr VP), John Gregg (CEO NCR Brazil)
Nuti Stock Liquidations	12/30/05: Nuti sold 400,000 shares for \$6.6m his only substantive sale before a large guidance miss	Starts selling shares in Dec 2012 after acquiring Retalix and claiming " <i>Retalix is a strong, strategic fit for NCR and the combination of our two companies will drive significant value for both our shareholders and customers.</i> " Retalix would appear to be a disaster

NCR's Bleak and Brutally Honest Valuation Implies Big Downside

Business	2014E Sales	Sales Multiple NCR Paid	Current Sales Multiple Range	Estimated Value Range	Comment
Core ATM Business	\$5,434	--	0.4x – 0.6x	\$2,174 – \$3,260	Flat/Declining long-term growth. See major competitor Wincor Nixdorf's multiple
Retalix	\$300	3.0x	1.0x – 2.0x	\$300 – \$600	Potentially impaired asset due to Target data breach, tough retail env't and competitive space
Radiant	\$500	3.1x	2.0x – 3.0x	\$1,000 – \$1,500	2.5x -3.6x was the Oracle/Micros fairness opinion range. Evidence that Radiant's margins and growth rolling over suggests low end of range
Digital insight (DI)	\$357	5.0x	1.5x – 2.5x	\$536 – \$893	Used recent fin tech deal range for DI competitors. Thoma Bravo paid 3x for DI when it had growth; now its growth has stalled
Estimated Value of Assets				\$4009 – \$6,253	
Less: Financial Debt				(\$3,659)	Face value of debt
Less: Env't Liabilities				(\$44)	Balance sheet liability
Less: Brazilian Tax Dispute				(\$33)	Estimate midpoint of range
Less: Unfunded Pension				(\$168)	Balance sheet liability
Plus: Adjusted Cash				\$433	\$458m of \$511m is subject to repatriation tax. GE just paid a 17% tax to repatriate \$36bn
Equity Value				\$538 – \$2,782	
Diluted Shares Outstanding				171.2	Weighted Avg. Share Count
Source: NCR and Spruce Point estimates				Value range per NCR share	\$3.15 - \$16.25
					The Dead Honest Truth

Given our numerous accounting concerns and inability to determine NCR's true EBITDA and EPS, we believe a sales based valuation approach is most appropriate

Warning: NCR's PP&E Assets May Be of Little Value to Sell

For the past 3 years, NCR has reported accounting gains on sale of PP&E in excess of realized proceeds

In 2014, NCR booked a \$5m gain for something we estimate had nearly zero net book value, and netted it just \$1m.

NCR is leaving these accounting gains in EBIT and in its definition of NPOI, thus representing them as a part of continuing operations (NCR's management is compensated on NPOI growth)

NCR Statement of Cash Flow

For the years ended December 31 (in millions)	2014	2013	2012
Operating activities			
Net income	\$ 195	\$ 447	\$ 481
Adjustments to reconcile net income to net cash provided by operating activities			
(Income) loss from discontinued operations	(10)	9	(6)
Depreciation and amortization	284	208	166
Stock-based compensation expense	31	41	49
Deferred income taxes	(125)	3	144
Gain on sale of property, plant and equipment and other assets	(5)	(14)	(10)
Impairment of long-lived and other assets	16	—	7
Changes in assets and liabilities:			
Receivables	(30)	(136)	(53)
Inventories	121	10	(42)
Current payables and accrued expenses	35	21	86
Deferred service revenue and customer deposits	(34)	36	31
Employee benefit plans	105	(397)	(994)
Other assets and liabilities	(59)	53	(39)
Net cash provided by (used in) operating activities	524	281	(180)
Investing activities			
Expenditures for property, plant and equipment	(118)	(116)	(80)
Proceeds from sales of property, plant and equipment	1	10	8
Additions to capitalized software	(140)	(110)	(80)
Business acquisitions, net	(1,647)	(780)	(108)
Changes in restricted cash	1,114	(1,114)	—
Other investing activities, net	2	5	4
Net cash used in investing activities	(788)	(2,105)	(256)

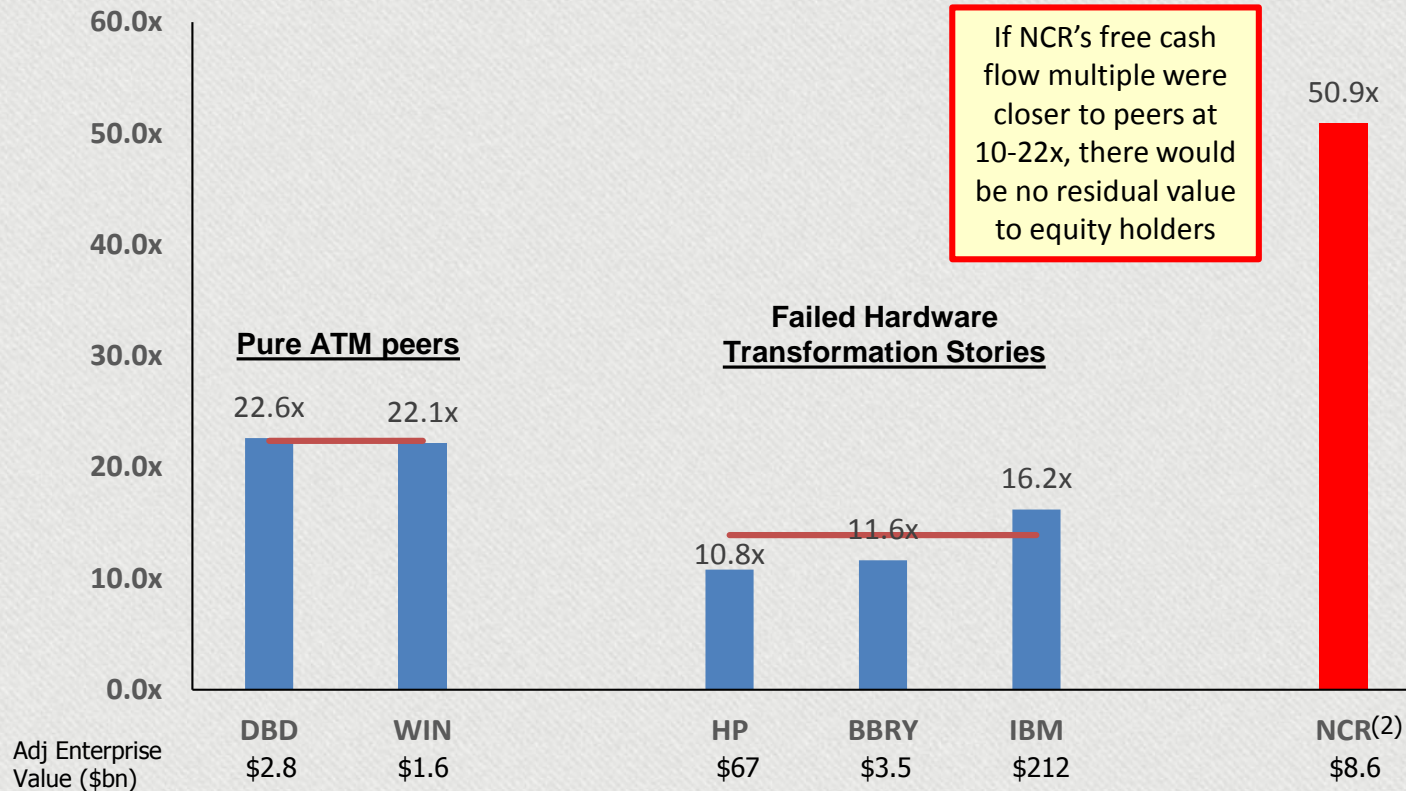
Detailed Look at NCR's PP&E Accounts

\$ in millions				
	2012	2013	2014	Comment
Total Facilities	238	276	264	12 fewer facilities in 2014
Total Sq ft (millions)	5.8	5.9	6.2	But Sqft Increased in 2014?
R&D + Manufacturing Facilities	37	35	27	Big shrinkage in 2014
Sq ft (millions)	2.4	2.2	1.6	
Land parcels	10	10	5	Sold 50% of land parcels in 2014
Sq ft (millions)	3.6	4.0	3.7	Sqft still higher than 2012
Changes to Gross PP&E				
Inc: Expenditures on PP&E	\$80	\$116	\$118	From cash flow st.
Inc: Retailix Acquisition	--	\$19	--	Deal closed 2/13/13
Inc: Digital insight Acquisition	--	--	\$8	Deal closed 1/1/14
Dec: Redbox sale	(\$51)	--	--	
Implied Decrease from Sold PP&E	\$74	\$39	\$148	Implied from yearly changes
Changes to Accumulated Depr.				
Inc: PP&E Depreciation Expense	\$64	\$68	\$83	Disclosed in 10K
Implied Decrease from Sold PP&E	\$52	\$22	\$149	Implied from yearly changes
PP&E Accounts				
				Deatiles in Note 3 from 10K
Land	\$42	\$40	\$32	
Buildings/improvements	\$231	\$237	\$230	
Machinery/equipment	\$636	\$722	\$715	
PP&E, gross	\$909	\$999	\$977	
Less: Accumulated depreciation	(\$601)	(\$647)	(\$581)	
Total PP&E, net	\$308	\$352	\$396	

Source: Digital Insight pro-forma financials ([here](#))
 Last reported Retailix financials as of 9/30/12 ([here](#))
 NCR's Annual Reports ([here](#))
 NCR press releases showing NPOI ([here](#))

NCR's Free Cash Flow Multiple Implies No Residual Equity Value

Adjusted Enterprise Value / Last 12 Months Free Cash Flow⁽¹⁾



(1) Adjusted enterprise value includes unfunded pension and post retirement liabilities. Free cash flow defined as operating cash flow less capital expenditures

(2) Removes \$96m of securitized receivables from operating cash flow

Source: SEC and Company filings

Overvaluation, Leverage and Few (If Any) Alternatives to Realize Value

Capital Structure and Valuation

\$ in millions, except per share amounts

		Metrics	FY Ended 12/31		
			2014A	2015E	2016E
Stock Price	\$30.00				
Diluted Shares outstanding	171.2	EV / Sales	1.3x	1.3x	1.3x
Market Capitalization	\$5,136.0	EV / NPOI	10.5x	10.1x	9.5x
Total Financial Debt	\$3,659.0	EV / Adj. EBITDA	8.6x	7.8x	7.5x
Unfunded Pension	\$168.0	EV / Spruce Point EBITDA	12.2x	--	--
Env't Liabilities	\$44.0	Price / GAAP EPS	28.3x	15.4x	11.5x
Brazilian Tax Dispute	\$33.0	Price / Non-GAAP EPS	10.9x	11.2x	10.0x
Less: Cash (1)	\$433.1	Price / Spruce Point Cash EPS	45.2x	--	--
Enterprise Value	\$8,606.9	Adj Debt / Adj. EBITDA	3.9x	3.6x	3.4x
		Adj Net Debt / Adj. EBITDA (2)	3.8x	3.4x	3.3x

(1) \$458m of cash is overseas, subject to taxation (2) Debt reduced by \$150m; consistent with credit agreement

Tactic	Description	Issue #1	Issue #2
Spin off / Sale of Assets	Assets include Digital Insight, Retalix, Radiant and ATM Hardware/Software Maintenance business	Each of Digital Insight, Retalix and Radiant were already public companies and NCR appeared to be the highest bidder. What value is to be unlocked by spinning out the assets it just bought?	Digital Insight's growth has stalled, yet NCR paid an above market price for it. Retalix may be impaired due to its associate with the Target data breach. NCR's hospitality segment (where Radiant is a big contributor) has shown significant margin pressure
Initiation of Dividend	Pay a regular or one-time special dividend to shareholders	Majority of NCR's cash is trapped abroad in foreign jurisdictions. NCR's credit facility places limitations on "Restricted Payments." NCR has limited flexibility to borrow to pay a dividend, which would not be financially prudent given its struggles	Initiation of regular dividend won't be viewed positively by rating agencies and most likely cause a downgrade. If NCR's financial deteriorate further, and the dividend is cut/reduced, substantial credibility will be lost
Repurchase of Stock	Authorize a share repurchase program to retire stock, provides an EPS boost	Majority of NCR's cash is trapped abroad in foreign jurisdictions. NCR's credit facility places limitation on "Restricted Payments." NCR has limited flexibility to borrow to buy stock	We believe NCR's share price is overvalued, and view a buyback as an irrational action. Won't be viewed positively by rating agencies and most likely cause a downgrade, increasing its cost of capital, and hampering future financial flexibility.

Exploring “Alternatives” For Months, With No Outcome, Old News Is No News on NCR

Source	Commentary
<p>Morgan Stanley Equity Report October 24, 2014</p>	<p>Will NCR pursue strategic alternatives? The Board continues to evaluate existing assets and potential for divesting non-core businesses outside of Financial Services, Retail, and Hospitality, as well as capital allocation and the potential for shareholder return. As it relates to potential for break-up, management is open to considering proposals from its shareholders. While cost dissynergies could arise upon company split, the largest complexity surrounds separation of the services component of the business</p>
<p>Bill Nuti, CEO on the Conf Call October 23, 2014 (here)</p>	<p>“Well, I would say the following. First of all, top of mind for me and our Board of Directors is improving how our performance, improving our ability to drive what we believe is an undervalued share price back to an appropriate value. And, in doing that, what we'd normally do in current course of speed and routinely is looking at strategic alternatives and how can we do that. And, of course, in the context of that, capital structure becomes a discussion and there are a variety of ways in which we believe we can return capital to shareholders. It is safe to say right now that, while we feel very comfortable with the assets we have, M&A is off the table. So we are looking at all of the appropriate things that you would think we would look that at to improve value, including where it makes sense, divestitures of non-core businesses, which I won't get into details on the call today”</p>
<p>NCR's 10-K Disclosure February 27, 2015 (here)</p>	<p>“Circumstances associated with divestitures could adversely affect our results of operations and financial condition. <u>We continue to evaluate the strategic fit of our businesses and products and may decide to sell a business or product based on such an evaluation. Despite a decision to divest a business or product, we may encounter difficulty in finding buyers or executing alternative exit strategies at acceptable prices and terms and in a timely manner. In addition, prospective buyers may have difficulty obtaining financing. Divestitures could involve additional risks”</u></p> <p>“The terms of the documents governing our indebtedness include financial and other covenants that <u>could restrict or limit</u> our financial and business operations. Our senior secured credit facility and the indentures for our senior unsecured notes include (among other things): <u>incur additional indebtedness, repurchase our common stock, pay dividends or make similar distributions on our capital stock</u></p>



*NCR's Transformation Strategy
Likely to Fail Miserably*

Warning: German ATM Competitor Wincor-Nixdorf Just Guided Down Big

Pre-Warning That Sales/EBITA Targets Won't Be Met

April 10, 2015

- Wincor Nixdorf AG will not meet its guidance for net sales and EBITA issued for the current 2014/2015 fiscal year. After six months of the current fiscal year, the company's net sales are 2% short of the comparative prior-year figure, while EBITA is down 31% on the figure for the same period a year ago (based on preliminary figures). The year-on-year decline is attributable primarily to a contraction by 12% in net sales from Hardware business. Growth generated by Software and IT Services was not sufficiently strong to offset the aforementioned decline
- A restructuring program is being initiated for the purpose of counteracting developments seen within the Hardware sector

Wincor Asks Banks to Seek Alternatives

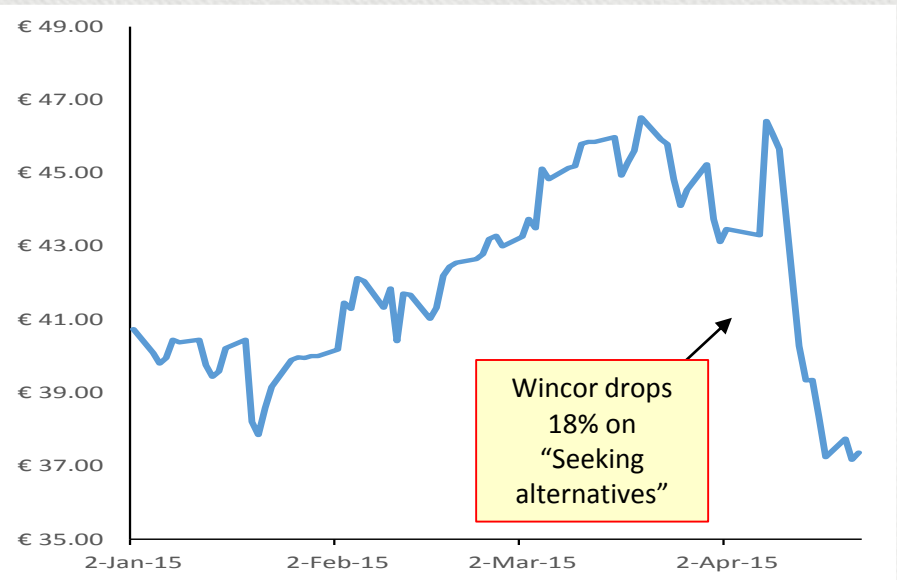
April 8, 2015

- German ATM maker Wincor Nixdorf has asked investment banks to come up with ideas to secure the future of the group, including a potential sale to a private equity group, two people familiar with the matter said
- The rise of online banking and e-commerce poses a structural challenge to Wincor**, which has been struggling with low capital expenditures of banks eager to keep costs in check while emerging from the financial crisis
- Wincor competes with the likes of U.S.-based NCR Corp or Japan's Oki Electric, although these groups may not be potential takeover targets, one of the sources said.**
- "If Wincor opts for an acquisition, I would suspect they would buy a company in emerging markets as that's where ATM numbers are still on the rise," one of the sources said

We view Wincor's recent struggles as a harbinger of NCR's continued challenges. Given NCR's limited financial flexibility, we view a combination between the two companies as unlikely. This sentiment appears to be shared by a market observer

Wincor trades at 6x 2015 EBITDA and 0.5x sales. Its closest competitor is NCR. Its market cap is approximately \$1.3 billion and has ~\$3.2bn of sales (~65% banking and 35% retail solutions). Wincor's shareholders have a much more realistic view than NCR's shareholders when it comes to the prospect for strategic alternatives

Wincor's Stock, a Harbinger for NCR

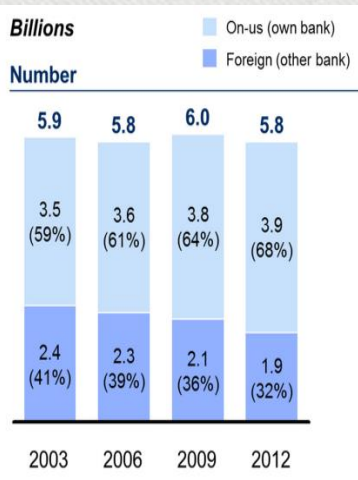


Warning: New Research Suggests That ATM Growth is Starting to Roll Over

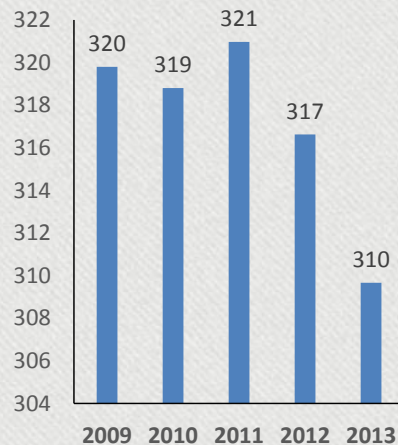
- **According to the 2013 Federal Reserve Payments Study:** U.S. ATM withdrawal transactions decreased at a 1.1% CAGR over the three-year period from 2009 to 2012. However, withdrawal volume in dollars increased at a modest 1.2% pace – far below economic output
- **Number of Noncash Payments in the U.S. Increased:** At a compound annual rate of 4.4% from 2009 - 2012. There were more than 250 million mobile payments made using a mobile wallet application, and at least 205 million person-to-person or money transfer payment
- **ATM Headwinds Are Global in Nature:** To illustrate, in the Euro area where the ECB tabulates payment statistics, it reported that ATM terminals actually declined 3.5% from 2011 – 2013. In Australia, the Payments Clearing Association reports ATM withdrawals declined 10.8% over the same 2011 – 2013 period
- **ATM Pressures Reflected in Industry Survey:** A recently released survey of U.S. ATM deployers revealed that that both Declining Transactions and ATM Saturation were the two biggest fears among industry participants

No Growth in ATM Transaction Volume in Over a Decade

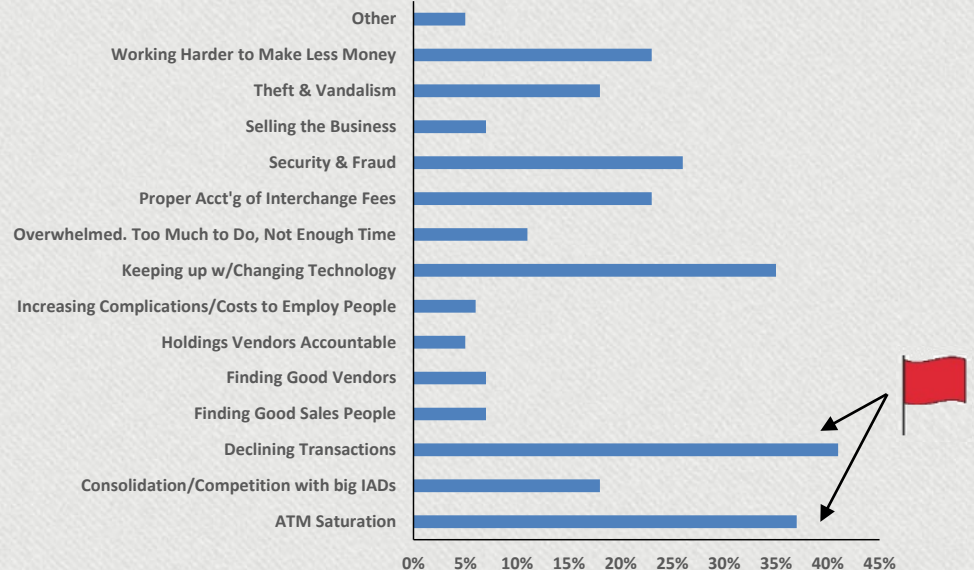
U.S. ATM Transaction Volume



Euro Area ATMs (thousands)



“ATM Saturation” and “Declining Transactions” Two Biggest Fears of ATM Deployers



Warning: NCR's "Branch Transformation" Growth Driver Rests on Faulty Assumptions

NCR's executives have been touting its Branch Transformation business as a growth engine for its Financial Services business (see quotes on the right). The premise behind the business has been that retail banks need to adapt to changing customer needs, improve the customer experience, reduce costs, and generate new revenue streams

What NCR fails to acknowledge is that retail bank branches are finally starting to decline with recent closures accelerating due to customer migration to mobile, ability to make deposits with smart phone cameras, and greater overall online usage adoption

- Bank branch closures in the U.S hit a net 1,462 in 2014, on par with 1,487 net branch closures in 2013 according to SNL Financial, the highest levels since the research firm began collecting the data in 2002
- Branch numbers have been on a steady decline since 2009, and reached a total of 96,339 at the middle of 2013, the lowest since 2006 according to data from the FDIC
- Cutting branch locations with real estate, labor and security costs has been a popular way for banks to boost profits amidst sluggish revenue and loan growth, higher compliance costs, and lower returns on capital
- Deposits from snapping pictures from smartphones and tablets is on the rise too
- Meanwhile some industry analysts predict that banks need to chop, not simply prune branches. In order to "rationalize" the banking business, the average U.S. midsized bank "could eliminate roughly one-third of its branch count," according to financial research firm Sanford C. Bernstein
- "Branch utilization is plummeting, and over the next decade, banks will have an opportunity to dramatically downsize their brick-and-mortar footprint," a senior Bernstein analyst said

Sources: NCR promotes Branch Transformation ([here](#))
 "U.S. Banks Prune More Branches," Wall St Journal, Jan 2014 ([here](#))
 "Banks Need to Chop, Not Prune, Branch Offices," July 2014 ([here](#))
 "Bank Branches Slowly Fading Away in Neighborhoods," Nov 2014 ([here](#))

"Branch transformation can ultimately be larger than the ATM business and we are extremely pleased with the results of current pilots underway"

Peter Leav (Q3'12 Conf Call) – **Peter Leav resigned Dec 2013**

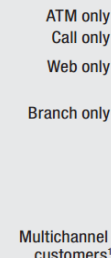
"We see branch transformation happening in a tremendous way"

John Bruno (Analyst Meeting, 2012) **John Bruno resigned Aug 2014**

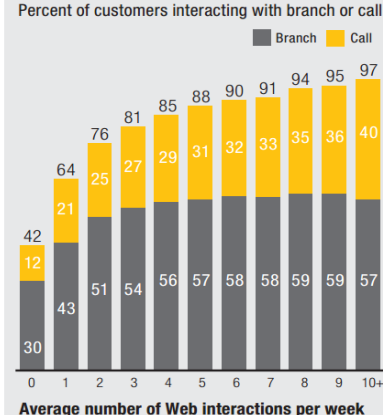
Warning: Andy Heyman, SVP of Financial Services, now leads Branch Transformation. He came to NCR through the Radiant acquisition, a business focused on Hospitality and not Financial Services

The Reality is that Customers Are Interacting Less Frequently with Branches Have Low ATM Interaction

Multichannel is the norm
Percent of customers



More digital means more human interactions (i.e., branch, calls), not less
Percent of customers interacting with branch or call



Higher value-added transactions require human interaction
Percent of digital users



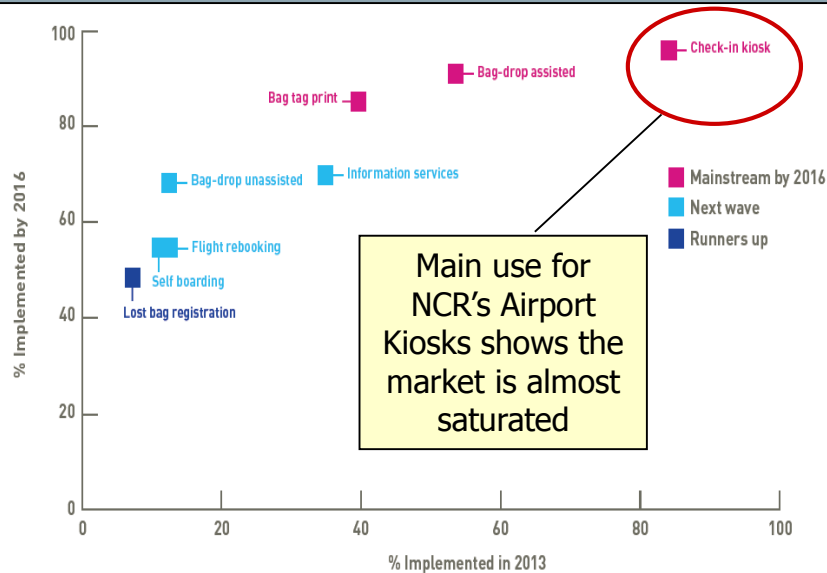
¹ Using at least two channels out of: branch, agent call, IUR contained, web, ATM, mobile banking
Source: ClickFox

Source: "The Future of U.S. Retail Banking Distribution," McKinsey, Aug 2014 ([here](#))

Warning: Growth of Airport Kiosks To Slow By 2016 As Market Reaches Saturation

- NCR has a big airport kiosk check-in business and claims it is the number one provider of self-check in kiosks in the world
- This business is part of NCR's Hospitality segment which makes up ~10% of revenue and operating income contribution
- SITA's 2013 Airport Information Technology Survey indicates check-in kiosks will have almost universally been adopted by airports:
 - By the end of 2016, 98% of airports surveyed will offer passengers the option
 - Check-in functionality is the main use for airport kiosks, although other usages are expected to grow for baggage
 - **Overall, we believe this research implies little room for incremental market share gains and growth in the near future**
- **Replacement cycles for these commoditized kiosks products can be 5 – 10 years according to estimates**
 - In this time frame, how many more cheaper solutions will hit the market?
 - There are already dozens of standard and customized solutions available from a global manufacturing and supplier base

Airport Adoption of Self-Service Functionality by 2016



Check-in Kiosks Are Already Commodities

iPad Kiosk!



Zivelo



Milan by Olea



Bruin Kiosk



Made in China?

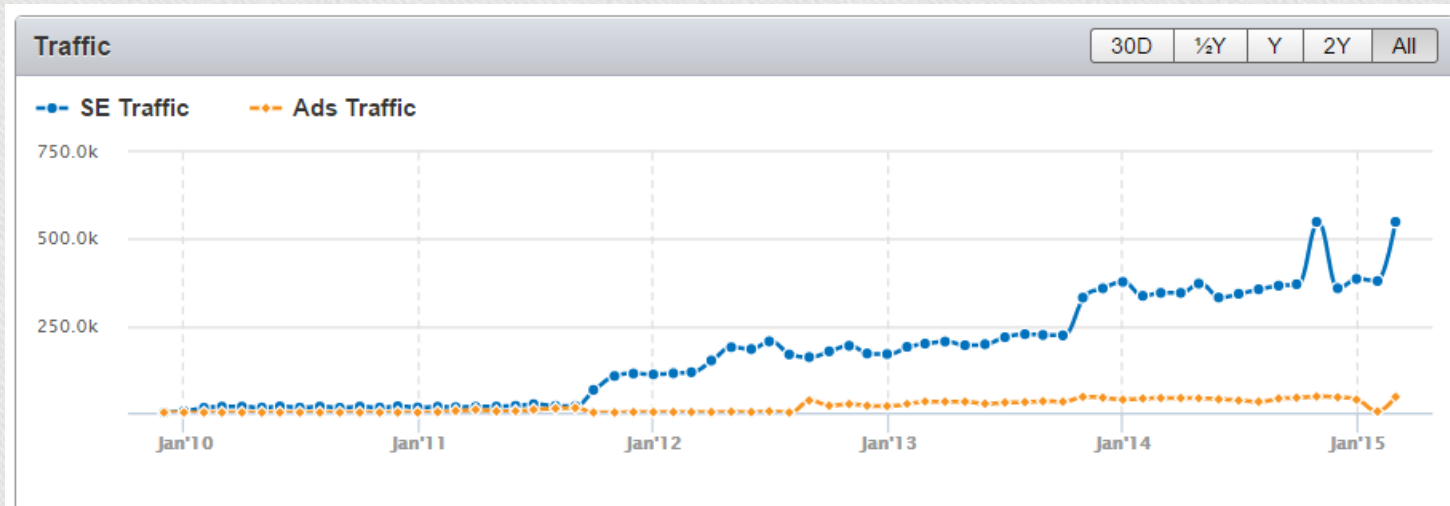


Warning: New Forms of Competition Rising; Cash + NCR Becoming Less Relevant

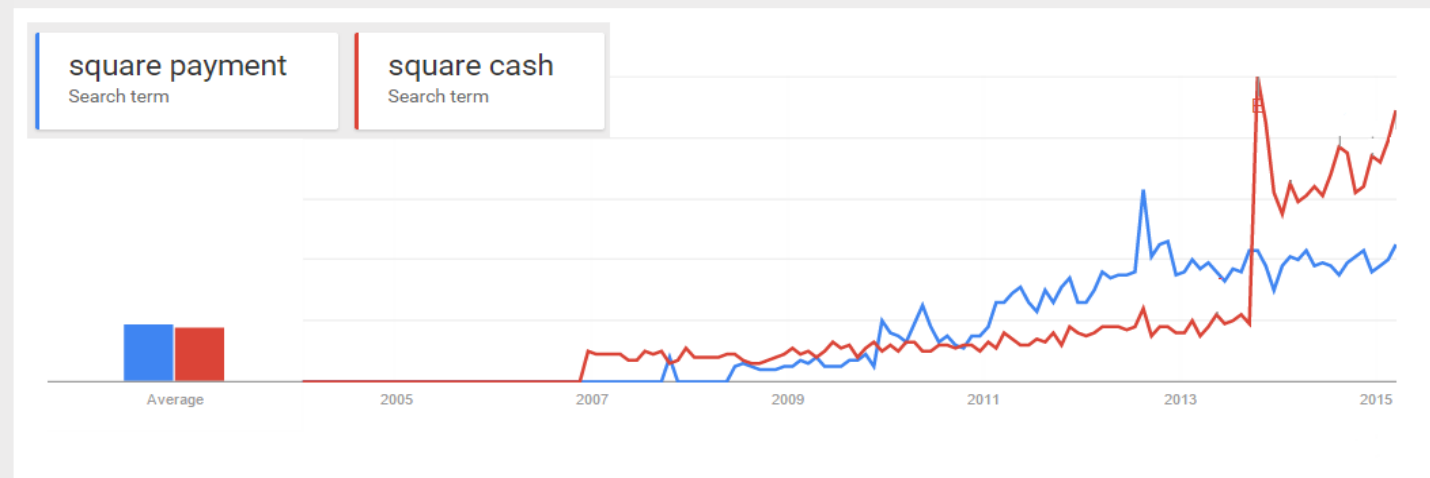
Company	Platform	End Market	Fees	Debit Card Payment	Credit Card Payment
Square Cash	Android, IOS	Peer-to-Peer & Business (Pro)	1.5% for cash received through Pro	Free	Free
Venmo (PayPal)	Android, IOS	Peer-to-Peer	Free to receive \$ through banks	3% through non-major debit cards	3% fee
LevelUp	Android, IOS, Windows Phone	mobile payments for restaurants	Free to consumer; flat rate charged to the merchant, can integrate with a POS	1.95%	1.95%
iZettle	Android, IOS	Small business; includes free card reader lite	Volume based fee structure	1.5% – 2.75%	1.5% – 2.75%
Tabbed Out	Android, IOS	Bar and restaurant; integrates with most POS systems	Free for consumers; \$99/mo for the merchant	--	--
Popmoney	Android, IOS	Peer-to-Peer from bank acct to email/mobile number	Send Request: \$0.95 Free to receive	\$0.95	--
Dwolla	Android, IOS	Peer-to-Peer, Business and Gov't	Just 25¢ per transaction or free for transactions \$10 or less	--	--
Ribbon	N/A	Peer-to-Peer & Business and Non-Profit	Free to receive \$; can send \$ to non-Ribbon accounts	Free to send	3% fee
PayPal	Android, IOS	Peer-to-Peer & Business	Lower fees when using PayPal Here POS card reader; Int'l fees are higher	2.9% (US) 2.7% (w/POS)	2.9% (US) 2.7% (w/POS)

Source: Company information

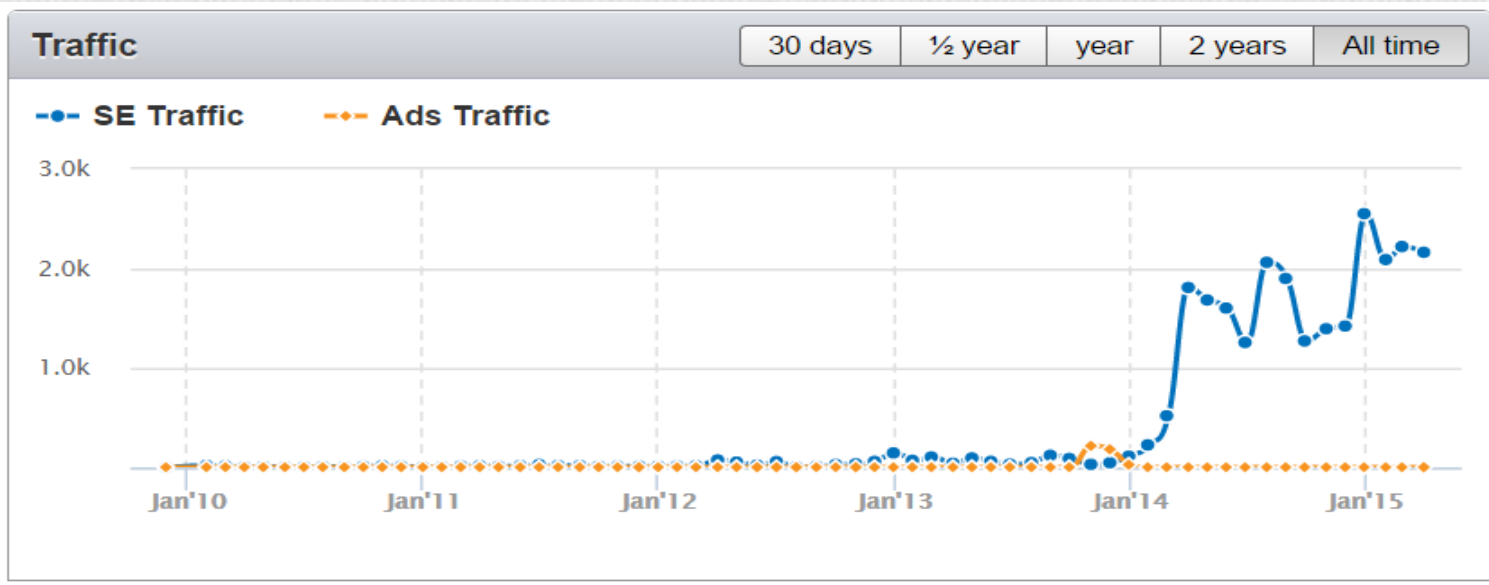
Square Is a Formidable New Competitor; Its Consumer Interest is Exploding



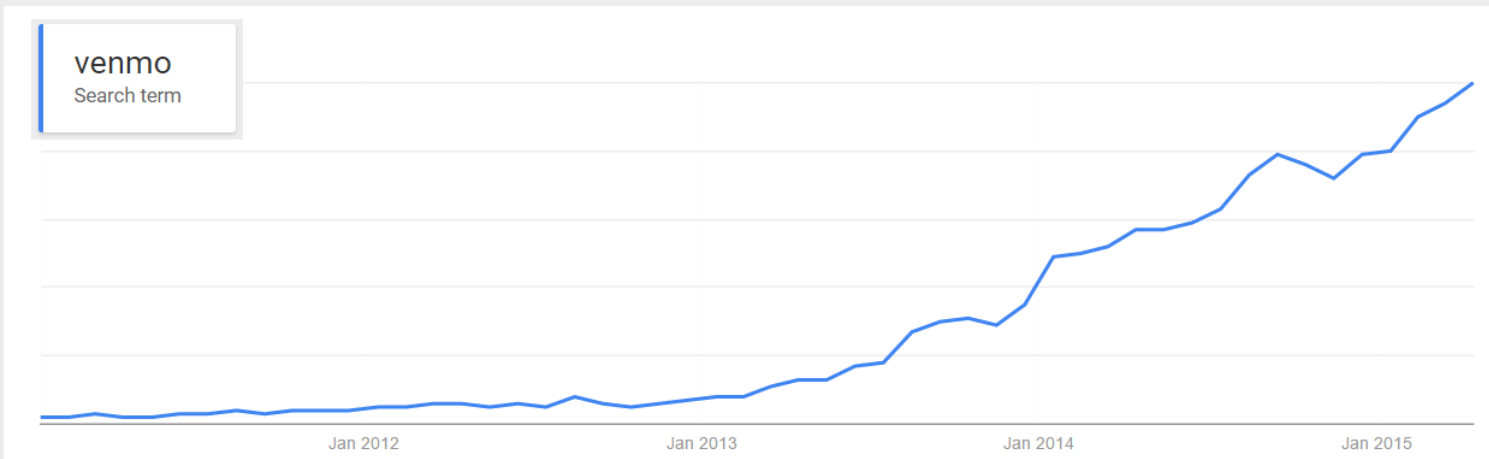
Interest over time ?



Venmo: Peer-to-Peer Payment App; Its Consumer Interest Is Exploding



Interest over time

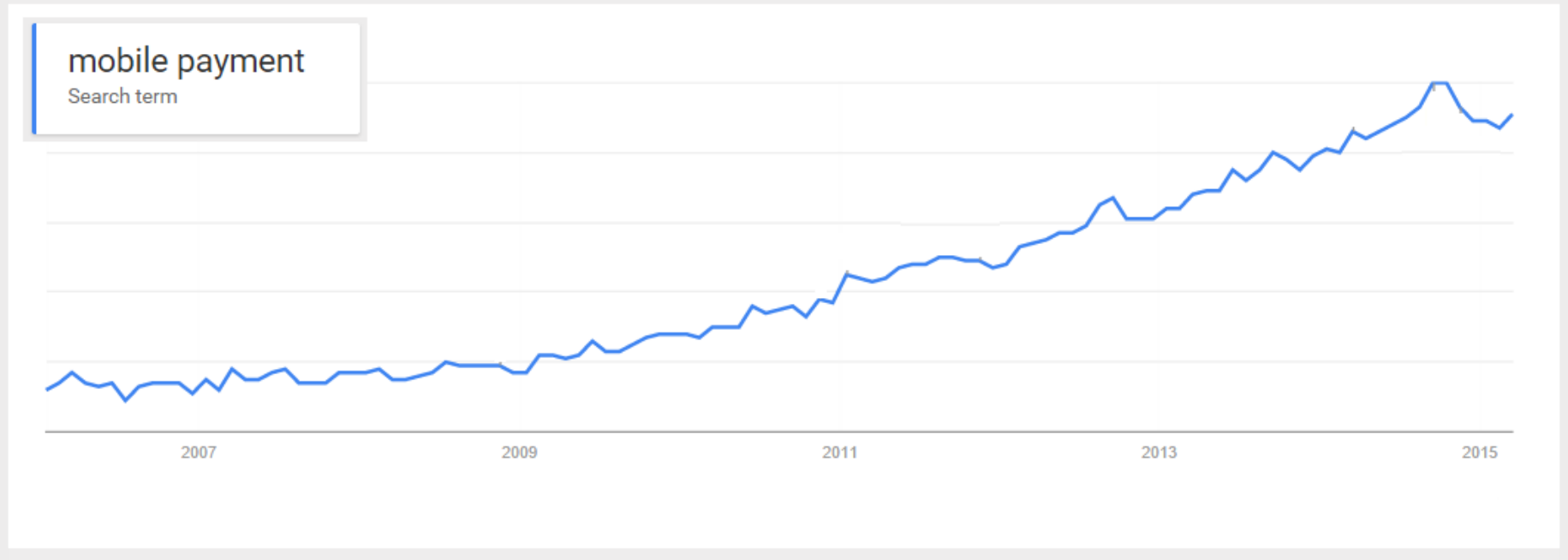


Mobile Giants Have Massive Competitive Moat That Will Continue Growing

	Apple Pay	Google Wallet	Samsung Pay
Launch Date	October 20, 2014	2011	Expected Launch Q3'2015
Devices in Circulation	>260m iPads/iPhones sold in last 4 Quarters	Est 1.1bn handsets running Android	307m smartphone sales in 2014
End Markets	Retailers and in-app purchases	Peer-to-Peer and Retail	South Korea and US expected
Geographic Availability	Mostly U.S.; Selected International Locations	U.S. only	South Korea and US expected
Platform	IOS	Android, IOS	Galaxy
Functionality	NFC, works only with new POS terminals	everywhere Debit MasterCard® is accepted (ATMs too), Gmail, NFC tap and pay	To work with old and new POS terminals; include biometric i.d.
Partners	Banks and card intermediaries	Citi, Mastercard and others	Banks and card intermediaries
Fees	Absorbed by consumers indirectly; Apple receives fees on back end	Free to send, receive, request \$	N/A
Debit Card Fees	--	2.9% to add money to Wallet	N/A
Credit Card Fees	--	2.9%	N/A

Search For “Mobile Payment”

Interest over time



Warning: Other Social and Mobile Payment Players Emerging

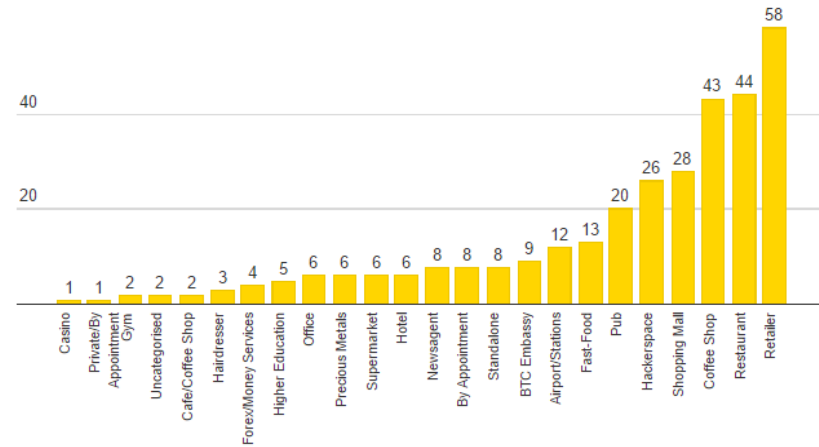
	Platform	End Market	Fees	What Sets It Apart
Zong (PayPal)	Facebook, Habbo, IMBU, Playdom and others	Social gaming and virtual world	Charged to mobile phone bills; merchant pays 5 – 10%	Operates in over 40 countries worldwide with 100% carrier coverage in most countries
Boku / Mopay	Supports any charge on any device— offline, online (Facebook, Badoo, RA, Spotify); mobile, desktop, console, or Smart TV	Virtual and physical merchants (gaming, dating, social networking and app stores)	Up to 9% for each purchase; charges appear on the mobile bill using just the mobile number	a one-click checkout process for in-app purchases. But the phone-on-file product can be used across platforms on any mobile device
Danal	BilltoMobile platform, data services utilize direct connections with Tier-1 Mobile Operators	Purchase of goods and services on PC, tablet, and mobile phones	N/A	securely authenticates mobile subscribers by generating an authentic mobile ID, platform that identifies, verifies and validates financial transactions in real-time

Warning: Digital Currencies Are Another Emerging Threat To Traditional Payments

- Love it or hate it, Bitcoin is a reality, and as another alternative form of payment, is taking share away from traditional forms of cash payments
- The first Bitcoin ATM was launched a few years ago in Vancouver and has quickly gone global. These ATMs allow users to both deposit cash to increase the Bitcoin account, and now allow for cash dispensing to reduce the balance
- NCR appears late to the game: Leaders in the ATM space include Lamassu ([here](#)), Skyhook ([here](#)), BitAcces ([here](#)) and Genesis Coin ([here](#))
- NCR's only response appears to be an announcement that its NCR Silver POS (a product with limited traction) will be adapted to accept Bitcoin ([here](#))

Bitcoin ATMs By Location

Data taken on 11th Dec 2014



Bitcoin ATMs



Bitcoin ATMs By Country



Warning: NCR Silver - Its "Cloud POS" Product Appears To Be A Bust

- On June 27, 2012 NCR launched Silver, its cloud-based point-of-sale (POS) software platform that enables small business owners and entrepreneurs to take payments and manage their entire business with one POS solution, changing the way small business owners manage their business. The original pricing was \$79/month
- There are multiple indicators that NCR Silver has failed to gain critical mass and may not be a material source of growth for NCR
 - Competition has intensified, forcing NCR to cut its pricing to \$39.99/month or 50% according to web-ads
 - NCR stopped disclosing its Silver customers on its quarterly conference call as of Q2 2014
 - Coincides with dramatic decline in search results for Silver according to Semrush, and;
 - Silver has failed to gain critical mass at the Apple App Store, and has not received a sufficient amount of customers reviews

Source: NCR Press Release ([here](#)); Silver website ([here](#))

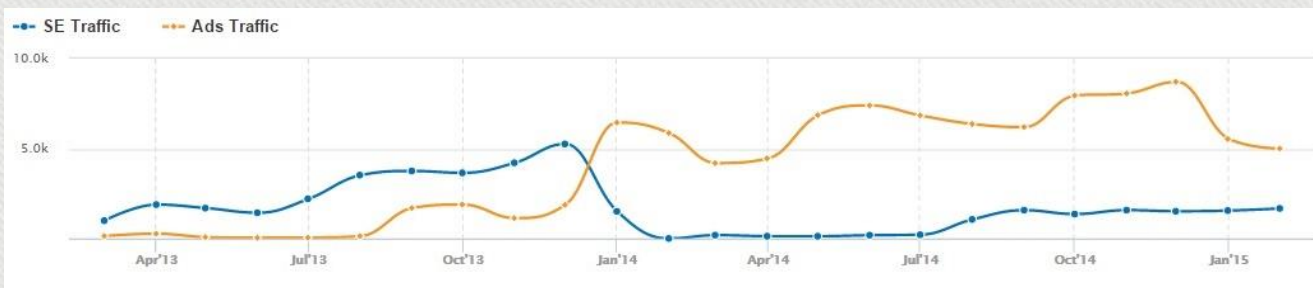
NCR on the Apple App Store



NCR Silver - \$39.99/month
 Ad www.possilver.com/ (877) 295-6789
 \$39.99 a month. **NCR Silver** Software Free Trial. Rentals Available

Source: Apple App Store ([here](#))

SemRush Data Shows NCR Silver is Being Heavily Promoted With Limited Success



Source: SemRush.com

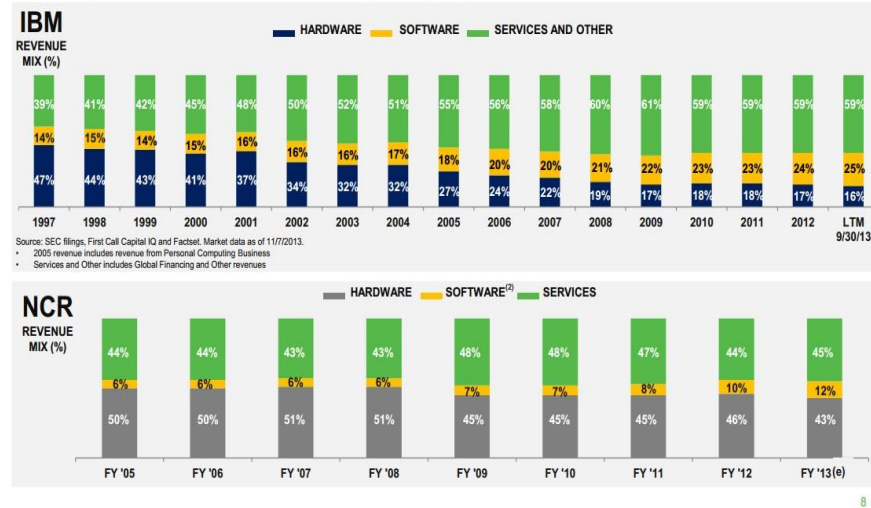
Case Study: IBM's Software Transformation Failure

- **In citing the feasibility of its strategic plan, NCR compared itself with IBM:** IBM's goal is to diversify away from hardware to more software and services. During its 2013 Analyst Day on November 11, 2013, NCR proclaimed its strategy drives a new business model with the goal of doubling software revenue in just eight years
- **We believe this slide highlights precisely why investors should discount NCR's goals:** Transformations among large global companies are incredibly hard to achieve, a lesson IBM shareholders learned in a painful way. In Oct 2014, IBM dropped a bomb on its shareholders that its long-term EPS goal of \$20/share could no longer be achieved
- **Perhaps the most disturbing news was IBM's services and software results:** Two areas highlighted as high-value strategic business to IBM reported the following: "Pre-tax income from Global Technology Services decreased 11 percent and pre-tax margin decreased to 17.7%. Global Business Services pre-tax income decreased 15 percent and pre-tax margin decreased to 17.5%"

NCR Compares its Transformation to IBM's

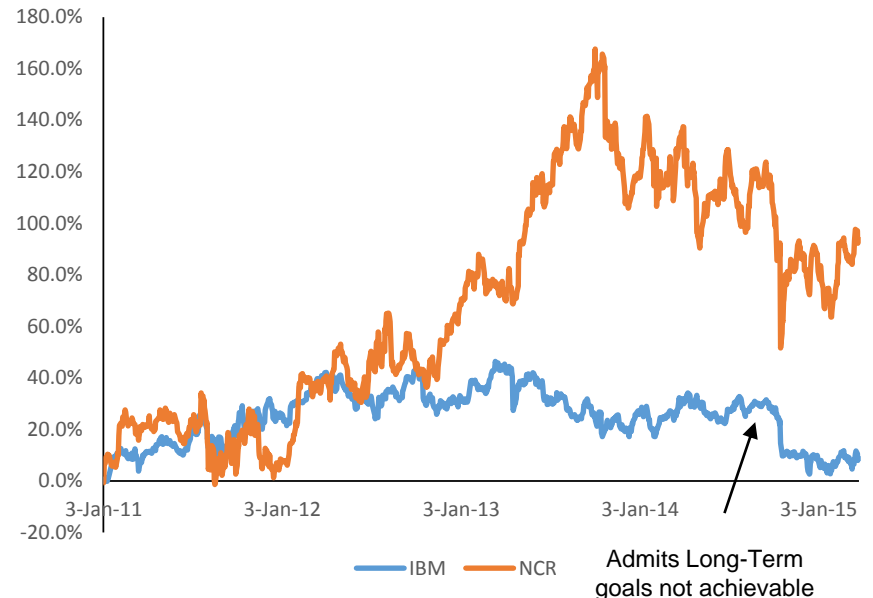
Our Strategy Drives a New Business Model

Doubling our software revenue in just eight years



Source: 2013 Analyst Day, Page 8 ([here](#))
IBM Q3'2014 Earnings Release ([here](#))

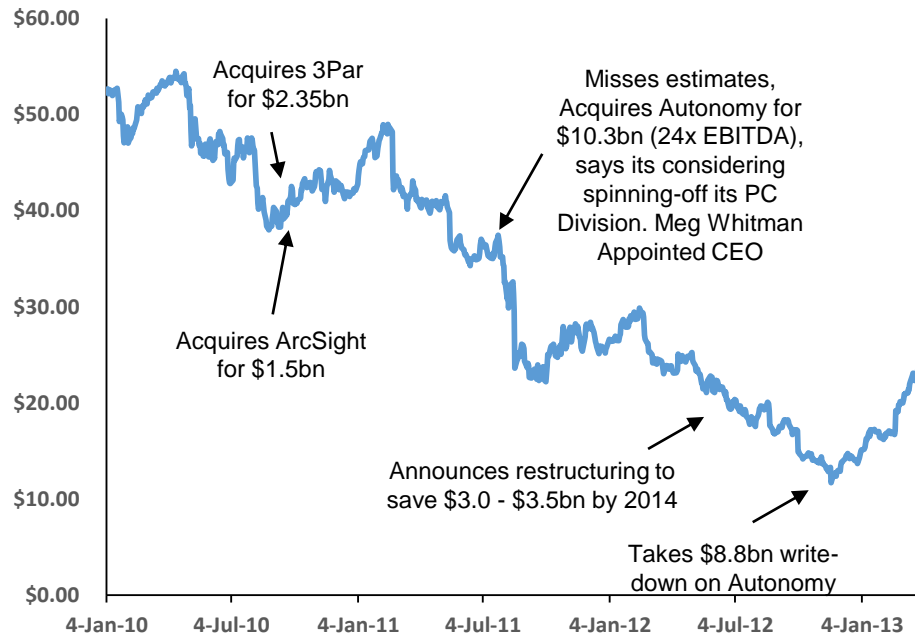
...Be Careful What You Wish For



Case Study: Hewlett Packard's Software Transformation Failure

- **Under Pressures Facing its Hardware Businesses:** HP tried selling the Street on its ability to transform itself into a higher margin, software driven enterprise in 2010 - 2011
- **HP Used M&A as its Tool to Implement Change:** The centerpiece of its M&A strategy was the acquisition of Autonomy in 2011 for \$10.3bn (25x LTM EBITDA) – a rich premium for a business that would allegedly be a massive fraud, and require an \$8.8bn write-down

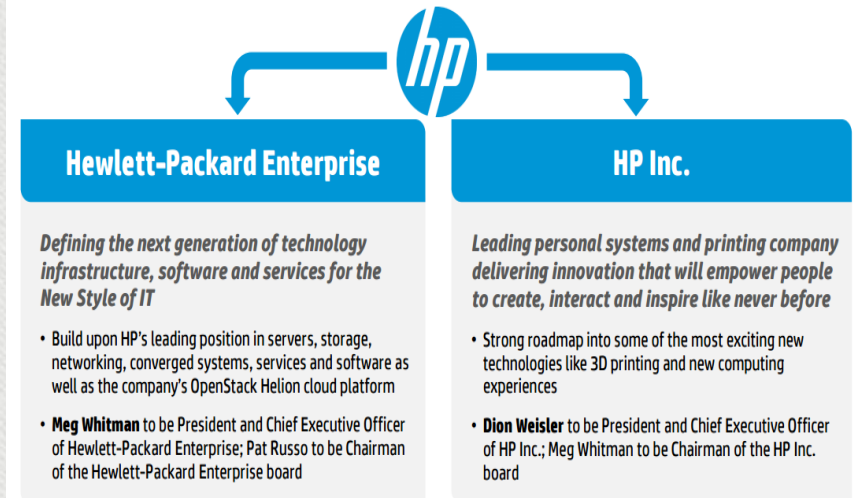
HP's Failed Software Transformation via M&A...



Source: HP news

.....Leads to Creative Destruction

HP to separate into two new industry-leading public companies



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*Symbol Technologies Fraud: A
History Lesson and Critical Case
Study For NCR Shareholders*

NCR's CEO Joined From Symbol Technologies, an Accounting Scandal

- Symbol Technologies was a former Wall St. tech darling that supplied mobile information systems using bar code scanners, and related technologies. Symbol was tainted by a massive accounting scandal that resulted in 11 former executives being charged by the SEC for numerous fraudulent accounting practices and other misconduct that had a cumulative net impact of over \$230 million on Symbol's reported revenue and over \$530 million on its pre-tax earnings from at least 1998 – 2003
- The conduct alleged that the executives disregarded GAAP accounting principles and financial reporting obligations:
 - a) Used a "Tango sheet" process through which baseless accounting entries were made to conform the raw quarterly results to management's projections;
 - b) Fabrication and misuse of restructuring and other non-recurring charges to artificially reduce operating expenses, create "cookie jar" reserves and further manage earnings;
 - c) Channel stuffing and other revenue recognition schemes, involving both product sales and customer services; and
 - d) Manipulation of inventory levels and accounts receivable data to conceal the adverse side effects of the revenue recognition schemes
- On July 16, 2002 during this tumultuous period, Symbol announced that Bill Nuti would join as President and COO after having spent 10 years at Cisco Systems. By Dec 2003, Nuti would be appointed CEO just as Symbol also would file its delayed 10-K that contained restatements, which contained reversal of cumulative net revenue of approximately \$234.2m and cumulative net earnings of \$324.7m
 - **Commenting on his appointment, Nuti said, "During the past year the Symbol team has made substantial progress in cultural and organizational development, our balance sheet and income statement have improved considerably, productivity is up, we've attracted great management talent from several top companies, and our business controls have been greatly strengthened. Now that we are nearing the end of our long investigation into accounting improprieties by the former management of Symbol, our associates will be happy to have this chapter of the Company's history behind us. We believe that Symbol is extremely well positioned to capitalize on our accomplishments of this past year, and our clear leadership in the enterprise mobility space. As we continue to stay focused on business plan execution, Symbol will establish itself as an important player in the future of the technology industry."**

Nuti's Track Record Suggests He's Born to Sell, Suited to Disappoint

- **It's important to understand Nuti's history with Symbol for insights into his management abilities.** This is especially true since he was brought into Symbol to fix an ailing company, and later to remake NCR
- **It's important to consider that Nuti's early background was not in operations, turnarounds, or finance, but rather sales.** His first job as a child was selling newspapers as a paper boy. His early professional career experience and rise through Cisco was also from a sales background, where during his first five years, he held mostly domestic US sales management positions, and prior to that held management and field sales positions at IBM, Network Equipment Technologies and Netrix
- A Forbes article during April 2004 about his opportunity at Symbol reflect Nuti's over-confidence and hubris as a salesman:
 - *"If we execute correctly, we could rival Cisco,"* Nuti says. *"That's not cockiness. That's confidence."*
 - *"I didn't come to Symbol just to fix it,"* he says solemnly. *"The opportunity here is massive."*
- Forbes reported further: "After his 2002 hire Nuti told institutional investors and analysts he could hit 15% operating margins by 2005, but he now backs away from that vow. With margins at 10%, he admits Symbol is unlikely to get to 15% by next year. In September the company surprised investors by announcing a \$218 million jury award against it in a business dispute with Delaware-based Smart Media in an Ohio state court. Yet Symbol had never mentioned the case in any of its prior disclosures. "It was judged not to be material," a Symbol spokesman says. The company is appealing the verdict"
- **This wouldn't be the only time Nuti apparently misled investors with overly optimistic promises.** He later turned to M&A with an expensive bet on the emerging RFID space. On July 27, 2004 Symbol acquired Matrics for \$230m in cash. Pete Abell, an RFID industry consultant with EPC Group in Boston, commented *"that deal has turned out to be nothing but a disaster,"* and Symbol inherited preexisting lawsuits with Intermec concerning RFID patents
- Furthermore, despite earlier promises that Symbol's *"business controls have been greatly strengthened"* and that the problems inherited by the former management team were a closed chapter, on Nov 8, 2004 Symbol dropped another bomb on investors when it delayed its filings and noted inventory errors and discrepancies impacting revenues
- Shortly after the fiasco on Dec 30, 2004, Nuti would go on to sell 400,000 shares and realize \$6.6m of proceeds – this would prove to be his only substantive stock sale, before things got really bad

Nuti's Tenure At Symbol Appears To Have Ended in Failure

- **As FY 2005 progressed, Symbol appeared to be on a better financial footing. On May 3, 2005 it released Q1 2005 results that reported revenues of \$457.5m and a profit of \$22.2m or \$0.09 per share. Additional highlights included**
 - *Eight sequential quarters of increased product bookings, reaching \$382.5 million and representing a 9 percent year-over-year increase over \$351.9 million in product bookings in 2004's first quarter.*
 - *Five sequential quarters of DSOs below 30 days.*
 - *First-quarter 2005 inventory turns of 5.8, the highest of any quarter of the last two years.*
 - *Cash flow from operations of \$72.7 million*
- **However, the guidance was cautionary:** Symbol said it expected Q2'2015 sales would be in a range of \$460 – \$470m, representing growth of 1 – 3% sequentially and 6 – 9% year-over-year. With regard to full-year revenue guidance, Symbol believed that revenue growth for FY 2005 would likely be at the lower end of its previously disclosed 10 – 15% range
- Two months later on June 28, 2005 Symbol would lower revenue guidance to ~\$440m and announce a restructuring including a pre-tax charge of \$75 - \$95m and the elimination of 700 positions.
 - *Commenting on the restructuring, Nuti said, “Now that we are in the next phase of Symbol's evolution, we must balance our spending on the activities needed to drive profitable growth, while maintaining strong financial controls and business processes.”.....“We remain confident in Symbol's future prospects and position as a leader in the enterprise mobility segment”*
- Just Two Weeks Later, on July 14, 2005 Symbol's would again lower its revenue guidance to \$425m - \$430m and its CFO Mark Greenquist would resign from the company, and be replaced by Sal Iannuzzi. Contradicting Nuti's earlier comments, Iannuzzi said, “Symbol has made major strides in improving our financial controls, but much work remains in areas such as forecasting.”
- With Symbol's shares near the bottom of a 52wk range, on August 1, 2005 Nuti would resign and be appointed as CEO of NCR as Mark Hurd's replacement (Note: Hurd would later become CEO of Hewlett Packard, but resigned following discovery of inappropriate conduct in an investigation into a claim of sexual harassment made by HP exhibition contractor and former reality TV actress)

Source:

Q1 2005 Symbol earnings ([here](#))

Symbol announces restructuring, slashes revenue guidance ([here](#))

CFO Greenquist resigns, guides revenue down further ([here](#))

Nuti resigns as CEO ([here](#)) and is appointed CEO of NCR ([here](#))

For more on Nuti's mixed Symbol results. "Symbol: Signs of a Job Half-Done" ([here](#))

Hurd resigns from HP ([here](#))

NCR's Former EVP John Bruno, Hailed as a Visionary By Nuti, Hiding His Past

- Nuti has found a loyal group of people to follow him in his career, first from Cisco to Symbol, and then to NCR. One such person is John Bruno, who Nuti has often showered with praise befitting a superstar, though the record may suggest otherwise
- 11/4/2002: Bruno is appointed Symbol's SVP of Business Development and Chief Information Officer, following Nuti's arrival in July 2002
- 5/6/2004: Bruno is promoted at Symbol to SVP, Corporate Development, Chief Information Officer **and** corporate marketing. The press release states that, "*Under Bruno's leadership, **Symbol established a solid technology platform by creating a fully integrated enterprise resource planning system***"
- 5/1/2005: Symbol promotes Bruno to General Manager of its RFID, "*John is an **industry visionary who possesses an unparalleled capability of seeing a business opportunity and transforming it into a reality -- such as he did with Symbol's acquisition of Matrics, then the leading electronic product code (EPC)-compliant RFID company.***" An industry analyst would later describe the Matrics deal as "*nothing but a disaster,*" and Symbol inherited preexisting lawsuits with Intermec concerning RFID patents
- 2/28/2006: Bruno apparently wasn't the visionary of RFID that Nuti touted him to be; Bruno resigned from Symbol 10 months later
- 10/1/2008: NCR announced Bruno as its EVP, Industry Solutions. In its press release, NCR stated that, "*At Symbol, Bruno was senior vice president of Corporate Strategy, Marketing and Business Development, as well as general manager of the emerging markets RFID Division*"
 - **NCR failed to mention that Bruno was also Symbol's Chief Information Officer**, a critical role in Symbol's organization that failed to deliver accurate estimates for financial planning purposes
 - According to Bruno's public LinkedIn profile, he too would like everyone to forget his roles at Symbol; he conspicuously omits it!
 - Bruno's latest employer Aon also failed to include his tenure at Symbol



John G. Bruno

Executive Vice President; Enterprise Innovation & CIO at Aon
New York, New York | Insurance

Current	Aon
Previous	NCR Corporation, Goldman Sachs, Merrill Lynch
Education	Saint Peter's University



Bruno omits his 4yr career history at Symbol on his profile

500+
connections

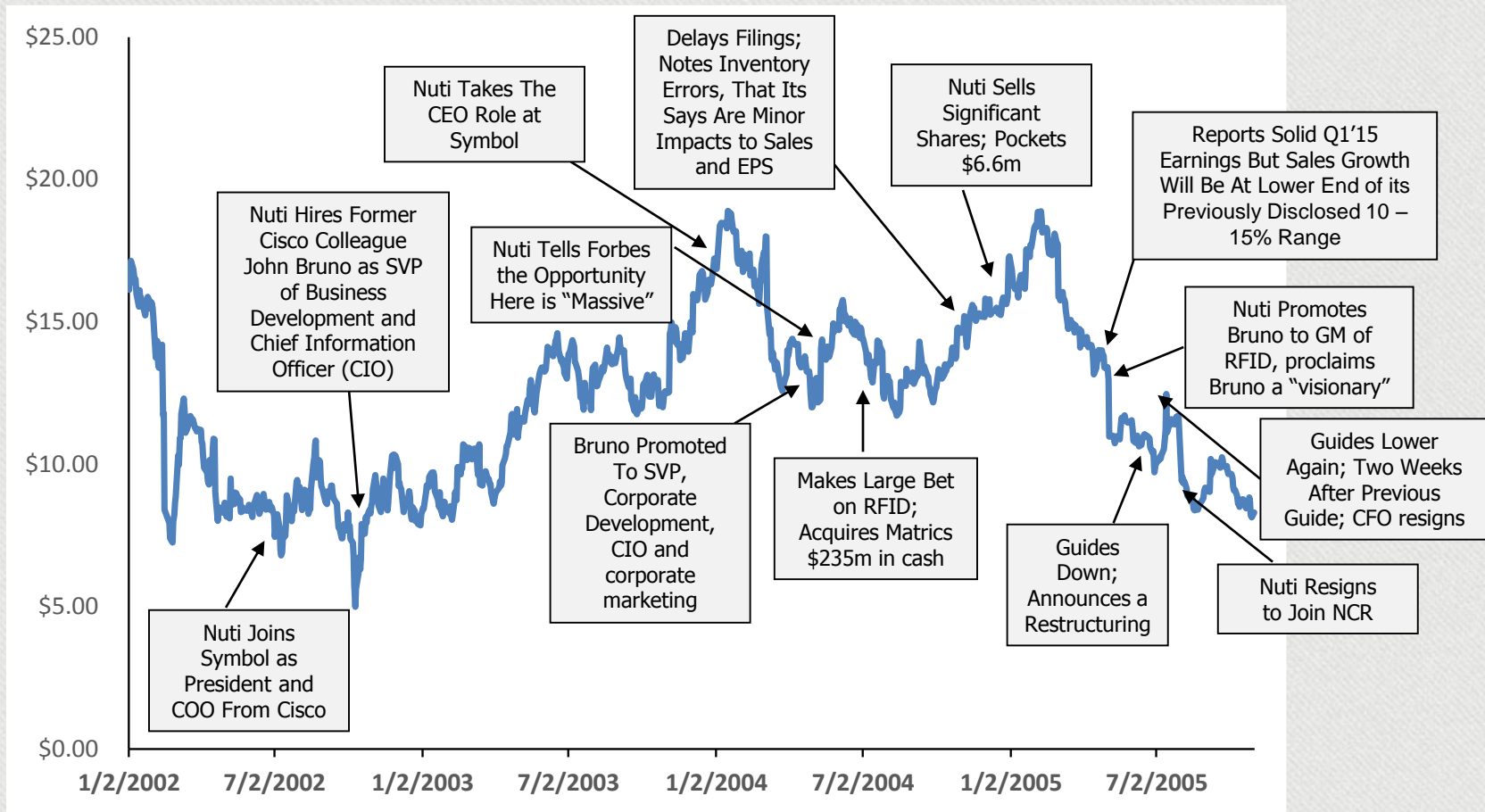
Source:

- Bruno Joins Aon ([here](#))
- Bruno's Public LinkedIn Page ([here](#))
- Bruno joins Symbol ([here](#))
- Bruno promoted to SVP at Symbol ([here](#))
- Bruno promoted to General Manager, RFID at Symbol ([here](#))
- Bruno resigns from Symbol ([here](#))
- NCR appoints Bruno EVP, Industry Solutions ([here](#))

Warning: CEO Nuti's NCR Tenure Looking More Like Symbol Days

	Symbol Technologies	NCR Corp
Acquisition Strategy	7/24/2004: Nuti's largest acquisition was Matrics for \$230m in cash; dilutive to earnings w/substantial goodwill (\$195m), a bet on RFID growth driver as an apparent attempt to cover slowing growth elsewhere. The deal would later called a disaster by an analyst	Recent acquisitions since 2011 include Radiant, Retalix and Digital Insight have bloated NCR's balance sheet with goodwill and leverage. Paid substantial \$600m premium for Digital Insight 5 months after Thoma Bravo acquired it from Intuit. Various indicators suggest these acquisitions are hampering growth and have been poorly executed
Aggressive Accounting	Though Nuti was not directly charged, while at Symbol " <i>This was a veritable playbook of corporate fraud,</i> " the prosecutor, Roslynn R. Mauskopf, said of Symbol. " <i>They cooked the books every which way they could.</i> " - channel stuffing, candy deals, tango sheets and cookie jar reserves to manage earnings, manipulation of inventory levels and acct's receivable data to conceal effects of bad revenue recognition	Indicators of aggressive acct'g show strains in NCR's financials include: Days Sales Outstanding rising rapidly, Acct's Receivable growing much faster than sales, changes to pension accounting, widening rift between GAAP/Non-GAAP results, reversals of tax valuation allowances, crediting one-time gains towards reductions in operating expenses, obfuscating dependence on short-term financing with trade A/R facility
Brazil Dealings	March 2002, sold 49% ownership in Symbol Brazil; later in Dec 2003 admitted an accounting error where certain expenses should have been charged to earnings. Federal indictment cited channel stuffing linked to a "South American" distributor and also referenced Brazil	July 2011, sold 49% of NCR Brazil to Scopus (owned by Banco Bradesco). In mid 2014, Bradesco sold Scopus; NCR has not disclosed what liability it has for the repurchase of Scopus' stake, but instead has said a 'tax dispute' may result in a range of losses between 0 - \$66m. In 2011, made adjustments to SG&A to correct Brazil tax accounts
Overly Optimistic Guidance	After his hire in 2012, Nuti guided investors to 15% operating margins (not achieved), a " <i>massive opportunity,</i> " and the chance to rival Cisco 6/28/2005: Slashed previous guidance issued in May 2015 from the range of \$460 - \$470m, to ~\$440m 7/14/2005: Two weeks after the previous guide down, Symbol again slashed revenue to a new range of \$425 - \$430m; CFO resigns	<u>11/11/2013</u> : Sets long-term FY16 sales goal of \$7.3 - \$7.7bn, Gross margin to grow over 31% (Note: Nuti would later say gross margins could go to 35%), NPOI (% of sales) to 17% vs. 11.7% in FY13 and 37% of sales to be recurring <u>Q1'14</u> : Lowers revenue growth range by 2%, maintains NPOI and EPS guidance <u>10/20/14</u> : Pre-announces Q3 results; blames worsening retail env't (spending shift and consolidation), FX, and macro headwinds. Full sales lowered from \$6.75 - \$6.85bn to \$6.575 - \$6.625bn, full yr NPOI from to \$900 - \$920m to \$810 - \$840m and Non-GAAP EPS \$3.00 - \$3.10 to \$2.60-\$2.70/sh
Restructuring	6/28/05: Announced a restructuring plan to reduce costs and drive profits, due to "economic sluggishness particularly in the global retail market." Expects to take a total pre-tax, charge of \$75 - \$95m associated w/cost saving initiatives, of which 2/3rds will be cash charges and the remaining 1/3 rd will be non-cash charges. Expects to record roughly half of the total pre-tax charges in the Q2'2005, with the rest in the next two quarters	7/29/14: Announced a restructuring "to strategically reallocate our resources to our highest growth, highest margin opportunities." Expects to incur a pre-tax charge in the range of ~\$150 - \$200m that will be included in income from operations, with ~\$150m recorded in 2014 and the remainder in 2015. The estimate includes both severance and asset related charges. The cash impact of the restructuring is expected to be ~\$50m in 2014 and \$50m in 2015. Annualized savings are expected to reach ~\$90m by 2016.
Key Mgmt Hires	Various Hires from Nuti's previous employer Cisco include: John Bruno, Peter Leav, Andrea Ledford, Michael Bayer	Nuti followers from Symbol: John Bruno (fmr CIO). Peter Leav (fmr Director of Sales), Richard Bravman (fmr CEO), Adam Mallah (fmr Financial, Planning and Analysis), Andrea Ledford (fmr HR Director), Michael Bayer (fmr VP), John Gregg (CEO NCR Brazil)
Nuti Stock Liquidations	12/30/05: Nuti sold 400,000 shares for \$6.6m his only substantive sale before a large guidance miss	Starts selling shares in Dec 2012 after acquiring Retalix and claiming " <i>Retalix is a strong, strategic fit for NCR and the combination of our two companies will drive significant value for both our shareholders and customers.</i> " Retalix would later prove a disaster

Symbol Technologies Share Price



Source: Bloomberg, Public information

“Ranked #7 of Nine CEOs With The Worst Reputation”

April 7, 2014

7. Bill Nuti



Georgia Gov. Sonny Perdue (R) speaks as Bill Nuti looks on (AP Photo/John Bazemore)

- > **Company:** NCR
- > **CEO rating:** 39%
- > **Company rating:** 2.5
- > **Years as CEO:** 9
- > **No. of employees:** 29,300

NCR Corp. ([NCR](#)), based in Duluth, Ga., produces ATM machine technology, bar code scanners and other devices used in the sales process. While the company’s revenues grew to \$6.2 billion in 2013 from \$6.0 billion in 2012, employees showed a strong dislike of their CEO, Bill Nuti. One of the most common

complaints among current and former employees on Glassdoor is that under Nuti, people can be called to work on a moment’s notice at any time during the week. They also criticized upper management for maintaining a structure in which decisions are based on cronyism, rather than what’s good for the company. One current employee, while commenting on Glassdoor, wrote to upper management, “We carry your water every day, and you disrespect us every day, we’re just your minions. You put out surveys, obviously you pay no attention to them or things would begin changing.”



NCR's Wasteful Acquisition Spree

NCR's Has Gone On An Expensive Acquisition Spree to Transform Itself

\$ millions

Target	Date Deal Closed	Industry Segment	Deal Rationale	Enterprise Value	LTM Sales and EBITDA	Trailing Acquisition Multiples			Financing
						Sales / EBITDA / P/E			
Digital Insight	1/10/14	Financial	Complete enterprise software across physical and digital channels. Adds recurring revenue and synergies	\$1,660	\$327 / \$105	5.0x	16x	--	\$400m 5.875% Snr Notes and \$700m 6.375% Snr Notes
Alaric Systems	1/10/14	Financial	Adds payment switching and fraud detection software for ATM and POS	\$84	\$14 / \$2.6	6.1x	32x	--	Part of Digital Insight Funding
Retalix	2/6/13	Retail	Revenue and cost synergy opportunities	\$791	\$267 / \$28.7	3.0x	27x	37x	\$500m 4.625% Snr Notes
Radiant Systems	8/23/11	Hospitality	Adds industry vertical; improve growth and margins. Adds software services, increases TAM	\$1,206	\$385 / \$66	3.1x	18x	24x	\$700m Term Loan and \$700m Revolver
Average Multiple Paid:						4.0x	23x	31x	

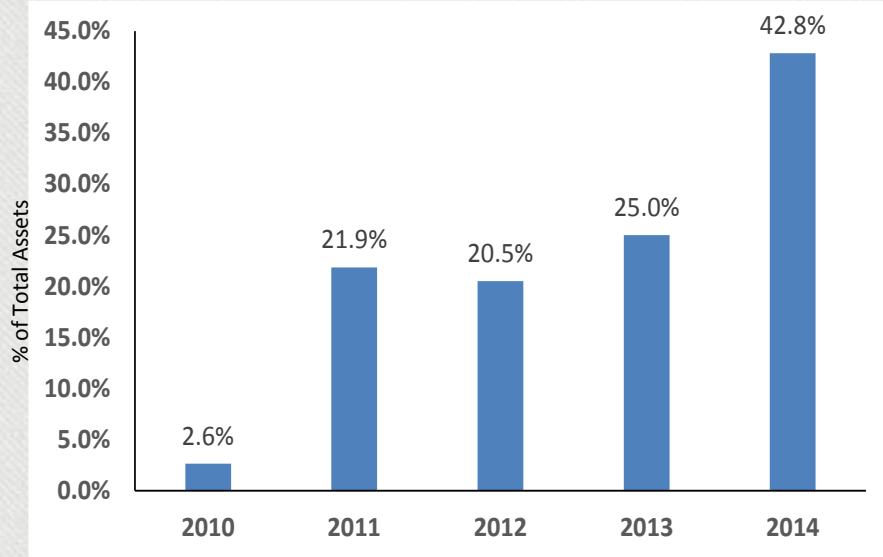
Source: NCR public SEC filings

Warning: Leverage + Goodwill Rising Fast

NCR is Much More Levered Than it Appears; Its Bankers Have Given It Dangerously Liberal Credit Terms

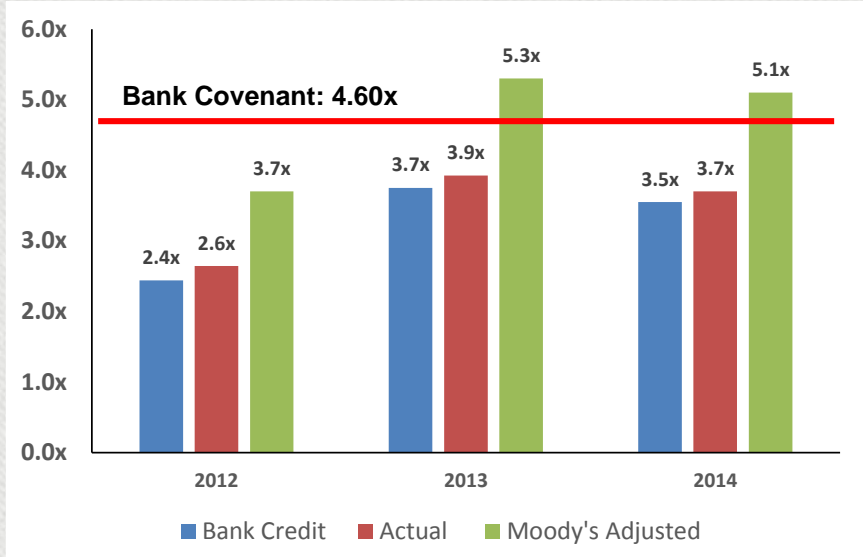
- According to NCR's credit agreement filings, its bankers have given it generous terms by not adjusting its debt for unfunded pension liabilities, allowing it to net its debt against a \$150m of its cash, yet allowing it to adjust for recent mark-to-market changes
- This appears problematic given that NCR's states that \$458m (approx. 90%) of its cash is held at foreign subsidiaries, and subject to additional U.S. and foreign tax withholdings, which could be significant. Also how can its bankers allow for pension adjustments to EBITDA without acknowledging its unfunded pension debt?
- Moody's, a leading credit agency, calculates that NCR's actual leverage is closer to 5.3x at 9/30/14 and accurately adjusts the leverage for the unfunded pension obligations and NCR's other contractually committed obligations

Goodwill and Intangibles Exploding!



Source: NCR filings and Credit Agreement ([here](#))

Debt / EBITDA Leverage



Note: Bank Credit gives NCR a debt reduction for \$150m in cash

Warning: No Margin For Error, or a Ratings Downgrades Could Occur

As a junk credit, NCR has limited financial flexibility and the rating agencies would take a harsh view of a dividend initiation or a share repurchase. Their expectation is that NCR will apply excess operating cash to delever the balance sheet. Moody's, which accurately reflects for pensions, capital leases and other obligations sees NCR's Debt / EBITDA in excess of 5x while S&P sees it closer to 4x. However, Moody's has a negative outlook, which means it is at higher risk of downgrading NCR. This would increase its cost of capital and likelihood of default

Moody's Ba2 / Negative Outlook

"The negative outlook reflects our concerns about NCR's increased debt to fund acquisitions and to manage its pension liabilities, and the company's ability to rapidly delever to levels commensurate with the Ba2 rating. In addition to increased financial risk, the company is continuing to integrate companies it bought over the past two years. Part of the integration challenge is to attain revenue gains to generate the incremental profits and cash flow, rather than the more directly controllable cost reductions"

S&P BB+ / Stable

"We view NCR's financial risk profile as "significant, reflecting its increased leverage following the series of debt-financed acquisitions. Following the Digital Insights merger, leverage rose to 4.6x as of March 31, 2014 from the year-end 2013 level of 4.1x"

Source: S&P and Moody's

Globes Israel Reports on Retalix....

Retalix CEO Shuky Sheffer steps down

October 1, 2013

Sheffer will be succeeded by Eli Rosner, who has worked for NCR for several years. NCR Corporation (NYSE: NCR) completed its acquisition of retail software solutions developer Retalix for \$800 million seven months ago. Sources inform "Globes" that Retalix CEO Shuki Shefer and CFO Sarit Sagiv left the company on Sunday. Sheffer will be succeeded by Eli Rosner, who has worked for NCR for several years.

NCR unit Retalix firing 100-150 in Ra'anana

July 23, 2014

The layoffs are reportedly due to the cancellation of the deal with Target. Retail software service provider Retalix Ltd. has begun mass layoffs with 100-150 employees expected to be fired at its Ra'anana office. NCR unit Retalix employs 1,000 workers. The layoffs are probably due to the cancellation of the Retalix deal with US retailer Target, which was not satisfied with the company's product, which it had installed in its Canadian office.

....And the Disaster Continues

Feb 26, 2015



"It was pretty bad as Retalix and became worse as NCR "

★☆☆☆☆ Former Employee - Engineering Manager in Raanana (Israel)

I worked at Retalix full-time (more than a year)

Pros A lot of fine, dedicated people trying to do their best in an extremely unprofessional and unpleasant environment

Cons Retalix was an extremely unprofessional organization with a Byzantine management culture. Amazingly, NCR made it even worse. The person NCR brought in to lead the transition was clearly out of his depth. The result was a fiasco for both NCR and the employees of Retalix

Advice to Management Join the 21st century. Avoid obsessive organizational changes. Get the right people on the bus.

■ Doesn't Recommend ■ Negative Outlook ■ Disapproves of CEO

Feb 6, 2015



"Was so good, till NCR ruined the place. I am giving 4 stars for the place it was and 2 for the place it became. "

★★★★☆ Former Employee - Software Engineer in Ra'anana (Israel)

I worked at Retalix full-time (more than 5 years)

Pros Very interesting business.
Many opportunities for advancement
Amazing people to work with (friendly and professional).
Many technologies to learn.

Cons Salaries are average.
Old technologies.
NCR ruined the place, not the place it was, people are depressed and seems like the place going to nowhere.

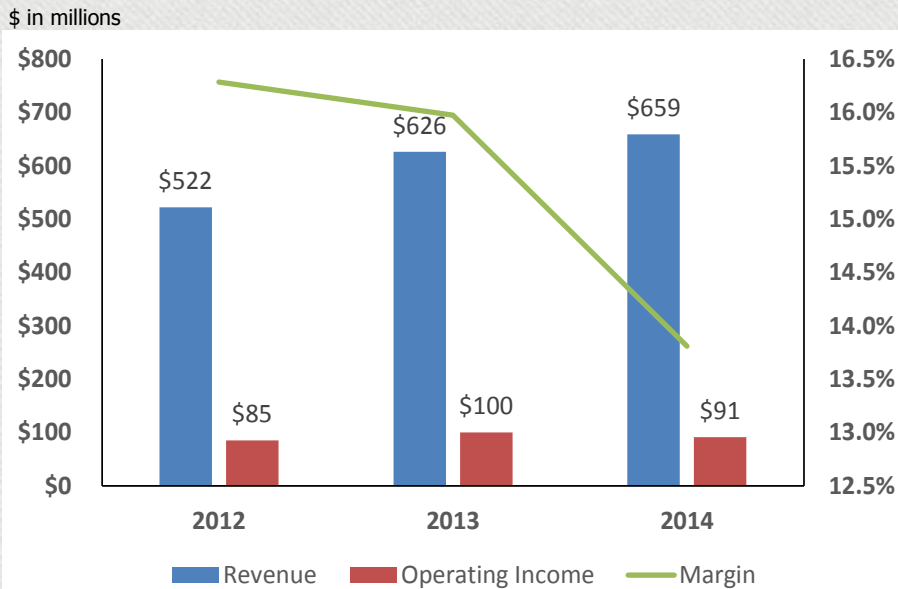
Advice to Management Take more care of your workers!

■ Doesn't Recommend ■ Negative Outlook ■ Disapproves of CEO

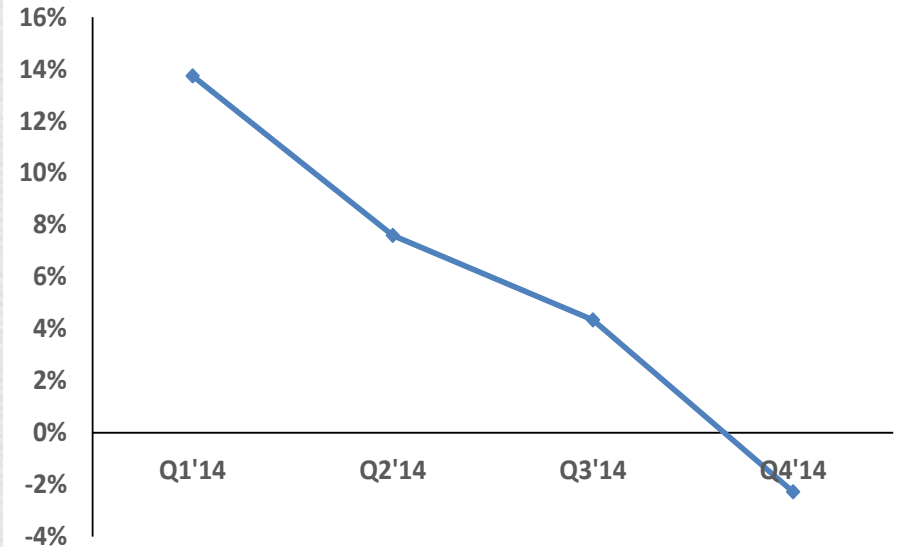
Warning: Radiant's Growth Appears To Have Hit a Wall; NCR is Spinning Excuses

- NCR acquired Radiant Systems in 2011, which established its new Hospitality operating segment. Currently, we estimate 75% of this segment continues to reflect the performance of Radiant ⁽¹⁾
- Now three years post-acquisition, Hospitality's revenues grew just 6% on a constant-currency basis, a significant deceleration from 18% in 2013. To make matters worse, Hospitality's margin plummeted 220bps to 13.8% from 16% (bottom left chart)
- On the Q2'14 conference call, CEO Nuti explained that NCR is investing in expenses at "2x the rate of revenue growth" – not exactly a comforting fact when year-over-year revenue growth went negative by Q4 (bottom right chart)
- By Q4'14, NCR blamed the Hospitality's weakness on "*Certain global quick-service restaurants,*" yet trumpeted that total company cloud growth was being fueled by Hospitality.

Hospitality Segment Margins Plummeted in 2014



YoY Hospitality Revenue Growth Plunging



1) Post reallocation of legacy NCR accounts in early 2012. Based on last disclosed sales contribution of Radiant to total Hospitality segment sales

Sources: NCR Financials, Q2'2014 Conf Call ([here](#)) and Q4'2014 Conf Call ([here](#))

Warning: NCR Stands Little Chance Against Oracle + MICROS in the Hospitality Space

- In June 2014, Oracle announced it would acquire MICROS Systems (Nasdaq: MCRS), an integrated software and hardware solutions provider in the hospitality and retail industries for \$68.00/share in cash, valuing MICROS at \$4.6 billion, net of cash. MICROS reported \$1.4 billion of sales and \$182 million of net income for the fiscal year ended June 2014
- The combination is expected to allow MICROS clients to access the strength of Oracle's business applications, technologies and cloud portfolio to respond to rapidly evolving customer expectations, increase sales, and drive operational improvements with complete open and integrated
- **The Oracle / MICROS Deal is a Negative for NCR's Radiant:** Simply put, Oracle provides MICROS additional technological, managerial and operational scale to pose a greater competitive threat to NCR's Radiant. Oracle has a surplus of \$11.5 billion of cash on its balance sheet and generates \$15 billion of operating cash flow a year (On a standalone basis, MICROS had \$0.6bn of cash and \$195m of operating cash flow). NCR is now in a David v. Goliath scenario with a competitor that can subsidize lower pricing to acquire NCR's market share. We suspect Radiant is already being impacted, and note that Kim Eaton, NCR's SVP and General Manager of Hospitality resigned. Radiant's former CEO, Andy Heyman, was reassigned to head up Financial Services

MICROS is a Technology Provider in Hospitality and Retail

Delivering Innovative Solutions to Modernize Businesses

- Provides industry-specific solutions in Hotel, Food & Beverage and Retail segments
- Integrated software, hardware and services solutions
 - Cloud, on-premise and hybrid deployments
 - Available across the world
 - Strong momentum in cloud solutions
 - New mobile and tablet solutions gaining significant traction

Food & Beverage	Hotel	Retail
<ul style="list-style-type: none"> • 200k+ sites • Table Service • Quick Service • Stadiums/Arenas • Theme Parks • Cruise Ships/Airports 	<ul style="list-style-type: none"> • 30k + sites • Chains 20k + sites • Luxury Resorts • Limited Service • Casinos • Cruise Ships 	<ul style="list-style-type: none"> • 100k+ sites • Specialty Retail • Hard Goods • Grocery • Petro/Convenience • Omni-Channel

MICROS Deployed at Over 330,000 Sites Across 180 Countries



* Customer Information and Logos Provided by MICROS

Warning: Digital Insight Appears To Be The Final Death Blow To NCR'

Beware of Corporate Asset Shuffling: Digital Insight Has Had 3 Owners in Just 2 Years and It Now Has No Growth

Accounting Warning: NCR's Reported Operating Profit For Digital Insight Looks Nothing Like its Previous Form

Digital Insight was a public company and acquired by Intuit in November 2006 for \$1.35bn for 5.6x Revenues (when it was growing double digits)

Intuit Sells Digital Insight to Thoma Bravo in July 2013 for \$1.02bn or 3x Revenues (mid single digit growth)

NCR Acquires Digital Insight from Thoma Bravo in Dec 2013 for \$1.65 bn (Just 5 Months After Thoma Bravo Acquired It) for 5x Revenues and Now it Has No Growth

\$ in millions

Target	Digital Insight – Standalone		
	2004	2005	LTM 9/30/06
Sales	\$189	\$214	\$238
% growth	22%	13%	15%
Gross Profit	\$105	\$124	\$137
% margin	55%	58%	58%
GAAP EBIT	\$28	\$40	\$10m
% margin	14.9%	18.8%	4%
Adj EBIT	\$37	\$49	\$57
% margin	19.6%	22.8%	24.0%
Adj EBITDA	\$51	\$61	\$70
% margin	27.1%	28.5%	29.4%

Intuit Carve-Out		
2012	2013	PF 2013 (1)
\$304	\$327	\$327
--	7%	7%
\$144	\$163	
47%	50%	
(\$10)	\$19	
-3.4%	5.9%	
\$29	\$42	\$105m
9.6%	12.8%	32.2%

Warning! Digital Insight's EBIT under NCR Reporting Bears No Resemblance To Previous Reporting, especially when it was a standalone public entity

Digital Insight Post NCR Acquisition				
Q1	Q2	Q3	Q4	FY 2014
\$84	\$87	\$93	\$93	\$357
QoQ growth	3.5%	0%	0%	--
--	--	--	--	--
\$23	\$27	\$27	\$27	\$104
27.4%	31.0%	29.0%	29.0%	29.0%
--	--	--	--	--
--	--	--	--	--

Warning! Sales and EBIT Growth Stalling

Source: Intuit Acquires Digital Insight ([here](#))
Thoma Bravo Acquires Digital Insight ([here](#))
NCR Acquires Digital Insight ([here](#))
Note: Fiscal Yr Ended Dec 31st

Source: 8-k Filing ([here](#))
Note: Fiscal Yr Ended July 31
(1) NCR presents this as the EBITDA in its investor presentation to adjust for standalone costs ([here](#))

Note: Fiscal Yr Ended Dec 31st

Competition in Digital Insight's Markets Consolidating and Intensifying

Digital Insight's competitors have stronger platforms: While Digital Insight has changed ownership three times, financial technology behemoths ACI Worldwide (ACIW), Fiserv (FISV), Fidelity National (FIS) First Data (KKR owned), Misys, and SAP (acquired Financial Fusion via Sybase acquisition) have acquired marquee competitors at significantly lower multiples than what NCR paid for Digital Insight

\$ in millions

Acquirer / Target	Announce Date	Target Description	Enterprise Value	Target LTM Sales and EBITDA (margin)	Recurring Revenue / SaaS	Trailing Acquisition Multiples			
						Sales /	EBITDA /	P/E	
D+H / Fundtech	3/30/15	Transaction banking solutions including payments solutions, financial messaging, cash and liquidity mgmt. and merchant services to 1,200 clients	\$1,250	\$263 / \$68 (26%)	N/A	4.7x	18.0x	--	
Fidelity National / Clear2Pay	9/3/14	Enterprise payments technology enables financial institutions to improve internal payments processing efficiencies and provides better payment services	\$462	Est \$127 / N/A	N/A	3.6x	--	--	
Fiserv / Open Solutions	1/14/13	Outsourced technology provider to banks, thrifts and credit unions serving 3,300 clients worldwide	\$850	\$320 / \$100 (31%)	"Majority Recurring"	2.6x	8.5x	--	
Misys / IND Group	1/10/14	Provider of online and mobile banking, personal finance management and payments solutions		Est \$30 / \$10	N/A	--	--	--	
ACI Worldwide / Official Payments Holdings (OPAY)	1/10/14	Provider of electronic bill payment solutions; 3,000 clients include gov't, municipal utilities, higher education and charitable giving organizations	\$114	\$49 / \$8 (16.6%)	95%	2.3x	13.6x	NM	
ACI Worldwide / Online Resources	1/30/13	Provider of online banking and full-service bill pay solutions for 1,000 clients	\$250	\$167 / \$36 (21%)	90%	1.5x	7.0x	15x	
ACI Worldwide / S1 Corp. (SONE)	10/3/11	Payment and transaction banking solutions (including online services) to financial institutions, payment processors and retailers	\$440	\$235 / \$40 (17%)	N/A	2.1x	12.0x	NA	
Jack Henry / iPay	3/7/10	Independent US electronic bill pay provider supporting 3,600 banks and credit unions	\$300	N/A	N/A	--	--	--	
Fidelity National / Metavante Technologies	4/1/09	Banking and payments technologies to approximately 8,000 financial services firms and businesses	\$4,400	\$1,707 / \$482 (28%)	86%	2.5x	9.0x	19.6x	
First Data / FundsXpress	4/16/07	Online banking and bill pay services for consumers and small businesses w/500 banking customers	N/A	N/A	N/A	N/A	N/A	N/A	
Source: Public information, Spruce Point estimates						Average Multiple Paid:	2.8x	11.4x	11.5x

Warning: Listen to Digital Insight Insiders

Sep 17, 2014

3 people found this helpful



“A sinking ship right now due to two company sales in 4 months ”



Current Employee - Anonymous Employee in Redwood City, CA

I have been working at Digital Insight full-time (more than 3 years)

Pros Great work life balance, great pay, super nice people, very nice office and campus

Cons No equity/stock, still connected to Intuit and trying to integrate with NCR. Leadership is nowhere to be found or just don't care. The focus seems to be on only operations (getting out of Intuit) and not much product development going on. Would be nice to see a product roadmap that makes sense and have strong leaders in place.

Advice to Management Please provide manager training and get leaders who care in place. Take a good look at your managers, directors, and VPs and make sure they are well liked and effective. And please give them more support and training.

Great employees are leaving, you should make steps to prevent any more from doing so.

Doesn't Recommend Negative Outlook Disapproves of CEO

Jul 7, 2014

2 people found this helpful



“Missing the Intuit days. ”



Current Employee - Anonymous Employee

I have been working at Digital Insight full-time (more than 5 years)

Pros People that have been with the company for a long time are solid employees.

Cons Pay cut of 20% after Intuit. One-year no-hire agreement between DI and Intuit. No more employee recognition program. Private equity company axed all the good talent and those who remain (who are worth their salt) are leaving in droves. Then NCR paid a \$600m premium for a hacked up company (LOL!). Benefits are changing to "employee driven" healthcare plans. Redwood City gets a new multi-million dollar facility fit for the Sultan of Brunei. Georgia and Westlake offices are slums in comparison. Employees are treated differently from one location to the next. We are grasping at straws for the next big innovation (location-based auto loan spam that we demoted at FinTech isn't exactly cutting edge stuff). Bonus structure changed several times and have metrics to meet that do not have anything to do with my job function.

Advice to Management Better act fast before the August exodus to Intuit. Show us the money!

Doesn't Recommend Negative Outlook Disapproves of CEO

Jan 16, 2015

3 people found this helpful



“Politically infected and incompetent ”



Former Employee - Anonymous Employee

I worked at Digital Insight full-time

Pros I don't see any Pros to mention...

Cons You will get a chance to work with lot of incompetent people around you who doesn't have the fundamental knowledge and skill-set about their core job functions but they know how to get into your business work and do all sort of bad politics and after back talks to bring you down. Totally infected with all sort of crony politics and if you have to survive then you need to be expert in handling this politics.

India team is recruited with full off junk managers who are expert in demotivating the team and talks all non sense. Most of the highly good talent have already left out and remaining few are already looking out. Not a place if you want grow technical.

Doesn't Recommend Negative Outlook

Jun 10, 2014

2 people found this helpful



“Office Function - LEAVING SOON ”



Current Employee - Office in Los Angeles, CA

I have been working at Digital Insight full-time (more than a year)

Pros Long term contract work - if they keep you. Small group of people who care about the company but are jumping ship as the days go on.

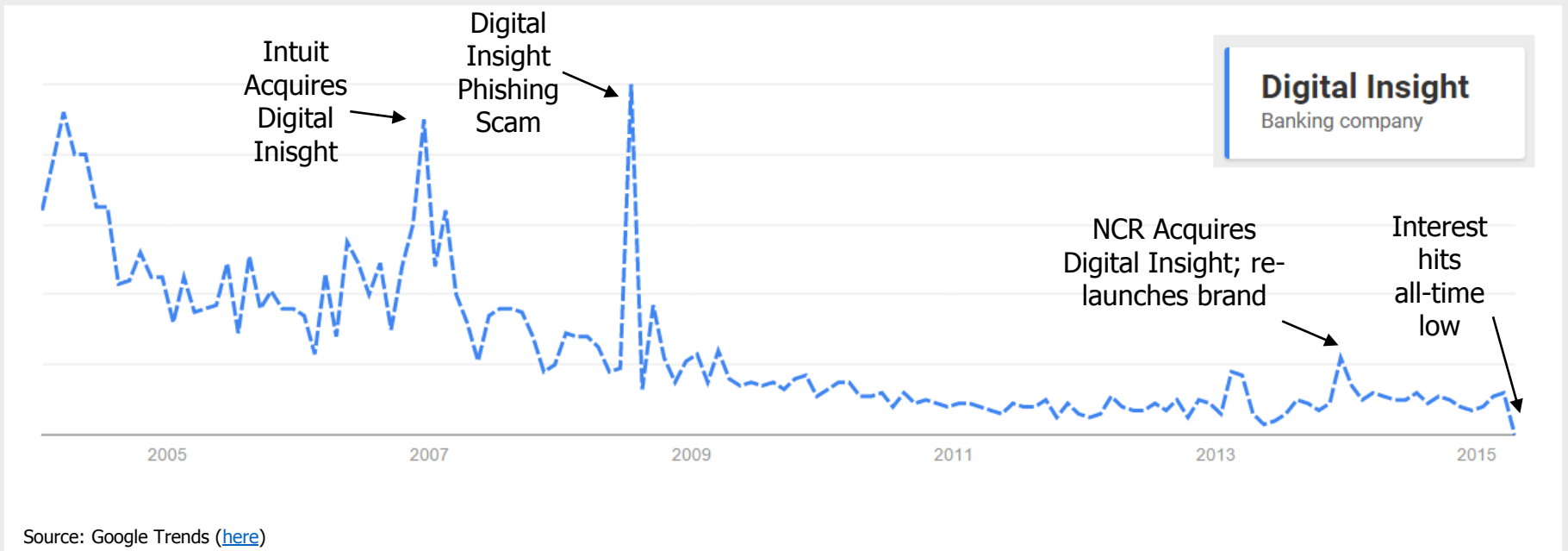
Cons Too much change in too short of an amount of time (Digital Insight to Intuit to Thoma Bravo to "get out of Intuit" to NCR) has resulted in an atmosphere of fear, intimidation, an every man is out for themselves mentality vs. team oriented, lack of overall focus, low morale, high lack of employee retention, poor leadership by GM/CEO role. People don't know if they are coming or going on a daily basis. Too many contractors - and yes, I was one long term. Is GM/CEO moving to CA or is his REAL job at NCR when he breaks the spirit of DI? His house is cleaning itself!

Advice to Management Spend money on real employees not 65% of your staff as contractors. Respect the people who work for and with you ... Cultivate a TEAM (there is no "I" in team). Make sure you do what you say at all times instead of walking the talk at all hands meetings with no follow through. Replace GM/CEO with someone staying for the long term!

Doesn't Recommend Negative Outlook Disapproves of CEO

Warning: Digital Insight's Irrelevance

Interest over time




Warning: Digital Insight/NCR Not Relevant According to The American Banker

TOP 100 COMPANIES IN FINTECH

FILTER BY CATEGORY*	SELECT A COMPANY FROM THE LIST TO SEE ITS FIN TECH PROFILE	
Core Banking	2	Tata Consultancy Services Limited (TCS) >
Branch Banking	3	Fiserv, Inc. >
Commercial Banking	14	Jack Henry & Associates, Inc. >
Treasury Management	25	Sopra >
Digital Service	36	Polaris Financial Technologies >
Regulatory Compliance	38	L&T Infotech >
Risk Management	39	Oberthur Card Systems S.A. >
Security	49	Luxoft Holding Inc. >
Payment Processing	57	Bottomline Technologies >
Data Providers	68	Itautec S.A. >
Infrastructure	70	GBST Holdings Limited >
Investment	79	Aurionpro Solutions Limited >
Asset Management	82	BancVue Ltd >
Trading Platforms	85	Crealogix >
Policy Administration/ Claims Management	88	EFT Source, Inc. >
Other	90	Infrasoft Tech >
	99	COBIS >

No mention of Digital Insight by *The American Banker*, a respected publication



Warning: NCR's Backlog Becoming More and More Meaningless!

Quarter Ended	Backlog Comments	Analyst Question	NCR Answer
Q1'14	Backlog is up significantly , however, and rollout of large orders pushing revenue to the end of the year and into 2015. Financial: Backlog continues to grow based on strong orders in Q1, especially in North America and branch transformation. And backlog is up 9% in overall financial entering Q2. In general , revenue will ramp higher in the back half of the year as we grow orders in Q2 and build backlog	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	"Our backlog is up in both – by the way, the Retail backlog's 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've been pushed a bit by this refocus on data privacy a bit more than they have on some of the Hardware offerings that we have. But we feel good about that"
Q2'14	Backlog was up 17% entering Q3, due to significant growth in professional services and software solutions. Retail: Orders were up 11% in the Q2, driven by both Europe and EMEA, and offset in part by challenges we're seeing in North America. Our backlog continues to be strong, up 32% (the rollout of large orders continues to push revenues to the end of the year and into 2015). Financial: We continue to see orders and backlog grow in Financial, especially in North America and branch transformation	"What visibility do you have into a very strong fourth quarter, from an NPOI perspective? I looked over the few years, it's not unprecedented to have 25%, 30% sequential growth, but it's still a pretty dramatic ramp. And how much of the risk is there in the Retail segment in particular, given that there's been some push-outs there, and I imagine another quarter could be pushed out quite easily"	"Our quarterly guidance now for Q3, Q4 has been analyzed in terms of what we believe we'll convert from what is a record backlog. The backlog we have today is the biggest we've ever had in dollars, and one of the biggest in terms of year on year growth. The NCR total backlog is up 19% year on year, and that's a fairly sizable backlog. A good portion of that is Financial, up 17% yoy, the rest is Retail"
Q3'14	Financial: Healthy legacy backlog entering Q4. Retail: Backlog was up 9% but further delays in solution rollouts are causing longer revenue conversion times. Commenting on guidance issues: Order decline was higher than expected and the backlog flowed out more slowly. CFO Comment: It was also a good quarter for order and backlog growth which is a good indicator for our future growth	"Bill, first on your pipeline for 2015. Typically by this time of the year what visibility do you have in the pipeline for 2015? And has that been impacted because of the shift of the Retail segment?"	"The pipeline right now for 2015 and it's really what we call the front log . The front log is what's in your funnel, what's in your backlog, and what does your order outlook look like for Q4"
Q4'14	Excluding Digital Insight, orders were down 11%, and backlog was up 1% as a result of foreign currency fluctuations and challenges in certain countries like Russia and China. As the business continues to transform to more software and services, orders and backlog does not capture all of our revenue streams and therefore, are not the best predictor of future revenue.	You made an interesting point about the guidance in Retail in particular and that sell and bill, you're using a new formula. I know when the guidance was cut on the third quarter call, part of that was you felt the pipeline was -- the dynamics of the pipeline were changing. So are you using the same methodology for 2015 that you had used back in 3Q when you made the guidance reduction in Retail	"One of the most important metric today for us is really no longer backlog per se or orders per se. The reason that is, is because orders and backlog, the way we've described it to you in the past, does not include key portions of the business"

**Serious
Management Spin!**



Pension Folly

NCR Doesn't Want To Be Held Accountable for its Pension Strategy Decisions

- NCR has been public about wanting to address its legacy pension issues. In April 2010, NCR announced the 1st phase of its strategy to substantially reduce future volatility in its US pension plan through a rebalancing of its asset allocation to a portfolio of entirely fixed income assets by the end of 2012. In July 2012, NCR announced its 2nd phase to materially reduce the size of its pension liability by contributing at least \$500m to the US plan
 - NCR terms its pension contributions as “discretionary” and wants Wall St, to evaluate its performance as if the pension issue is non-recurring
 - **We believe it is essential to evaluate management’s performance on the pension strategy since it is a fundamental and critical capital allocation decision**

NCR’s Pension Strategy – Phase II

Catalyst

- NCR’s legacy pension liability is large relative to market capitalization and the underfunded position creates income statement volatility

Objectives

- Substantially reduce volatility and size of the pension liability
 - underfunded position improves by an estimated \$800M
- Improve free cash flow by reducing annual pension contributions
 - expected to eliminate obligation to make 2012-2017 cash contributions to U.S. qualified plan
- Reduce administrative costs of managing the pension plan
 - positive NPV event in excess of \$100M expected
- Decrease differential between GAAP and non-GAAP financials

As a result, investors will be able to focus on NCR's growth strategy

Scroll forward to see how well these objectives were achieved

NCR changed its Pension Accounting in early 2013 and Gave the Following Explanation:

Significant Transactions

“Effective in the first quarter of 2013, we elected to change our accounting methodology for recognizing costs for all of our company-sponsored U.S. and international pension benefit plans. Under our new accounting methods, we will recognize changes in the fair value of plan assets and net actuarial gains or losses upon remeasurement, which is at least annually in the fourth quarter of each year. **These new accounting methods will result in changes in the fair value of plan assets and net actuarial gains and losses being recognized in expense faster than under our previous amortization method.** The remaining components of pension expense, primarily net service cost, interest cost, and the expected return on plan assets, will be recorded on a quarterly basis as ongoing pension expense. While our previous policy of recognizing pension expense was acceptable, **we believe that these new policies are preferable as they accelerate the recognition in our operating results of changes in the fair value of plan assets and actuarial gains and losses.**”



Why would NCR elect to make this change when it is relatively uncommon? We will illustrate that a majority of companies amortize actuarial gains and losses



NCR stated its objective was to reduce the difference between GAAP and Non-GAAP results. We will illustrate this accounting change has had the exact opposite effect

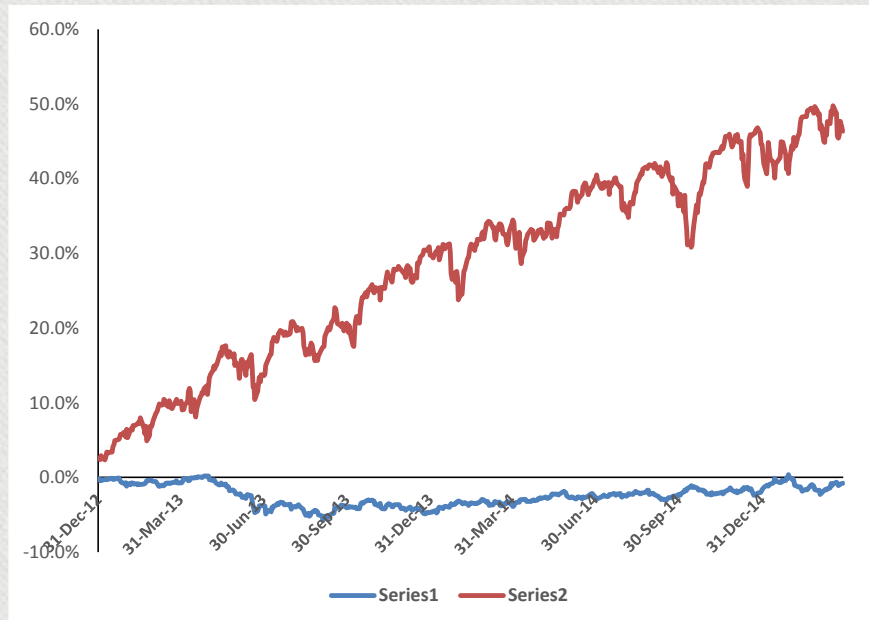
Phase I: NCR's Strategy to Allocate 100% to Fixed Income a Total Disaster

- **NCR Raised \$600m of Senior Notes to fund its U.S. pension plan:** in two tranches (Sept and Dec) at 5.0% in 2012 for what it calls a “discretionary” investment
- **NCR Times the Worst Investment Trade Ever:** While NCR was completing its shift to fixed income, the stock market accelerated its gains post-QE2, leaving NCR's US pension plan in the dust. The bottom right chart shows that the total stock market ETF has returned 51% (inclusive of dividends) while the total bond market has returned approximately 5%
- **NCR Employees / Shareholders No Better Off:** NCR shareholders are stuck with \$30m/yr in debt service (~\$20m after-tax), while its US pension beneficiaries sacrificed substantial pension security and are still holders of an underfunded pension plan

NCR's Pension Asset Allocation

	2009	2010	2011	2012	2013	2014
U.S.						
Equity	56.0%	38.0%	18.0%	0.0%	0.0%	0.0%
Debt	39.0%	59.0%	80.0%	97.0%	97.0%	95.0%
Real Estate	5.0%	3.0%	2.0%	1.0%	1.0%	2.0%
Other	0.0%	0.0%	0.0%	2.0%	2.0%	3.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
International						
Equity	50.0%	45.0%	24.0%	24.0%	11.0%	10.0%
Debt	39.0%	44.0%	65.0%	65.0%	76.0%	77.0%
Real Estate	6.0%	5.0%	6.0%	6.0%	6.0%	6.0%
Other	5.0%	6.0%	5.0%	5.0%	7.0%	7.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Done at the Wrong Time, Equities Have Outperformed

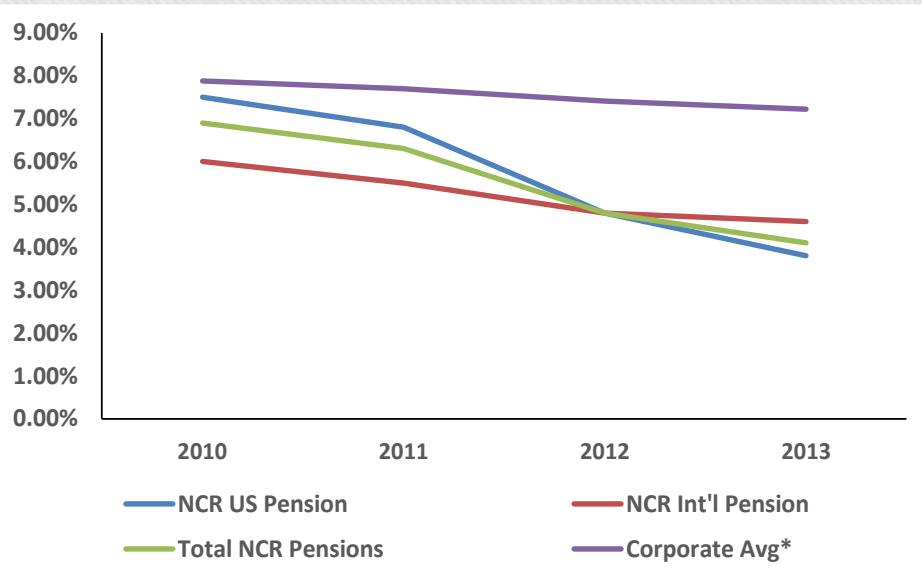


Note: Bond market ETF inclusive of dividends provided an approximate 5.0% total return

Benchmarking NCR's Horrible Pension Capital Allocation Strategy

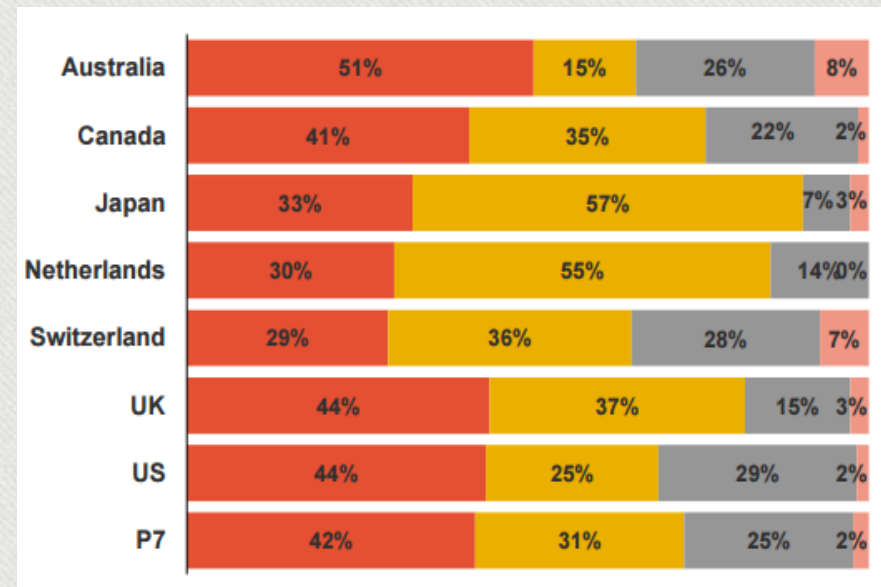
- **Tower Watson Research Supports View of NCR's Pension Folly:** A recent global pension asset allocation study indicates that a majority of global plans have between 30 – 50% equity exposure, with U.S. corporates on the higher end of the scale near 44%
- **NCR's Pension Expected Returns Have Fallen Dramatically:** While research indicates that the average expected return on pension plan assets among 1000 US companies is holding steady in the 7% range, NCR's expected returns have fallen significantly from 2010 – 2013; its U.S. plan's expected returns have fallen from 7.5% to 3.8% or 370bps!

NCR's Expected Returns Severely Lag Corporate Peers



Source NCR Filings

Done at the Wrong Time, Equities Have Outperformed

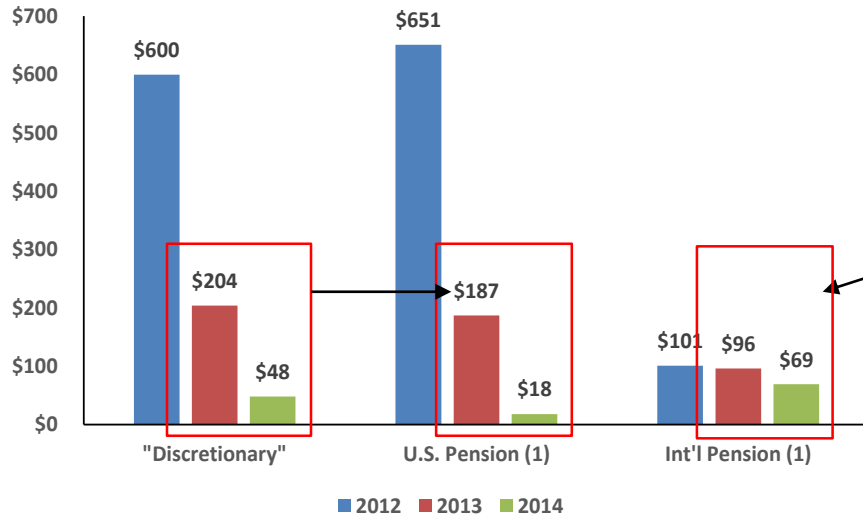


Source Towers Watson Global Assets Pension Study ([here](#))

Phase II: NCR Will Eliminate Pension Contributions Obligations... Well Not Exactly!

- As outlined in its Phase II investment strategy, one of NCR's objectives was to eliminate its cash funding obligation after 2012 when it raised \$600m of Senior Notes to reduce its pension liability
- However, as can be seen from the pension footnotes to its 10-K (Bottom right chart), **NCR reported that its actual return on plan assets was a loss of \$116 million in 2013 – in a year where just buying the S&P 500 returned 30%!**
- NCR claims in its press releases and quarterly presentations that its “discretionary” contributions were \$600m, \$204m, and \$48m in 2012 - 2014, respectively. **NCR does not discuss is how this breaks down between its US and Int'l pension plans**
- We view the nomenclature of a “discretionary” pension payment as potentially misleading, and obfuscating its problems. NCR is still contributing to its “overfunded” international pension plan, and seems to be labeling some as non-discretionary
- NCR would have a motivation for overstating its “discretionary” contribution to make its free cash flow appear higher!**

NCR's Pension Contributions



Note: “Discretionary” as pitched to investors by NCR’s management. We believe it also includes settlements and both U.S. and International contributions
(1) Disclosed in the pension footnotes

Contributions Are Continuing When Losses Occur!

In millions	U.S. Pension Benefits		International Pension Benefits	
	2014	2013	2014	2013
Change in plan assets				
Fair value of plan assets as of January	\$ 2,683	\$ 3,022	\$ 2,373	\$ 2,228
Actual return on plan assets	326	(116)	433	129
Company contributions	18	187	69	96
Benefits paid	(1,143)	(410)	(393)	(113)
Currency translation adjustments	—	—	(160)	30
Plan participant contributions	—	—	3	3
Fair value of plan assets as of December	\$ 1,884	\$ 2,683	\$ 2,325	\$ 2,373

Warning: NCR's Has Horribly Misguided its Expected Pension Contributions

- **Recall that NCR's objectives was to eliminate its cash funding obligation after 2012:** In reality NCR, has continued to contribute fresh capital to the pension every single year!
- **Evidence suggests that NCR has horrible forecasting ability:** Each year in its Annual Report, NCR estimates its annual cash contributions for the coming year to its pension and other postretirement and post employment plans. Since 2012, NCR has cumulatively underestimated its contributions to its US and International pension plans by a staggering \$722m
- **Pay close attention to NCR's international pension plan:** In 2013 and 2014, NCR reported to investors that its international pension plans were overfunded by \$159m and \$219m, respectively. However, NCR still made a \$69m pension contribution in 2014! We have identified additional concerns with the int'l plans reported return on assets that will be highlighted in the coming slides

NCR's "Expected Cash Contributions" (1)

\$ in millions

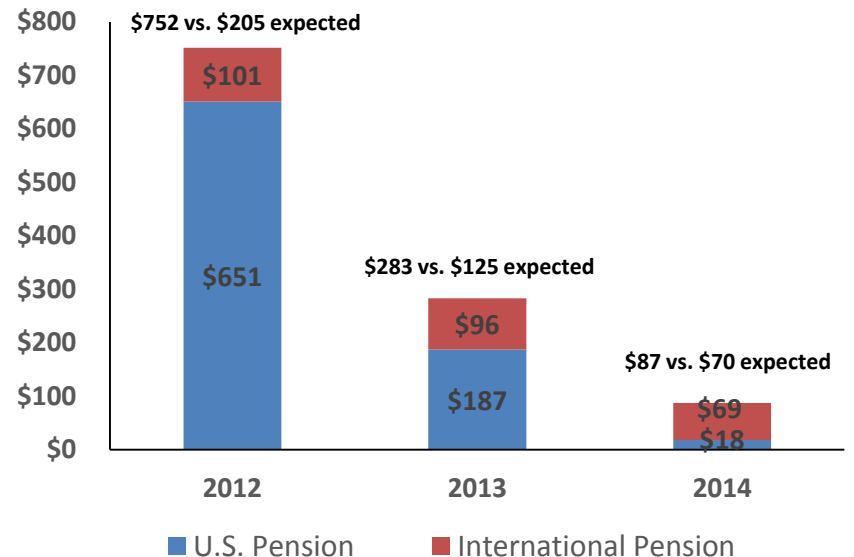
	2012	2013	2014	2015E
U.S Pension	\$85.0	\$0.0	\$0.0	\$0.0
International Pension	\$120.0	\$125.0	\$70.0	\$35.0
Executive Pension	\$10.0	\$10.0	\$18.0	\$0.0
U.S. Postretirement	\$7.0	\$5.0	\$4.0	\$4.0
U.S. Postemployment	\$60.0	\$42.0	\$30.0	\$80.0
Total Expected Contributions	\$282.0	\$182.0	\$122.0	\$119.0

Warning: NCR has materially boosted its estimated contributions to postemployment due to recent restructuring initiatives

(1) NCR has disclosed each year in its 10-K the amount of cash contributions expected to be made the following year in the footnotes of its pension discussion

Actual Contributions Always Exceed Expectations

\$ in millions



Highly Unusual Income Statement Classification of Pension Expense

NCR allocates its pension expense among four of its operating expense lines **and runs numerous special one-time charges through its operating accounts. NCR's sales mix is 44% product and 56% hardware yet runs a majority of the expense through the service gross margin line**

\$ in millions

Income Statement Line Item	FY 2012	FY 2013	FY 2014
Product Gross Margin	\$16m benefit, positively impacted by \$37m lower pension expense	\$2m pension benefit, \$14m in lower yoy pension benefit impacted margin by 500bps	\$3m of expense, negatively impacted by a \$5m increase in pension expense
Services Gross Margin	\$112m benefit, positively impacted by \$454m in lower pension expense	\$44m pension benefit, negatively impacted by \$68m in lower pension benefit	\$82m of expense, negatively impacted by a \$126m increase in expense
SG&A	included a pension benefit of \$66m	included \$22m of pension benefit	included \$48m of pension expense
Research and Development	included a \$30m pension benefit	Included a \$10m pension benefit	included pension expense of \$19m
Special Items Included in Pension Expense	The pension benefit included actuarial gains of \$293m related to remeasurement of the U.S. pension obligations in Q4'2012, which primarily included the impact of the voluntary lump sum offer to certain participants of the U.S. qualified pension plan that was completed in Q4'12	The pension benefit included actuarial gains of \$104m driven by increases in discount rates used to value the U.S. and certain int'l plans and \$15m associated with the termination of NCR's U.S. non-qualified pension plans. Additionally, the pension benefit included special termination benefit costs of \$26mn related to U.S. employees who irrevocably accepted a voluntary early retirement offer	The pension expense included actuarial losses of \$150 million primarily attributable to the change in the U.S. mortality table
Pension Expense (Benefit)	(\$224)	(\$78)	\$152

Source: NCR financials

NCR Has Taken Large Actuarial Gains Directly to the Income Statement

- **There is significant management judgment in actuarial assumptions:** Actuarial assumptions attempt to anticipate future events and are used in calculating the expense and liability relating to NCR's pension plans. These factors include assumptions about interest rates, expected investment return on plan assets, rate of increase in healthcare costs, total and involuntary turnover rates, and rates of future compensation increases.
- **Changes in assumptions and actual vs. expected differences cause actuarial gains/losses:** According to E&Y, "US GAAP currently permits either immediate or deferred recognition of actuarial gains and losses in net income using a systematic approach that is consistently applied. Most US companies defer recognition, although a few companies have recently elected to accelerate recognition of actuarial gains and losses." PWC also agrees that either method is permissible, but doesn't opine on which method is more prevalent
- **Foreign survey research indicates how rare NCR's choice is:** A 2013 study by Towers Watson of 90 Hong Kong companies with pension schemes shows that just 1% immediately recognize actuarial gains/losses through the P&L

The net periodic benefit (income) cost of the pension plans for the years ended December 31 was as follows:

In millions	U.S. Pension Benefits			International Pension Benefits			Total Pension Benefits		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Net service cost	\$ —	\$ —	\$ —	\$ 12	\$ 14	\$ 14	\$ 12	\$ 14	\$ 14
Interest cost	130	124	159	81	79	83	211	203	242
Expected return on plan assets	(118)	(109)	(127)	(104)	(99)	(98)	(222)	(208)	(225)
Amortization of prior service cost	—	—	—	2	6	7	2	6	7
Special termination benefit cost	—	26	—	—	—	—	—	26	—
Settlement	—	—	—	(1)	—	—	(1)	—	—
Actuarial (gain) loss	146	(43)	(293)	4	(76)	31	150	(119)	(262)
Net periodic benefit (income) cost	\$ 158	\$ (2)	\$ (261)	\$ (6)	\$ (76)	\$ 37	\$ 152	\$ (78)	\$ (224)

Source: NCR 2014 10-K ([here](#))
E&Y Accounting Guidance ([here](#))
PWC Accounting Guidance ([here](#))
Towers Watson Survey ([here](#))

Includes a special \$15m special termination benefit, all running through operating income

NCR's Actuarial Gain/Loss Recognition At Odds w/ Best Practices

We reviewed major non-financial companies in the DOW Industrial index, and found that each accounts for actuarial gains/losses in Accumulated Other Comprehensive Income (AOCI) – a balance sheet equity account, where over time gains and losses are amortized to the income statement. **This research is consistent with the Towers Watson study and E&Y that a majority of corporates do not recognize actuarial gains/losses immediately to the income statement**

Company	Method	Recent Annual Report Disclosure
Chevron	Record in AOCI and Amortize	Net actuarial losses recorded in "Accumulated other comprehensive loss" at December 31, 2014, for the company's U.S. pension, international pension and OPEB plans are being amortized on a straight-line basis over approximately 10, 12 and 15 years, respectively. These amortization periods represent the estimated average remaining service of employees expected to receive benefits under the plans. These losses are amortized to the extent they exceed 10 percent of the higher of the projected benefit obligation or market-related value of plan assets
Disney	Record in AOCI and Amortize	If our future investment returns do not exceed our long-term expected returns and/or discount rates do not increase, a significant portion of the unrecognized pension and postretirement medical costs will be recognized as a net actuarial loss in our income statement over approximately the next 10 years
Intel	Record in AOCI and Amortize	We use a corridor approach to amortize actuarial gains and losses. Under this approach, net actuarial gains or losses in excess of ten percent of the larger of the projected benefit obligation or the fair value of plan assets are amortized on a straight-line basis. The period of amortization is the average remaining service of active participants who are expected to receive benefits under the plans.
Exxon	Record in AOCI and Amortize	Differences between actual returns on fund assets and the long-term expected return are not recognized in pension expense in the year that the difference occurs. Such differences are deferred, along with other actuarial gains and losses, and are amortized into pension expense over the expected remaining service life of employees.
General Electric	Record in AOCI and Amortize	Operating earnings exclude non-operating pension costs/income such as interest cost, expected return on plan assets and non-cash amortization of actuarial gains and losses.
United Technologies	Record in AOCI and Amortize	Actuarial gains and losses, prior service costs or credits, and any remaining transition assets or obligations that have not been recognized under previous accounting standards must be recognized in other comprehensive income, net of tax effects, until they are amortized as a component of net periodic benefit cost

Pension Settlement and Terminations Are Non-Operating Expenses

- As we've pointed out, NCR is running termination costs and benefits through operating income, when we believe they should be accounted for as non-operating items
- We believe a good illustration of proper accounting is Bristol Meyers, which clearly includes pension curtailments, settlements and special termination benefits as other (income) expense

Note 6. OTHER (INCOME)/EXPENSE

Other (income)/expense includes:

Dollars in Millions	Year Ended December 31,		
	2014	2013	2012
Interest expense	\$ 203	\$ 199	\$ 182
Investment income	(101)	(104)	(106)
Provision for restructuring	163	226	174
Litigation charges/(recoveries)	23	20	(45)
Equity in net income of affiliates	(107)	(166)	(183)
Out-licensed intangible asset impairment	29	—	38
Gain on sale of product lines, businesses and assets	(564)	(2)	(53)
Other alliance and licensing income	(404)	(148)	(312)
Pension curtailments, settlements and special termination benefits	877	165	158
Other	91	15	67
Other (income)/expense	\$ 210	\$ 205	\$ (80)

Warning: Change to Discount Rate Curve

NCR's U.S. Discount Rate to determine the net periodic benefit cost fell from 4.0% to 3.8% from 2011 to 2012. However, NCR changed its Discount Rate Curve from Citigroup to Aon Hewitt, allowing it to suppress a larger decrease, and blunt an increase in its pension obligation. As the table below illustrates, the Aon curve is 20-40bps higher than the Citigroup curve.

"The discount rate used to determine December 31, 2012 U.S. benefit obligations was derived by matching the plans' expected future cash flows to the corresponding yields from the **Aon Hewitt AA Bond Universe Curve**. This yield curve has been constructed to represent the available yields on high-quality, fixed-income investments across a broad range of future maturities."

Source: 2012 10-K ([here](#))

"The discount rate used to determine December 31, 2011 U.S. benefit obligations was derived by matching the plans' expected future cash flows to the corresponding yields from the **Citigroup Pension Discount Curve**. This yield curve has been constructed to represent the available yields on high-quality, fixed-income investments across a broad range of future maturities."

Source 2011 10-K ([here](#))



Discount Rate History (numbers shown are percentages)

		2013												2012
		12/31	11/30	10/31	9/30	8/31	7/31	6/30	5/31	4/30	3/31	2/28	1/31	12/31
STRIPS	▪ Young	3.96	3.83	3.64	3.70	3.69	3.63	3.48	3.27	2.86	3.09	3.06	3.12	2.88
	▪ Average	3.85	3.70	3.52	3.58	3.58	3.52	3.37	3.15	2.74	2.96	2.94	3.01	2.77
	▪ Mature	3.60	3.43	3.26	3.32	3.35	3.27	3.14	2.90	2.49	2.69	2.68	2.75	2.52
AA-AAA	▪ Young	5.15	5.15	5.06	5.17	5.14	5.02	5.08	4.75	4.33	4.57	4.51	4.54	4.30
	▪ Average	4.98	4.96	4.87	4.98	4.96	4.84	4.89	4.56	4.14	4.38	4.32	4.35	4.12
	▪ Mature	4.65	4.60	4.50	4.61	4.63	4.50	4.54	4.19	3.77	3.99	3.94	3.98	3.76
AHAA	▪ Young	5.18	5.19	5.09	5.21	5.18	5.07	5.14	4.80	4.38	4.63	4.55	4.58	4.35
	▪ Average	5.01	5.00	4.90	5.02	5.01	4.90	4.95	4.61	4.19	4.43	4.37	4.40	4.18
	▪ Mature	4.69	4.65	4.54	4.66	4.69	4.56	4.59	4.24	3.83	4.05	4.00	4.04	3.83
AAAM	▪ Young	5.36	5.36	5.28	5.42	5.44	5.35	5.43	5.05	4.62	4.87	4.78	4.78	4.57
	▪ Average	5.19	5.17	5.09	5.22	5.26	5.16	5.23	4.85	4.43	4.67	4.59	4.59	4.39
	▪ Mature	4.86	4.82	4.73	4.87	4.92	4.80	4.85	4.47	4.05	4.28	4.22	4.24	4.04
CPD	▪ Young	4.97	4.95	4.83	4.94	4.88	4.84	4.83	4.52	4.08	4.33	4.27	4.31	4.05
	▪ Average	4.80	4.77	4.65	4.76	4.72	4.67	4.66	4.35	3.91	4.16	4.10	4.15	3.89
	▪ Mature	4.48	4.42	4.30	4.42	4.43	4.35	4.34	4.02	3.59	3.82	3.77	3.83	3.56
CAM	▪ Young	5.09	5.05	4.94	5.06	5.00	4.97	4.98	4.66	4.22	4.47	4.40	4.45	4.19
	▪ Average	4.92	4.87	4.76	4.89	4.85	4.81	4.82	4.49	4.05	4.30	4.24	4.30	4.03
	▪ Mature	4.59	4.53	4.41	4.55	4.56	4.51	4.51	4.17	3.73	3.97	3.92	3.98	3.72
PPA FYC	▪ Young	*	5.22	5.12	5.25	5.21	5.08	4.98	4.56	4.43	4.64	4.59	4.49	4.36
	▪ Average	*	5.04	4.95	5.09	5.04	4.91	4.80	4.39	4.26	4.46	4.42	4.32	4.19
	▪ Mature	*	4.69	4.62	4.77	4.73	4.60	4.46	4.05	3.92	4.10	4.08	4.00	3.87
PPA SR	▪ Young	*	4.65	4.64	4.64	4.65	4.66	4.68	4.72	4.76	4.82	4.88	4.94	5.00
	▪ Average	*	4.51	4.50	4.50	4.51	4.52	4.54	4.57	4.62	4.68	4.74	4.79	4.85
	▪ Mature	*	4.23	4.23	4.23	4.24	4.24	4.27	4.30	4.34	4.40	4.46	4.51	4.57

Terms:

STRIPS—Aon Hewitt STRIPS Yield Curve
AAAM—Aon Hewitt AA Only Above Median
CAM—Citigroup Above Median

AA-AAA—Aon Hewitt AA-AAA Universe
PPA FYC—PPA Section 430 Full Yield Curve
PPA SR—PPA Section 430 24-month Segment Rates

AHAA—Aon Hewitt AA Only Universe
CPDC—Citigroup Pension Discount Curve

* 12/31/2013 PPA rates not yet available.

Note: PPA rates shown do not reflect the interest rate corridor introduced by the Moving Ahead for Progress in the 21st Century Act.

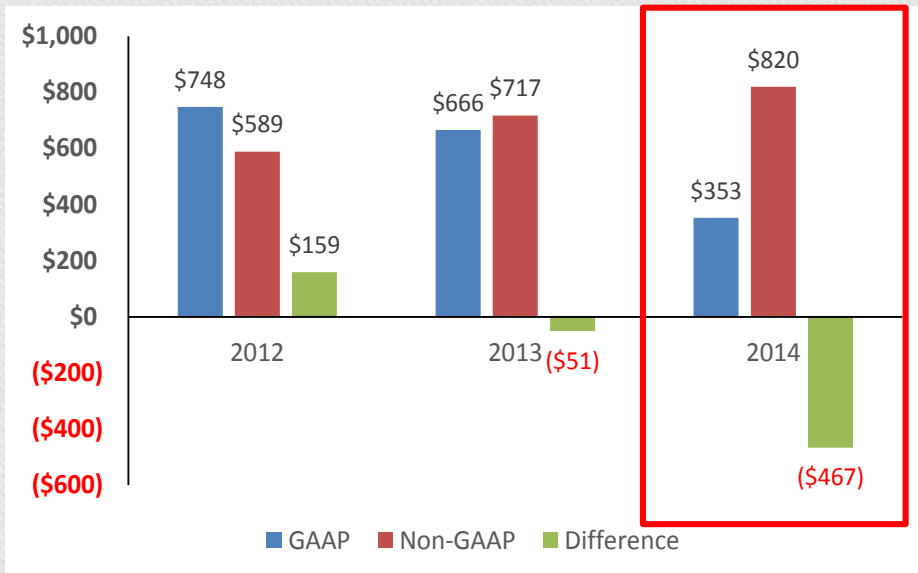
Aon Hewitt

Source: Aon Hewitt Discount Curves ([here](#))

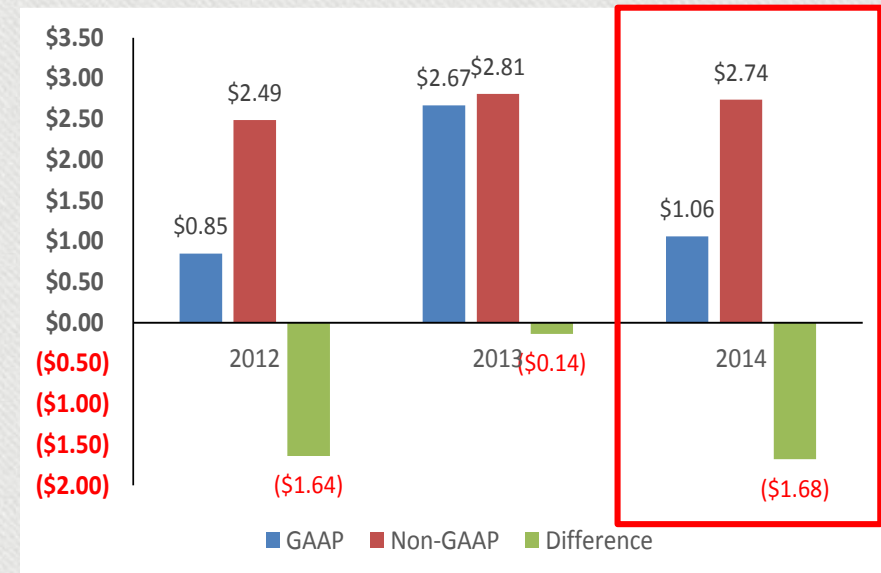
Phase II: Eliminate Rift Between GAAP and Non-GAAP Financials

- As outlined in its Phase II investment strategy, one of NCR's objectives was to eliminate the difference between GAAP and Non-GAAP financials
- NCR has delivered the exact opposite of its intended strategy:** Both its NPOI and Non-GAAP EPS estimates diverged significantly in 2014 by its widest margin

GAAP EBIT vs. Net Pension Operating Income (NPOI)



GAAP EPS vs. Non-GAAP EPS



Sources: NCR Financials and press releases

Phase III: NCR's Pension Plan to Become More Opaque, Follow the Int'l Pension Plan

- In Nov 2013, NCR announced its “*Next Phase of Pension Transformation*” and that it had entered into an agreement with the trustees of the NCR Pension Plan in the UK regarding entry into a pension insurance buy-out transaction for the UK plan
- The agreement was articulated to be part of NCR’s on-going pension transformation strategy to reduce its global liability and increase recurring free cash flow, and was entered in conjunction with a separate agreement between the UK pension plan trustees and Pension Insurance Corporation (PIC)
- The transaction aimed to secure over \$1bn of benefits, through insurance contracts provided by PIC, for the ~5,400 members of the UK pension plan who are former or current employees of certain subsidiaries of NCR in the UK
- According to NCR, “As of December 31, 2014, the U.K. London pension plan was overfunded by approximately \$420 million. The plan is expected to fully transfer to an insurer in 2015 or early 2016 resulting in approximately \$420 million of pension expense in the period of settlement.”
- In Dec 2014, NCR announced further plans to implement an insurance annuity buy-out structure with Principal Life Insurance. The U.S. Plan purchased a single premium group annuity contract in order to secure ~\$160 million of benefits for ~4,500 former employees or their related beneficiaries who commenced monthly pension benefits under the Plan before January 1, 1994
- This group annuity contract purchase is not expected to have a material impact on NCR’s financial results. Any impact of this purchase will be included in the year-end 2014 mark-to-market adjustment. NCR anticipates that the single premium group annuity contract will be issued by The Principal in 2015

Our Take on These Transactions

- **Opaque and complex**: As we will illustrate on the next slide, NCR has classified the entire insurance transfer as a Level 3 asset, enabling significant management subjectivity towards its valuation
- **Expensive to implement**: According to Rob Haines, a CreditSights analyst, in a typical pension risk transfer, known as a buyout, a pension plan sponsor will pay an upfront premium to an insurer in exchange for a group annuity contract that covers an agreed upon portion of the sponsor's defined benefit plan payments to retirees. All associated assets and liabilities are transferred to the insurer. Sponsors typically pay a premium of 5% to 15% over the total liability. **How will NCR account for this ~\$220 - \$440m fee, and what was the cost/benefit analysis used when evaluating this transaction?**

Sources: NCR Announces Insurance Purchase Agreement for Int'l Plan ([here](#))
NCR Announces Intention to Purchase Annuity for U.S. Plan ([here](#))
CreditSights analyst on fee structure ([here](#))

Phase III: Difficult to Reconcile NCR's Int'l Pension Plan Returns

- NCR regularly reports the composition of its pension plan assets in the footnotes of its 10-K, along with the “Actual return on plan assets.”
- In the table below, we have listed the change in plan assets from 2013 to 2014, and have made aggressive return assumptions on average plan assets to attempt to reconcile its \$433m of return on plan assets in 2014
- **Insurance products account for >50% of total plan assets:** Therefore, the return on the insurance annuity should be the driving force in determining NCR international pension's return on plan assets
- **We estimate the insurance annuity would have to return approximately 25% to produce a plan return of \$433m:** a return figure that defies our belief and ability to explain how

Analysis of NCR's International Pension Plan Returns
\$ in millions

Investment	Assets at 12/31/2013	Assets at 12/31/2014	Avg Assets	Assumed % Return(1)	Assumed Return	NCR Reported Plan Return	NCR Return Avg Assets
Corporate Debt	\$110.0	\$232.0	\$171.0	5.0%	\$8.6	--	--
Gov't Securities	\$209.0	\$131.0	\$170.0	25.0%	\$42.5	--	--
Money Market	\$57.0	\$29.0	\$43.0	1.0%	\$0.4	--	--
Mutual Funds	\$0.0	\$0.0	\$0.0	6.0%	\$0.0	--	--
Commingled Short Term Bond	\$0.0	\$32.0	\$16.0	2.0%	\$0.3	--	--
Commingled Bonds	\$153.0	\$198.0	\$175.5	6.0%	\$10.5	--	--
Real Estate Partnership	\$0.0	\$0.0	\$0.0	0.0%	\$0.0	--	--
Real Estate, Other	\$134.0	\$128.0	\$131.0	15.0%	\$19.7	--	--
Other Partnership	\$49.0	\$25.0	\$37.0	2.0%	\$0.7	--	--
Common Stock	\$65.0	\$46.0	\$55.5	13.0%	\$7.2	--	--
Commingled Equities	\$155.0	\$148.0	\$151.5	13.0%	\$19.7	--	--
Commingled Balanced	\$158.0	\$124.0	\$141.0	7.0%	\$9.9	--	--
Insurance Products	\$1,283.0	\$1,232.0	\$1,257.5	25.0%	\$313.7	--	--
Total Plan Assets	\$2,373.0	\$2,325.0	\$2,349.0	18.4%	\$433.2	\$433.0	18.4%

Source: NCR 2014 10-K, Note 9

(1) Based on 2014 Index Returns. Assumes all gov't securities were invested in long-dated treasuries

NCR's Int'l Pension Plan Moved a Majority of Its Assets To Level 3

- Investors need to be cautioned when companies report significant assets as Level 3
- Assets are classified as Level 3 are priced with “*Unobservable inputs for which there is little or no market data*”
- In other words, there is significant discretion left with management to mark the changes in value of these types of assets

2013 Int'l Pension Asset Breakdown

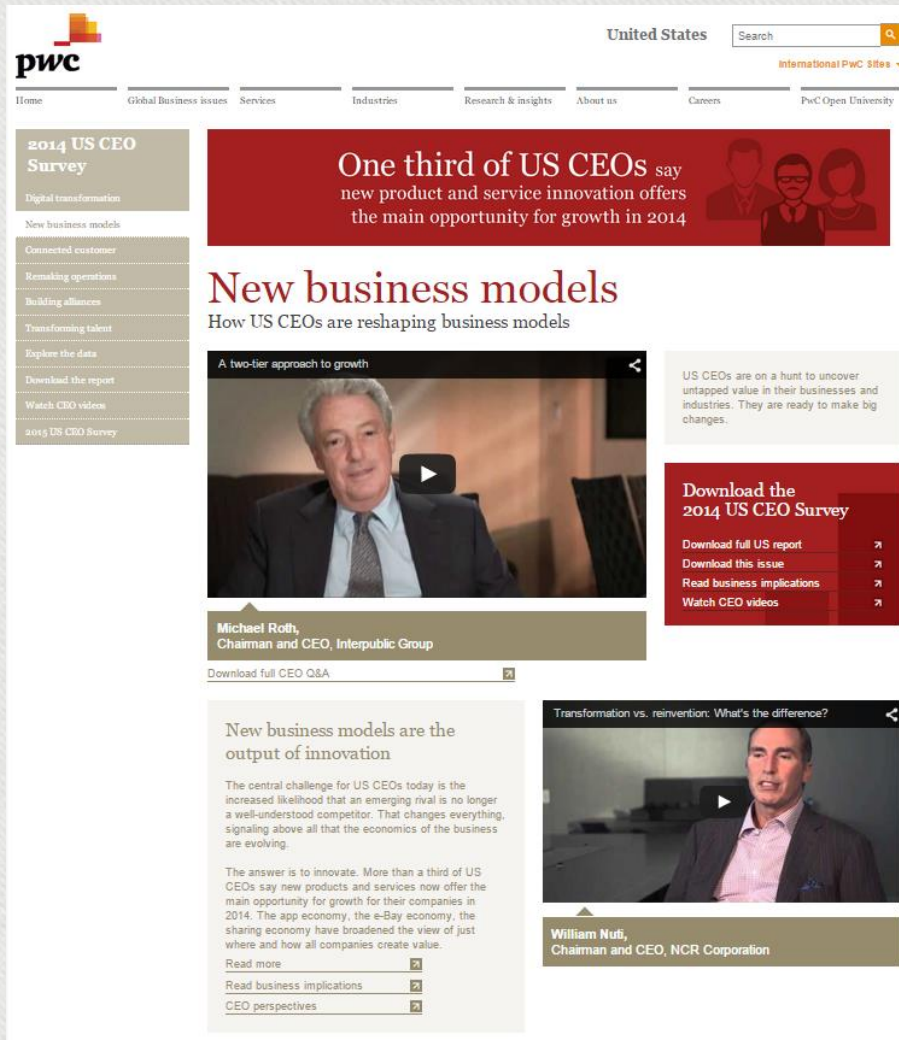
In millions	International			
	Fair Value as of December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
<i>Equity securities:</i>				
Common stock	\$ 65	\$ 65	\$ —	\$ —
<i>Fixed income securities:</i>				
Government securities	209	—	205	4
Corporate debt	110	—	110	—
<i>Other types of investments:</i>				
Money market funds	57	—	57	—
Common and commingled trusts - Equities	155	—	155	—
Common and commingled trusts - Bonds	153	—	153	—
Common and commingled trusts - Short Term Investments	—	—	—	—
Common and commingled trusts - Balanced	158	—	158	—
Partnership/joint venture interests - Real estate	—	—	—	—
Partnership/joint venture interests - Other	49	—	—	49
Mutual funds	—	—	—	—
Insurance products	1,283	—	1,283	—
Real estate and other	134	—	—	134
Total	\$ 2,373	\$ 65	\$ 2,121	\$ 187

2014 Int'l Pension Asset Breakdown

In millions	International			
	Fair Value as of December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
<i>Equity securities:</i>				
Common stock	\$ 46	\$ 46	\$ —	\$ —
<i>Fixed income securities:</i>				
Government securities	131	—	131	—
Corporate debt	232	—	227	5
<i>Other types of investments:</i>				
Money market funds	29	—	29	—
Common and commingled trusts - Equities	148	—	148	—
Common and commingled trusts - Bonds	198	—	198	—
Common and commingled trusts - Short Term Investments	32	—	32	—
Common and commingled trusts - Balanced	124	—	124	—
Partnership/joint venture interests - Real estate	—	—	—	—
Partnership/joint venture interests - Other	25	—	—	25
Insurance products	1,232	—	1	1,231
Real estate and other	128	—	—	128
Total	\$ 2,325	\$ 46	\$ 890	\$ 1,389



*Aggressive Financial Presentation
is “Non-Sense”*



2014 US CEO Survey

United States

Home Global Business Issues Services Industries Research & Insights About us Careers PwC Open University

One third of US CEOs say new product and service innovation offers the main opportunity for growth in 2014

New business models

How US CEOs are reshaping business models

A two-tier approach to growth

US CEOs are on a hunt to uncover untapped value in their businesses and industries. They are ready to make big changes.

Download the 2014 US CEO Survey

- Download full US report
- Download this issue
- Read business implications
- Watch CEO videos

Michael Roth,
Chairman and CEO, Interpublic Group

Download full CEO Q&A

New business models are the output of innovation

The central challenge for US CEOs today is the increased likelihood that an emerging rival is no longer a well-understood competitor. That changes everything, signaling above all that the economics of the business are evolving.

The answer is to innovate. More than a third of US CEOs say new products and services now offer the main opportunity for growth for their companies in 2014. The app economy, the e-Bay economy, the sharing economy have broadened the view of just where and how all companies create value.

- Read more
- Read business implications
- CEO perspectives

Transformation vs. reinvention: What's the difference?

William Nutt,
Chairman and CEO, NCR Corporation

PriceWaterhouseCoopers (PwC) recently promoted NCR's CEO for its "2014 US CEO Survey." NCR's CFO Mr. Fishman also used to worked at PwC for 7 years in Canada and Europe. We always caution that investors heavily scrutinize the numbers when the Auditor and Management team appear too close

Warning: NCR Has a Hiring Need With Emphasis on “Complex Accounting”

Accounting Manager, SEC Reporting -647166

TITLE: External Reporting Manager (Accounting Manager)

LOCATION: Duluth, GA

GRADE: 12

Job: Finance

Primary Location North America-United States-Georgia-Duluth

Schedule: Fulltime

Posting Date: Dec 5, 2014

POSITION SUMMARY & KEY AREAS OF RESPONSIBILITY

This is an opportunity to join a dynamic Company with a role in External Reporting. Looking for energetic, team player with a strong background gained in corporate accounting role and/or public accounting.

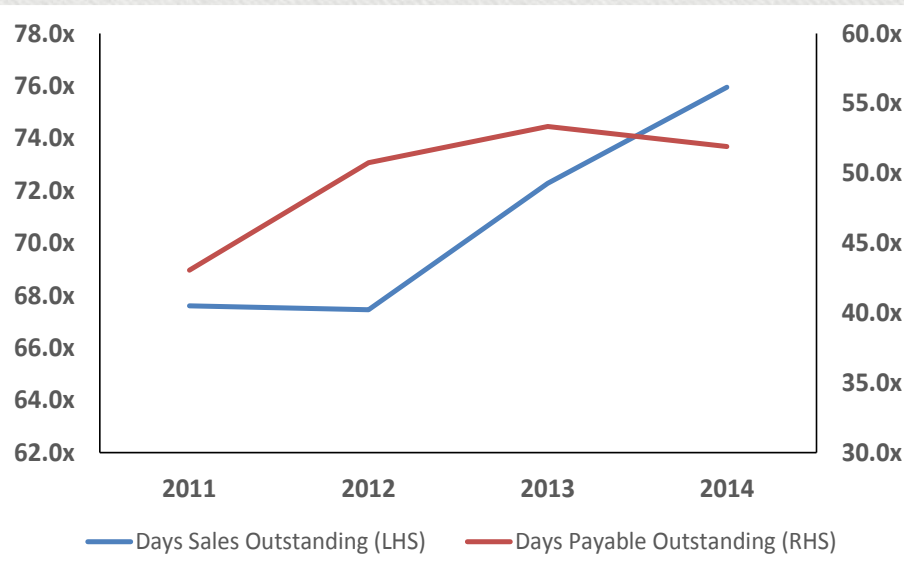
Key Areas of Responsibility include:

- Assist with SEC filings including Form 10-K, Form 10-Q and other filings, including preparation of guarantor financial statements
- **Review complex and unusual transactions to ensure compliance with US GAAP and corporate accounting policies**
- ~~Lead the stock compensation expense process, including reporting actuals and outlook~~
- Assist in providing corporate oversight, guidance and training across business functions and business units
- Determine the impact of new accounting pronouncements on reporting requirements and business practices and effectively communicate project plan to implement
- **Research, resolve and explain complex accounting issues to management**
- Make appropriate decisions and collaborate as a team with minimal level of supervision; perform multiple tasks simultaneously
- Manage and lead other team members in periodic responsibilities and contribute to personnel matters such as recruiting, defining objectives and performance appraisals.
- Work directly with CFO Leadership Council members on various process planning/analysis initiatives
- Develop and maintain corporate financial and operational policies to support effective internal and business control environments

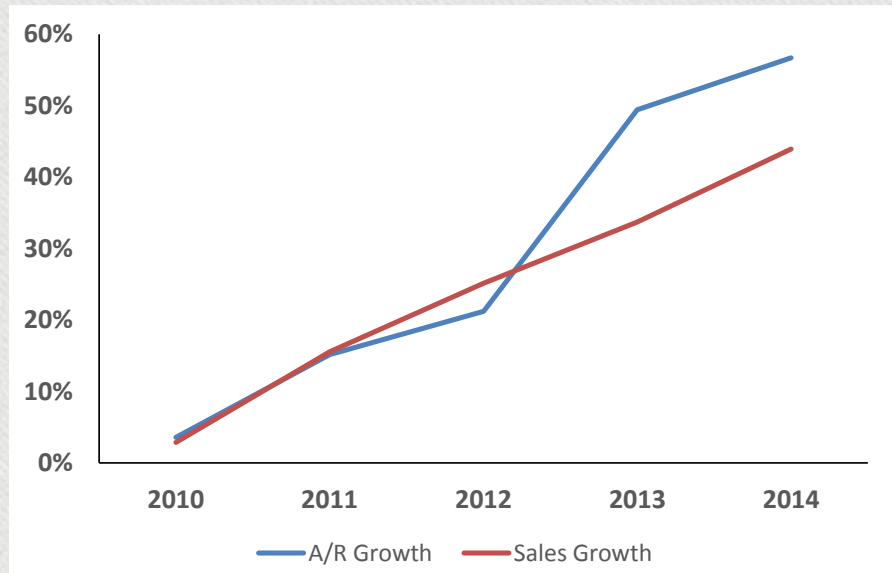
Alarming Days Payables and Receivables

NCR's Days Sales Outstanding (DSO), a measure of how long it takes to collect its receivables, has been increasing at an alarming rate since 2012, while its Days Payable Outstanding, has started to decline. Furthermore, its Accounts Receivables annual growth is outpacing its reported sales. These are traditional red flags worthy of further investigation. NCR's management has repeatedly told investors that improving its working capital management is a priority, but its financials are signaling a deterioration, not an improvement!

Alarming Spread Between DSO and DPO



A/R Growth Outpacing Sales Growth



Source SEC Filings
Note: $DSO = \text{Average Receivables} / (\text{Sales} / 360)$

Warning: NCR Appears To Be Under-Reserving for Delinquent Accounts

Given our observations about the DSO/DPO, we took a closer look at NCR's accounts receivables. It appears that NCR has been under-reserving for doubtful accounts. The Allowance / Gross Receivables ratio has steadily declined since 2011. On the next slide, we will illustrate that this defies belief because recent acquisitions have been accruing allowances between 4 – 9%.

NCR Receivables Analysis

\$ in millions

	2011	2012	2013	Q1'14	Q2'14	Q3'14	Q4'14	2014
Accounts Receivable								
Trade	\$1,002	\$1,056	\$1,318	\$1,414	\$1,437	\$1,434	\$1,382	\$1,382
Other	\$46	\$46	\$39	\$46	\$45	\$45	\$41	\$41
Gross Receivables	\$1,048	\$1,102	\$1,357	\$1,460	\$1,482	\$1,479	\$1,423	\$1,423
Less: Allowances	(\$16)	(\$16)	(\$18)	(\$18)	(\$18)	(\$18)	(\$19)	(\$19)
Acct's Receivable, net	\$1,032	\$1,086	\$1,339	\$1,442	\$1,464	\$1,461	\$1,404	\$1,404
Total Sales	\$5,291	\$5,730	\$6,123	\$1,518	\$1,658	\$1,647	\$1,768	\$6,591
Allowance / Trailing LTM Sales	0.30%	0.28%	0.29%	0.34%	0.32%	0.32%	0.33%	0.29%
Allowance / Gross Receivables	1.53%	1.45%	1.33%	1.23%	1.21%	1.22%	1.34%	1.34%

Source: NCR's SEC Filings



After Digital Insight closed, the allowance account went up \$0!



Extremely low; look closer at NCR's acquisitions on the next slide

Warning: NCR Acquisition Targets Reserve For Delinquent Accounts >4x Higher

\$ in millions

Digital Insight	Standalone Public Entity			Intuit Carve-Out (1)	
	2004	2005	9/30/2006	2012	2013
Gross Receivables	\$28.76	\$33.61	\$36.53	\$40.49	\$41.53
Allowance	(\$1.27)	(\$1.03)	(\$1.37)	(\$0.00)	(\$0.00)
Net Receivables	\$27.48	\$32.58	\$35.16	\$40.48	\$41.53
Allowance / Gross Receivables	4.4%	3.0%	3.7%	0.0%	0.0%

Retalix	2009	2010	2011	3/31/2012	6/30/2012	9/30/2012
Gross	\$64.04	\$62.18	\$62.19	N/A	N/A	N/A
Allowances	(\$9.22)	(\$6.64)	(\$5.47)	N/A	N/A	N/A
Net Receivables	\$54.81	\$55.54	\$56.72	\$65.94	\$70.70	\$77.12
YoY Receivables Growth	-21.7%	1.3%	2.1%	17.4%	25.6%	27.7%
YoY Sales Growth	-13.2%	7.8%	13.8%	21.4%	17.9%	14.5%
Allowance / Gross Receivables	14.4%	10.7%	8.8%			

Radiant	2009	2010	6/30/2011
Billed	\$43.22	\$49.47	\$53.41
Unbilled	\$3.13	\$5.32	\$6.19
Gross Receivables	\$46.35	\$54.80	\$59.60
Less Allowances	(\$3.83)	(\$3.59)	(\$3.05)
Net Receivables	\$42.52	\$51.20	\$56.54
Allowance / Gross Receivables	8.3%	6.6%	5.1%

Each of NCR's recent acquisitions accrues for allowances at a significantly higher rate than NCR's 1.3% – on average 6% of gross receivables. Digital Insight had zero accrual according to its last statement

Retalix Preliminary Allocation by NCR: 3/31/13

In millions	Fair Value
Cash and cash equivalents	\$ 127
Accounts receivable	112
Other tangible assets	57
Acquired goodwill	444
Acquired intangible assets other than goodwill	205
Deferred tax liabilities	(43)
Liabilities assumed	(114)
Total purchase consideration	\$ 788

Acct's Receivables growth outpacing sales growth prior to acquisition; 6 months later, NCR boosts Retalix's Acct's Receivables by 45%!

(1) Fiscal Year ended July 31st. All others on a Dec 31st fiscal yr
 Source: Digital Insights Stand-alone SEC filings ([here](#))
 Digital Insight Carve-out financials ([here](#))
 Radiant SEC filings ([here](#))
 Retalix SEC filings ([here](#))

Source: Note 4 on Acquisitions, NCR Q1'2013 10-Q ([here](#))
 Note: NCR would later adjust the receivable to a final valuation of \$107m on 12/31/13

Warning: Obfuscating Dependence on Short-Term Financing

NCR appears to be inflating its operating cash flow by at least \$96m, by not classifying its A/R securitization as a financing cash flow

- NCR quietly issued an 8-K in Nov 2014 to establish a revolving U.S. trade receivables securitization facility that provides for up to \$200 million in funding based on the availability of eligible receivables
- On Feb 20, 2015, NCR issued a press release announcing its 2014 results. NCR showed just \$91m in short-term borrowings, up from just \$85m at the end of Q3'14, suggesting that it was not dependent on increased short-term borrowing
- NCR filed its 10-K on February 27, 2014 a week after announcing its results. The 10-K revealed that NCR revised its short-term debt figure to \$187m
- Note 6 (table below) reveals that its Trade A/R facility was drawn by \$96m but that no short-term borrowings were recorded in the Statement of Cash Flows. This suggests that NCR is accounting for its A/R securitization as an operating cash flow

Breakdown of Balance Sheet Debt

In millions, except percentages	December 31, 2014	
	Amount	Weighted-Average Interest Rate
Short-Term Borrowings		
Current portion of Senior Secured Credit Facility ⁽¹⁾	\$ 85	2.91%
Trade Receivables Securitization Facility	96	0.83%
Other ⁽²⁾	6	7.31%
Total short-term borrowings	\$ 187	
Long-Term Debt		
Senior Secured Credit Facility:		
Term loan facility due 2018 ⁽¹⁾	\$ 1,246	2.91%
Revolving credit facility due 2018 ⁽¹⁾	—	
Senior notes:		
5.00% Senior Notes due 2022	600	
4.625% Senior Notes due 2021	500	
5.875% Senior Notes due 2021	400	
6.375% Senior Notes due 2023	700	
Other ⁽²⁾	26	7.23%
Total long-term debt	\$ 3,472	

Statement of Cash Flows – Financing Section

	2014	2013
Financing activities		
Short term borrowings, net	—	(1)
Payments on term credit facilities	(37)	(35)
Borrowings on term credit facilities	250	329
Payments on revolving credit facilities	(1,050)	(1,009)
Borrowings on revolving credit facilities	1,146	1,009
Proceeds from bond offerings	—	1,100
Debt issuance costs	(5)	(36)
Tax withholding payments on behalf of employees	(28)	(30)
Proceeds from employee stock plans	13	57
Purchase of noncontrolling interest	—	(24)
Other financing activities	(5)	(3)
	284	1,357

Source: 8-K Filing for trade receivable securitization ([here](#))
NCR FY 2014 Earnings Press Release ([here](#))
NCR 2014 10-K Filing ([here](#))

IBM is an Example of Proper Presentation

While NCR and other companies classify receivables financing programs as operating cash flows, the accurate way to view these items from a financial analysis perspective is to deduct it from operating cash flow

- IBM does an excellent job of clarifying for its investors the impact of its receivables financing programs on its operating cash flows
- This supports our view that NCR's operating cash flows are overstated by at least \$96m

(\$ in billions)

For the year ended December 31:	2014	2013	2012	2011	2010
Net cash from operating activities per GAAP	\$ 16.9	\$ 17.5	\$ 19.6	\$ 19.8	\$ 19.5
Less: the change in Global Financing receivables	0.7	(1.3)	(2.9)	(0.8)	(0.7)
Net cash from operating activities, excluding Global Financing receivables	16.2	18.8	22.5	20.7	20.3
Capital expenditures, net	(3.8)	(3.8)	(4.3)	(4.1)	(4.0)
Free cash flow (FCF)	12.4	15.0	18.2	16.6	16.3
Acquisitions	(0.7)	(3.1)	(3.7)	(1.8)	(5.9)
Divestitures	2.4	0.3	0.6	0.0	0.1
Share repurchase	(13.7)	(13.9)	(12.0)	(15.0)	(15.4)
Dividends	(4.3)	(4.1)	(3.8)	(3.5)	(3.2)
Non-Global Financing debt	(1.3)	3.2	0.7	1.7	2.3
Other (includes Global Financing receivables and Global Financing debt)	2.6	2.4	(0.8)	2.3	3.5
Change in cash, cash equivalents and short-term marketable securities	\$ (2.6)	\$ (0.1)	\$ (0.8)	\$ 0.3	\$ (2.3)
FCF as percent of Income from Continuing Operations	79%	89%	107%	103%	108%

Source: IBM Annual Report, page 66 ([here](#))

Aggressive Accounting, Gain on Property Sale Benefiting SG&A...Are You Kidding Me?

NCR has repeatedly tried to pull a fast one on its shareholders by sneaking into its filings property gains as a reduction to SG&A. We believe this is highly aggressive and distorts the true picture of its continuing financial results.

NCR's Discussion of SG&A Expenses, 2013 10-K (p. 30)

"After considering these items, selling, general and administrative expenses remained consistent as a percentage of revenue at 13.3%, primarily due to a \$7 million gain on the sale of an office property in 2013 offset by investment in sales resources during 2013."

2012 10-Q (p. 32)

"Selling, general and administrative expenses in the second quarter of 2012 also included \$4 million of acquisition related integration costs, \$5 million of acquisition related amortization of intangibles and a \$5 million gain on the sale of a facility in Scotland."

We believe it would be more appropriate to include this non-operating gain through either of these two lines items and not as a reduction to SG&A expense

For the years ended December 31, (in millions, except per share amo	Consolidated Statements of Operations		
	2014	2013	2012
Product revenue	\$ 2,892	\$ 2,912	\$ 2,854
Service revenue	3,699	3,211	2,876
Total revenue	6,591	6,123	5,730
Cost of products	2,153	2,152	2,144
Cost of services	2,706	2,231	1,941
Selling, general and administrative expenses	1,012	871	742
Research and development expenses	263	203	155
Restructuring-related charges	104	—	—
Total operating expenses	6,238	5,457	4,982
Income from operations	353	666	748
Interest expense	(181)	(103)	(42)
Other (expense), net	(35)	(9)	(8)
Income from continuing operations before income taxes	137	554	698
Income tax (benefit) expense	(48)	98	223
Income from continuing operations	185	456	475
Income (loss) from discontinued operations, net of tax	10	(9)	6
Net income	195	447	481
Net income attributable to noncontrolling interests	4	4	—
Net income attributable to NCR	\$ 191	\$ 443	\$ 481

Source: NCR financials

Warning: Aggressive Management of Income Tax Valuation Allowance

One gimmick NCR management may be playing is to release its tax valuation allowance, which reduces its effective tax rate, and increases its GAAP earnings. Ironically, NCR cited changes to the pension plan for releasing the valuation allowance.

These reversals are 17% and 26% of GAAP reported income tax expense; on a per share basis a \$0.15c and \$0.05c benefit; a highly material amount in our opinion. These reversals involve subjective decisions by management, and we believe are indicative of low quality earnings. At the bottom of its cash flow statement, NCR discloses it paid \$32m, \$70m and \$75 cash taxes from 2012 – 2014. This amplifies our concerns that its effective tax rates may be materially understated

Year	Deferred Tax Asset (DTA)	DTA Allowance	Valuation Release	Income Tax Expense (Benefit)	Effective Tax Rate	Valuation Release as % of Income Tax	Explanation
2014	\$969	\$294	(\$8.0)	(\$48)	(35%)	17%	Favorably impacted by a \$9m reduction in the U.S. valuation allowance and a favorable mix of earnings by country, driven by actuarial pension losses due to a change in the U.S. mortality table.
2013	\$804	\$364	(\$25.0)	\$98	18%	26%	favorably impacted by the release of a \$10m valuation allowance due to the implementation of a tax planning strategy to access certain deferred tax assets, a \$15m reduction in a valuation allowance related to a subsidiary in Japan, and a favorable mix of earnings by country, primarily related to lower pension benefit

Creative M&A Accounting?

- On February 3, 2012, NCR entered into an Asset Purchase Agreement with Redbox pursuant to which NCR agreed to sell certain assets of its Entertainment Business, including, but not limited to, substantially all of NCR's DVD kiosks, certain retailer contracts, select DVD inventory and certain intellectual property for cash consideration of \$100 million. The deal was completed in June 2012 and included total assets of \$67m (\$51 million of PP&E, \$15m of inventory, and \$1 million of intangible assets)
- NCR agreed to provide Redbox with certain short-term support services following the closing under a transition services agreement. The Agreement also contemplates that, for a period of 5 yrs following the closing, Redbox may procure certain hardware, software and services from NCR under a manufacturing and services agreement. If, at the end of the 5 yr period, Redbox and its affiliates have not procured hardware, software and services that have yielded \$25 million in margin to NCR, Redbox will pay the difference to NCR.
- **In relation to the accounting for the transaction, according to NCR:**

“We determined that the cash inflows under the transition services agreement and the manufacturing and services agreement will not constitute significant continuing involvement with the operations of the Entertainment business after the sale. In addition, the ongoing cash inflows related to the Entertainment business under the manufacturing and services agreement are substantially unrelated to the business sold. Therefore, we have reclassified the operating results of the Entertainment business, for all historical periods, to income (loss) from discontinued operations, net of tax in the accompanying Consolidated Statements of Operations.”

NCR’s accounting explanation sounds absurd. First, they describe a 5-year agreement as “short-term.” Secondly, if the cash flows are unrelated to the asset sale, then what are they related to? Neither individual who executed the agreement - John Bruno (NCR) or Scott Di Valerio (Redbox/Outerwall) are employed at their respective companies. Scott Di Valerio resigned from Outerwall in Jan 2015 and its stock plummeted.

Creative M&A Accounting (Cont'd)

- NCR wrote down the value of its Entertainment business and took a charge in Q4 2011 for \$88m before they announced the sale of the business to Redbox on February 6, 2012. NCR listed the resulting book value as \$67m
- It is reasonable to assume that in Q4 2011, NCR was already in discussions with Redbox about the selling price, prior to announcing the deal a month later
- The quarterly results of the Entertainment Business indicate that the business was deteriorating, with revenues declining sequentially and operating losses increasing
- NCR would later report a gain on the sale of the business for \$33m in Q2 2012 upon closing the deal on June 25, 2012. The gain appears to be the difference between the selling price of \$100m and the book value of \$67m
- It appears highly suspicious that NCR booked a gain on sale of the assets after having written them down and clear evidence that the business deteriorated during the course of the transaction

Results of Entertainment Business

\$ in millions

	Q1	Q2	Q3	Q4	2011	Q1	Q2	Q3	Q4	2012
Revenues	\$36	\$38	\$41	\$37	\$152	\$35	\$27	\$1	(\$1)	\$62
Operating Expenses	\$48	\$51	\$51	\$149	\$299	\$54	\$48	\$3	(\$4)	\$101
Loss from operations	(\$12)	(\$13)	(\$10)	(\$112)	(\$147)	(\$19)	(\$21)	(\$2)	\$3	(\$39)
Gain from Divestiture	\$0	\$0	\$0	\$0	\$0	\$0	\$33	\$0	\$0	\$33
Income (loss) before inc tax	(\$12)	(\$13)	(\$10)	(\$112)	(\$147)	(\$19)	\$12	(\$2)	\$3	(\$6)
Income benefit tax exp (benefit)	(\$4)	(\$4)	(\$3)	\$112	(\$51)	(\$7)	\$4	(\$1)	\$2	(\$2)
Loss from discontinued ops, net of tax	(\$8)	(\$9)	(\$7)	(\$224)	(\$96)	(\$12)	\$8	(\$1)	\$1	(\$4)

We believe this includes an \$88m impairment charge

Source: Quarterly figures pieced together from NCR footnotes. Q4 figures implied from full year results less Q1-Q3

NCR +Scopus Tecnologia Sign Brazilian Agreement

July 26, 2011

NCR and Scopus form strategic alliance to invest in ATM manufacturing; Banco Bradesco signs agreement with a target for 30,000 ATMs – making NCR its preferred provider over the next five years and redefining the competitive landscape in Brazil

DULUTH, Ga.

NCR Corp (NYSE: NCR) and Scopus Tecnologia Ltda, a wholly-owned subsidiary of Banco Bradesco SA, announced today the formation of a strategic alliance for the manufacturing and development of ATMs in Brazil that will see Scopus acquire a 49 percent equity stake in NCR Manaus, NCR's Brazilian manufacturing and engineering operations. Concurrently, Banco Bradesco signed an agreement with a target for 30,000 ATMs over the next five years, making NCR its preferred ATM provider with an initial order for more than 6,000 ATMs from NCR Manaus. The agreement is subject to regulatory approval. **Terms of the deal were not disclosed.**

NCR's sales, services and other employees will remain in a separate company and continue to deliver sales and services support to NCR's broader customer base in Brazil. The agreements will enable NCR to leverage Scopus' deep technology knowledge and geographical presence, improve manufacturing productivity and deliver innovative products more quickly to financial institutions across Brazil, the world's fourth largest ATM market. According to Retail Banking Research, the ATM market in Brazil is expected to increase by 27 percent by 2015.(1) The agreement from Banco Bradesco will accelerate NCR's growth in Brazil and enhance the company's position in the market.

"This is a bold, strategic, and transformative alliance that is perfectly aligned with our corporate strategy as it expands and strengthens our geographic presence and sales coverage," said NCR Chairman and CEO Bill Nuti. "It underscores why we ultimately decided to open our manufacturing facility in Manaus back in 2009 – namely to respond to customer demand for local sourcing and be closer to a dynamic growing market. The alliance will enable NCR to leverage Scopus' local market presence and deep customer expertise, while helping us improve our manufacturing productivity and time to market.

NCR Later Disclosed The Following:

"In 2011, we sold a 49% voting equity interest in NCR Brasil - Indústria de Equipamentos para Automação S.A., a subsidiary of the Company (NCR Manaus) to Scopus Tecnologia Ltda. (Scopus) for a subscription price of approximately \$43 million. **In the event NCR Manaus does not meet a defined financial performance goal during the five year period ending in 2016, Scopus may elect to put its noncontrolling interest to us for its then-current fair value."**

Source:
NCR Announces Scopus Partnership ([here](#))
NCR 10-K ([here](#))

Banco Bradesco 2014 Annual Report Shows it Divested Scopus

Financial Statements, Independent Auditors' Report, Audit Committee Report Summary and Fiscal Council's Report

Management Report

We hereby present the consolidated financial statements of Banco Bradesco S.A., for the fiscal year ended December 31, 2014, prepared in accordance with the accounting practices adopted in Brazil and applicable to institutions authorized to operate by the Brazilian Central Bank.

The year of 2015 should prove to be a challenging one for emerging countries, given the beginning of normalization of US monetary policy and a slowdown in growth for China. This scenario also provides a unique opportunity and stimulus for these nations to move forward in the process of improving their economic fundamentals.

As for Brazil, the new course of its economic policies, in particular its fiscal policy, should play a major role in the country's response to these external challenges. At the same time, an indication to this effect is likely critical to make the stakeholders more confident in the economy, mitigating the effects of the adjustments that are expected to be made in the next year.

Bradesco remains optimistic about Brazil, and holds positive expectations for the segments in which it operates. The volume of credit is likely to grow at rates that are sustainable and compatible with risk. Due to the intense and ongoing upward social mobility of recent years, the scenario for the banking and insurance sectors remains highly favorable.

The following are some of the most noteworthy events involving the Bradesco Organization over the past year:

- on July 17, Bradesco and the major retail Banks in the country signed a new Shareholders' Agreement for TecBan – Banking Technology S.A., which provides that, in approximately 4 years, their external networks of Self-Service Terminals will be consolidated into Banco24Horas terminals;
- on July 28 Bradesco formalized a strategic partnership with IBM Brasil – Indústria Máquinas e Serviços Ltda., which will provide hardware and software support and maintenance activities, currently provided by Scopus Tecnologia Ltda. IBM will take over the operational structure from Scopus, and all support and maintenance contracts signed between Scopus and its other clients;
- on August 4, the opening of the first branch in Vila Kennedy, a community located in the west side of the city of Rio de Janeiro, allowing the financial inclusion of approximately 130 thousand residents;
- on September 12, for the ninth consecutive year, Bradesco was selected to comprise the Dow Jones Sustainability Index – DJSI, of the New York Stock Exchange, as part of the Dow Jones Sustainability World Index and Dow Jones Sustainability Emerging Markets Index; on November 27, it was once again selected to comprise the Corporate Sustainability Index (ISE) of BM&FBOVESPA, which reflects the return of a portfolio composed of shares of the companies with the best performance in the ISE indicators; and

NCR Discloses a “Tax” Issue in Brazil Concurrent with its Loss of Bradesco

In June 2014, one of the Company's Brazilian subsidiaries, NCR Manaus, was notified of a Brazilian federal tax assessment of R\$168 million, or approximately \$63 million as of December 31, 2014, including penalties and interest regarding certain federal indirect taxes for 2010 through 2012. The assessment alleges improper importation of certain components into Brazil's free trade zone that would nullify related indirect tax incentives. **We have not recorded an accrual for the assessment, as the Company believes it has a valid position regarding indirect taxes in Brazil and, as such, has filed an appeal.** However, it is possible that the Company could be required to pay taxes, penalties and interest related to this matter, which could be material to the Company's Consolidated Financial Statements. **The Company estimated the aggregate risk related to this matter to be zero to approximately \$66 million as of December 31, 2014**

Numerous Potential Issues Arise

- NCR has not fully disclosed to its investors in its SEC filings that Scopus has been replaced by IBM Brasil by Banco Bradesco
- NCR says, “We recognized \$87 million, \$124 million and \$145 million in revenue related to Bradesco for the years ended December 31, 2014, 2013 and 2012.” The 30% decline in revenues in 2014 may partially be explained by a 15% decline in the Brazilian Real, but not entirely by the FX move
- Is NCR making up a story about a tax assessment as a divergence for its problems with NCR Manaus?
- Unless the partnership has come to conclusion, it is reasonable to assume that NCR Manus will not meet its financial performance goal during the five year period ending in 2016
- Given that Scopus may elect to put its noncontrolling interest to NCR at current fair value, why has NCR not alerted investors that it may face an additional liability and cash requirement?

Warning: Strange Similarity Between Symbol Brazil and NCR's Brazil Strategy?

Accounting Fraud Symbol Announces its Brazilian Ambition

March 20, 2002, HOLTSVILLE, New York

Symbol Technologies, Inc. the world leader in bar code-driven mobile and wireless computing solutions, today announced the establishment of a to strengthen its global customer service infrastructure and distribution capabilities to business partners and multi-national accounts.

The Brazil subsidiary will provide a full array of customer services, including product configuration and repair, helpdesk and technical support, parts inventory and warehousing, and finished goods distribution. In addition, the new subsidiary will have sales and marketing associates supporting Symbol business partners and regional operations of Symbol's multinational customer accounts. Symbol expects to have a workforce totaling over 70 associates in the Brazil subsidiary by the end of 2002.

"Establishing a subsidiary in Brazil, the largest economy in Latin America, extends our regional capabilities, which is ideal for business partner growth in such a burgeoning IT market, and reinforces our commitment to global customer service and support," said **Richard Bravman, president and chief operating officer, Symbol Technologies.** "This subsidiary will bring a new level of operational efficiencies to our business partners and customers that only Symbol can provide as a global, ISO-certified organization."

"Brazil represents a significant opportunity for the Symbol brand and is key to our ongoing sales, marketing and customer service commitment in Latin America," said Hans Witt, vice president of Symbol's Latin American operations. "This move allows us to focus on achieving integrated and comprehensive sales coverage in the territory. Our infrastructure and experienced workforce provides operational efficiencies in servicing our customer base almost immediately."



Bravman was Symbol's 5th employee and later hired by NCR in 2009 as CMO and VP of Corporate Development, reporting to John Bruno. He was at NCR when it announced its deal with Scopus in July 2011

Symbol Brazilian Deal Structured Similar to NCR's

During the Q2'2002, Symbol entered into an agreement with the owners of Seal Sistemas e Tecnologia Da Informacao Ltda. ("Seal"), a Brazilian corp which had operated as a distributor and integrator of Symbol's products since 1987. The agreement resulted in the termination of distribution rights for Seal and the creation of a majority owned subsidiary of Symbol that would serve as the Brazilian distributor and customer service entity ("Symbol Brazil"). **In accordance with the terms of the agreement, the owners of Seal acquired a 49% ownership interest in Symbol Brazil.**

Terms of the agreement included payments to the minority shareholders that range from \$9.55m to a total of \$14.8m contingent upon the attainment of certain annual net revenue levels of Symbol Brazil. In the event that none of the specified revenue levels are attained, the minimum earnout payment is payable no later than March 31, 2009. With each earnout payment, we will obtain a portion of Symbol Brazil's shares owned by the minority shareholders such that we will ultimately own 100 percent of Symbol Brazil no later than 3/31/09. **In order to consummate this business combination, the Company was also required to make payments aggregating \$5.3m to two shareholders of Seal.** These amounts were also included in the purchase price of Symbol Brazil, resulting in a total purchase price (including the present value of the minimum future earnout payments) of \$12.3m

12/30/03: Symbol Acknowledges Accounting Problems

As discussed in Note 3 to the Consolidated Financial Statements included elsewhere herein, during the second quarter of 2002, we entered into an agreement with the owners of a Brazilian corporation that was a distributor of our products, whereby we created a majority-owned subsidiary of Symbol. **In our previously reported financial statements, we recorded payments to two individuals aggregating approximately \$5.3m as part of the purchase price. As a result of our investigation, we determined that we should have treated these payments as operating expenses.**

Warning: Federal Case Against Symbol Suggests Brazilian Shenanigans

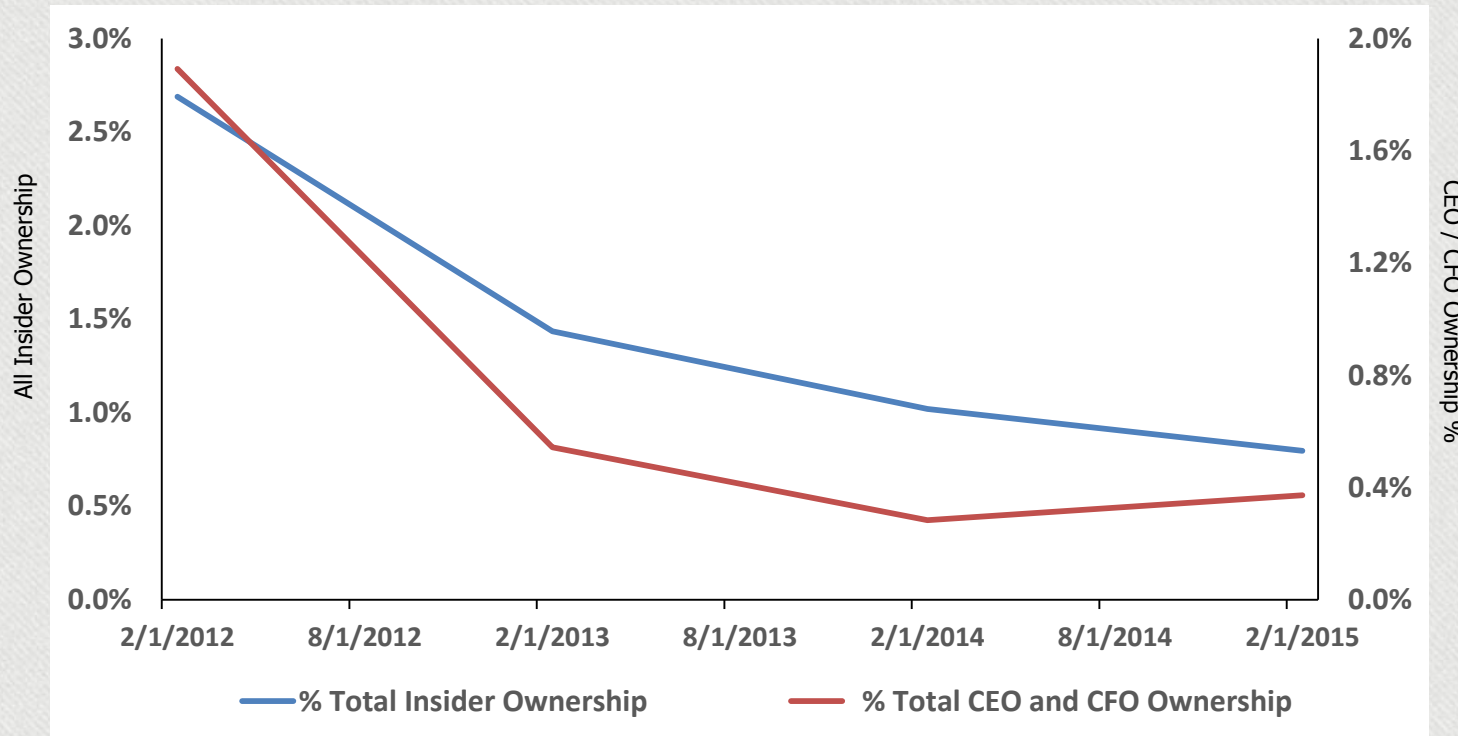
References to Channel Stuffing in Brazil

At the end of the first, second and third fiscal quarters of 2000, and at the end of the first fiscal quarter of 2001, Symbol solicited and **entered into channel stuffing transactions with a distributor located in South America** (“Distributor #1”), in which Distributor #1 placed multi-million dollar orders for products that Symbol had in its inventory, even though Distributor #1 had no need for the products. Indeed, Symbol personnel instructed Distributor #1 as to which products Distributor #1 was to order. **Moreover, instead of shipping the products to Distributor #1 in South America, Symbol merely stored the products in warehouses in New York** (the “Warehoused Products”). Symbol and Distributor #1 agreed that Distributor #1 (i) had no obligation to pay for the Warehoused Products, and (ii) could “exchange” the Warehoused Products at no cost when it placed new orders for products it actually needed. Despite these terms, which were hidden from Symbol’s outside auditors, Symbol fraudulently recognized and reported over \$16 million in revenue from these transactions which were represented to be legitimate purchases of Symbol products by Distributor #1.

On or about March 23, 2001, the defendant FRANK BORGHESE was copied on an e-mail sent by a Symbol employee to Distributor #1 which requested an order needed by Symbol **“to get to the Latin America ONLY numbers for Brazil.”**

Follow the Money: Insiders Have Been Cashing Out; Have Little at Stake?

- NCR's insiders own less and less stock each year to the point where they have almost nothing at stake
- CEO Nuti materially reduced his stock holdings in 2012. Both he and the CFO have seen their stock holdings fall at the fastest rate among insiders



Source: SEC proxy statement filings

Note: Latest insider ownership excludes Mercato holdings

Warning: Rampant Executive Departures

Many Departures Are Unannounced, Check LinkedIn To See What We Found!



**Executive
Revolving
Door**

Date	Executive	Title	Reason	Left To
11/14/2014	Justin Hotard	President, NCR Small Business	Resignation	
10/14/2014	Jennifer Daniels	SVP, General Counsel and Secretary	Resignation	Colgate-Palmolive
9/1/2014	Dale Grant	Global VP, Retail Sales	Resignation	Oracle, SVP Global Hospitality, Food & Beverage
8/31/2014	John Bruno	Executive Vice President, Industry & Field Operations and Corporate Development	Resignation	Aon, CIO
5/1/2014	Kim Eaton	SVP and GM, Hospitality	Resignation	COO (now CEO) of Aptean
4/14/2014	Peter Dorsman	EVP, Services	Retirement	
12/22/2013	Peter Leav	EVP and President, Industry and Field Operations	Resignation	Polycom (CEO)
10/1/2013	Sarit Sagiv	Former Retailix CFO	Resignation	NICE Systems (CFO)
10/1/2013	Shuky Sheffer	Former Retailix CEO	Resignation	
7/1/2013	Chris Askew	SVP, Global Services	Resignation	President, Best Buy Services
8/1/2011	Theresa Heinz	VP and GM, Travel and Gaming	Resignation	IBM Development Manager
2/1/2011	Mike Webster	SVP and GM, Retail/Hospitality	Resignation	Oracle (SVP & GM)



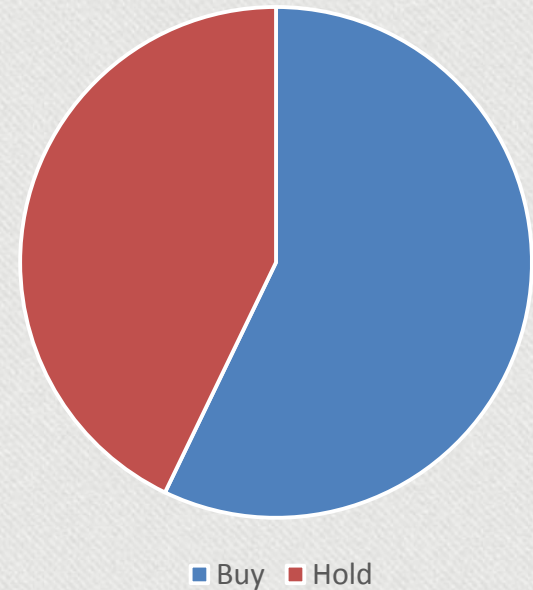
*Sell-Side Analyst Misperceptions
and Variant Valuation View*

Wall St. Analysts Just Cannot Say “Sell”

NCR is currently trading at a 5% premium to the average Wall St. price target. This indicates the stock is fully valued with risk tilted toward the downside. Yet, not a single analyst will say “Sell!”

Broker	Rating	Price Target
JP Morgan	Overweight	\$36
RBC	Outperform	\$33
Susquehanna	Positive	\$34
Oppenheimer	Outperform	\$30
Goldman Sachs	Neutral	\$26
Morgan Stanley	Equal-weight	\$27
Wedbush	Neutral	\$22
	Average Price	\$29.70
	% Max Upside	20%

Buy vs. Holds



Analyst Investment Opinions of NCR Reflect a False Sense of Optimism

Analysts' Investment Opinions on NCR

"NCR is a leading manufacturer of ATMs, self-service kiosks, POS devices, and business consumables to the financial, retail, travel, and gaming industries; it also operates a best-in-class service organization."

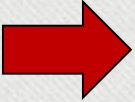
"NCR continues to improve profitability on the back of mix shift to software, enabled by Radiant, Retalix, and Digital Insight acquisitions and organic investments to re-position the product portfolio."

"We believe NCR can achieve low-single-digit organic revenue growth and mid-single-digit earnings growth going forward. However, we continue to believe that FCF provides a more realistic view of profitability."

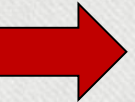
"Branch transformation coupled with emerging markets growth should drive NCR's financial services segment in FY15 / FY16"

"We remain Neutral rated on NCR. While the stock has underperformed and expectations have normalized, we would wait for improvement in operational execution to be incrementally positive on the stock"

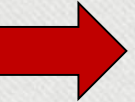
Spruce Point's Rebuttal



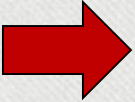
It appears that all of these devices are in secular decline and commoditized products. Even NCR's would disagree that its service organization is best-in-class; management's bonus payout linked to overall customer satisfaction has fallen below expectations in recent years



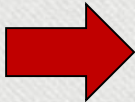
NCR's improvement in profitability is greatly exaggerated by various accounting shenanigans that distort its true situation. Digging beneath the surface, its recent spree of acquisitions have given the temporary illusion of growth. We believe these acquisitions are showing signs of failure, and growth is beginning to stall



Low single digit organic growth is overly optimistic given secular declines in most of its end markets, and new competitive entrants gaining traction. We believe continued earnings declines, which started in 2014 are more realistic. We agree that FCF is critical to evaluating NCR, its DSO are soaring and its FCF has been overstated by not removing factored receivables and repeated pension contributions



Branch transformation has taken longer than anticipated and is an opportunity based on a faulty premise since banks are shrinking branches. FX headwinds and emerging market sluggishness is denting the perceived opportunity



Neutral is generous, that's analyst speak for Sell! With at least six senior executive departures across various business verticals, NCR's business appears to be unraveling

NCR's Valuation is Not Justified For A Company Appearing on the Verge of Distress

\$ in millions, except per share amounts

Name	Ticker	Stock Price 4/22/2015	% of 52-wk High	Ent. Value	'15E-'16E		LTM		P/E		Enterprise Value /				Debt/ 2015E EBITDA	Dividend Yield
					Revenue Growth	EPS Growth	Gross Margin	EBITDA Margin	2015E	2016E	EBITDA		Revenue			
											2015E	2016E	2015E	2016E		
Ingenico S.A.	ING	\$109.65	96%	\$7,496	11.9%	18.7%	45.7%	23.5%	26.0x	21.9x	15.3x	2.7x	3.3x	3.0x	2.9x	0.0%
Zebra Tech	ZBRA	\$97.08	100%	\$7,760	2.5%	23.6%	46.6%	21.4%	18.5x	15.0x	12.3x	11.2x	2.1x	2.1x	5.1x	0.0%
Verifone	PAY	\$35.88	93%	\$4,763	2.8%	7.1%	42.0%	16.9%	19.5x	18.2x	13.3x	12.6x	2.4x	2.3x	2.5x	0.0%
Diebold	DBD	\$35.88	87%	\$2,828	0.8%	25.3%	25.1%	8.6%	18.1x	14.5x	10.6x	10.5x	0.9x	0.9x	2.4x	3.2%
Cardtronics	CATM	\$37.67	94%	\$2,284	6.7%	14.1%	33.2%	24.1%	13.6x	12.0x	7.7x	7.0x	1.9x	1.8x	2.1x	0.0%
Wincor Nixdorf	WIN.FRA	\$40.22	54%	\$1,376	3.1%	9.8%	21.7%	8.5%	11.6x	10.6x	6.2x	5.8x	0.5x	0.5x	0.7x	4.7%
Unisys	UIS	\$23.32	65%	\$889	5.6%	33.0%	23.2%	9.6%	11.7x	8.8x	2.8x	2.1x	0.3x	0.3x	0.7x	0.0%
Agilysys	AGYS	\$9.95	44%	\$148	N/A	N/A	61.6%	3.9%	NM	N/A	N/A	N/A	1.5x	N/A	N/A	0.0%
				Max	11.9%	33.0%	61.6%	24.1%	26.0x	21.9x	15.3x	12.6x	3.3x	3.0x	5.1x	4.7%
				Average	4.8%	18.8%	37.4%	14.5%	17.0x	14.4x	9.7x	7.4x	1.6x	1.5x	2.3x	1.0%
				Min	0.8%	7.1%	21.7%	3.9%	11.6x	8.8x	2.8x	2.1x	0.3x	0.3x	0.7x	0.0%
NCR Corp.	NCR	\$30.00	80%	\$8,607	3.8%	-1.9%	26.3%	15.2%	11.2x	11.5x	7.8x	7.5x	1.3x	1.3x	5.1x	0.0%

Very Good Comps
for NCR's Core
business

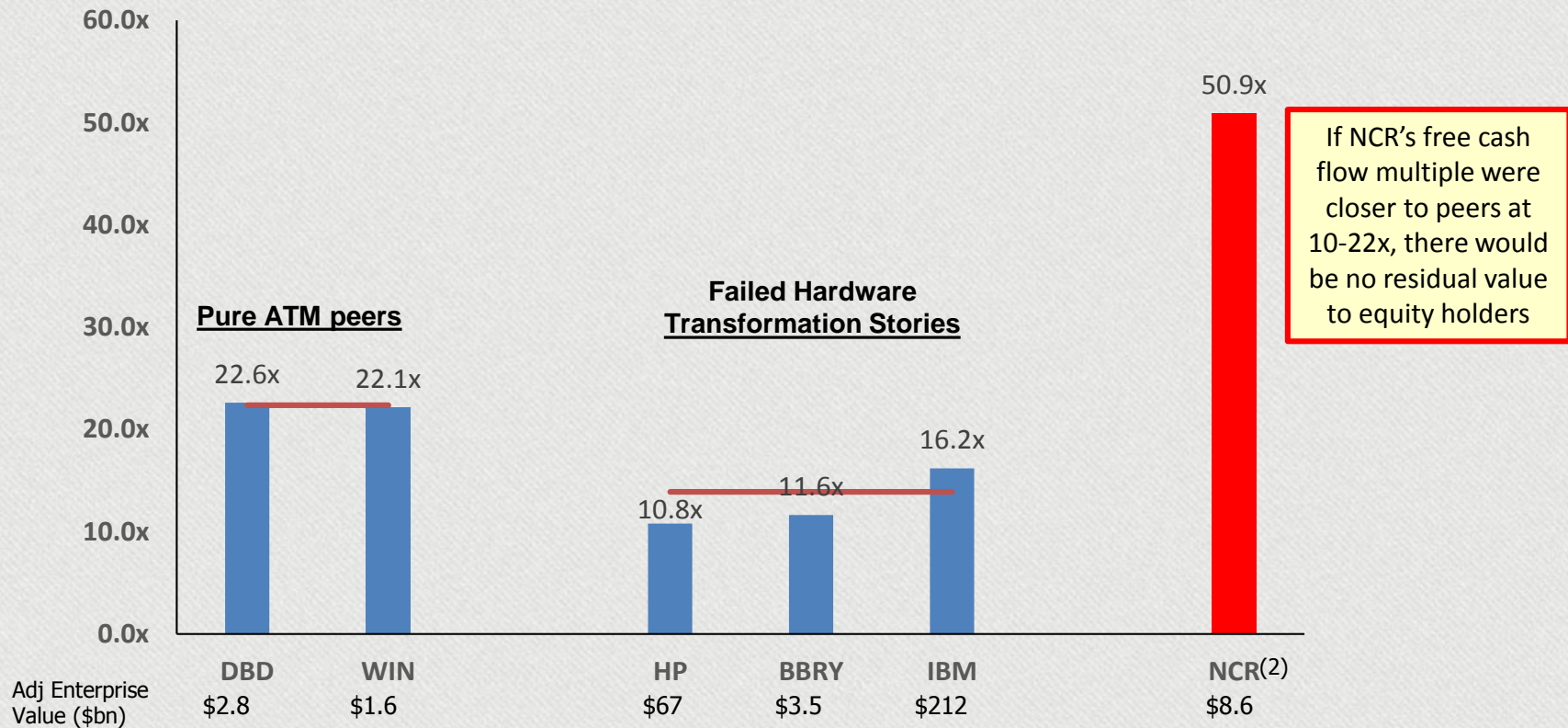
NCR's Bleak and Brutally Honest Valuation Implies At Least 45% Downside

Business	2014E Sales	Sales Multiple NCR Paid	Current Sales Multiple Range	Estimated Value Range	Comment	
Core ATM Business	\$5,434	--	0.4x – 0.6x	\$2,174 – \$3,260	Flat/Declining long-term growth. See major competitor Wincor Nixdorf's multiple	
Retalix	\$300	3.0x	1.0x – 2.0x	\$300 – \$600	Potentially impaired asset due to Target data breach, tough retail env't and competitive space	
Radiant	\$500	3.1x	2.0x – 3.0x	\$1,000 – \$1,500	2.5x -3.6x was the Oracle/Micros fairness opinion range. Evidence that Radiant's margins and growth rolling over suggests low end of range	
Digital insight (DI)	\$357	5.0x	1.5x – 2.5x	\$536 – \$893	Used recent fin tech deal range for DI competitors. Thoma Bravo paid 3x for DI when it had growth; now its growth has stalled	
Estimated Value of Assets				\$4009 – \$6,253		
Less: Financial Debt				(\$3,659)	Face value of debt	
Less: Env't Liabilities				(\$44)	Balance sheet liability	
Less: Brazilian Tax Dispute				(\$33)	Estimate midpoint of range	
Less: Unfunded Pension				(\$168)	Balance sheet liability	
Plus: Adjusted Cash				\$433	\$458m of \$511m is subject to repatriation tax. GE just paid a 17% tax to repatriate \$36bn	
Equity Value				\$538 – \$2,782		
Diluted Shares Outstanding				171.2	Weighted Avg. Share Count	
Source: NCR and Spruce Point estimates				Value range per NCR share	\$3.15 - \$16.25	The Dead Honest Truth

Given our numerous accounting concerns and inability to determine NCR's true EBITDA and EPS, we believe a sales based valuation approach is most appropriate

NCR's Free Cash Flow Multiple Implies Little to No Residual Equity Value

Adjusted Enterprise Value / Last 12 Months Free Cash Flow⁽¹⁾

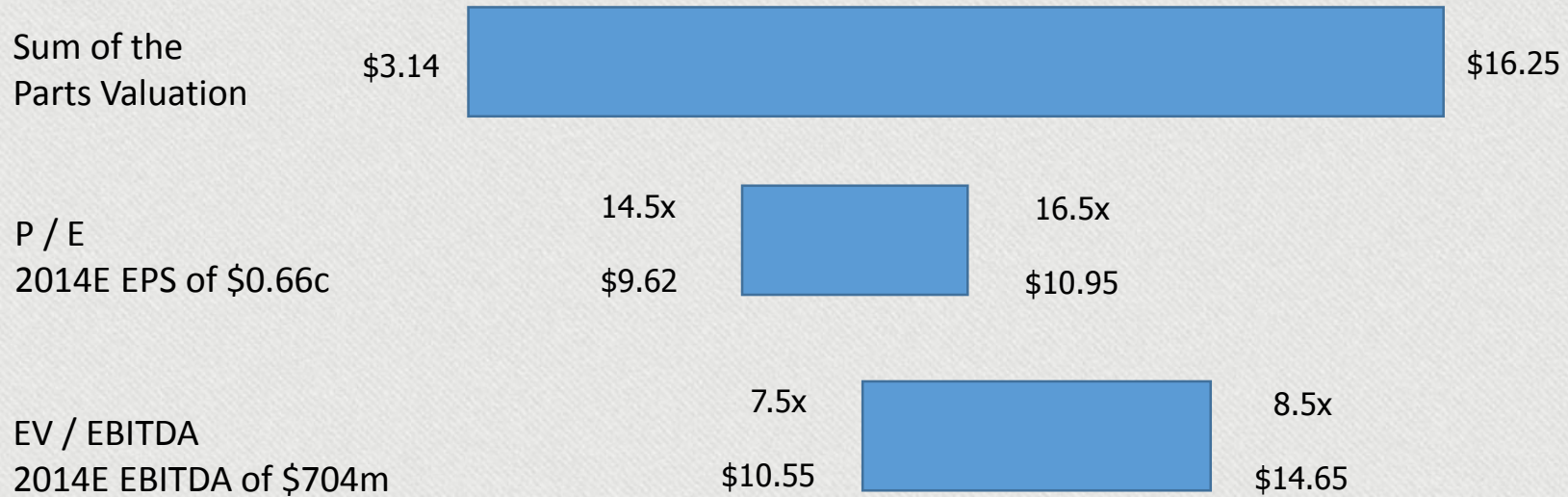


(1) Adjusted enterprise value includes unfunded pension and post retirement liabilities. Free cash flow defined as operating cash flow less capital expenditures

(2) Removes \$96m of securitized receivables from operating cash flow

Source: SEC and Company filings

NCR Indicative Valuation Range



Note: Assumes \$3,904m of liabilities, \$433m of cash and 171.2m shares outstanding
 Not drawn to scale. Valuation range for reference only. Based on Spruce Point estimated Non-GAAP cash adjusted EBITDA and EPS



Long-Term Price Potential





*Appendix: NCR's Flawed
Pension Presentation*

Other Large Corporations Treat Discretionary Pension Contributions On An After-Tax Basis

Non-GAAP Definitions & Reconciliations

NORTHROP GRUMMAN

Non-GAAP Financial Measures Disclosure: This presentation contains non-GAAP (accounting principles generally accepted in the United States of America) financial measures, as defined by Securities and Exchange Commission (SEC) Regulation G and indicated by a footnote in the text of this presentation. While we believe that these non-GAAP financial measures may be useful in evaluating our financial information, they should be considered as supplemental in nature and not as a substitute for financial information prepared in accordance with GAAP. Other companies may define these measures differently or may utilize different non-GAAP measures.

Cash provided by continuing operations before discretionary pension contributions: Cash provided by continuing operations before the after-tax impact of discretionary pension contributions. Cash provided by continuing operations before discretionary pension contributions has been provided for consistency and comparability financial performance.

Free cash flow from continuing operations: Cash provided by continuing operations less capital expenditures and outsourcing contract and related software costs. We use free cash flow from continuing operations as a key factor in our planning for and consideration of strategic acquisitions, stock repurchases and the payment of dividends. This measure should not be considered in isolation, as a measure of residual cash flow available for discretionary purposes, or as an alternative to operating results presented in accordance with GAAP.

Free cash flow from continuing operations before discretionary pension contributions: Free cash flow from continuing operations before the after-tax impact of discretionary pension contributions. We use free cash flow from continuing operations before discretionary pension contributions as a key factor in our planning for, and consideration of, strategic acquisitions, stock repurchases and the payment of dividends. This measure should not be considered in isolation, as a measure of residual cash flow available for discretionary purposes, or as an alternative to operating results presented in accordance with GAAP. Free cash flow from continuing operations before discretionary pension contributions, also referred to as pension-adjusted free cash flow from continuing operations.

Segment operating income: Total earnings from our four segments including allocated pension expense recognized under CAS. Reconciling items to operating income include the net FAS/CAS pension adjustment, as defined above, as well as certain corporate-level expenses, which are not considered allowable or allocable under applicable CAS or FAR.

Segment operating margin % / Segment operating income as a % of sales: Segment operating income as defined above, divided by sales. Management uses segment operating income as a % of sales as an internal measure of financial performance.

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GAAP RECONCILIATION OF FREE CASH FLOW

Reconciliations of Free Cash Flow and Free Cash Flow, After Adjustments, to GAAP Net Cash Provided by Operating Activities:

Management believes that free cash flow and free cash flow less discretionary pension and postretirement benefit contributions and CDSOA receipts are useful to investors because they are meaningful indicators of cash generated from operating activities available for the execution of its business strategy.

(Dollars in millions)

	Twelve Months Ended	
	December 31, 2013	2012
Net cash provided by operating activities	\$ 430.0	\$ 624.1
Less: capital expenditures	(325.8)	(297.2)
Less: cash dividends paid to shareholders	(87.5)	(89.0)
Free cash flow	16.7	237.9
Plus: discretionary pension and postretirement benefit contributions, net of the tax benefit (1)	66.3	245.0
Plus: CDSOA receipts, net of tax expense (2)	1.8	(65.0)
Free cash flow adjusted for discretionary pension contributions and CDSOA	\$ 84.8	\$ 414.9

(1) There were no discretionary pension and postretirement benefit contributions during the fourth quarter of 2013. The discretionary pension and postretirement benefit contributions for the year ended December 31, 2013 were \$105.0 million, net of a tax benefit of \$38.7 million. There were no discretionary pension and postretirement benefit contributions during the fourth quarter of 2012. The discretionary pension and postretirement benefit contributions for the year ended December 31, 2012 were \$364.1 million, net of a tax benefit of \$119.1 million.

(2) CDSOA receipts for the year ended December 31, 2012 were \$108.0 million, net of tax expense of \$40.0 million.

TIMKEN

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Stronger. Commitment. Stronger. Value. Stronger. Worldwide. Stronger. Together. Stronger. By Design.

SPX CORPORATION AND SUBSIDIARIES FREE CASH FLOW AND ADJUSTED FREE CASH FLOW RECONCILIATION (Unaudited; in millions)

	Three months ended December 31,		Twelve months ended December 31,	
	2014	2013	2014	2013
Net cash from continuing operations	\$ 140.0	\$ 254.7	\$ 81.7	\$ 111.6
Capital expenditures - continuing operations	(19.6)	(12.4)	(61.1)	(55.1)
Free cash flow from continuing operations	120.4	242.3	20.6	56.5
Tax payments related to gains on sales of joint venture interest, Thermal Product Solutions and SPX Precision Components	58.4	-	235.0	-
Tax payments related to cash repatriation	18.6	-	18.6	-
Tax and other payments related to the proposed spin-off	7.0	-	7.0	-
Tax payments related to gain on sale of Service Solutions	-	-	-	115.0
Discretionary pension contribution	-	-	-	250.0
Tax benefit associated with discretionary pension contribution	-	-	-	(90.0)
Adjusted free cash flow from continuing operations	\$ 204.4	\$ 242.3	\$ 281.2	\$ 331.5

Spinning a Potentially Misleading Story About its Change in Free Cash Flow Definition

Q4 2013 Earnings Conference Call

William Nuti, Chairman, Chief Executive Officer, President and Chairman of Executive Committee

“And let me just say this to everyone on the line as well. It's important to make this point on cash flow. Both Bob and I are laser-focused on improving cash flow conversion as a percent of NPOI. And trust me, there's a lot of going on that will yield to great results over the next several years. Linearity of that cash flow, **and oh, by the way, I just changed the bonus plan for every employee on a bonus plan at NCR this year. We have about 5,000 people on a bonus plan at NCR. Everyone of them now gets paid on 2 components: NPOI and free cash flow.** It's the first time we've done it, and it should yield better results, more education and greater focus in the long term.”



Matt Summerville - KeyBanc Capital Markets, Research Division

“And then Bob, I'm just -- I'm still trying to figure out cash flow. And Bill, I think it's probably an excellent move to put people on a comp plan that relates to that and I'm big advocate of that. **But Bob, I'm looking at how you've defined free cash flow in the past. In the third quarter, you looked at it as operating cash flow less PP&E, capitalized software. In this press release, you're now subtracting discretionary pension contributions and settlement. So I guess, I'm trying to figure out if you actually hit your cash flow forecast or not.**”

Robert Fishman - Chief Financial Officer, Chief Accounting Officer and Senior Vice President of NCR

“**Yes. No change, Matt. No change. We've always had the same definition.** What we've done is we've always taken our free cash flow, the operating cash. We've excluded the -- I should say, we've taken the operating cash adjusted for CapEx and discontinued operations. We think that's very transparent and then when there's onetime pension contributions, we've normalized free cash flow that way. So that's consistent with how we've been doing it. The normal pension contributions are as outlined on Page 16. So \$79 million in 2013, \$70 million in 2014, but that does exclude any onetime contributions that were made in '13.”

NCR Management's Bonus Tied To A Flawed, Unjust Financial Metric

NCR's management has sold its shareholders that it should be rewarded bonuses under its Management Incentive Plan (MIP) on the flawed financial metric of "Adjusted Free Cash Flow," which accounts for 40% of the bonus calculation. Fortunately, NCR's dismal performance did not even meet the threshold level of \$380m

NCR's "Core Financial Objective" Tied to "Adjusted Free Cash Flow"

Metric	2014 Core Financial Metrics		
	Definition	Impact on our Financials	Impact on our Behavior
NPOI⁽¹⁾	Our income (loss) from operations as reported under generally accepted accounting principles, excluding the impact of our pension expense and certain specified special items.	Profit (Loss) on our Income Statement (non-GAAP).	Forces decision-making to produce results aligned to achieving our long-term strategic objectives. Management can only be rewarded financially each year when they drive both profitable growth and use capital efficiently.
Adjusted Free Cash Flow⁽¹⁾	Our net cash provided by operating activities and discontinued operations, less capital expenditures for property, plant and equipment, less additions to capitalized software, and discretionary pension contributions.	Income Statement and Statement of Cash Flow (non-GAAP).	Forces decision-making to provide available cash for investment in our existing businesses, strategic acquisitions and investments, repurchase of NCR stock, and repayment of debt obligations.

(1) NPOI and Adjusted Free Cash Flow are non-GAAP measures. Income from operations and net cash provided by operating activities, respectively, are the most comparable GAAP measures. For reconciliation of GAAP to non-GAAP measures, see Exhibit 99.2 to the Company's Form 8-K filed on February 10, 2015.



Credit Rating Agency View of Discretionary Pension Contributions

Both of the major corporate credit ratings agencies agree that an excess pension contribution (aka “discretionary”) should be viewed as a financing cash flow and not as an operating cash flow

Moody's

How Moody's Adjusts the Financial Statements – Part 1

The following table describes Moody's adjustments related to underfunded defined benefit pension obligations.

TABLE 2
Standard Adjustments for Underfunded Defined Benefit Pensions (All Jurisdictions)

Balance Sheet	We adjust the balance sheet by recording as debt the amount by which the defined benefit pension obligation is underfunded. Our adjustment: recognizes the gross underfunded pension obligation (PBO/DBO - FMV of assets) as debt, and removes any remaining intangible pension assets and liabilities recognized under GAAP or IFRS.
Income Statement	We adjust pension expense to eliminate smoothing, and exclude net periodic pension income. Moody's reverses all pension costs; recognizes the service cost, which Moody's considers the best estimate of the operating cost of the pension plan (in proportion to COGS, Operating Expenses and SG&A); recognizes interest cost on the PBO/DBO in other non-recurring income/expense; attributes interest expense to pension-related debt, which we reclassify from other non-recurring income/expense to interest expense; adds or subtracts actual losses or gains on pension assets (but only in an amount up to the interest cost after attributing interest expense to pension-related debt) in other non-recurring income/expense.
Cash Flow Statement	We adjust the cash flow statement to: recognize only the service cost as an outflow from cash from operations (CFO), and reclassify employer cash pension contributions in excess of the service cost from an operating cash outflow (CFO) to a financing cash outflow (CFF). We do not adjust the cash flow statement if pension contributions are less than the service cost.

Standard & Poor's

Cash Flow

We try to identify catch-up contributions made to reduce unfunded obligations, which would artificially depress reported operating cash flows. **We view these contributions as akin to debt amortization, which represents a financing, rather than an operating cash flow.** Specifically, cash paid (plan contributions plus benefits paid directly to beneficiaries) exceeding the sum of current-period service and net interest costs (that is, interest cost net of actual or expected returns on plan assets) is added back to FFO on a tax-effected basis. We look at actual investment returns for the period and returns normalized for potentially nonrecurring, unusually high or low performance.

Conversely, if the company is funding postretirement obligations at a level substantially below its net expense (service cost and net interest cost), we interpret this as a form of borrowing that artificially bolsters reported cash flow from operations.