



Alliance Data Reports First Quarter 2018 Results

April 19, 2018

- **Revenue Increases to \$1.88 Billion**
 - **Pro Forma Revenue Increases 4 Percent**
- **EPS Increases 14 Percent to \$2.95**
- **Core EPS Increases 13 Percent to \$4.44**

Alliance Data Systems Corporation (NYSE: ADS), a leading global provider of data-driven marketing and loyalty solutions, today announced results for the quarter ended March 31, 2018.

Summary (in millions, except per share amounts)	Quarter Ended March 31,		
	2018	2017	% Change
Revenue	\$ 1,884	\$ 1,879	--
Pro forma revenue	\$ 1,963	\$ 1,879	+4%
Net income	\$ 164	\$ 146	+12%
Net income per diluted share ("EPS")	\$ 2.95	\$ 2.58	+14%
Diluted shares outstanding	55.7	56.7	

Supplemental Non-GAAP Metrics (a):			
Adjusted EBITDA	\$ 525	\$ 501	+5%
Adjusted EBITDA, net of funding costs ("adjusted EBITDA, net")	\$ 437	\$ 440	--
Core earnings per diluted share ("core EPS")	\$ 4.44	\$ 3.91	+13%

(a) See "Financial Measures" for a discussion of non-GAAP financial measures.

Ed Heffernan, president and chief executive officer of Alliance Data, commented, "The first quarter's biggest accomplishment was the completion of the process to insource the collection of charged-off accounts. This effort has taken several quarters to complete and required us to absorb lower recovery rates during that period. Nonetheless, this investment was necessary to fully realize the value of this cash flow stream. This significant headwind to earnings and growth rate should become a tailwind as the year progresses."

Heffernan continued, "this quarter's pro forma revenue growth of 4 percent and core EPS growth of 13 percent should reflect our softest quarter of the year. Specifically, higher reserve levels required to cover the transitory impacts of the internal recovery investment was an approximate \$0.60 hit to core EPS for the first quarter. Moving forward, recovery rates should move in our favor."

CONSOLIDATED RESULTS

Revenue was \$1.88 billion for the first quarter of 2018, flat with the prior year. Pro forma revenue – which adjusts for the change to net revenue

presentation for AIR MILES[®] effective January 1, 2018 – increased 4 percent. EPS increased 14 percent to \$2.95 and core EPS increased 13 percent to \$4.44 for the first quarter of 2018, both benefitting from lower tax rates and share count. Adjusted EBITDA, net was \$437 million for the first quarter of 2018, flat with the prior year.

SEGMENT RESULTS

(in millions)	Quarter Ended March 31,		
	2018	2017	% Change
Revenue:			
LoyaltyOne	\$ 226	\$ 333	
ASC 606 adjustment (a)	79	--	
LoyaltyOne pro forma revenue	305	333	-8%
Epsilon	509	529	-4%
Card Services	1,155	1,023	+13%
Corporate/other and eliminations	(6)	(6)	
Total pro forma revenue	\$ 1,963	\$ 1,879	+4%
Adjusted EBITDA, net:			
Loyalty One	\$ 54	\$ 59	-8%
Epsilon	92	85	+8%
Card Services	319	331	-4%
Corporate/other	(28)	(35)	
Total adjusted EBITDA, net	\$ 437	\$ 440	--%

(a) Represents classification of certain redemption revenue recorded net upon the adoption of ASC 606, Revenue from Contracts with Customers, January 1, 2018.

LoyaltyOne[®]: Pro forma revenue decreased 8 percent to \$305 million and adjusted EBITDA decreased 8 percent to \$54 million for the first quarter of 2018. AIR MILES reward miles issued decreased 1 percent for the first quarter of 2018 – improving from a 4 percent decline in 2017 – and is trending to growth over remainder of 2018. In addition, BrandLoyalty's growing pipeline of programs already provides visibility into approximately 90 percent of its revenue guidance for 2018.

Epsilon[®]: Revenue decreased 4 percent to \$509 million, while adjusted EBITDA increased 8 percent to \$92 million for the first quarter of 2018. The decline in revenue is due to a 25 percent decrease in lower margin pass-through agency business. The resulting shift in revenue mix contributed to a 2 percentage point increase in adjusted EBITDA margins.

Card Services: Revenue increased 13 percent to \$1.16 billion while adjusted EBITDA, net decreased 4 percent to \$319 million for the first quarter of 2018. Adjusted EBITDA, net was tempered by a \$50 million allowance for loan loss build and an approximate \$25 million market adjustment to the carrying value of held-for-sale receivables.

Reiterating 2018 Guidance

- Revenue of \$8.35 billion, representing an 8 percent increase, 12 percent on a pro forma basis.
- Core EPS of \$22.50 to \$23.00, representing a 16 to 19 percent increase over 2017.

Forward-Looking Statements

This release contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements give our expectations or forecasts of future events and can generally be identified by the use of words such as “believe,” “expect,” “anticipate,” “estimate,” “intend,” “project,” “plan,” “likely,” “may,” “should” or other words or phrases of similar import. Similarly, statements that describe our business strategy, outlook, objectives, plans, intentions or goals also are forward-looking statements. Examples of forward-looking statements include, but are not limited to, statements we make regarding our expected operating results, future economic conditions including currency exchange rates, future dividend declarations and the guidance we give with respect to our anticipated financial performance.

We believe that our expectations are based on reasonable assumptions. Forward-looking statements, however, are subject to a number of risks and uncertainties that could cause actual results to differ materially from the projections, anticipated results or other expectations expressed in this release, and no assurances can be given that our expectations will prove to have been correct. These risks and uncertainties include, but are not limited to, factors set forth in the Risk Factors section in our Annual Report on Form 10-K for the most recently ended fiscal year, which may be updated in Item 1A of, or elsewhere in, our Quarterly Reports on Form 10-Q filed for periods subsequent to such Form 10-K.

Our forward-looking statements speak only as of the date made, and we undertake no obligation, other than as required by applicable law, to update or revise any forward-looking statements, whether as a result of new information, subsequent events, anticipated or unanticipated circumstances or otherwise.

Financial Measures

In addition to the results presented in accordance with generally accepted accounting principles, or GAAP, the Company may present financial measures that are non-GAAP measures, such as constant currency financial measures, adjusted EBITDA, adjusted EBITDA margin, adjusted EBITDA, net of funding costs, core earnings and core earnings per diluted share (core EPS). Constant currency excludes the impact of fluctuations in foreign exchange rates. The Company calculates constant currency by converting our current period local currency financial results using the prior period exchange rates. The Company uses adjusted EBITDA and adjusted EBITDA, net as an integral part of internal reporting to measure the performance and operational strength of reportable segments and to evaluate the performance of senior management. Adjusted EBITDA eliminates the uneven effect across all reportable segments of non-cash depreciation of tangible assets and amortization of intangible assets, including certain intangible assets that were recognized in business combinations, and the non-cash effect of stock compensation expense. Similarly, core earnings and core EPS eliminate non-cash or non-operating items, including, but not limited to, stock compensation expense, amortization of purchased intangibles, amortization of debt issuance and hedging costs. The Company believes that these non-GAAP financial measures, viewed in addition to and not in lieu of the Company’s reported GAAP results, provide useful information to investors regarding the Company’s performance and overall results of operations.

Reconciliation of Non-GAAP Financial Measures

Reconciliations to comparable GAAP financial measures are available in the accompanying schedules, which are posted as part of this earnings release in both the News and Investors sections on the Company’s website (www.alliancedata.com). No reconciliation is provided with respect to forward-looking annual guidance for 2018 core EPS as the Company cannot reliably predict all necessary components or their impact to reconcile core EPS to GAAP EPS without unreasonable effort. The events necessitating a non-GAAP adjustment are inherently unpredictable and may have a material impact on the Company’s future results.

The financial measures presented are consistent with the Company’s historical financial reporting practices. Core earnings and core EPS represent performance measures and are not intended to represent liquidity measures. The non-GAAP financial measures presented herein may not be comparable to similarly titled measures presented by other companies, and are not identical to corresponding measures used in other various agreements or public filings.

Conference Call

Alliance Data will host a conference call on Thursday, April 19, 2018 at 8:30 a.m. (Eastern Time) to discuss the Company’s first-quarter 2018 results. The conference call will be available via the Internet at www.alliancedata.com. There will be several slides accompanying the webcast. Please go to the website at least 15 minutes prior to the call to register, download and install any necessary software. The recorded webcast will also be available on the Company’s website.

If you are unable to participate in the conference call, a replay will be available. To access the replay, please dial (855) 859-2056 or (404) 537-3406 and enter “82317378”. The replay will be available at approximately 11:45 a.m. (Eastern Time) on Thursday, April 19, 2018.

About Alliance Data

[Alliance Data](http://www.alliancedata.com)[®] (NYSE: ADS) is a leading global provider of data-driven marketing and loyalty solutions serving large, consumer-based industries. The Company creates and deploys customized solutions, enhancing the critical customer marketing experience; the result is measurably changing consumer behavior while driving business growth and profitability for some of today’s most recognizable brands. Alliance Data helps its clients create and increase customer loyalty through solutions that engage millions of customers each day across multiple touch points using traditional, digital, mobile and emerging technologies. An S&P 500, FORTUNE 500 and FORTUNE 100 Best Companies to Work For company headquartered in Plano, Texas, Alliance Data consists of three businesses that together employ approximately 20,000 associates at more than 100 locations worldwide.

[Alliance Data's card services](http://www.alliancedata.com) business is a provider of market-leading private label, co-brand, and business credit card programs. [Epsilon](http://www.alliancedata.com)[®] is a leading provider of multichannel, data-driven technologies and marketing services, and also includes [Conversant](http://www.alliancedata.com)[®], a leader in personalized digital marketing. [LoyaltyOne](http://www.alliancedata.com)[®] owns and operates the [AIR MILES](http://www.alliancedata.com)[®] Reward Program, Canada’s most recognized loyalty program, and Netherlands-based [BrandLoyalty](http://www.alliancedata.com), a global provider of tailor-made loyalty programs for grocers.

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(In millions, except per share amounts)

(Unaudited)

Three Months Ended

March 31,

2018 2017

Revenue	\$	1,884.2	\$	1,879.0
Operating expenses:				
Cost of operations		1,047.0		1,086.7
Provision for loan loss		337.7		315.1
Depreciation and amortization		121.7		124.8
Total operating expenses		1,506.4		1,526.6
Operating income		377.8		352.4
Interest expense, net:				
Securitization funding costs		52.1		35.2
Interest expense on deposits		35.5		26.0
Interest expense on long-term and other debt, net		71.6		64.0
Total interest expense, net		159.2		125.2
Income before income tax	\$	218.6	\$	227.2
Income tax expense		54.7		80.8
Net income	\$	163.9	\$	146.4

Per share data:

Weighted average shares outstanding – basic		55.4		56.4
Weighted average shares outstanding - diluted		55.7		56.7
Basic – Net income	\$	2.96	\$	2.60

Diluted – Net income

\$ 2.95 \$ 2.58

ALLIANCE DATA SYSTEMS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)

(Unaudited)

	March 31,		December 31,
	2018		2017
Assets			
Cash and cash equivalents	\$ 3,549.5	\$	4,190.0
Credit card and loan receivables:			
Credit card and loan receivables	17,819.1		18,613.8
Allowance for loan loss	(1,169.3)		(1,119.3)
Credit card and loan receivables, net	16,649.8		17,494.5
Credit card and loan receivables held for sale	950.3		1,026.3
Redemption settlement assets, restricted	581.7		589.5
Intangible assets, net	739.8		800.6
Goodwill	3,890.6		3,880.1
Other assets	3,031.2		2,703.8
Total assets	\$ 29,392.9	\$	30,684.8
Liabilities and Stockholders' Equity			
Deferred revenue	\$ 918.0	\$	966.9
Deposits	10,485.0		10,930.9
Non-recourse borrowings of consolidated securitization entities	8,121.5		8,807.3
Long-term and other debt	6,089.2		6,079.6
Other liabilities	1,777.8		2,044.8
Total liabilities	27,391.5		28,829.5
Stockholders' equity	2,001.4		1,855.3

Cash Flows from Financing Activities:

Borrowings under debt agreements	685.0	1,763.2
Repayments of borrowings	(706.5)	(1,098.9)
Net decrease in deposits	(448.4)	(188.7)
Non-recourse borrowings of consolidated securitization entities	905.0	180.0
Repayments/maturities of non-recourse borrowings of consolidated securitization entities	(1,590.0)	(945.0)
Purchase of treasury shares	—	(415.0)
Dividends paid	(31.7)	(29.0)
Other	(27.2)	(29.5)
Net cash used in financing activities	(1,213.8)	(762.9)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(1.7)	2.4
Change in cash, cash equivalents and restricted cash	(172.7)	53.0
Cash, cash equivalents and restricted cash at beginning of period	4,314.7	1,968.5
Cash, cash equivalents and restricted cash at end of period	\$ 4,142.0	\$ 2,021.5

(1) Adjusted to reflect the adoption of Accounting Standards Update (“ASU”) 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash.” The effect of the adoption of the standard was to include restricted cash and restricted cash equivalents at the beginning-of-period and end-of-period cash and cash equivalents totals.

ALLIANCE DATA SYSTEMS CORPORATION

SUMMARY FINANCIAL HIGHLIGHTS

(In millions)

(Unaudited)

Three Months Ended March 31,

	2018	2017	Change	
Segment Revenue:				
LoyaltyOne	\$ 226.3	\$ 333.1	(32)	%
Epsilon	509.4	529.4	(4)	
Card Services	1,155.2	1,023.2	13	

Corporate/Other	0.2	—	nm *
Intersegment Eliminations	(6.9)	(6.7)	nm *
Total	\$ 1,884.2	\$ 1,879.0	— %

Segment Adjusted EBITDA, net:

LoyaltyOne	\$ 53.9	\$ 58.7	(8) %
Epsilon	91.6	85.0	8
Card Services	318.6	330.7	(4)
Corporate/Other	(26.7)	(34.9)	(23)
Total	\$ 437.4	\$ 439.5	— %

Key Performance Indicators:

Credit card statements generated	77.8	72.2	8 %
Credit sales	\$ 6,805.6	\$ 6,579.2	3 %
Average receivables	\$ 17,722.4	\$ 15,685.4	13 %
AIR MILES reward miles issued	1,226.2	1,235.9	(1) %
AIR MILES reward miles redeemed	1,178.2	1,226.3	(4) %

* nm-not meaningful

ALLIANCE DATA SYSTEMS CORPORATION
RECONCILIATION OF NON-GAAP INFORMATION
(In millions, except per share amounts)
(Unaudited)

**Three Months Ended
March 31,**

2018 2017

Adjusted EBITDA and Adjusted EBITDA, net:

Net income	\$ 163.9	\$ 146.4
Income tax expense	54.7	80.8

Total interest expense, net		159.2		125.2
Depreciation and other amortization		47.7		44.7
Amortization of purchased intangibles		74.0		80.1
Stock compensation expense		25.5		23.5
Adjusted EBITDA	\$	525.0	\$	500.7
Less: Funding costs ⁽¹⁾		87.6		61.2
Adjusted EBITDA, net of funding costs	\$	437.4	\$	439.5

Core Earnings:

Net income	\$	163.9	\$	146.4
Add back: non-cash/ non-operating items:				
Stock compensation expense		25.5		23.5
Amortization of purchased intangibles		74.0		80.1
Non-cash interest ⁽²⁾		11.4		10.2
Income tax effect ⁽³⁾		(27.6)		(38.3)
Core earnings	\$	247.2	\$	221.9
Weighted average shares outstanding - diluted		55.7		56.7
Core earnings per share - diluted	\$	4.44	\$	3.91

(1) Represents interest expense on deposits and securitization funding costs.

(2) Represents amortization of debt issuance and hedging costs.

(3) Represents the tax effect for the related non-GAAP measure adjustments using the expected effective tax rate.

Three Months Ended March 31, 2018

	LoyaltyOne	Epsilon	Card Services	Corporate/ Other	Total
Operating income (loss)	\$ 28.3	\$ 7.3	\$ 377.0	\$ (34.8)	\$ 377.8

Depreciation and amortization	22.0	73.0	24.8	1.9	121.7
Stock compensation expense	3.6	11.3	4.4	6.2	25.5
Adjusted EBITDA	53.9	91.6	406.2	(26.7)	525.0
Less: Funding costs	—	—	87.6	—	87.6
Adjusted EBITDA, net	\$ 53.9	\$ 91.6	\$ 318.6	\$ (26.7)	\$ 437.4

Three Months Ended March 31, 2017

	LoyaltyOne	Epsilon	Card Services	Corporate/ Other	Total
Operating income (loss)	\$ 37.4	\$ (1.6)	\$ 363.1	\$ (46.5)	\$ 352.4
Depreciation and amortization	19.2	77.9	25.7	2.0	124.8
Stock compensation expense	2.1	8.7	3.1	9.6	23.5
Adjusted EBITDA	58.7	85.0	391.9	(34.9)	500.7
Less: Funding costs	—	—	61.2	—	61.2
Adjusted EBITDA, net	\$ 58.7	\$ 85.0	\$ 330.7	\$ (34.9)	\$ 439.5