

Alliance Data NYSE: ADS



Q3 2015 Results
October 22, 2015



Agenda

- Speakers: Ed Heffernan
Charles Horn
Bryan Kennedy
President and CEO
EVP and CFO
CEO – Epsilon/Conversant
- Third Quarter 2015 Consolidated Results
- Segment Results
- 2015 Guidance and Critical Goals
- Initial 2016 Guidance

Third Quarter 2015 Consolidated Results

(MM, except per share)

	<u>Quarter Ended September 30,</u>		
	<u>2015</u>	<u>2014</u>	<u>% Change</u>
Revenue	\$ 1,589	\$ 1,319	+20%
EPS	\$ 2.08	\$ 2.74	-24%
Core EPS	\$ 3.95	\$ 3.47	+14%
Adjusted EBITDA	\$ 497	\$ 416	+19%
Adjusted EBITDA, net	\$ 453	\$ 376	+20%
Diluted shares outstanding	61.8	59.9	

- Strong organic revenue growth of 12 percent.
- Unfavorable FX rates were a \$59 million and \$0.13 drag to revenue and core EPS, respectively.
 - Constant currency growth rates of 25 percent for revenue and 18 percent for core EPS.
- EPS was negatively impacted by a \$0.65 FDIC-related charge principally for the years 2008 to 2013.

LoyaltyOne[®] (MM)

	<u>Quarter Ended September 30,</u>		
	<u>2015</u>	<u>2014</u>	<u>% Change</u>
Revenue	\$ 299	\$ 325	-8%
Adjusted EBITDA	72	78	-8%
Non-controlling interest	<u>-7</u>	<u>-8</u>	
Adjusted EBITDA, net	\$ 65	\$ 70	-7%
Adjusted EBITDA %	24%	24%	0%
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Constant currency revenue	\$ 358	\$ 325	+10%
Constant currency adjusted EBITDA	\$ 86	\$ 78	+11%
Average CDN FX rate	0.76	0.92	-17%
Average Euro FX rate	1.11	1.32	-16%

- Revenue and adjusted EBITDA increased 10 percent and 11 percent, respectively, on a constant currency basis.
- Issuance growth of 5 percent in Canada. Expect negative growth in the fourth quarter of 2015 due to difficult comparable.
- Canadian \$ weakened further during the third quarter.

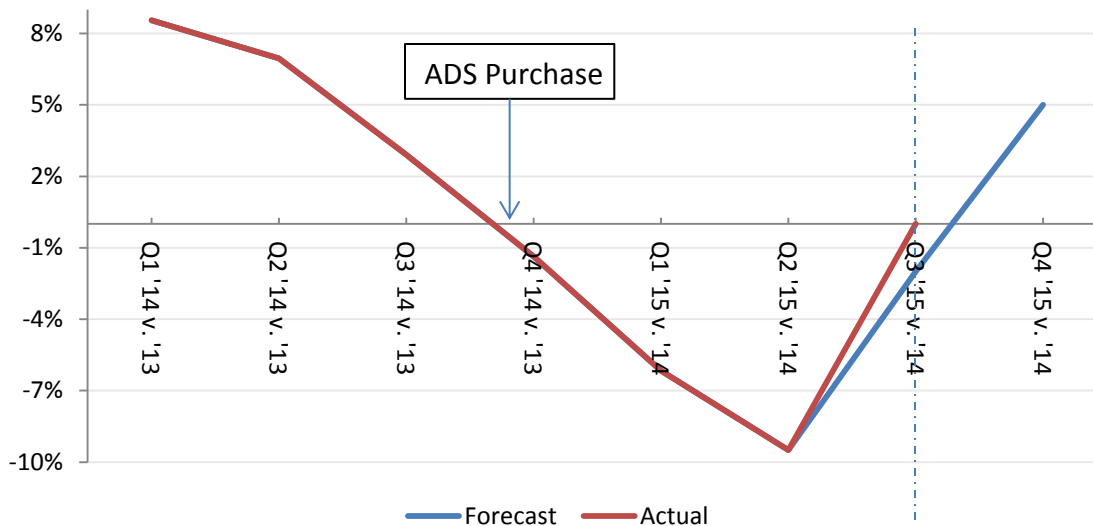
Epsilon[®] (MM)

	<u>Quarter Ended September 30,</u>		
	<u>2015</u>	<u>2014</u>	<u>% Change</u>
Revenue	\$ 532	\$ 378	+41%
Adjusted EBITDA	\$ 135	\$ 84	+60%
Adjusted EBITDA %	25%	22%	+3%

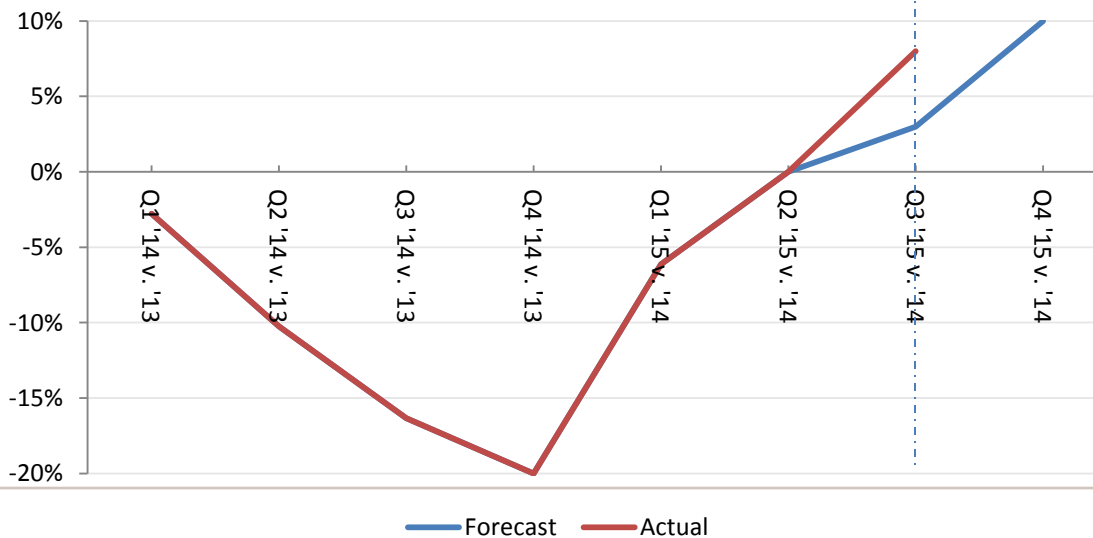
- Organic revenue and adjusted EBITDA growth of 5 percent and 6 percent, respectively.
- Conversant revenue was flat while adjusted EBITDA increased 9 percent on a proforma basis.
 - Executing the “turn” after three consecutive quarters of declines.
- Solid adjusted EBITDA margin expansion of 300 basis points for Conversant offering.

Conversant Year-Over-Year Growth

Revenue



Adj. EBITDA



Card Services (MM)

	<u>Quarter Ended September 30,</u>		
	<u>2015</u>	<u>2014</u>	<u>% Change</u>
Revenue	\$ 764	\$ 622	+23%
Operating expenses	266	221	+20%
Provision for loan losses	172	115	+50%
Funding costs	<u>37</u>	<u>31</u>	<u>+20%</u>
Adjusted EBITDA, net	\$ 289	\$ 255	+14%
Adjusted EBITDA, net %	38%	41%	-3%

- Strong revenue growth driven by 30 percent growth in average card receivables during Q3.
- Substantial growth in card receivables drove solid expense leveraging.
- The provision for loan losses increased significantly due to card receivables growth and an uptick in principal loss rates due to seasoning.

Card Services (MM)

Key metrics:	<u>Quarter Ended September 30,</u>		
	<u>2015</u>	<u>2014</u>	<u>Change</u>
Credit sales	\$ 6,000	\$ 4,479	+34%
Average credit card receivables	11,369	8,737	+30%
Total gross yield	26.9%	28.5%	-1.6%
Principal loss rates	4.4%	4.0%	+0.4%
Delinquency rate	4.5%	4.4%	+0.1%

- Majority of gross yield compression is due to mix (co-brand vs. PLCC).
- Loss rates were up 40 basis points due to seasoning of new vintages.
- Core¹ spending remains strong, up 9 percent.
- Ending reserve of 5.7 percent of reservable receivables at September 30, 2015.

¹ Pre - 2012 programs.

2015 Guidance and Critical Goals

LoyaltyOne

- BrandLoyalty
- Double-digit growth in revenue and adjusted EBITDA
- Canada
- North American expansion
- AIR MILES reward miles issuance growth returns to mid-single digits

EPSILON

- Epsilon
- Revenue growth flows through to adj. EBITDA growth
- Conversant
- Complete internal transformation towards data (first-half)
- Return to solid organic growth (second-half)



- Exceptional portfolio growth (> 25 percent)
- Strong, double-digit revenue and adjusted EBITDA, net growth
- Sign new \$2 billion vintage
- Deliver full digital suite (mobile apps, etc.)

Overall

- Organic revenue growth of 3x GDP; 20 percent plus overall revenue growth
- \$1.3 billion in free cash flow
- Play through FX headwinds though over-performance and share buybacks

2015 Guidance

(\$MM, except per share)

	2014	2015	'15 / '14 Increase
	<i>Actual</i>	<i>Guidance</i>	
Revenue	\$ 5,303	\$6,500	+23%
Core EPS	\$ 12.56	\$15.00	+19%
Diluted shares outstanding	62.4	62.8	

- Organic revenue growth rate of 14 percent (constant currency).
- Expected drag of \$250 million to revenue and \$0.50 to core EPS from FX.

Initial 2016 Guidance

LoyaltyOne

- High single-digit to low double-digit growth in revenue and adjusted EBITDA on a constant currency basis
- North American expansion provides upside for BrandLoyalty
- Mid-single digit issuance growth in Canada

EPSILON®

- Mid to high-single digit growth in revenue and adjusted EBITDA
- Complete internal transformation towards data-driven model
- Drive an additional \$70 million in cross-sell revenue

 AllianceData
CARD SERVICES

- 25 percent growth in card receivables
- Double-digit revenue and adjusted EBITDA, net growth
- Sign new \$2 billion vintage
- Principal loss rates up 20 – 30 basis points

Overall

- Double-digit revenue and core EPS growth
- Organic revenue growth above 3x GDP target
- > \$1.4 billion in free cash flow
- FX headwinds will likely continue, but at levels less than 2015

Initial 2016 Guidance

(\$MM, except per share)

	2015	2016	'16 / '15 Increase
		<i>Constant Currency</i>	
Revenue	\$ 6,500	\$7,200	+11%
Core EPS	\$ 15.00	\$17.00	+13%
Diluted shares outstanding	62.8	62.1	
CDN\$		0.79	
Euro		1.09	

Q & A

