

# Alliance Data NYSE: ADS



Q2 2015 Results  
July 23, 2015





# Second Quarter Consolidated Results

(MM, except per share)

	<u>Quarter Ended June 30,</u>		
	<u>2015</u>	<u>2014</u>	<u>% Change</u>
Revenue	\$ 1,501	\$ 1,265	+19%
EPS	\$ 2.11	\$ 2.19	-4%
Core EPS	\$ 3.32	\$ 2.90	+14%
Adjusted EBITDA	\$ 432	\$ 373	+16%
Adjusted EBITDA, net	\$ 393	\$ 332	+18%
Diluted shares outstanding	62.3	62.6	

- Strong organic revenue growth of 11 percent.
- Unfavorable FX rates were a \$49 million and \$0.11 drag to revenue and core EPS, respectively.
- EPS was negatively impacted by non-cash items, principally amortization of purchased intangibles associated with the Conversant acquisition.

# LoyaltyOne (MM)

	<u>Quarter Ended June 30,</u>		
	<u>2015</u>	<u>2014</u>	<u>% Change</u>
Revenue	\$ 302	\$ 356	-15%
Adjusted EBITDA	66	87	-24%
Non-controlling interest	<u>-3</u>	<u>-10</u>	
Adjusted EBITDA, net	\$ 63	\$ 77	-18%
Adjusted EBITDA %	22%	25%	-3%
AIR MILES® reward miles issued	1,482	1,247	+19%
AIR MILES reward miles redeemed	1,142	1,039	+10%
Average CDN FX rate	0.81	0.92	-11%
Average Euro FX rate	1.11	1.37	-19%

- Revenue was flat while adjusted EBITDA decreased 13 percent on a constant currency basis.
  - Higher marketing expenses at AIR MILES and infrastructure expenses at BrandLoyalty reduced EBITDA.
- As expected, BrandLoyalty revenue pulled back in the second quarter due to timing (down 7 percent from last year on a constant currency basis). Still up 40 percent year-to-date.
- Terrific 2nd quarter issuance growth of 19 percent in Canada.



# Epsilon (MM)

	<u>Quarter Ended June 30,</u>		
	<u>2015</u>	<u>2014</u>	<u>% Change</u>
Revenue	\$ 495	\$ 357	+39%
Adjusted EBITDA	\$ 113	\$ 68	+66%
Adjusted EBITDA %	23%	19%	+4%

- Organic revenue and adjusted EBITDA growth of 4 percent and 5 percent, respectively.
- Off-shoring initiative on-track, with expectations of approximately 350 employees by year-end.
- Solid adjusted EBITDA margin expansion of 300 basis points for Conversant offering.

# Card Services (MM)

	<u>Quarter Ended June 30,</u>		
	<u>2015</u>	<u>2014</u>	<u>% Change</u>
Revenue	\$ 710	\$ 557	+27%
Operating expenses	267	220	+21%
Provision for loan losses	155	97	+61%
Funding costs	<u>36</u>	<u>30</u>	<u>+20%</u>
Adjusted EBITDA, net	\$ 251	\$ 210	+20%
Adjusted EBITDA, net %	35%	38%	-3%

- Strong revenue growth driven by 33 percent growth in average card receivables during Q2.
- Substantial growth in card receivables drove solid expense leveraging.
- The provision for loan losses increased significantly due to card receivables growth and slight uptick in principal loss rates.

# Card Services (MM)

Key metrics:	<u>Quarter Ended June 30,</u>		
	<u>2015</u>	<u>2014</u>	<u>Change</u>
Credit sales	6,009	4,498	+34%
Average credit card receivables	10,866	8,171	+33%
Total gross yield	26.2%	27.3%	-1.1%
Principal loss rates	4.5%	4.4%	+0.1%
Delinquency rate	4.1%	4.0%	+0.1%

- Gross yield compression is due to mix (co-brand vs. PLCC).
- Loss rates were up slightly due to seasoning of 2013 start-up vintage.
- Core<sup>1</sup> spending remains strong, up 9 percent.
- Ending reserve of 5.6 percent of reservable receivables at June 30, 2015
  - spread of approximately 110 basis points to the LTM loss rate.

<sup>1</sup> Pre - 2012 programs.



# First Half Summary (MM)

1 <sup>st</sup> Half, 2015	Revenue		Adj. EBITDA, Net	
<b>LoyaltyOne:</b>				
BrandLoyalty	\$ 349	+41%	\$ 31	+29%
Canada	456	+4%	121	+2%
Constant currency	805	+17%	152	+7%
FX impact	-115		-19	
Reported	690		133	
<b>Epsilon:</b>				
Epsilon	739	+5%	128	+5%
Conversant	261	n/a	88	n/a
	1,000		216	
Card Services	1,425	+27%	533	+17%
<b>Total</b> <sup>1</sup>	\$ 3,102	+24%	\$823	+23%

+12% organic

- Double digit top/bottom
- +13% miles issued (-2% last year)
- FX is ~\$0.20 hit to core EPS
- Soft top/solid EBITDA flow-thru
- Topline 'pruning' completed
- Adj. EBITDA flat & accelerating after 5 negative growth quarters
- +33% portfolio growth
- Reserve build for growth
- \$6.98 core EPS , +23%

# Conversant

(+)

- 
- Pruning low/no margin products complete
  - Signed cross-sale of \$50 million in annual contract value / \$75 to \$80 million expected by year-end
  - Strong 2015 exit
  - Adj. EBITDA turned after 5 quarters of declines
  - Signed deals + pipeline drives double-digit revenue and adj. EBITDA growth in 2016
  - 2015 financial shortfall covered off through over-performance of other businesses

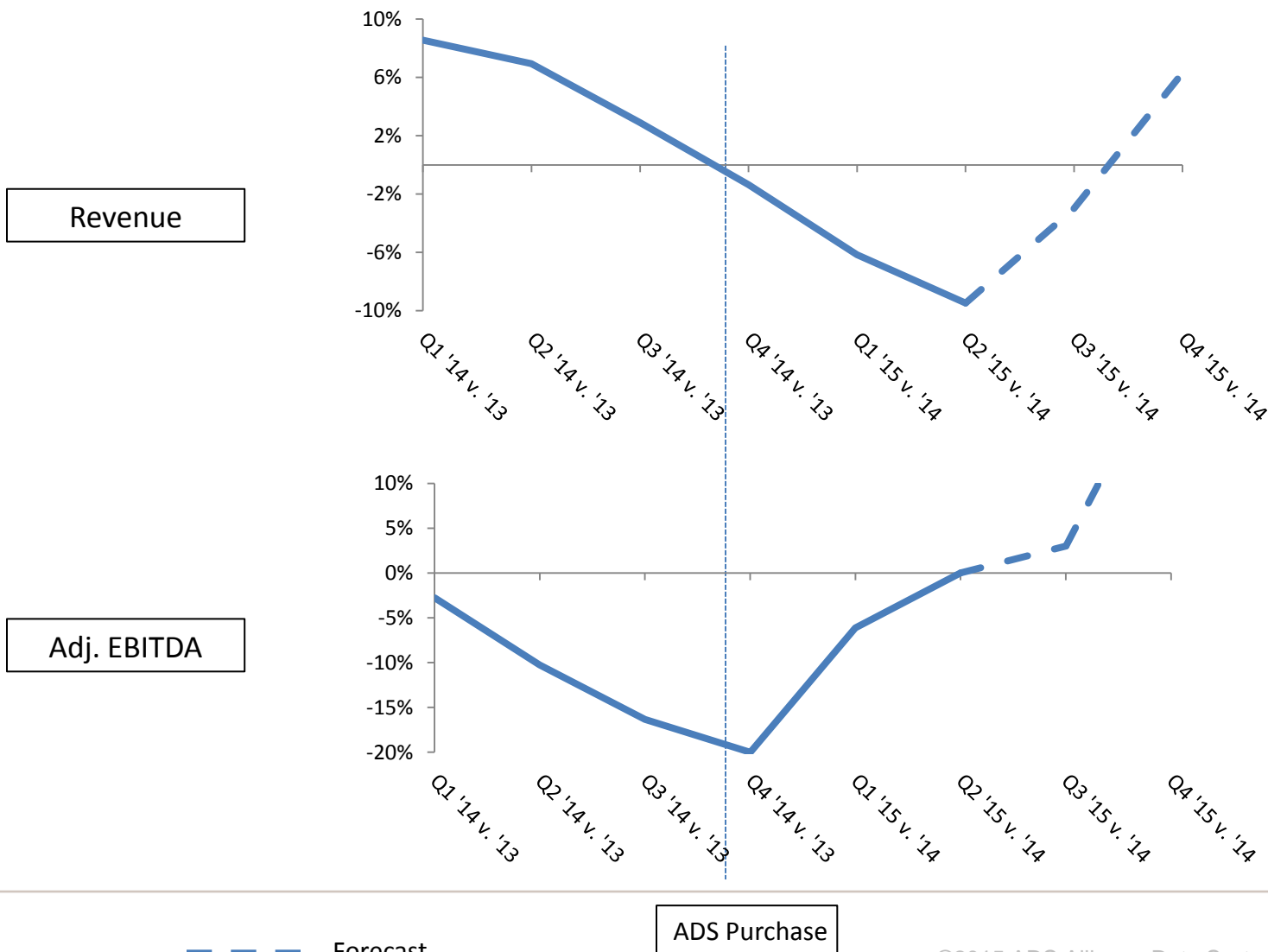
(-)

- 
- Pruning deeper than expected
  - Too optimistic on how quickly signed deals turn to revenue
  - Original 2015 financial results too optimistic



- Too optimistic on timing, but original thesis is playing out
- Looking like a solid contributor going into 2016

# Conversant Year-Over-Year Growth



# 2015 Guidance and Critical Goals

## LoyaltyOne

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

### EPSILON®

- Epsilon
- Conversant
- Revenue growth flows through to adj. EBITDA growth
- 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

# Raising 2015 Guidance

(\$MM, except per share)

	2014	2015	2015	'15 / '14 Increase
	<i>Actual</i>	<i>Original Guidance</i>	<i>New Guidance</i>	
Revenue	\$ 5,303	\$ 6,500	\$6,500	+23%
Core EPS	\$ 12.56	\$ 14.80	\$15.00	+19%
Diluted shares outstanding	62.4	64 – 64.7	62.8	

- Organic revenue growth rate of 11 percent (constant currency of 17 percent ).
- Expected drag of \$250 million to revenue and \$0.50 to core EPS from FX.
- Over-performance + share repurchases > FX drag → increased guidance.

# Q & A

