Alliance Data NYSE: ADS

Second Quarter Results

July 17, 2014

Agenda

- Speakers: Ed Heffernan — President and CEO
  Charles Horn — EVP and CFO
  Bryan Kennedy — EVP and President - Epsilon
- Second Quarter 2014 Consolidated Results
- Segment Results
- Liquidity
- 2014 Outlook
- Raising 2014 Guidance

Second Quarter 2014 Consolidated Results

(MM, except per share)

	Quarter Ended June 30,		
	2014	2013	% Change
Revenue	$ 1,265	$ 1,028	+23%
EPS	$ 2.19	$ 1.71	+28%
Core EPS	$ 2.90	$ 2.41	+20%
Adjusted EBITDA, net	$ 332	$ 306	+8%
Diluted shares outstanding	62.6	68.2	-8%
Phantom shares	*2.7*	*10.6*	*-75%*

- Organic revenue increased a robust 10 percent compared to the second quarter of 2013.
- Phantom shares were zero at June 30, 2014. End of quarter share count was 59.9 million.

Note: EPS is 'net income attributable to ADS stockholders per diluted share'. Core EPS is 'core earnings attributable to ADS stockholders per diluted share'. Adjusted EBITDA, net is 'adjusted EBITDA net of funding costs and non-controlling interest'.

LoyaltyOne (MM)

	Quarter Ended June 30,		
	2014	2013	% Change
Revenue	$ 356	$ 220	+62%
Adjusted EBITDA	$ 87	$ 66	+32%
Non-controlling interest	- 10	0	
Adjusted EBITDA, net	$ 77	$ 66	+17%
Adjusted EBITDA %	25%	30%	-5%
Key Metrics:			
AIR MILES® reward miles issued	1,247	1,252	0%
AIR MILES reward miles redeemed	1,039	934	+11%
Average CDN FX rate	0.92	0.98	-6%

- BrandLoyalty contributed $136 million in revenue and $26 million ($16 million, net) in adjusted EBITDA.
- Unfavorable FX rates reduced revenue and adjusted EBITDA, net by $14 million and $4 million, respectively.
- AIR MILES reward miles issued were consistent with the second quarter of 2013. AIR MILES reward miles redeemed increased 11 percent compared to the second quarter of 2013 due to the ramp up of the instant reward program.
- AIR MILES adjusted EBITDA margins were solid at 28 percent for the second quarter of 2014.

Epsilon (MM)

	Quarter Ended June 30,		
	2014	2013	% Change
Technology	$ 124	$ 109	+14%
Data	42	43	-2%
Agency	191	179	+6%
Total revenue	$ 357	$ 332	+8%
Adjusted EBITDA, net	$ 68	$ 64	+6%
Adjusted EBITDA, net %	19%	19%	0%

- Backlog remains up double digit compared to last year.
- Growth in the higher margin technology offering offset client on-boarding expenses (-$2.5 million) keeping adjusted EBITDA, net margins consistent with the prior year.
- Roll out of Harmony digital messaging platform (DMP) completed during the second quarter.

Private Label Services and Credit (MM)

	Quarter Ended June 30,		
	2014	2013	% Change
Finance charges, net	$ 538	$ 463	+16%
Other revenue	19	17	+11%
Total revenue	$ 557	$ 480	+16%
Operating expenses	220	190	+15%
Provision for loan losses	97	58	+67%
Funding costs	30	32	-4%
Adjusted EBITDA, net	$ 210	$ 200	+5%
Adjusted EBITDA, net %	38%	42%	-4%

- Revenue increased 16 percent on a 17 percent increase in average credit card receivables.
- Operating expenses increased 15 percent for the second quarter, reflecting substantially better leveraging of the revenue growth than in the first quarter of 2014.
- Funding costs decreased 30 basis points as a percentage of average credit card receivables to 1.5 percent.

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Private Label Services and Credit (MM)

	Quarter Ended June 30,		
	2014	2013	Change
Key metrics:			
Total gross yield*	27.3%	27.6%	-0.3%
Credit sales	$ 4,498	$ 3,692	+22%
Average credit card receivables	$ 8,171	$ 6,965	+17%
Ending credit card receivables	$ 8,534	$ 7,231	+18%
Allowance for loan losses	$ 484	$ 448	+8%
Principal loss rates	4.4%	4.6%	-0.2%
Normalized principal loss rates	4.5%	4.8%	-0.3%
Delinquency rate	4.0%	3.9%	+0.1%
Return on average assets	5.3%	5.6%	-0.3%

- The decrease in gross yield is due to the influence of new programs. The yield for core programs was essentially flat compared to the second quarter of 2013.
- Normalized principal loss rates (adjusted for fair value accounting treatment of acquired portfolios) improved 30 bps during the second quarter.

* Annualized total revenue divided by average credit card receivables.

Liquidity

Liquidity

- Corporate:
  - $0.7 billion in usable liquidity at June 30, 2014
  - $345 million convertible notes were cash settled for approximately $1.8 billion.
    - Call options with counterparties resulted in cash proceeds to ADS of $1.5 billion
    - Warrants with counterparties will result in ADS issuing about 5.2 million* shares over a six week period ending August 11, 2014. These shares are already included in the diluted share count.
  - Debt levels remain moderate; leverage ratio of 2.2x at June 30, 2014
- Banks (Comenity Bank and Comenity Capital Bank):
  - $2.7 billion of available liquidity at June 30, 2014
  - $65 million in dividends were paid to parent during the quarter
  - Comenity Bank regulatory ratios at June 30, 2014 were Tier 1: 16 percent; Leverage: 15 percent; Total Risk-based: 17 percent

Repurchase Program

- $202 million of $400 million board authorization spent year-to-date; 813 thousand shares acquired

* Not the final valuation, thus amounts are subject to change.

2014 Updated Guidance

($MM, except per share)

	2013 *Actual*	2014 *New Guidance*	14/13 Increase	
Average ADS share price	*$192*	*$274**	*+$82*	
Revenue	$4,319	$5,300	+23%	+9% organic
Core Earnings	$669	$768	+15%	
Diluted shares outstanding	66.9	62.2	-7%	
Core EPS	$10.01	$12.35	+23%	

- Weak Canadian dollar continues to be a headwind – expected FX rates of $0.91 vs. $0.97 last year is a drag of $55 million to revenue and 17 cents to core EPS for 2014
- Core EPS guidance increased by $0.10.

* Assumes $285 average ADS share price for the third quarter of 2014.

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2014 Updated Guidance - 2nd Half Acceleration

($MM, except per share)

	2014				
	Q1	Q2	Q3	Q4	FY
Core Earnings	$185	$182	$195	$206	$768
Growth rates	*+7%*	*+11%*	*+11%*	*+31%*	*+15%*
Diluted shares outstanding	66.1	62.6	60.0	60.0	62.2
Core EPS	$2.79	$2.90	$3.25	$3.41	$12.35
Growth rates	*+9%*	*+20%*	*+22%*	*+43%*	*+23%*

- Increasing earnings coupled with declining share counts leads to back-half core EPS acceleration.
- The strength in the fourth quarter of 2014 is primarily due to BrandLoyalty's seasonality.

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2014 Outlook

- LoyaltyOne: BrandLoyalty driving high, double digit revenue and adjusted EBITDA, net growth
  - AIR MILES: +3 percent revenue and adjusted EBITDA, net growth (constant currency)
    - Positive trends: AIR MILES issued of -4 percent in Q1 → 0 percent in Q2 → +8 percent in 2nd half of 2014
    - Lessening headwinds: FX translation drag on adjusted EBITDA of ($5 million) in Q1 → ($4 million) in Q2 → ($5 million) in 2nd half of 2014
  - BrandLoyalty: +20 percent growth in revenue and adjusted EBITDA on a pro-forma basis*
    - Growth is organic
    - Seeing strong demand in core markets plus developing markets
  - Brazil: +40 percent revenue growth**
    - Grow, grow, grow; 2011: 1.6 million members → 2014: >13 million members
- Epsilon: high single-digit revenue/mid single-digit adjusted EBITDA growth
  - Technology offering (database/loyalty/digital) - leading revenue growth; increasing demand
  - Agency offering – solid top-line growth, pressure on margins (primarily due to Ford ramp-up expenses)
  - Data – choppy, with weakness in off-line data

* BrandLoyalty was acquired on January 2, 2014. Not included in ADS's 2013 numbers.
** Not consolidated into ADS's numbers.

2014 Outlook (cont.)

- Private Label: high-teens revenue with mid-teens adjusted EBITDA, net growth
  - Tender share growth continues; card sales growth double that of our clients' total sales growth
    - Data-driven targeted marketing is our competitive advantage
  - Card sales growth of approximately 20 percent; roughly 50 percent from core clients and 50 percent from ramp up of new programs
  - Average card receivables growth of approximately 20 percent for 2014
    - Q1: 15 percent → Q2: 17 percent → Q3: 20 percent → Q4: 25 percent
  - On track for another $2 billion A/R vintage year
  - Pipeline remains strong
- Summary: revenue and core EPS up 23 percent, respectively
  - Organic revenue growth of 9 to 10 percent; about 3 times GDP
  - All segments growing
  - Acceleration in back-half of 2014 provides strong jump-off point for 2015

Q & A