

Alliance Data NYSE: ADS



Q1 2015 Results
April 16, 2015



Agenda

- Speakers: Ed Heffernan President and CEO
Charles Horn EVP and CFO
Melisa Miller EVP and President – Card Services
- First Quarter 2015 Consolidated Results
- Segment Results
- 2015 Guidance and Critical Goals
- Raising 2015 Guidance

First Quarter Consolidated Results

(MM, except per share)

	<u>Quarter Ended March 31,</u>		
	<u>2015</u>	<u>2014</u>	<u>% Change</u>
Revenue	\$ 1,601	\$ 1,233	+30%
EPS	\$ 2.32	\$ 2.08	+12%
Core EPS	\$ 3.65	\$ 2.79	+31%
Adjusted EBITDA	\$ 474	\$ 371	+28%
Adjusted EBITDA, net	\$ 430	\$ 335	+29%
Diluted shares outstanding	63.6	66.1	-4%

- Double-digit revenue growth in all segments.
 - strong organic revenue growth of 19 percent.
- Solid flow-through of revenue growth to adjusted EBITDA.
- Unfavorable FX rates were a 5 percent drag to revenue and core EPS.
- EPS and core EPS benefitted from the repurchase of 2 million shares during Q1.

LoyaltyOne (MM)

	<u>Quarter Ended March 31,</u>		
	<u>2015</u>	<u>2014</u>	<u>% Change</u>
Revenue	\$ 388	\$ 329	+18%
Adjusted EBITDA	\$ 77	\$ 71	+9%
Non-controlling interest	<u>-7</u>	<u>-6</u>	
Adjusted EBITDA, net	\$ 70	\$ 65	+7%
Adjusted EBITDA %	20%	22%	-2%
Key Metrics:			
AIR MILES® reward miles issued	1,229	1,147	+7%
AIR MILES reward miles redeemed	1,213	1,056	+15%
Average CDN FX rate	0.81	0.91	-11%
Average Euro FX rate	1.12	1.37	-18%

- Revenue and adjusted EBITDA increased 37 percent and 26 percent, respectively, on a constant currency basis.
- Tremendous quarter for BrandLoyalty with revenue up 100 percent from last year on a constant currency basis.
 - some is due to timing of customer marketing promotions (Q1 vs. Q2).
- Solid 1st quarter issuance growth of 7 percent in Canada.

Epsilon (MM)

	<u>Quarter Ended March 31,</u>		
	<u>2015</u>	<u>2014</u>	<u>% Change</u>
Revenue	\$ 505	\$ 348	+45%
Adjusted EBITDA	\$ 104	\$ 55	+88%
Adjusted EBITDA %	21%	16%	+5%

- Strong organic revenue and adjusted EBITDA growth of 6 percent and 5 percent, respectively.
- Solid 21 percent growth in 1st quarter volumes for Agility Harmony digital messaging platform.

Card Services (MM)

	<u>Quarter Ended March 31,</u>		
	<u>2015</u>	<u>2014</u>	<u>% Change</u>
Revenue	\$ 715	\$ 562	+27%
Operating expenses	262	217	+21%
Provision for loan losses	135	71	+90%
Funding costs	<u>36</u>	<u>30</u>	<u>+17%</u>
Adjusted EBITDA, net	\$ 282	\$ 244	+16%
Adjusted EBITDA, net %	39%	43%	-4%

- Strong revenue growth driven by 33 percent growth in average card receivables during Q1.
- Substantial growth in card receivables drove solid expense leveraging.
- The provision for loan losses increased significantly due to card receivables growth and timing.
 - reserve build in Q1, 2015 (+\$15 million) compared to reserve release in Q1, 2014 (-\$21 million)

Card Services (MM)

Key metrics:	<u>Quarter Ended March 31,</u>		
	<u>2015</u>	<u>2014</u>	<u>Change</u>
Credit sales	\$ 4,960	\$ 3,614	+37%
Average credit card receivables	\$ 10,677	\$ 8,022	+33%
Total gross yield	26.8%	28.0%	-1.2%
Normalized loss rates	4.9%	4.9%	-%
Delinquency rate	3.9%	3.9%	-%

- Gross yield compression is due to mix (co-brand vs. PLCC) and acquired card receivables.
- Normalized loss rates (adjusted for acquired portfolios) were consistent between quarters.
- Core¹ spending remains strong, up 11 percent.
- Ending reserve of 5.6 percent of reservable receivables at March 31, 2015
 - spread of approximately 120 basis points to the LTM loss rate.

¹ Pre - 2012 programs.

First Quarter Summary (MM)

Q1, 2015	Revenue		Adj. EBITDA, Net	
LoyaltyOne:				
BrandLoyalty	\$ 224	+100%	31	+117%
Canada	228	+5%	58	+3%
Constant currency	452	+37%	89	+26%
Non-controlling interest			-7	
FX impact	-64		-12	
Reported	388	+18%	70	+7%
Epsilon:				
Epsilon	368	+6%	58	+5%
Conversant	137	n/a	46	n/a
	505		104	
Card Services	715	+27%	282	+16%
Total ¹	\$ 1,601	+30%	\$ 430	+29%

- +7% miles issued

- FX is ~\$0.10 hit to core EPS

- Solid EBITDA flow-thru

- 2nd half acceleration

- +33% portfolio growth

- Reserve build for growth

- \$3.65 core EPS, +31%

¹ Net of corporate/other segment which is not shown.

2015 Guidance and Critical Goals

LoyaltyOne

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

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

Raising 2015 Guidance

(\$MM, except per share)

	2014	2015	2015	'15 / '14 Increase
	<i>Actual</i>	<i>Previous Guidance</i>	<i>New Guidance</i>	
Revenue	\$ 5,303	\$ 6,500	\$6,500	+23%
Core EPS	\$ 12.56	\$ 14.80	\$14.90	+19%
Diluted shares outstanding	62.4	64 – 64.7	63.0	

	<u>Q1 '15</u>			<u>2015</u>	
Previous guidance	\$ 3.40	+22%	Previous guidance	\$ 14.80	+18%
Share repurchases	0.05		Share repurchases	-	<i>Cover further FX weakness</i>
BrandLoyalty timing	0.10		BrandLoyalty timing	-	<i>Reverses in Q2</i>
Over-performance	0.10	→	Over-performance	0.10	
Reported core EPS	\$ 3.65	+31%	New core EPS guidance	\$ 14.90	+19%

Q & A

