

Alliance Data NYSE: ADS

Third Quarter 2018 Results
October 18, 2018



Forward-Looking Statements

This presentation 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 strategic evaluations, 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 presentation, 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.

Agenda

- Speakers: Ed Heffernan President and CEO
 Charles Horn EVP and CFO
- Consolidated Results
- Segment Results & Outlook
- Guidance
- 2019: A look Ahead

Third Quarter 2018 Consolidated Results

(MM, except per share)

	Quarter Ended September 30,		
	2018	2017	% Change
Revenue	\$1,947	\$1,912	+2%
Pro forma revenue ¹	\$2,016	\$1,912	+5%
Net income	\$297	\$233	+27%
EPS	\$5.39	\$4.20	+28%
Core EPS	\$6.26	\$5.35	+17%
Adjusted EBITDA	\$662	\$622	+7%
Adjusted EBITDA, net	\$563	\$550	+2%
Diluted shares outstanding	55.0	55.6	

¹ ASC 606 revenue recognition, which became effective January 1, 2018, requires a net revenue recognition (gross revenue less cost of goods) for travel-related redemptions at AIR MILES®. This new presentation lowers reported revenue but does not impact net income, EPS or core EPS.

Third Quarter 2018 Segment Results

(MM)

	Quarter Ended September 30,		
	2018	2017	% Change
Revenue:			
LoyaltyOne®	\$260	\$305	
ASC 606 adjustment	69	--	
Pro forma	329	305	+8%
Epsilon®	538	559	-4%
Card Services	1,163	1,055	+10%
Other	(14)	(7)	
	\$2,016	\$1,912	+5%

- Change to net revenue presentation

Adjusted EBITDA, net:

LoyaltyOne	\$63	\$61	+4%
Epsilon	125	125	-%
Card Services	414	397	+4%
Other	(40)	(33)	
	\$563	\$550	+2%

Leverage ratio

2.42x

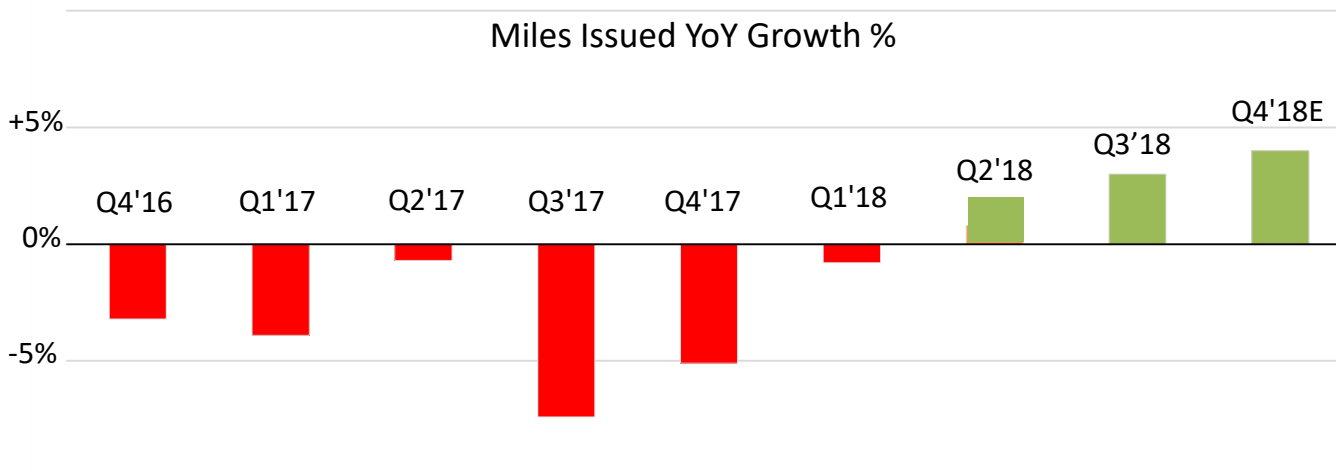
2.85x



AllianceData.

LoyaltyOne

- Q3:
 - Growth in both pro forma revenue and adjusted EBITDA for 2nd consecutive quarter
 - Key metric – AIR MILES issued - positive and increasing (+3 percent in Q3 v. +2 percent in Q2)



- BrandLoyalty: double-digit growth in revenue and adjusted EBITDA for 2nd consecutive quarter
- Outlook:
 - Solid pro forma revenue and adjusted EBITDA growth to finish the year
 - Continued momentum in AIR MILES issued

Epsilon

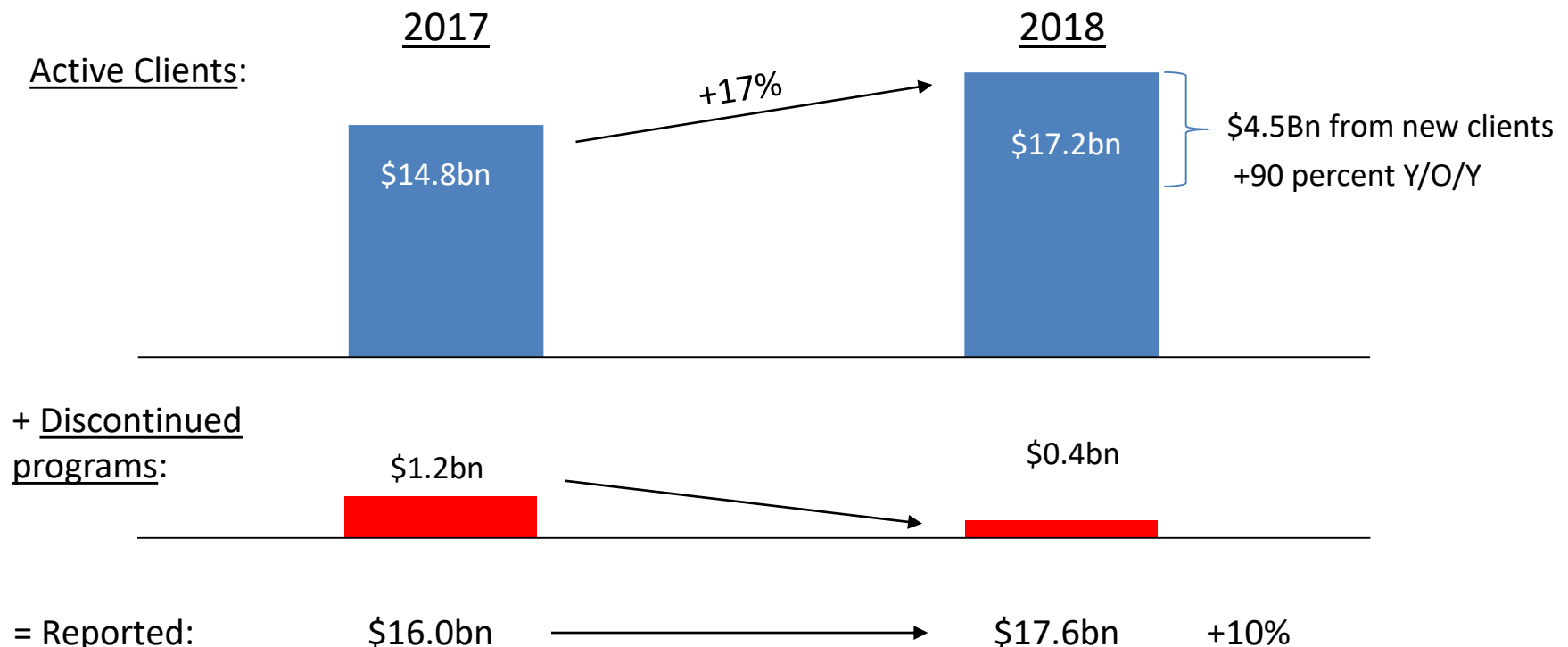
- Q3:
 - Revenue down 4 percent compared to down 5 percent in 1st half of 2018
 - Still soft and below expectations
 - Mix of growing, stable and declining product offerings
 - Challenges:
 - Agency and Site-Based Display (old Valueclick) platforms
 - Several client bankruptcies
- Outlook:
 - Revenue expected to be down 3-5 percent for year, but adjusted EBITDA approximately flat with the prior year
 - Adjusted EBITDA margin expansion of approximately 100 basis points

Card Services

- Q3:
 - New signings exceptionally strong
 - Continues aggressive strategy to diversify away from mall-based specialty apparel
 - Bon-Ton receivables moved to held-for-sale
- YTD:
 - IKEA – home décor
 - Wyndham – hospitality
 - Academy Sports – sporting goods
 - Floor & Decor – home décor
 - Adorama – consumer electronics (store/e-commerce)
 - Appliances Connection – consumer electronics (e-commerce)
- Announced signing of \$2.0 billion vintage plus signed-not-yet-announced of \$2.0 billion vintage puts 2018 at \$4 billion vintage (2x recent record years)
 - 100 percent away from mall-based specialty apparel
- Active client base strong
 - Credit sales +11 percent, receivables growth +17 percent
- Continued turmoil in retail – discontinued programs reduce reported credit sales and receivables growth to 0 percent and 10 percent
- Credit quality continues to improve
 - Q1: 6.7 percent → Q2: 6.4 percent → Q3: 5.9 percent
 - Recovery rate: Q1: ~9 percent → Q2: ~15 percent → Q3: ~18 percent (higher than Q3, 2017 rate)

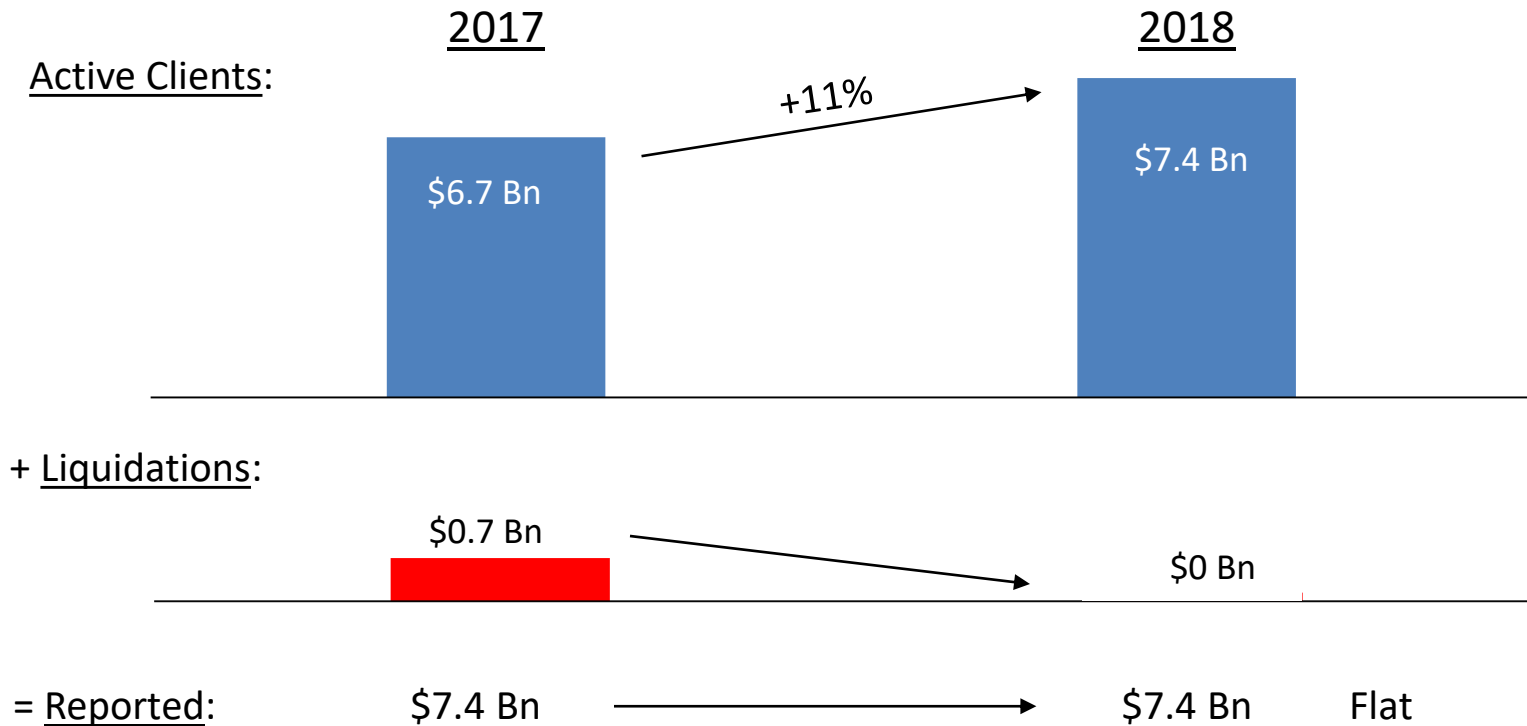
Card Services: Q3 Receivables Growth

- Reported growth of +10%
 - Includes impact of discontinued programs
- Active client growth of +17%
- Pivot to healthier verticals successful
 - Clients signed 2015–2018: ~25% of total receivables vs. ~14% last year
 - Growth of 90% year-over-year



Card Services: Q3 Credit Sales Growth

- Active clients' credit sales up 11 percent
- Total credit sales growth masked by discontinued programs
- New clients' credit sales (2015-2018 signings) up ~70 percent and now represent ~25 percent of credit sales compared to 16 percent in prior year

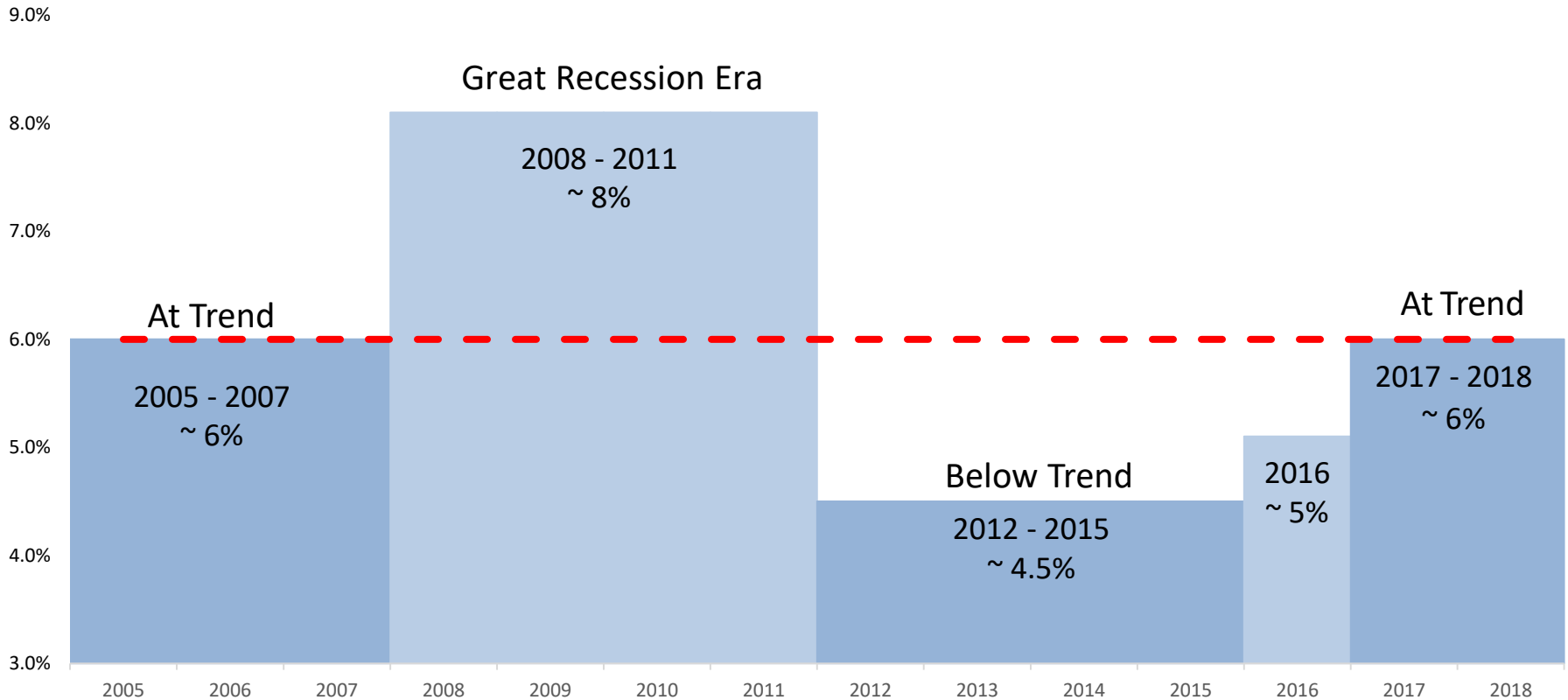


Card Services: Outlook

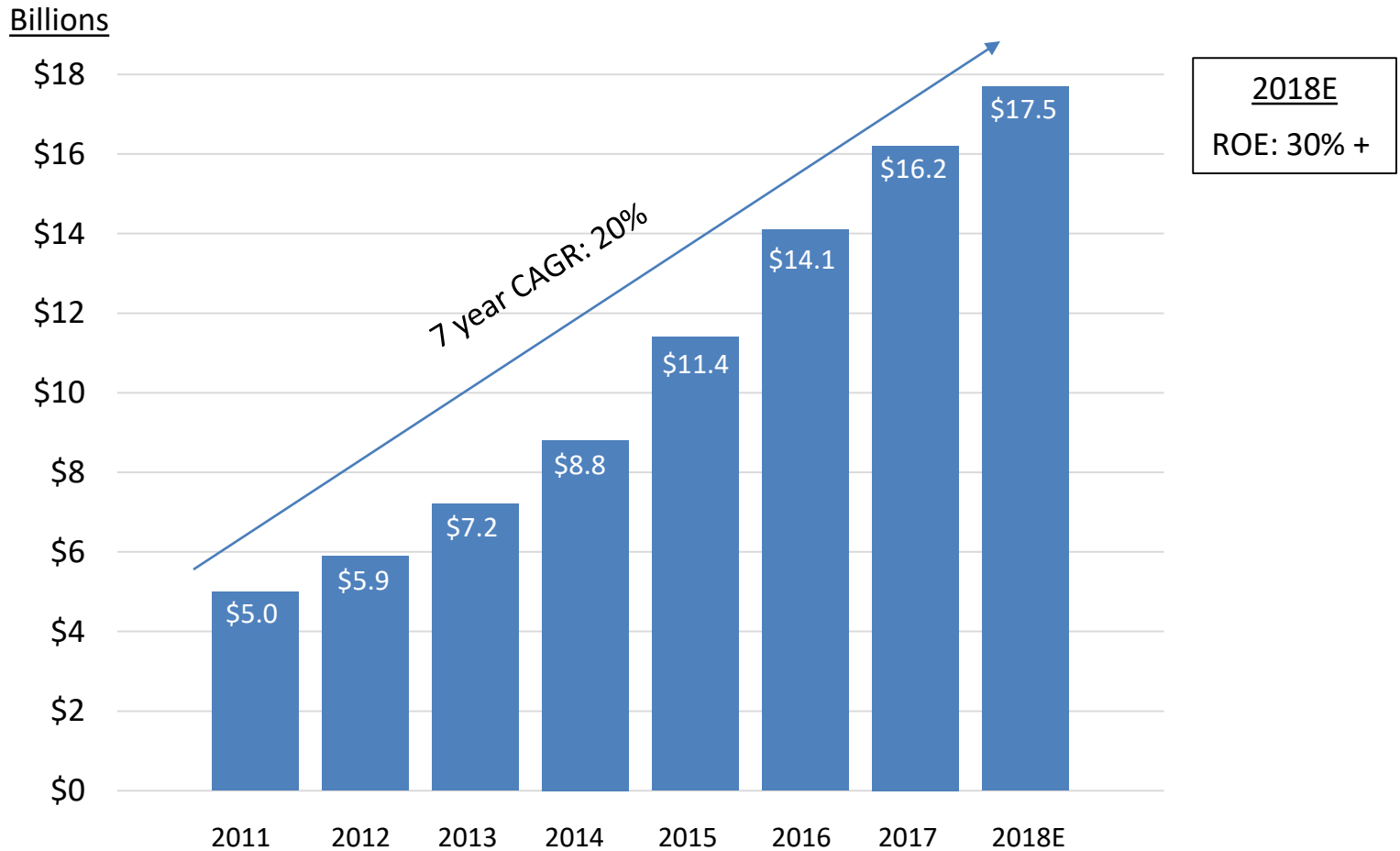
- Active client receivables growth in mid-teens range
 - Non-strategic clients (liquidating, bankrupt or in decline due to M&A) will be aggressively moved out of the portfolio
 - Reported growth slows and then recovers during 2019; active client growth remains strong throughout 2019
 - Frees up capital and makes room for record new vintage
- New Signings: on track for \$4 billion vintage (2x recent years)
- 2015-18 Signings ~ 25 percent of portfolio; ~ 50 percent in 2 years
 - Current card receivables reflect only \$4.5 billion of the expected \$11 billion run-rate as ramp-up continues
- Credit Quality: we are now at our long-term annual rate of ~6 percent
 - Loss rate: Q1: 6.7 percent → Q4 forecast: mid-5's
 - Recovery rate: Q1: (50) bps headwind → Q4: 65 bps tailwind
 - Despite all the noise, the difference between Q1's rate of 6.7% and Q4's rate in mid-5's is virtually entirely due to the ramp-up in recovery rates
 - Gives us comfort looking forward

Card Services: Principal Loss Rates

- Loss rates have now returned to trend



Card Services: Average Card Receivables Growth



Card Services: Strategic Objectives

- ✓ 1. Move recovery process in-house
 - Headwind in 1st half of 2018 → tailwind in 2nd half of 2018

2. Aggressively prune portfolio of non-strategic clients
 - Liquidations, bankruptcies, M&A
 - Fully support remaining core clients (mobile app, e-commerce, frictionless transactions)

3. Aggressively pivot portfolio towards strong, high growth verticals
 - Only \$4.5 billion of \$11 billion signed currently reflected in receivables
 - Strong 2018 signings and a healthy pipeline

4. Maintain model and improve visibility:
 - Long-term mid-teens receivables growth
 - Targeted loss rate approximating 6 percent
 - Return on equity target > 30 percent

2018 Guidance

- Revenue
 - Adjusting revenue guidance to approximately \$7.9 billion and pro forma revenue to approximately \$8.2 billion
 - Softness at Epsilon
 - Aggressive pruning of non-strategic Card Services' clients will dampen Q4 revenue
- Maintaining core EPS guidance of \$22.50 - \$23.00 +16 – 19 percent
 - Year-to-date: +20 percent
- Two part strategic effort
 1. Card Services
 2. Non-card

Strategic Efforts: Card Services

- Aggressively continue effort to reposition client portfolio into strongest, high growth verticals
 - Effort started in 2015
 - Receivables reflects only \$4.5 billion of \$11 billion vintage signed since 2015
 - Pipeline for new business remains exceptionally strong
 - “Tell me about my customer!”
- Aggressively prune clients in liquidation, bankruptcy or M&A
 - ~50 percent already addressed; remainder to be addressed in fourth quarter
 - Eliminates drag over next two years and frees up regulatory capital
 - No renewal risk in 2019 safeguards our base
- Objectives
 - Card receivables
 - Exit 2019 >\$20 billion; exit 2020 >\$24 billion
 - Includes the remaining \$6 billion of vintages signed in 2015 to 2018
 - Any new clients signed in 2019 and 2020 offset unknown future client attrition
 - Since 2011, receivables growth of ~20 percent; 2019 to 2020 plan very reasonable
 - Credit quality
 - 2017 and 2018: ~6 percent loss rate (long-term target)
 - Similar target going forward (assuming no major macro-economic shock)
 - While rate is important, our focus is on Return on Equity
 - ROE target > 30 percent
- Summary: stronger client base, high growth and high profitability

Strategic Efforts: Non-Card

- Strategic Review of Businesses
 - We believe current stock price does not reflect intrinsic value of our business
 - We are evaluating which assets could thrive under a different steward, while also unlocking value for stockholders
 - We will have a crystallized game plan of “what & how” before year-end and will communicate this path at that time
 - Overall, this will be an aggressive and significant effort
- 2019 Guidance
 - More specific guidance will be provided on our fourth-quarter earnings call, due to the upcoming major strategic announcement
 - We believe that executing on both parts of our strategic plan will result in:
 - A much more focused and unique model
 - A model that can sustain strong double-digit growth
 - A model generating significant and growing cash flow
 - A configuration that unlocks significant value for investors

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. Reconciliations to comparable GAAP financial measures are available in the Company's earnings release, which is posted 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.

Q & A

