

Alliance Data NYSE: ADS



First Quarter Results
April 17, 2014



Agenda

- Speakers: Ed Heffernan President and CEO
Charles Horn EVP and CFO
Bryan Pearson EVP and President - LoyaltyOne
- First Quarter 2014 Consolidated Results
- Segment Results
- Liquidity
- 2014 Outlook
- Raising 2014 Guidance

First Quarter 2014 Consolidated Results

(MM, except per share)

	<u>Quarter Ended March 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>% Change</u>
Revenue	\$ 1,233	\$ 1,053	+17%
EPS	\$ 2.08	\$ 1.92	+8%
Core EPS	\$ 2.79	\$ 2.55	+9%
Adjusted EBITDA, net	\$ 335	\$ 326	+3%
Diluted shares outstanding	66.1	67.3	-2%
<i>Phantom shares</i>	<i>5.7</i>	<i>10.1</i>	

- Organic revenue increased a robust 8 percent compared to the first quarter of 2013.
- Acquisition costs related to BrandLoyalty reduced core EPS by \$0.04.

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)

	<u>Quarter Ended March 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>% Change</u>
Revenue	\$ 329	\$ 241	+37%
Adjusted EBITDA	\$ 71	\$ 63	+13%
Non-controlling interest	<u>-6</u>	<u>0</u>	
Adjusted EBITDA, net	\$ 65	\$ 63	+4%
Adjusted EBITDA %	22%	26%	-4%
Key Metrics:			
AIR MILES® reward miles issued	1,147	1,192	-4%
AIR MILES reward miles redeemed	1,056	1,104	-4%
Average FX rate	0.91	0.99	-0.8%

- BrandLoyalty contributed \$112 million in revenue and \$14 million (\$9 million, net) in adjusted EBITDA.
- Unfavorable FX rates reduced revenue and adjusted EBITDA, net by \$19 million and \$5 million, respectively.
- AIR MILES reward miles issued decreased 4 percent due to weak consumer spend.

LoyaltyOne

BrandLoyalty

- A leader in transactional and emotional loyalty creating change in consumer behavior through promotional campaign-driven loyalty programs
 - Primarily offered through grocers
 - Combination of **Data** → **Loyalty** → **ROI**, consistent with the Alliance Data model
 - Program generally runs for 12 – 20 weeks
 - Consumer points can be collected in paper form or digitally
- Currently operates in Europe, Asia and Latin America
- Opportunity to further expand in these countries as well as expand into new markets
- Consistent history of driving high-single-digit organic revenue growth
- Acquisition structure and accounting:
 - Alliance Data acquired 60 percent of BrandLoyalty, with options to acquire the remaining 40 percent ownership stake over a four-year period
 - There is an earn-out arrangement for 2014 related to the original 60 percent purchase, which, if met, could result in a one-time P&L charge under purchase accounting
 - Revenue is recorded gross, while EPS, core EPS and adjusted EBITDA are recorded net of the 40 percent non-controlling interest

Epsilon (MM)

	<u>Quarter Ended March 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>% Change</u>
Technology	\$ 116	\$ 104	+11%
Data	42	40	+5%
Agency	<u>190</u>	<u>174</u>	+9%
Total revenue	\$ 348	\$ 318	+9%
Adjusted EBITDA, net	\$ 55	\$ 54	+1%
Adjusted EBITDA, net %	16%	17%	-1%

- Backlog remains up double-digit compared to last year.
- Client on boarding expenses (-\$2 million) and severance (-\$2 million) pressured adjusted EBITDA, net margins.
- Roll out of Harmony digital messaging platform (DMP) expected to be complete prior to third quarter.

Private Label Services and Credit (MM)

	<u>Quarter Ended March 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>% Change</u>
Finance charges, net	\$ 536	\$ 477	+12%
Other revenue	<u>26</u>	<u>20</u>	<u>+28%</u>
Total revenue	\$ 562	\$ 497	+13%
Operating expenses	216	172	+26%
Provision for loan losses	71	67	+6%
Funding costs	<u>31</u>	<u>31</u>	0%
Adjusted EBITDA, net	\$ 244	\$ 227	+7%
Adjusted EBITDA, net %	43%	46%	-3%

- Revenue increased 13 percent on a 15 percent increase in average credit card receivables.
- Operating expenses (primarily payroll) increased 26 percent for the first quarter, as approximately 1,000 employees were added to support expected growth.
- Funding costs decreased 30 basis points as a percentage of average credit card receivables.

Private Label Services and Credit (MM)

	<u>Quarter Ended March 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>Change</u>
Key metrics:			
Total gross yield*	28.0%	28.6%	-0.6%
Credit sales	\$ 3,614	\$ 3,096	+17%
Average credit card receivables	\$ 8,023	\$ 6,964	+15%
Ending credit card receivables	\$ 8,089	\$ 7,027	+15%
Principal loss rates	4.8%	4.5%	+0.3%
Normalized principal loss rates	4.9%	4.7%	+0.2%
Delinquency rate	3.9%	3.8%	+0.1%
Return on average assets	6.4%	6.5%	-0.1%

- The decrease in gross yield is due to the influence of new programs. The yield for core programs was essentially flat compared to the first quarter of 2013.
- Normalized principal loss rates (adjusted for fair value accounting treatment of acquired portfolios) were up slightly in the first quarter, but are expected to be flat for 2014.

* Annualized total revenue divided by average credit card receivables.

Liquidity

Liquidity

- Corporate:
 - \$1.1 billion in usable liquidity at March 31, 2014
 - \$345 million convertible notes mature May 15, 2014 (~\$1.9 billion* current fair value)
 - Convertible noteholders will receive 100 percent cash (\$345 million from Alliance Data; \$1.55 billion from counterparties under hedge agreement)
 - Alliance Data would issue 5.1 million shares to counterparties at a later date (warrants already included in diluted share count)
 - Debt levels remain moderate; leverage ratio of 2.3x at March 31, 2014
- Banks:
 - \$3.4 billion of available liquidity at March 31, 2014
 - \$75 million in dividends to parent during quarter
 - Comenity Bank regulatory ratios at March 31, 2014 were Tier 1: 16 percent; Leverage: 15 percent; Total Risk-based: 17 percent

Repurchase Program

- \$115 million of \$400 million board authorization spent year-to-date; 453 thousand shares acquired

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

2014 Updated Guidance

(\$MM, except per share)

	2013	2014	14/13	
	<i>Actual</i>	<i>New Guidance</i>	<i>Increase</i>	
<i>Average ADS share price</i>	\$192	\$270*	+\$78	
Revenue	\$4,319	\$5,250	+22%	+9% organic
Core Earnings	\$669	\$766	+14%	
Diluted shares outstanding	66.9	62.5	-7%	
Core EPS	\$10.01	\$12.25	+22%	

- Weak Canadian dollar is a headwind – expected FX rates of \$0.91 vs. \$0.97 last year
 - drag of \$55 million to revenue and 17 cents to core EPS
- Revenue guidance increased \$110 million due to stronger expected performances at BrandLoyalty, Epsilon and Private Label.
- Core EPS guidance increased by \$0.05.

2014 Outlook

- LoyaltyOne:

- AIR MILES: revenue up low single-digits, adjusted EBITDA, net up mid single-digits (constant currency)
 - Revenue dampened by lower redemption rate
 - AIR MILES issuance goal of +4 percent, same as 2013 actuals; some risk (~1 percent) due to pharmacy legislation
- BrandLoyalty: trending stronger
 - Revenue of \$550 million versus \$500 million initial guidance
 - Organic revenue growth over 20 percent
- Brazil: scale, scale, scale – grow members
 - 2011: 1.6 million → 2012: 6.0 million → 2013: 10.8 million
 - Q1, 2014: 12 million
 - Rule of thumb: ~2.5 Dotz equivalent to 1 AIR MILES collector due to different spend profile

- Epsilon:

- High single-digit organic revenue growth
- Heavy spend to ramp up record loyalty/marketing platform builds
 - 23+ builds in 2014, compared to historical levels of about 15
 - 2014 wins tracking to record 2013 levels
- New digital messaging platform (Harmony) roll-out.... so far, so good. Second quarter is key.

2014 Outlook (cont.)

- Private Label:
 - New client growth
 - Historically, 5 new clients per year (~\$375 million A/R vintage)
 - 2012: we signed our first \$1 billion A/R vintage
 - 2013: we signed our first \$2 billion A/R vintage
 - 2014: tracking to another \$2 billion A/R vintage - Virgin America (airline), Venus (online fashion), DSW (footwear), IDD (diamond jewelry)
 - Tender share growth:
 - For our core retail clients (pre-2012), we continue to drive card sales growth more than double that of our clients' total sales growth (Q1: 7 percent ADS vs. flat client total)
 - Results:
 - Credit card portfolio growth of about 20 percent
 - Principal loss rates stable and funding rates down
 - Personnel increase (+1,000 people) dampened revenue flow through to earnings during the first quarter; expect leveraging in back half of 2014
 - Outlook: mid/high teens growth in revenue; double-digit growth in adjusted EBITDA, net for 2014

2014 Outlook (cont.)

- No let up in shift of marketing dollars into data-driven marketing and loyalty programs.
- For Alliance Data, we have four objectives –
 1. Organic revenue of approximately 9 percent or 3x GDP
 2. Overall revenue growth of 22 percent
 - BrandLoyalty, Epsilon and Private Label are all running strong, with some dampening from weak Canadian dollar at LoyaltyOne
 3. Core EPS growth of 22 percent
 - Includes significant front-loading of expenses (headcount) at Private Label and Epsilon to handle record growth expectations
 4. Building the foundation for the future
 - Deliver strong performance, while on boarding record new business (and related expenses), which does not help 2014, but benefits 2015, 2016 and 2017

Q & A

