



Rating  
**Buy**

North America  
United States

TMT  
Payments, Processors, &  
IT Services

Company  
**Alliance Data  
Systems**

Reuters ADS.N    Bloomberg ADS US    Exchange NYS    Ticker ADS

Date  
13 September 2018

Company Update

Price at 12 Sep 2018 (USD)	243.54
Price target	253.00
52-week range	276.37 - 194.64

## CEO Highlights Strategic Optionality

### Plans to provide strategic optionality update on the 3Q18 earnings call

We hosted CEO Ed Hefferman at our Tech Conference in Las Vegas where he highlighted continued discussion about strategic optionality of splitting the card and non-card businesses at the board level and plans to provide an update on the 3Q18 earnings call. Ed reaffirmed significant improvement in NCO in 2H18. Ed highlighted 15-17% active client receivables growth but the reported receivables growth will be impacted from the portfolios of retailers in liquidation, bankrupt, or M&A moved to held for sale. Epsilon continues to be mixed bag but BrandLoyalty remains on solid trajectory.

### Reaffirms significant improvement in NCO

Ed reaffirmed significant improvement in loss rates in 2H18 (high-5% for 3Q and mid-5% in 4Q18) driven by improvement in recovery effort. However, we will continue to monitor the impact of TDR from the Hurricanes from last year on DQ and potential impact of Hurricane Florence going forward. With Bon-Ton taken out of the trust, we expect the company could potentially move those portfolio to Held for Sale which could weigh on the receivables growth in the near-term but help improve credit metrics.

### Epsilon mixed bag

CRM and Auto continue to track well but challenges in Tech platform and Agency continue to weigh on the Epsilon business. In Tech platform, the growth rate and margins have experienced pressure driven by SAAS based providers while agency continues to face secular headwinds. Although easier comparables in 3Q18 should help drive improvement in revenue growth in 3Q18, we will continue to monitor for the ability to return the growth back to sustainable mid-single digit level.

### Reiterates double-digit growth in BrandLoyalty in 2H18

WorldCup and success with Disney merchandise drove solid growth in 2Q18 and the momentum is expected to continue in 3Q18. We believe the company played down US opportunity despite the Kroger deal (expects to provide an update in 4-6 months) but more constructive on the Canada opportunity as well as highlighted Asia Pacific, S America, and E Europe as potential opportunity. We will continue to monitor for difficult comps from World Cup weighing on 2019 growth.

### Acceleration in Air Miles issuance to drive revenue growth inflection

### Valuation & Risks

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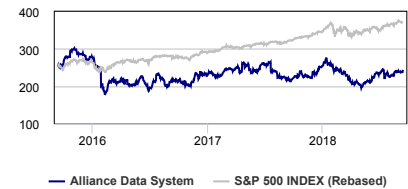
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### Price/price relative



Performance (%)	1m	3m	12m
Absolute	6.7	8.5	9.9
S&P 500 INDEX	2.0	3.7	15.7

Source: Deutsche Bank

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Increased engagement by the consumers as well as promotional offers by key partners including BMO and grocer has started to drive improvement in miles issuance which should translate into improvement in revenue growth to 3-5%.

**Shareholder friendly capital allocation**

Company plans to leverage roughly \$900m of free cash available post the capital requirement for the cards and dividends for combination of de-leveraging and share repurchase.

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# Appendix 1

## Important Disclosures

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Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Alliance Data Systems	ADS.N	243.54 (USD) 12 Sep 2018	7, 8

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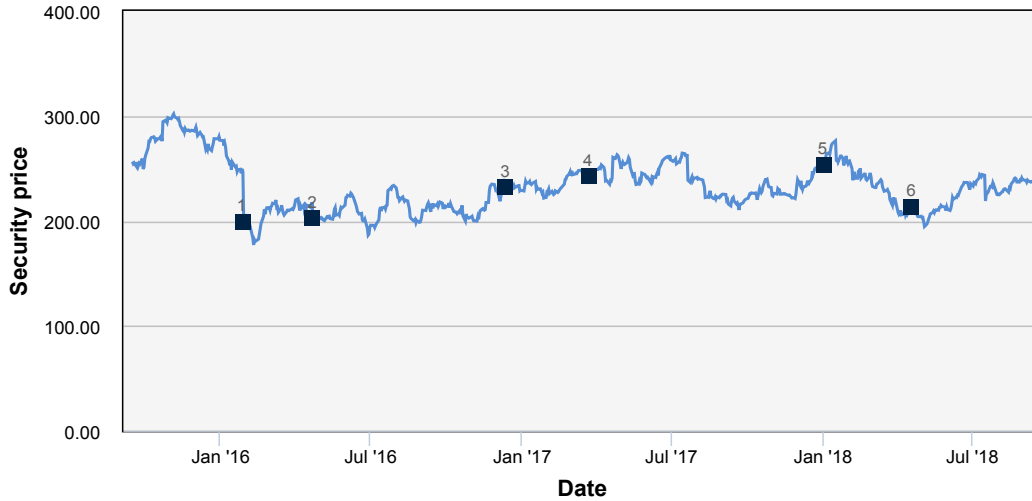
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Historical recommendations and target price. Alliance Data Systems (ADS.N)

(as of 09/12/2018)



Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*\* Analyst is no longer at Deutsche Bank

1.	01/29/2016	Buy, Target Price Change USD 291.00	Ashish Sabadra	4.	03/24/2017	Buy, Target Price Change USD 278.00	Ashish Sabadra
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Equity Rating Key

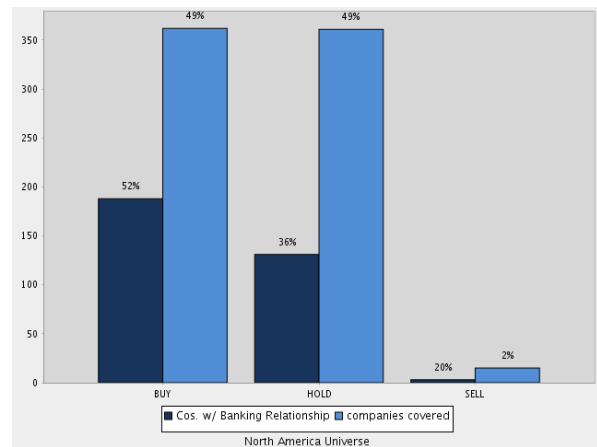
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