

Alliance Data(ADS)

\$48.78 (As of 06/18/20)

Price Target (6-12 Months): **\$51.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/25/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: A

Growth: D

Momentum: C

Summary

Alliance Data's current trend in consumer-based businesses shifting their marketing spend to data-driven marketing strategies should help in retaining the momentum. Solid receivables growth in Card Services along with strong LoyaltyOne should drive the top line of the firm. It is believed that acquisitions and divestitures will help it grow inorganically and expand the international footprint. Shares of Alliance Data have underperformed the industry in a year's time. Nevertheless, the company remains focused toward returning value to its shareholders in the form of share buybacks. However, its rising debt levels have led to an increase in interest expenses, raising financial risk and straining margin expansion. The company's increased cost of operations, and higher general and administrative expenses have also affected the margins.

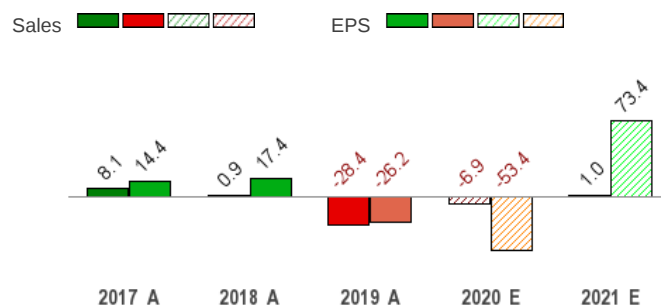
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$159.41 - \$20.51
20 Day Average Volume (sh)	2,050,545
Market Cap	\$2.3 B
YTD Price Change	-56.5%
Beta	2.52
Dividend / Div Yld	\$0.84 / 1.7%
Industry	Financial Transaction Services
Zacks Industry Rank	Bottom 45% (140 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-84.8%
Last Sales Surprise	4.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	07/16/2020
Earnings ESP	-9.1%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,302 E	1,278 E	1,291 E	1,379 E	5,251 E
2020	1,382 A	1,255 E	1,248 E	1,335 E	5,198 E
2019	1,334 A	1,349 A	1,438 A	1,461 A	5,581 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.31 E	\$3.36 E	\$4.22 E	\$5.18 E	\$13.54 E
2020	\$0.75 A	\$2.09 E	\$2.82 E	\$2.54 E	\$7.81 E
2019	\$3.72 A	\$3.83 A	\$5.05 A	\$4.12 A	\$16.77 A

*Quarterly figures may not add up to annual.

P/E TTM	3.6
P/E F1	6.3
PEG F1	0.4
P/S TTM	0.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/18/2020. The reports text is as of 06/19/2020.

Overview

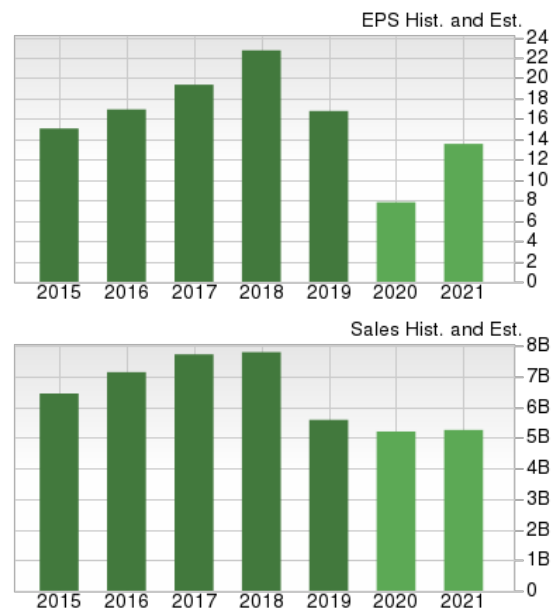
Headquartered in Plano, TX and founded in 1996, Alliance Data Systems Corporation is a private label credit card processing firm for mid-market specialty retail stores in the U.S. It provides transaction, marketing and credit services in the United States, Canada and internationally. Using transaction-rich data, Alliance Data creates and manages customized solutions that change consumer behavior and enable its clients to create and enhance customer loyalty to build stronger, mutually beneficial relationships with their customers. The company is a leading player among its competitors. Alliance Data is one of the largest third party payment processors in the United States and the second largest third party private label card issuer as measured by accounts. In Canada, it owns and operates the premier coalition loyalty-marketing program (AIR MILES).

On Jul 1, 2019, Alliance Data sold its Epsilon business to Publicis Groupe. Therefore, the company operates in two reportable segments: LoyaltyOne and Card Services.

Card Services (81.5% of 2019 revenues) provides risk management solutions, account origination, funding, transaction processing, customer care and collections services for the company's private label retail credit card programs.

LoyaltyOne (18.5%) uses information gathered through loyalty programs to help clients in designing and implementing marketing programs. Clients include financial services providers, grocers, drug stores, petroleum retailers and specialty retailers.

The company derives revenues primarily from the company's coalition and short-term loyalty programs through its AIR MILES Reward Program and BrandLoyalty.



Reasons To Buy:

- ▲ Shares of Alliance Data have lost 64.7% in the past year against the industry's growth of 8.2%. Nevertheless, strong fundamentals of the company will drive the company's shares going forward.
- ▲ Organic growth has been a key strength at Alliance Data. We believe the company to retain its revenue momentum in the coming quarters with ample opportunities from the current trend in consumer-based businesses shifting their marketing spend to data-driven marketing strategies.
- ▲ Alliance Data divested Epsilon to Publicis Groupe for \$4.4 billion in July 2019. The business has been witnessing declining sales for some time. The divestiture will help the company focus more on market-leading high-growth, high-ROI Card Service segment, which contributes the lion's share of Alliance Data's total revenues. Also, the company estimates the divestiture to provide significant liquidity to return capital to shareholders and improve capital structure.
- ▲ Alliance Data has made several strategic acquisitions to grow inorganically. Acquisitions have helped the company expand international footprint, consolidate its position in digital agency, boost the LoyaltyOne business, strengthen position in the digital marketing channels, expand its Omni-Channel distribution capabilities and widen presence in Brazil. With solid financial strength and flexibility, we expect Alliance Data to pursue strategic acquisitions that supports international expansion, with solid growth opportunities. However, Alliance Data recently withdrew prior guidance of 2020 due to market volatility resulting from the COVID-19 pandemic-induced crisis.
- ▲ Alliance Data remains focused toward returning value to its shareholders. It uses share repurchases as a tool to mitigate the adverse impact of foreign exchange and intends to focus more into share buybacks and then into mergers and acquisitions. As such, the board approved a new share buyback program of \$1.1 billion in July 2019.
- ▲ Alliance Data has a strong balance sheet by virtue of its solid cash position. Though the company has long-term and other debt amounting to \$3.1 billion as of Mar 31, 2020, cash and cash equivalents came in at \$4.5 billion for the same period. This suggests that the company has sufficient cash reserves to meet debt obligations. As of Mar 31, 2020 the company's total debt/ total capital ratio of 0.74 is lower than its figure of 0.93 at 2019-end. In 2019, the company retired debt levels of \$2.9 billion. The company also extended the timeline for further debt reduction of \$2 billion from Jun 2021 till Dec 2022, and extended an additional debt of \$850 million from Jun 2021 to Dec 2024.

Alliance Data's high-ROI Card Service segment, solid inorganic background, strengthening its balance sheet to gain financial flexibility and effective capital deployment bodes well for growth.

Reasons To Sell:

- ▼ Alliance Data has been witnessing a rise in operating expenses for the past few years due to higher cost of operations and an increased general and administrative expense. Total operating expenses have escalated 40.2% in the last five years. In first-quarter 2020, operating expenses increased 24.6% year over year to \$1.2 billion, primarily due to rise in provision expense.
- ▼ Alliance Data is exposed to fluctuations in exchange rate between the U.S. and the Canadian dollar and between the U.S. dollar and euro. This is a major concern. In 2019, foreign currency movements relative to the U.S. dollar negatively impacted its revenues by approximately \$45 million and income from operations before income taxes by approximately \$1 million.
- ▼ The company's ROA of 2.5% compares unfavorably with the prior quarter's figure of 13.9%. This implies inefficient utilization of assets of the company.

Alliance Data's increasing expenses due to higher cost of operations and an increased general and administrative expense and poor return on asset raise concern.

Last Earnings Report

Alliance Data Misses on Q1 Earnings, Suspends '20 View

Alliance Data's first-quarter 2020 operating earnings of 75 cents per share missed the Zacks Consensus Estimate by 84.8%. The bottom line also declined 80% year over year. The company's results were dented by increased provision expense.

Behind the Headlines

Alliance Data reported total revenues of \$1.4 billion, up 4% year over year. Notably, the top line outpaced the Zacks Consensus Estimate by 4.2%. The upside can be attributed to strong performance of the company's Card Services segment, which contributed 85.7% to the first quarter top line.

Operating expenses increased 24.6% year over year to \$1.2 billion, primarily due to rise in provision expense.

Adjusted EBITDA (net of funding costs) declined 74% year over year to \$83 million.

Segment Update

Card Services revenues were \$1.2 billion, up 5% year over year. This segment benefited from an improved gross yield. However, adjusted EBITDA was \$47 million, down 84% year over year.

LoyaltyOne revenues totaled \$198.1 million, down 3% year over year. The downside can be attributable to the company's decision to divest Precima in January of this year. Adjusted EBITDA increased 5% to \$57.8 million. AIR MILES reward miles issued was up 5% year over year, primarily due to rise in sponsor promotions in the beginning of the first quarter.

Dividend Update

Concurrent with the first-quarter 2020 earnings release, the company's board of directors approved a quarterly cash dividend of 21 cents per share, which reflects a reduction of 66.7% from the prior dividend payout of 63 cents. The dividend will be paid on Jun 18, 2020 to shareholders of record as on May 14.

Financial Update

As of Mar 31, 2020, cash and cash equivalents was \$4.5 billion, up 15% from Dec 31, 2019-level. At quarter end, debt level increased 7.9% from 2019-end to \$3.1 billion.

2020 Guidance Withdrawn

The COVID-19 pandemic has sparked recessionary fears globally. It has also put the entire U.S. economy in a sluggish phase. Consequently, Alliance Data withdrew its prior guidance of 2020.

Quarter Ending **03/2020**

Report Date	Apr 23, 2020
Sales Surprise	4.18%
EPS Surprise	-84.76%
Quarterly EPS	0.75
Annual EPS (TTM)	13.75

Recent News

Alliance Data's April Average Receivables Up Y/Y - May 15, 2020

Alliance Data's April average receivables increases 1% year over year. Delinquency rate of 5.6% compares with 4.9% in year ago month.

Valuation

Alliance Data's shares are down 56.5% and 64.7% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 0.4% and down 2.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 8.2% and down 2.2%, respectively.

The S&P 500 index is down 3.3% in the year-to-date period and up 5.4% in the past year.

The stock is currently trading at 3.95x forward 12-month earnings, which compares to 31.48x for the Zacks sub-industry, 29.54x for the Zacks sector and 22.42x for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.28x and as low as 1.09x, with a 5-year median of 11.38x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$51 price target reflects 4.13x forward 12-month earnings.

The table below shows summary valuation data for ADS

Valuation Multiples - ADS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	3.95	31.48	29.54	22.42
	5-Year High	20.28	31.68	29.54	22.42
	5-Year Low	1.09	20.78	18.68	15.23
	5-Year Median	11.38	23.19	20.77	17.49
P/S F12M	Current	0.44	11.27	4.06	3.5
	5-Year High	2.73	11.28	4.06	3.5
	5-Year Low	0.19	7.18	3.05	2.53
	5-Year Median	1.52	8.69	3.57	3.02
P/B TTM	Current	2.14	7.75	4.54	4.26
	5-Year High	10.78	12.78	6.68	4.56
	5-Year Low	0.66	5.22	3.23	2.83
	5-Year Median	6.72	8.07	5.19	3.67

As of 06/18/2020

Industry Analysis Zacks Industry Rank: Bottom 45% (140 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
MarketAxess Holdings Inc. (MKTX)	Outperform	1
Diebold Nixdorf, Incorporated (DBD)	Neutral	4
Equifax, Inc. (EFX)	Neutral	3
Fidelity National Information Services, Inc. (FIS)	Neutral	3
Fiserv, Inc. (FISV)	Neutral	3
Global Payments Inc. (GPN)	Neutral	3
Synchrony Financial (SYF)	Neutral	3
The Western Union Company (WU)	Neutral	3

Industry Comparison Industry: Financial Transaction Services				Industry Peers		
	ADS	X Industry	S&P 500	FIS	FISV	WU
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	C	B	A
Market Cap	2.32 B	2.28 B	21.93 B	86.47 B	69.65 B	8.91 B
# of Analysts	8	6	14	14	15	8
Dividend Yield	1.72%	0.00%	1.93%	1.00%	0.00%	4.15%
Value Score	A	-	-	D	C	A
Cash/Price	1.80	0.08	0.06	0.02	0.01	0.12
EV/EBITDA	6.14	11.25	12.69	31.83	27.11	6.30
PEG Ratio	0.38	1.98	2.97	1.92	1.82	0.50
Price/Book (P/B)	2.14	3.67	3.02	1.76	2.11	NA
Price/Cash Flow (P/CF)	1.99	13.10	11.62	17.21	15.53	9.06
P/E (F1)	6.31	27.49	21.45	25.74	23.61	12.99
Price/Sales (P/S)	0.41	4.24	2.33	7.62	5.59	1.73
Earnings Yield	16.01%	3.38%	4.37%	3.89%	4.24%	7.70%
Debt/Equity	11.00	0.37	0.77	0.39	0.65	-20.51
Cash Flow (\$/share)	24.48	2.39	7.01	8.13	6.70	2.39
Growth Score	D	-	-	B	A	C
Hist. EPS Growth (3-5 yrs)	7.47%	18.08%	10.87%	18.33%	17.52%	2.47%
Proj. EPS Growth (F1/F0)	-53.44%	-10.52%	-10.65%	-3.08%	10.13%	-3.54%
Curr. Cash Flow Growth	-34.53%	13.06%	5.46%	57.47%	147.85%	-11.92%
Hist. Cash Flow Growth (3-5 yrs)	0.58%	14.60%	8.55%	26.53%	29.38%	-2.25%
Current Ratio	2.02	1.21	1.29	1.05	1.07	0.91
Debt/Capital	91.67%	34.80%	45.14%	27.85%	39.67%	NA
Net Margin	3.41%	7.54%	10.53%	1.45%	8.51%	20.64%
Return on Equity	40.98%	19.20%	16.06%	7.89%	9.62%	-1,692.22%
Sales/Assets	0.21	0.49	0.55	0.16	0.20	0.59
Proj. Sales Growth (F1/F0)	-6.86%	-4.40%	-2.61%	19.15%	35.17%	-11.52%
Momentum Score	C	-	-	C	C	A
Daily Price Chg	-3.58%	0.00%	-0.07%	0.98%	0.85%	-0.87%
1 Week Price Chg	-13.67%	-4.19%	-7.25%	-4.19%	-8.41%	-8.27%
4 Week Price Chg	13.28%	13.28%	6.92%	2.53%	0.43%	14.77%
12 Week Price Chg	29.91%	28.45%	16.91%	13.19%	6.49%	4.43%
52 Week Price Chg	-64.70%	-6.34%	-5.63%	12.97%	13.46%	9.00%
20 Day Average Volume	2,050,545	442,907	2,574,456	3,340,876	4,096,762	7,818,795
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.93%	0.00%
(F1) EPS Est 12 week change	-52.04%	-19.62%	-14.21%	-12.92%	-10.57%	-15.99%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	D
Momentum Score	C
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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