

ALLIANCE DATA SYSTEMS CORP

Form 10-Q

November 06, 2018

Index

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from            to

Commission File Number: 001-15749

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ALLIANCE DATA SYSTEMS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

31-1429215

(I.R.S. Employer Identification No.)

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7500 Dallas Parkway, Suite 700

Plano, Texas 75024

(Address of principal executive office, including zip code)

(214) 494-3000

(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant: (1) has filed all reports required by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Emerging growth company
Smaller reporting company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of October 24, 2018, 54,473,522 shares of common stock were outstanding.



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ALLIANCE DATA SYSTEMS CORPORATION

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## PART I

## Item 1. Financial Statements.

## ALLIANCE DATA SYSTEMS CORPORATION

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2018	December 31, 2017
	(In millions, except per share amounts)	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,600.9	\$ 4,190.0
Accounts receivable, net, less allowance for doubtful accounts (\$6.1 and \$6.7 at September 30, 2018 and December 31, 2017, respectively)	866.8	822.3
Credit card and loan receivables:		
Credit card receivables – restricted for securitization investors	12,565.5	14,293.9
Other credit card and loan receivables	4,861.7	4,319.9
Total credit card and loan receivables	17,427.2	18,613.8
Allowance for loan loss	(1,114.6)	(1,119.3)
Credit card and loan receivables, net	16,312.6	17,494.5
Credit card and loan receivables held for sale	1,720.1	1,026.3
Inventories, net	265.9	234.1
Other current assets	601.8	348.9
Redemption settlement assets, restricted	587.7	589.5
Total current assets	23,955.8	24,705.6
Property and equipment, net	610.0	613.9
Deferred tax asset, net	65.3	28.1
Intangible assets, net	603.1	800.6
Goodwill	3,857.4	3,880.1
Other non-current assets	671.4	656.5
Total assets	\$ 29,763.0	\$ 30,684.8
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable	\$ 606.2	\$ 651.2
Accrued expenses	364.9	442.8
Current portion of deposits	6,267.1	6,366.2
Current portion of non-recourse borrowings of consolidated securitization entities	1,456.8	1,339.9
Current portion of long-term and other debt	130.0	131.3
Other current liabilities	331.6	368.7
Deferred revenue	802.8	846.6
Total current liabilities	9,959.4	10,146.7
Deferred revenue	113.4	120.3
Deferred tax liability, net	223.9	211.2
Deposits	5,082.3	4,564.7
Non-recourse borrowings of consolidated securitization entities	6,014.1	7,467.4
Long-term and other debt	5,677.3	5,948.3
Other liabilities	401.4	370.9

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Total liabilities	27,471.8	28,829.5
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.01 par value; authorized, 200.0 shares; issued, 113.0 shares and 112.8 shares at September 30, 2018 and December 31, 2017, respectively	1.1	1.1
Additional paid-in capital	3,148.8	3,099.8
Treasury stock, at cost, 58.4 shares and 57.4 shares at September 30, 2018 and December 31, 2017, respectively	(5,474.2)	(5,272.5)
Retained earnings	4,758.6	4,167.1
Accumulated other comprehensive loss	(143.1)	(140.2)
Total stockholders' equity	2,291.2	1,855.3
Total liabilities and stockholders' equity	\$ 29,763.0	\$ 30,684.8
See accompanying notes to unaudited condensed consolidated financial statements.		

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## ALLIANCE DATA SYSTEMS CORPORATION

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(In millions, except per share amounts)			
Revenues				
Services	\$ 586.0	\$ 650.3	\$ 1,790.7	\$ 1,888.3
Redemption, net	163.6	210.0	443.0	645.4
Finance charges, net	1,197.6	1,052.1	3,501.6	3,079.5
Total revenue	1,947.2	1,912.4	5,735.3	5,613.2
Operating expenses				
Cost of operations (exclusive of depreciation and amortization disclosed separately below)	1,060.6	1,066.5	3,076.2	3,123.1
Provision for loan loss	196.8	204.7	846.3	807.9
General and administrative	45.3	38.0	126.5	124.9
Depreciation and other amortization	49.7	46.7	145.9	136.6
Amortization of purchased intangibles	72.8	77.6	220.3	237.9
Total operating expenses	1,425.2	1,433.5	4,415.2	4,430.4
Operating income	522.0	478.9	1,320.1	1,182.8
Interest expense				
Securitization funding costs	56.1	38.2	163.4	109.9
Interest expense on deposits	43.4	33.2	115.6	87.9
Interest expense on long-term and other debt, net	69.4	73.9	214.8	210.2
Total interest expense, net	168.9	145.3	493.8	408.0
Income before income taxes	353.1	333.6	826.3	774.8
Provision for income taxes	56.6	100.4	148.1	257.4
Net income	\$ 296.5	\$ 233.2	\$ 678.2	\$ 517.4
Net income per share:				
Basic (Note 3)	\$ 5.41	\$ 4.21	\$ 12.30	\$ 9.27
Diluted (Note 3)	\$ 5.39	\$ 4.20	\$ 12.25	\$ 9.23
Weighted average shares:				
Basic (Note 3)	54.8	55.4	55.2	55.8
Diluted (Note 3)	55.0	55.6	55.4	56.0
Dividends declared per share:	\$ 0.57	\$ 0.52	\$ 1.71	\$ 1.56

See accompanying notes to unaudited condensed consolidated financial statements.



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ALLIANCE DATA SYSTEMS CORPORATION

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended September 30, 2018 2017		Nine Months Ended September 30, 2018 2017	
Net income				