Alliance Data Systems Corporation (ADS) CEO Melisa Miller on Q3 2019 Results - Earnings Call Transcript

Oct. 24, 2019 11:18 AM ET
by: SA Transcripts

Q3: 10-24-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $5.05 misses by $-0.20 | Revenue of $1.44B (-26.17% Y/Y) misses by $-16.35M

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Alliance Data Systems Corporation (NYSE:ADS) Q3 2019 Earnings Conference Call
October 24, 2019 8:30 AM ET

Company Participants

Vicky Nakhla - AdvisIRy Partners

Robert Minicucci - Chairman

Charles Horn - EVP and Vice Chairman

Melisa Miller - President and CEO

Tim King - EVP and CFO

Conference Call Participants

Sanjay Sakhrani - KBW

Darrin Peller - Wolfe Research

Bob Napoli - William Blair

David Scharf - JMP Securities

Andrew Jeffrey - SunTrust Robinson Humphrey

Dan Perlin - RBC Capital Markets

Eric Wasserstorm - UBS

Vincent Caintic - Stephens, Inc.

Jamie Friedman - Susquehanna

Operator

Good morning, and welcome to the Alliance Data Third Quarter 2019 Earnings Conference Call. At this time, all parties have been placed on a listen-only mode. Following today's presentation, the floor will be opened for your questions. [Operator Instructions] In order to view the company's presentation on their Web site, please remember to turn off the pop-up blocker on your computer.

It is now my pleasure to introduce your host, Ms. Vicky Nakhla of AdvisIRy Partners. Ma'am, the floor is yours.

Vicky Nakhla

Thank you, Operator. By now you should have received a copy of the company's third quarter 2019 earnings release. If you haven't, please call AdvisIRy Partners at 212-750-5800.

On the call today, we have Robert Minicucci, Chairman of Alliance Data; Charles Horn, Executive Vice President and Vice Chairman of Alliance Data; Melisa Miller, President and Chief Executive Officer of Alliance Data; and Tim King, Executive Vice President and Chief Financial Officer of Alliance Data.

Before we begin, I would like to remind you that some of the comments made on today's call and some of the responses to your questions may contain forward-looking statements. These statements are subject to the risks and the uncertainties described in the company's earnings release and other filings with the SEC. Alliance Data has no obligation to update the information presented on the call. Also on today's call, our speakers will reference certain non-GAAP financial measures, which we believe will provide useful information for investors. Reconciliation of those measures to GAAP will be posted on the Investor Relations Web site at alliancedata.com.

With that, I would like to turn the call over to Melisa Miller. Melisa?

Melisa Miller

Thank you, Operator, and good morning, everyone. I'd like to welcome the folks that are with me here today, and I'd like to begin with an important update on our overall business transformation, including the progress Card Services is making in our journey to reposition the portfolio, as well as our consolidated financial results. Tim will then cover the segment results, and I'll close with 2019 and 2020 guidance.

Let's turn now to slide four. We can all agree that change was necessary, and if there is any message that you take away from our time today, it should be that we are indeed making tangible progress. First, I'd like to acknowledge that this road to transition has been lengthy, and at times, bumpy for our stakeholders. The Epsilon divestiture, tender offer, and corporate restructuring are complete. Our Card Services business has expanded into healthy verticals, and credit metrics have normalized. Within Card Services, you'll see progress in three important areas. We've successfully shifted our focus to healthy brands and verticals. We continue to serve the modern consumer with digital tools adding new offerings, and our streamlined operating model will allow us to do more with less, and to get paid for the value we bring to the table.

As I mentioned on our last call, we have been making the touch yet critical decisions in the short-term to deliver on the long-term health and viability of the business. With transformation can come disruption, so we've kept this very simple, and think about our efforts in three pillars. A streamlined operating model, ensuring we offer differentiated value, ultimately leading to consistent, sustainable growth. Now, while Card Services has been executing against its strategy to transition the makeup of the card portfolio, we've considered our broader operating model as well. This transformation is a companywide effort. We've examined all lines of business globally to streamline our various operating models, and each has emerged with a leaner, simpler structure.

Earlier in the year, we announced corporate reductions resulting from the Epsilon divestiture. That run rate is now an estimated $100 million. Additionally, a companywide expense reduction initiative is well underway. These reductions will contribute more than $100 million in incremental cost savings for 2020. Our approach to human capital, which includes increasing both our global delivery model and digital workforce is in progress. We are fully leveraging automation and artificial intelligence to create efficiencies and expand our self-service offering for brands and consumers, and this is exactly what you would expect from a company with data as our middle name. We are not like any other player in our space. We are deliberately different. And that differentiation is why we win the marketplace.

An improved operating model and expense structure will allow us to invest more deeply in technology and in the digital space to ensure we will continue to win with the modern consumer and brands. As a result, we expect to have incremental solutions in the market in the near-term, strengthening our current payments products and our in-house marketing and loyalty expertise. All of this when added together results in the larger more valuable programs we're known to deliver. So what have we done to position ourselves for 2020 and beyond? Over the past several quarters, we've spoken about Card Services' shift to growing vibrant verticals and brands, and in a moment I'll walk you through the progress that we've made.

Note that we will continue to expand where and how we grow by building on our success, testing new markets, and taking full advantage of the dozens of new emerging brands entering our space. Our new business pipeline contemplates these healthy new brands, and there's a strong demand in the market for the solutions that we offer.

Let's turn now to slide five. We'll spend some time on the progress Card is making in positioning our portfolio. As Tim and I spend time on the road visiting with investors, a question we often hear is how will you continue to grow given the uncertainty within retail?

It's a question we've asked ourselves. We believe it's a fair question for us, and it's precisely why we altered our strategy, beginning in 2015. At that time, we made a deliberate decision to expand our reach into winning new brands and verticals to include, among others, beauty, home goods, and eTail. On our call today, we'll be more specific about the outcomes and the overall impact on the complexion of our portfolio.

I call your attention to the far-left bar on the top chart. In 2016, less than half of our card receivables came from these newer verticals. And if you follow the dark blue bar all the way to the right you will see that in each progressive year our concentration of A/R in these healthier verticals continues to build. Today, these vibrant verticals and brands make up greater than 60% of our card receivables. This did not happen by accident. We got here by signing a new grouping or a vintage each progressive year.

Now, looking at the far-left bar of the bottom chart, you'll see that in 2016, less than 10% of our card receivables were coming from our newer vintages. Today, that's grown to over 35%. Essentially, all of our growth is coming from these newer vintages. We made the shift intentionally. And in just in four short years we've deliberately altered our portfolio. We no longer rely on our important but slower-growing core programs. Instead, we've secured our future growth with newer programs in growing brands and verticals. Importantly, some of these newer programs were startup programs, so our ramp to fully mature tender share has tremendous reach.

Now, before we leave this slide, we also wanted to cover the map and how we build the bridge from where we are today to our projected year-end card receivable. Important to note, we now project our end-of-period receivables to be roughly $19.5 billion down from our prior quarter forecast, largely due to the softness in the core programs I just mentioned. Generally, with normal seasonal trends, we expect to see a 10% to 12% increase from Q2 end-of-period receivables to Q4 end-of-period receivables. Our 2019 Q3 ending position, of $17.9 billion, puts us well in the range of $19.5 billion by the end of the year. We thought it was important to spend some time on the deliberate shift that Card has been making these past few years. As I mentioned, these moves were intentional. We have exited some verticals that we are not winning or no longer core. And admittedly, these actions have caused noise. However, we have also entered new verticals that are healthy and growing. And evidence of that is illustrated here. Ultimately, we are building a stronger, more diversified portfolio with room for growth and stability.

Now, let's turn our attention to the consolidated results for Q3 and move to slide six. Let's begin with the revenue line. Revenue increased 1% to $1.44 billion and EPS decreased to $2 41 per share. Tim will speak to the components of revenue on the next slide. So let me address the decline in EPS numbers. EPS from continuing operations declined significantly due to the restructuring charges of $55 million pre-tax primarily related to our non-card businesses, and a $72 million pre-tax charge related to early debt retirement, the combined after-tax effect of these two items was $1.86 per share.

In addition, in our card business, we had a $100 million increase in provision expense related to the A/R build, which Tim will address on slide eight. The after-tax effect of this one large item was approximately $1.50. When combined, the impact of these two items was $3.36 per share. The provision expense also negatively affected core EPS, adjusted EBITDA, and adjusted EBITDA net of funding.

Moving to net income, we were further away affected by the expenses related to discontinued operations in connection with the Epsilon sale. The Q3 after tax effect of this item dropped our EPS from a positive $2.41 to a loss of $2.13. Finally, 2019 had a higher effective tax rate of 26% versus the 16%. We saw in 2018, causing an additional $0.33 of year-over-year pressure. Q3 was a noisy quarter, and I understand how it can be difficult to reconcile due to the number of one-time events.

So Tim, let me turn it over to you to provide more detail on our results.

Tim King

Thanks, Melisa, and good morning to everyone. As Melisa just mentioned, there are factors negatively impacting us in 2019. Well, not under plan to ease, the underlying metrics on the businesses are improving. So starting with LoyaltyOne, we see reported revenue decreasing 6% to $246 million for the third quarter. Adjusting for the unfavorable foreign exchange rate and the shift to a net revenue presentation for certain reward products, revenue increased to 1%.

Looking at Card Services, revenue was up 3%. And in line with the increase in normalized AR, it is important to note that both of our businesses are positive revenue growth on an organic basis. Moving to adjusted EBITDA, LoyaltyOne's number were negatively affected by product mix, resulting in an 8% decrease in adjusted EBITDA.

I'll now move to slide eight. So I'll go into more details on Card Services. As I mentioned in the previous slide, revenue is up 3% in line with the increase in normalized A/R. This is important turnaround versus a prior quarter, where we saw revenue down 4%. In Q2, we had both lower yield and lower normalized average receivables. This quarter our average receivables are up and yields are stabilizing, resulting in positive revenue growth.

Operating expenses were flat year-over-year. And as Melisa mentioned, we have taken dramatic steps to increasing our operating efficiency. In this quarter, our revenue growth outpaced our operating expenses by 300 basis points. We had a $100 million provision increase compared to last year, which was largely the cause of Card Services year-over-year negative performance. This was driven almost entirely by the difference in the A/R growth trajectory.

Let me walk you through the math. In 2018, our Q3 reservable A/R decreased by approximately $430 million. In the third quarter of 2019, our reservable A/R increased by approximately $630 million. In 2018, P&L benefit firm benefited from the decline. Conversely, in 2019, we needed to build the provision for the incremental A/R. As we're now back to growing our book, we need to post up allowance for loan losses. Without this expense, our quarterly performance would have been slightly better than 2018 and in line with our average receivables bill.

Now turning to slide nine, I'll focus on cards key metrics. Starting with credit sales, Card Services was up 6% on a reported basis. Compare that to Q1, where we're down 7% and in Q2 where we are flat, also showing improvements from the prior quarters are the A/R metrics. Specifically, end-of-period A/R was down 5% in Q1 down 2% in Q2, and that is now up 3% in Q3, as Melisa mentioned earlier, we're still expecting robust growth for the year, but along our year-end, receivables expectations to $19.5 million. While year-over-year, gross yields are negative, they too are showing improvements. In Q2, we were negative to 2018 by 90 basis points.

In Q3, we are 20 basis points lower than the prior year. This pressure is coming from the ramping up of new programs. By Q4, we expect this pressure to largely abated, and that we will be positive year-over-year. As we've guided before, we do expect gross yields to be bound slightly on a full-year basis.

Turning to operating expenses, after adjusting for the mark-to-market and held-for-sale receivables, we saw strong improvements of 100 basis points. We expect this number will continue to improve as a result of the efforts Melisa has mentioned. Both metrics of credit quality are showing stability on improvement, our charge-off rates improved 30 basis points and our delinquency numbers were up slightly. And for the remainder of the year, we do expect our charge-off to be flat versus the 2018 levels. As a result of the lower income numbers we did see our ROEs below 30% on a quarter. This is temporary, and this number is being affected by the mark-to-market expenses. And we do expect to take some hits in Q4 for restructuring charges, but again, temporary on the ROE.

So in summary, there are some issues we need to work through. But the underlying businesses are strong. LoyaltyOne's organic revenue is up slightly. Product mix is causing some noise, but it's generally stable business. Card service has increasing sales in A/R, normalizing yields, improving expenses and stable credit metrics. And we've successfully executed large cost reduction efforts to the corporate level.

I will now give it back to Melisa who will speak to guidance for 2019 and 2020.

Melisa Miller

Thank you. And as Tim mentioned, there are a number of one-time factors affecting this year's statement. If you turn now to slide 10 first, we did not contemplate the Fed lowering the prime rate twice. In fact, like many in the industry, our early forecast predicted a rising interest rate environment. Second, we are now expecting a larger markdown on our held-for-sale receivables than previously anticipated. However, we are committed to moving forward with the sale of these portfolios to clean up our balance sheet. Third, we've seen some credit sales deterioration in our core programs which is leading to a slight reset in our average accounts receivable. We still fully expect to exit 2019 with yields higher than the previous Q4, yet down slightly for the full-year. We are tackling these disruptions now and they are all fully reflected in our guidance for 2019.

The combination of these factors is driving both the revenue and a core EPS reset, where we guided to revenues of $5.8 billion, we now believe we will be flat to 2018 at $5.6 billion. On core EPS, we are now targeting a range of $16.75 to $17 even per share. On a pro forma basis, we are targeting $20.50 to $20.75 EPS. So, despite some pieces, I hope you heard that we have made tangible progress in improving our business model and repositioning the Card Services portfolio. We are shifting our focus to faster growth verticals and will be implementing new offerings and doing more with less at a lower cost. Our efforts will ultimately restore the health and vitality of the company and we're confident that growth will follow.

And finally, moving on to slide 11, we will enter 2020 with a more focused, streamlined business. We have put the building blocks in place to ensure this is our future reality. We see significant runway ahead. Based on our current visibility, we expect lower operating expenses from our streamlined operating model, low single digit revenue growth, and mid-to- high 20% growth in core EPS.

Core EPS will be up high single digit versus 2019 per forma Core EPS. Breaking it down by segment, in LoyaltyOne, we expect to see consistent stable performance as we will be operating with a reduced cost structure and are making the necessary adjustments to improve performance. We expect Card Services revenue to be up mid to high single-digit as our newer vintages continue to drive gain with single digit growth in average card receivables and flat total gross yields.

Credit quality is expected to remain stable. Our road to transition has been bumpy at times. And this road has been cleared and we now near its end. This has positioned us to declare a new beginning. And we expect 2020 will be a strong growth year in terms of revenue and profit. We look forward to hosting an investor day in early 2020, and we are working through some growth initiatives that we look forward to discussing in more detail. So, timing will be firmed up as we get closer.

Operator, that concludes our prepared remarks, I would ask that we now open up the line for Q&A. Thank you.

Question-and-Answer Session

Operator

[Operator Instructions] Your first question comes from the line of Sanjay Sakhrani with KBW.

Sanjay Sakhrani

Thanks. Good morning, and thank you for the all context as we look into next year, but I wanted to just clarify maybe your confidence on some of the guidance data points that you provided, both in terms of revenues and expenses for each of these segments, I guess one point I was thinking about is when I look at your rate assumption for no rate reductions, no more further rate reductions, it seems like the market is assuming there might be two to three more. So, should we think of that as putting risk to the EPS target range for 2020 if that's the situation? And then how should we also think about capital ratios, and how you would manage capital going forward into 2020? I have also got one follow-up after. Thank you.

Tim King

Hey, Sanjay. So, let me start with the rate question. So, we do not expect any yield compression without contemplating the Fed, any further action by the Fed. So that would put risk on us if the Fed does lower rates. So that's answer one.

Two, as you start thinking about big guidance, going back to the yields, we expect yield to stay flat. So, our yields and therefore our revenues should be very consistent with our A/R growth, meaning we don't expect any degradation, and our yields are built very much in line with our A/R. That's going to flow through to our EPS, and the EPS is of course going to also benefit from the cost savings. So, if am going to - if I just use -- and I going to use pro forma and I can switch back if it's easier, but if I use the pro forma that we put out as \$20.50 to \$20.75, we would expect our flow through on that pro forma, because we contemplated expense reductions in our pro forma to be up 6% to 8%.

Sanjay Sakhrani

Okay. And I guess what are the asset and liability betas if you have further rate cuts, like how does that flow into revenues and expenses for card?

Tim King

I am not following your question. Are you asking how rate sensitive we are on the asset side versus the liability side?

Sanjay Sakhrani

Yes. As rates go down, like how should we think about the impact?

Tim King

Yes. We are about 70% t 80% variable rate on our book. It takes about six months for our liabilities to catch up to the rate reductions, meaning to reset our liabilities. So, in essence, we have exposure for about three or four months as did the liabilities start catching up and obviously our asset reset more quickly.

Sanjay Sakhrani

Okay. And maybe some more color on sort of how we should think about capital management and ratios. And then my follow-up question is also I saw an 8-K that that Kelly Barlow from ValueAct is stepping down from the board, and it doesn't seem like there are disagreements with the company, but maybe you guys can talk about the relevance of that and how that might affect the path forward?

And also, Melisa, I thought I heard you say you guys are done with the corporate restructuring. Does that mean that any further sales or divestures are up off the table? Thank you.

Tim King

All right, so I'll take the capital ratio, we'll turn over to Rob since he's here to talk about Kelly, and then we'll switch back to Melisa as far as any further strategic conversations. So the capital ratios, Sanjay, I really think about that in three very distinct buckets. I obviously think about the balance sheet, making sure the balance sheet is very healthy; we have enough cash on that balance sheet. We also think about any type of strategic investment, so anything we might do in card or the other LOB as far as looking at doing some type of investment to obviously shore those businesses up or continue to grown those businesses. And then finally, of course, we look at stock repurchases. So we look at those three different buckets and we just balance the three of them out.

Melisa Miller

And Sanjay, if I might add to that, we also consider the capital strategy with the overall business strategy, so they're not -- we don't separate them, they actually go hand-in-hand. And so as we look forward and ensure that we are making the right investments back into the business that will influence how and where we allocate capital. We see them going together. And then I'll pick up on the corporate restructure question, Rob, after you.

Robert Minicucci

With respect to Kelly Barlow of ValueAct, Sanjay, this week Kelly informed us that earlier in the year he took on new responsibilities. He was named a co-portfolio manager of a new fund of ValueAct that focuses on social and environmental problems. He continues as a partner in the master fund. You said it in your comments; Kelly has been a significant contributor to the Board. There are no issues in terms of strategy differential, financial or operating differential perspectives. He was very effective in raising and our -- changing our strategy and our pivot and the management changes. And so I think now with our path defined, he's going to devote more time to his new role at ValueAct. So, clearly we're grateful for his service, and wish him the best.

Melisa Miller

And Sanjay, if I might come back around on the corporate restructure question. I appreciate you giving me a chance to follow-up. What we were attempting to articulate was that the corporate restructure actions in connection with the Epsilon sale were complete. So if there would be anything in the future, of course, we would reevaluate what would be required. We mentioned previously that we had a number of initiatives that were under strategic review, and that really is still what we would say where we are today. Does that answer your question?

Sanjay Sakhrani

Yes. Yes, thank you very much.

Melisa Miller

Thank you.

Operator

And your next question comes from Darrin Peller with Wolfe Research.

Darrin Peller

Hey guys, thank you. Just to maybe start off with what you might be contemplating in 2020 guide with regard to either portfolio acquisitions or the type of growth from different types of retailers, how much flexibility do you actually have on portfolio acquisitions also would be helpful? And then should we be expecting any more portfolios to move into held-for-sale, and just overall how is the health of the portfolio?

Melisa Miller

Good morning, Darrin. In terms of portfolio acquisition, currently our 2020 guide does not contemplate any large scale acquisitions. So, that could be an upside opportunity. Moving forward, our long-range plan, certainly we would be evaluating that which is available in the market. We do expect however to be signing a very healthy new vintage next year. And some of those programs that we signed this year will be coming up next year, and that is also fully contemplated in our 2020 guidance. And then with respect to held-for-sale portfolios, we did have a strategic non-renewal, but sitting here today there isn't one that we know about. We'll always be selective in what that looks like, and that's largely why we are really committed to moving forward and clearing up the balance sheet with those that are there today.

Darrin Peller

Okay. Just a quick follow-up on that, when we think about the profile of those new vintages with respect to the credit quality of those loans as well as the yield and the tradeoff between the types of yield you want to get for that credit. I mean is it basically the same? And I imagine we should be expecting the ROE to get back to north of 30%.

Melisa Miller

A great question and the answer is, from a credit quality perspective, we are actually seeing a bit of an improvement in some of the newer vintages over the rest of the book, but we would expect that over time we would say it would be stable. And the exact same with the yields. They just take a time, as you well know, to spool up, and it really depends. If we have a startup program you're looking at about three-and-a-half years-ish by the time we get to steady state versus of course a full scale conversion where we have productivity right away.

Tim, anything to add there?

Darrin Peller

Thanks. Now there was just question, and I'm sorry if I missed this earlier, but I was just trying to find the breakdown on the revision to EPS guide this year, specifically from the held-for-sale. I mean I'm sure I could find it or you may have said it earlier, but if you could just reiterate that?

Tim King

Sure. And Darrin, obviously our reset, Melisa outlined three specific items that caused our reset. One is going to be the held-for-sale mark. Two, is going to be a slightly lower average receivable, and then the third -- why am I drawing a blank?

Melisa Miller

Primary.

Tim King

Primary, thank you. So, and each of those are about the third each.

Darrin Peller

Okay, all right, guys. Thanks very much.

Operator

And your next question comes from the line of Bob Napoli with William Blair.

Bob Napoli

Thank you. I guess the -- Melisa, what is the right revenue and earnings growth rate for this business over the long-term, I mean do you have -- can you give some color on what you think the right model is?

Melisa Miller

Yes, that's a great question, Bob, and I'm glad that you asked it, because as we bring forward our long-range plan, for us it's not growth at all costs, for us it's not deliberately throttle growth back because you have a short-term gain. It really is what is the best for the long-term viability of the business, and we would say long-term, high single digits both in terms of revenue growth and throughput, and of course our sales in A/R would be slightly different depending upon if we have a year with many conversion or many startups.

Tim King

Yes, Bob, there're some other factors too, you know. When we start growing in the high single-digit, and certainly if we have some opportunistic things presented to us, and certainly if we go over slightly that number, that's fine, we don't end up hurting our organization. We have infrastructure we need to put in place, we have capital requirements. Certainly we need to make sure that we have a compliance organization to keep up with that. So we start thinking long-term where high single digits, it'll bounce around a little depending on the opportunities we see.

Melisa Miller

Part of our enthusiasm -- go ahead, please.

Bob Napoli

No, I was going to say if you look at that high single-digit revenue growth, and with your strong ROE, I mean do you get some operating leverage on expenses, and then capital return drives like low double-digit earnings growth and EPS growth, is that the model or is that --

Tim King

So, that is our model. If you go down the P&L, obviously when I start looking at the A/R growth you get the high single digits; I expect my revenue to be in line with that. We are not seeing any degradation in our yields at all. As you go down to our operating expenses we are pushing efficiencies there, so we'll get a little pickup there. Charge offs have been very stable, so our provision expense and our charge offs have been very stable. A little bit of pressure in the last few years in cost of funds, which certainly is abating now. So by the time you get down through that, yes, you should have a flow-through that's better than your growth on you're A/R.

Bob Napoli

Okay, my follow-up question is just -- and I appreciate the presentation on the shift in the customer mix, but it's still a very choppy retail market out there. And I mean I would guess that as you look at your portfolio that -- I mean, I'm sure you guys know which customers could be at risk and not at risk. How do you get confident, I guess, in that long-term model that even as you're still converting or adding more stable retailers that you're not going to have some significant fallout? Some of your larger customers still are, that are in that active or not exactly performing with all cylinders going I guess you would --

Melisa Miller

Yes, that's a fair observation. And that just a few thoughts we'd bring forward. First, some of the divestitures, particularly those that we executed against that last year actually helped to de-risk our portfolio. We closely monitor the viability and the financial health. And of course there is a list or a watch list that we carefully consider. But when we really think about the risk to the organization, Bob, we look at it in the form of EBT risk. And so what we have done is that as we've built our long-range plan and our guidance for 2020 we have assumed that there will be some percentage of brands that will not make it, and that is fully contemplated in our 2020 guide and our long-range plan.

Bob Napoli

And I'm sorry. I need to sneak one more in. I guess the buyback that you did, why do the buyback, when you did, and the way you did with them, and I think, knowing that there's some clean-up to go, and I think you'd like raised your guidance a little bit last quarter. Why do the buyback at the point that you did, and not wait until you had a little more understanding or control over the business if you would?

Tim King

So, obviously, we looked at a variety of options, working with the board as far as what was the right return to shareholders, we felt that tender auctions was the best way to get some return back to the shareholders with considering a lot of variety of different options, and it seems like the best to us at the time, and I'll tell you, our view is, we successfully executed that Dutch tender. The stock was trading about $155 a share when we executed that we were able to buy close to five actually a little more than 5 million shares at below the market price of $148, and think a lot of people judging that versus where the stock is now, but if you look at the circumstances when we executed that Dutch tender we felt with a nice return to our shareholders.

Bob Napoli

Thank you very much. Appreciate it.

Operator

And your next question comes from the line of David Scharf with JMP Securities.

David Scharf

Hi, good morning, thanks for taking my questions. Melisa, I'll kind of echo some other comments in expressing appreciation for Canada, the deeper dive into the portfolio shift. I did want to follow-up on that a little bit. And one of the hallmarks of the traditional retailer base net, notwithstanding all the secular challenges that you've had to pivot away from is that over the years, there's a remarkably high retention rate among all those traditional mall-based retailers. And as we think about the 60% of A/R now, that's coming from these newer verticals. I'm wondering if, as a start, you can perhaps give us a sense for the timing of those renewals. I mean, since these, a lot of these are newer companies are not necessarily startups, but things like Alta and so forth that has experienced such rapid growth recently. Can you give us a sense for the contract lengths of a lot of these and perhaps, what percentage of that A/R might be up for renewal in 2020 and 2021?

Melisa Miller

Great question, thank you, and good morning. So again, our guidance for 2020 would fully contemplate any programs that we would bring forth, or consider up for renewal. So that would be important. And on average, it does depend on the vertical, and it does depend on the product type, whether it's a co-brand program or a private label, but there anywhere seven to 10 years, there are a few programs that are five years and that's largely driven by us, because we want to ensure that it's a vertical into, which we would like to play. Does that answer your question?

David Scharf

Oh, yeah. No, no, that's helpful. It sounds like there isn't any imminent bubble of renewals necessarily in the next 12 or 24 months?

Tim King

They're spread over the term. So we start thinking of seven-year, eight-year, on average for our renewals, you look at, we look at this fairly often is don't look at make sure we don't have a big bubble in 2023 or 2024. They're spread fairly consistently over the terms, which is nice because we don't have any big -- we don't risk in any given year. We look at the big renewals and small renewals co-brand PLC's, we look at all of them, I'd say we don't have the city to risk other than it's just, it's peanut butter, for lack of better term over the like seven years, eight years.

Melisa Miller

And David, I appreciate the comment about remarkable renewal rate. I actually wrote that down, I'm going to have to put that on our office wall. What and we appreciate the acknowledgement, we retain 100% of the brand partnerships that we want to retain. So if we are in a situation where we are parting ways it really is because there's a fundamental disconnect and how we view the value and the viability of the program.

disconnect and how we view the value and the viability of the program.

David Scharf

Got it, that's helpful, and that's a good segue to my follow-up. As it relates to the held-for-sale, by my calculation, based on kind of the efficiency ratio, the OpEx the 8.7%, I calculate the markdown on that held-for-sale at about $60 million. Can you give us that obviously has implications, not just in valuation but potentially timing. I seem to have jotted down in my notes that the expectation a quarter ago was that most of that held-for-sale would be disposed of by the end of this calendar year. Is there any update on your latest thoughts on timing?

Tim King

Yes, obviously, we're actively negotiating on the portfolios right now. Clearly, we're not going to do something that would be silly economically for the sake of December 31, but we would very much like to clean-up the balance sheet by the end of this year.

David Scharf

Got it. Thank you very much.

Operator

And your next question comes from Andrew Jeffrey with SunTrust, and we are limiting the questions now to one question with one follow-up.

Andrew Jeffrey

Hi, thanks for taking the question, good morning. Tim, can you help us at all with how your core EPS outlook might translate into GAAP, it strikes me a lot of investors are waiting to understand what your GAAP earnings are to make ADS more comparable with peers and I know there are a lot of moving pieces, but can you help us with that at all?

Tim King

Yes, this should be if I'm doing this quickly in my head, but there should be no difference in my improvement in my GAAP versus my core EPS, there's not a big difference as I go from my GAAP as I walk down to GAAP from my core, so you can get the same type of improvement.

Andrew Jeffrey

Okay, that's certainly helpful, and then as a follow-up, when I sort of want to dig in a little bit on the reserve build, and I recognize again that CECL may change the dynamic here a little bit, but should we expect as the portfolio grows, that we're going to see sort of this stair step pattern? I'm just trying to understand why there would be, what sounds like what's the catch-up in 3Q and how reconcile that with growth going forward?

Tim King

Yes, and I realized that was a difficult math exercise to go on an earnings call. Don't be ridiculous, Andrew. We talked before, I know you understand it, but just for the audience, when I'm comparing Q3 of 2018 to Q3 of 2019, the difference in the end-of-period receivables build which is what I have to put the provision for is a billion dollars, I decrease $400 million last year. I increased $600 million this year and a normal reserve rate that's just as standard reserve rate is going to cost you $60 million to $65 million hence the $100 million was also last year, we got a benefit of lower rates we declined in our rates, we got even better last year because again, I'm comparing year-over-year. This year I have very stable credit, so I didn't have any issues there but last year, I got a lower rate and lower receivables. This year of course I had higher receivable stable rates, the difference was $100 million between 2018 and 2019, there's nothing, there's no credit issue there, it's 100% based on the receivables.

Andrew Jeffrey

Okay, thanks.

Tim King

That helps?

Andrew Jeffrey

Yes.

Operator

And your next question comes from the line of Dan Perlin with RBC Capital Markets.

Dan Perlin

Thanks. Can you just kind of help remind us how you plan to get back to growing again versus kind of its cost rationalization story and then what would be like the trigger for underperformance that would require you to get rid of it? I mean, I know the question was asked about this position of assets. But I'm just trying to get a picture of how this all plays out as you think about this kind of long-term calculus for the business?

Tim King

Yes, I think it really comes back to a couple of things Dan, first if we look at AIR MILES, you know the model, it comes down to miles issues. So miles issue drops cash flow drops, future revenue recognition. We've had some major client renewals. We have a major renewal of issue with Bank of Montreal. I think that will then position us to get back to really driving growth and getting more promotional miles issued. With it, we're also looking for ways where we can improve the value proposition to our collectors to get them more active, get them more engaged and actually increase our burn rate to some degree, and that will drive the top line. On top of that we had made several reductions to the cost structure in Canada, which is going to help us on a profitability standpoint. So we are looking for improvements across the board with AIR MILES in 2020.

With brand loyalty, let's be frank. It's been a rough three years, frankly in terms of performance, this year, it will be up year-over-year in terms of EBITDA, there're still some improvements to do. We've made several changes there in terms of the cost structure, and we're looking to further rollout some digital initiatives to further drive basically, client engagement. We think that's going to be good going into 2020. I could still see a situation with brand loyalty where the revenue is down year-over-year as we reposition it in the market, but we do believe that EBITDA will be up just based upon the revised cost structure we put in place.

Dan Perlin

Okay. Did I hear you say the Bimo renewal is still yet to happen, that was my follow-up, I want you to clarify that, but that happened in 2019?

Tim King

Yes, Q4.

Dan Perlin

Yes, Q4, okay. Great, and then the second question, Melisa, as you talked to, kind of the portfolio, right, so it's pretty bifurcated. You got this great new opportunity of clients. You got some of these legacy clients struggling. I'm trying to understand the conversation that you have with them to kind of drive growth. So you've got legacy clients where you're trying to sustain, I guess in a lot of ways, but also help them through their process. And I'm wondering what that conversation is actually like today versus this, real growth opportunity, which is this rate of change story that you're telling? Thank you.

Melisa Miller

Yes, that's a great question, Dan, of course, every brand partner is different. You would almost have to look at each one of those dozens of programs individually, because there are brands within our core file that are growing, high single, and in some cases low double year-after-year. They are however, massive debt by the partners that are not growing. So, for us, it's all about making sure that we have the right campaigns in place that are getting the consumers to spend more often make an extra trip and spend more when they make a trip. In fact, if you look at our year-over-year metrics, number of buyers up, spend per trip up, retention rate. That's a little brand dependent, but by and large, it's either flat to up, so our partners do listen is the wrong word, our partners do count on us to be there for them during these times of weak sales. The card program for many of our partners is the bright spot. When someone has one of our cards in good times and bad for our brand, they spend one and a half to three times as much as a non-cardholder. So these card programs are very, very valuable to the partners we serve.

Dan Perlin

Thank you

Thank you.

Operator

And your next question comes from the line of Eric Wasserstorm with UBS.

Eric Wasserstorm

Thank you for taking my question, Melisa, my question relates to just the go-forward economic model of ADS, relative to the historical. And I think one of the things that the Investment Committee is I think struggling with a little bit is understanding how ADS contemplates value creation. Historically, the emphasis was on earnings growth and adjusted earnings growth, which resulted in high double-leverage and an emphasis on share repurchase, which of course, accelerated EPS but was largely disruptive to book value, and now that you are predominantly a lending company and book value is a relevant valuation metric. You look very expensive on book, even as your PE optically is very low. So, can you just maybe help us understand on a go forward basis, how we should think about and measure value creation at ADS?

Tim King

Sure, Eric, if it's okay I'll take that, and Melisa will jump in. So the value creation, I'm just going to go right to the top with the revenue clearly by if you're thinking value creation as far as shareholder return increasing the EPS, so I'll go to book value in a second, but going straight through growing our book by 9%, 10%, 11%, high single digits, and having that flow straight through and then getting to my revenue having like, my earnings, obviously, increasing my leverage on my operating expenses, you get your earnings per share, you then go back to saying, well, boy, I'm concerned about my book to my overall, my book value, and that is very much as you said, a financial institution metric.

We still do have two other divisions, we still very much think and that's obviously I'm quoting core EPS, I'm not quoting the GAAP EPS, that is who we are currently, if we were ever to go to an institution that didn't have those, of course, we would look at our tangible book value, but then I'd come back and say tangible book value is going to be a function of the trying to value all my assets at what they are carried, and I would say we start looking at our receivables. Our receivables have dramatically higher yield, dramatically higher returns. That when you start looking at book value versus our peers given how are higher returns. That when you start looking at book value versus our peers given how are

ROEs are and our growth are, I don't think that's a fair comparison. I think obviously we should trade at a higher multiple just given our performance. So with that, I am happy to walk through kind of more metrics with you if you would like because you are in land of boy tangible book values as opposed to what the value of the underlying assets are. That helped?

Eric Wasserstorm

Okay. No, thank you for -- yes, thank you for that, and just to follow-up on one point, just with respect to your leverage position, what -- can you help us understand whether the priority is to continue to reduce your debt or in fact to accelerate leverage through incremental share repurchases?

Tim King

Well, clearly that's the conversation when we start thinking about the cash flows than repurchase that we are balancing. I am going to take a little bit of the newbie card and say 120 days. I am obviously working with the board making sure we think about debt repurchases -- debt shares repurchases. So we are working through that.

Eric Wasserstorm

Okay, great. Thanks very much.

Operator

And your next question comes from the line of Vincent Caintic with Stephens.

Vincent Caintic

Hey, thanks. Good morning. Hi, guys. Just first a quick clarification just because I know there are a lot of numbers, but the 2020 outlook, EPS mid to high teens that's based on the 2019 core of $16.75 to $17 shares, is that right?

Tim King

Yes. So if you are going to use core EPS and go to core EPS in 2020, the core we had was mid 20, so call 25 - 24, 26 range to high 20s, call to 28 range. That's -- we are guiding in that zip code.

Vincent Caintic

Okay. And the core –- the year-over-year core is the 16 -- it's not the per forma number just because I know this. Your pro forma of $20.50 versus the core, okay.

Tim King

Yes. When I answered the question for Sanjay, when I switched to pro forma, that's when I said the 6 to 8. So you want to use a pro forma then $20.50 to $20.75, it would be 6 to 8.

Vincent Caintic

Okay, got you. Okay, very helpful. Thank you. And my broader question is so appreciate all the things that are changing and all the detail. And I think the investor day, I think people look forward to that because it seems like a lot of things are evolving. So just wondering kind of similar to maybe it's similar but a different take to some of the other question is so you have got active receivables growth still in the mid teens range. You have got your maybe the total portfolio is shrinking. How should we expect that go into 2020? And then when you think about your -- I guess your stocks now indicating 114 pre market. When you think about buybacks there versus renewing some of these accounts that might be struggling, just how broadly do you think about that part of business? Thank you.

Tim King

So, let me talk about receivables growth. Clearly, we are looking at the average receivables growth. You will see that we are down 1% on a reported basis. But then end of period up 3%, the trajectory we are showing and hence the position we are taking in the earnings call was or if you go back to look at Q1, down dramatically. Q2, getting back to flat, Q3, end of period. And then if you just use the guide of 19.5 versus the end of period last year, we are going to up 9%. And so, part of what we are trying to convey and we hope folks takeaway is that all that -- all the we are selling portfolios all these different hope folks takeaway is that all that -- all the we are selling portfolios all those different things we have done back in 2018, we are working our way through that. And we are back to a growth profile with our A/R. That should then translate in too because we think our yields are fairly flat meaning then you translate into a growth in your revenue that is commiserate with your growth in your A/R. The business model from our perspective is pretty simple, grow your A/R, keep your yields, keep your charge-off and obviously get some leverage in the OpEx and you will obviously grow your EPS. And that's what we are trying to convey here.

Vincent Caintic

Okay, great. Thanks very much and I look forward to the Investor Day. Thanks.

Tim King

Okay. Yes. Thanks a lot.

Operator

And your final question comes from the line of Jamie Friedman with Susquehanna.

Jamie Friedman

Hi, thanks for all the detail. I just wanted to ask you, Melisa, with regard to that Slide 5 your voice was noticeably more excited, enthusiastic. I had two questions related to that. One, I will just ask upfront, the distinction you are making in sequencing of the vertical versus the vintage; it looks like the verticals go before the vintage. I just want to make sure I understand why you point that out. And second, if you could just share some more used cases. You talked about building home goods, retail and e-tail rather in your prepared remarks, but some more will be helpful, so, the vertical versus the vintage and then the used cases. Thank you.

Melisa Miller

Sure. So the part of the reason that we tried to separate the two is we -- if we go to vintage first, we have found that there is huge demand in the marketplace for what is it that we bring to the table, but if the vertical itself is not growing or not changing with the modern consumer, then three years from now we are going to be back to the same place.

So we deliberately tested into what are the wining categories where we believe there's market and consumers are going to want to stay. Another example could be children. So, those of us that are on the phone that are parents, the one thing that we always do is we want to be sure that our children had before we do. So that would another example of a vertical. Not all are winning, but that is a vertical that is going to endure. So then when we go down to the vintages, by the time that you conclude that a vertical is viable, you develop a list of healthy candidates, go through the selling and on boarding journey, you are looking at about an 18-month timeframe before you get that first dollar if you will of revenue. So that's why you will almost always see that vintage shift lack the vertical shift or lagged the vertical shift.

Does that answer the question?

Jamie Friedman

Yes, that's really helpful. Thank you.

Tim King

Okay, thank you.

Jamie Friedman

Thank you.

Operator

And at this time, there are no further audio questions. We will go back to the speaker for closing remarks.

Melisa Miller

Well, I certainly want to thank everyone's time for today. I understand there were a number of moving peaces and messages that we asked you to consider. We want to acknowledge again that this road has been long for many on the phone here today, and our goal is to make sure that you are confident that we are making the progress that we know that we are making and that we will finish this year strong and it will be a jumping point off for 2020. So, thank you everyone. And we will talk next quarter.

Operator

And thank you. This concludes today's conference. Thank you for your participation. You may now disconnect. Presenters, please hold moment.