



American Express (AXP)

# History



- Founded 1850 in Buffalo, New York
- 1891 - Travelers check
- 1958 - New Card business. Before launch date, issued 250,000 thousand cards
- 1959- First plastic cards
- 1984- Platinum card (\$250 fee to start. Now \$550). It was Invitation only(two years of tenure)
- 1999- The Black Card (\$1,000 fee, \$2,500 and one time 5K)



# Recent News

- AXP lost Costco to Citibank- June 2016
- Acquired InAuth to help prevent fraud
- Acquired KDS
- Acquired "HelloGoodbye" app

# Business Segments



## Global Leader & Scale Player



AMERICAN EXPRESS

**#1** Small Business and Commercial Issuer Globally\*



AMERICAN EXPRESS

**#1** Commercial Issuer in the US\*



AMERICAN EXPRESS

**#1** Small Business Issuer in the US\*



AMERICAN EXPRESS

Relationships with **>60%\*\*** Fortune Global 500®



# Closed-Loop vs. Open-Loop



- Closed – Loop
  - Manage card-issuing & merchant relationships
  - Access to information on both ends of transactions
  - Direct relationships
- Open – Loop
  - Middle Man
  - Go through a bank
  - Don't get the data
  - Network only takes .09% of transaction fees

# Amex vs. Visa



- Amex process 6 Billion transactions per year
  - Make 30 Billion in revenue
- Visa processes 60 Billion transactions per year
  - Make 14 Billion in revenue

# Revolving & Charge Card



- Revolving Card
  - Credit Card that carries over billed amount
  - Carries a balance
- Charge Card
  - Pay full amount at the end of the month
  - Designed primarily as payment for card members



# Business Segments



## 1. Consumer Services

a) United States Consumer Services

b) International Consumer and Network Services

## 2. Global Commercial Services (GCS)

## 3. Global Merchant Services (GMS)

# U.S. Card Services (USCS)



- Card Members generally paying the full amount billed each month
- Charges are approved based on
  - Card Member's current spending patterns
  - Payment history

# International Consumer & Network Services (ICNS)



- Maintains relationships with banks and other institutions worldwide
- Offer services to complement the core business

# Global Network Services



- Drives more transaction volume on the American Express network
- Increases the number of merchants choosing to accept the American Express card
- 150 card-issuing and/or merchant-acquiring arrangements
- More than 130 countries and territories.

# Global Network Services Arrangements



- **Independent Operator Arrangements**
  - Partners licensed to issue local currency cards for merchant acquirer and local merchants
- **Network Card License Arrangements**
  - Partners licensed to issue American Express-branded cards
- **Joint Venture Arrangements**
  - join a third party to establish a separate business and issue American Express-branded cards

# Global Commercial Services (GCS)



- Corporate Card Services
- Local currency cards offered in 85+ countries
- U.S. dollar/Euro cards offered in 100+ countries
- Global leader in commercial payments.

# Global Merchant Services (GMS)



- Develop and acquire relationships with Merchants
  - OptBlue Merchant acquiring program
- Offer support for card acceptance, fraud prevention and other value-added services.
- Contract with merchants and agree on discount rates
- Merchant network in the United States could accommodate more than 90 percent of general-purpose card spending
- International merchants could accommodate 80%

# Global Merchant Services





## U.S. OptBlue Progress




OptBlue™ – U.S.

 <p><b>TRANSFIRST®</b> First In Secure Electronic Payments</p> <p><b>November 2013</b></p>	 <p><b>JetPay</b> PAYMENT SERVICES</p> <p><b>November 2013</b></p>	 <p><b>First Data.</b></p> <p><b>May 2014</b></p>	 <p><b>Heartland</b></p> <p><b>May 2014</b></p>	 <p><b>worldpay</b></p> <p><b>May 2014</b></p>	 <p><b>globalpayments</b></p> <p><b>June 2014</b></p>
 <p><b>WELLS FARGO</b></p> <p><b>September 2014</b></p>	 <p><b>vantiv.</b></p> <p><b>October 2014</b></p>	 <p><b>EVO PAYMENTS INTERNATIONAL</b></p> <p><b>November 2014</b></p>	 <p><b>Bank of America Merchant Services</b></p> <p><b>February 2015</b></p>	 <p><b>Elavon</b></p> <p><b>February 2015</b></p>	 <p><b>TSYS®</b></p> <p><b>April 2015</b></p>
 <p><b>FIRST AMERICAN PAYMENT SYSTEMS</b></p> <p><b>April 2015</b></p>	 <p><b>CLEARRENT™</b> INTELLIGENT PROCESSING</p> <p><b>August 2015</b></p>	 <p><b>TriSource SOLUTIONS</b></p> <p><b>January 2016</b></p>	 <p><b>STERLING</b> Payment Technologies</p> <p><b>August 2016</b></p>	 <p><b>MERCHANT e-SOLUTIONS</b> a cielo company</p> <p><b>October 2016</b></p>	 <p><b>CHASE</b></p> <p><b>October 2016</b></p>

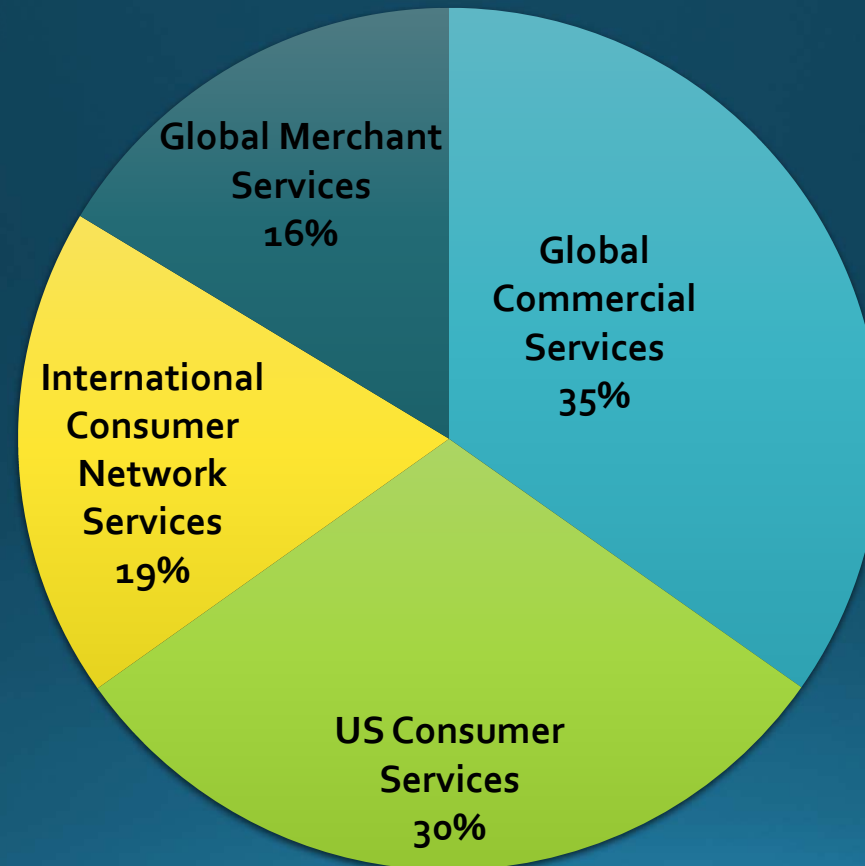


# Corporate and Other



- Pre-paid services
  - American Express serve
  - Bluebird
  - The American Express Gift Card
  - Travelers cheques
- Support Functions
  - Servicing
  - Credit
  - Insurance and Technology

# Revenues by Segment



# Billings by Segment



## Commercial Billings by Client Segment



**Global & Large Accounts**  
(>\$300M in Annual Revenue)

~25%

**US Small Business**  
(<\$1M in Annual Revenue)

~20%

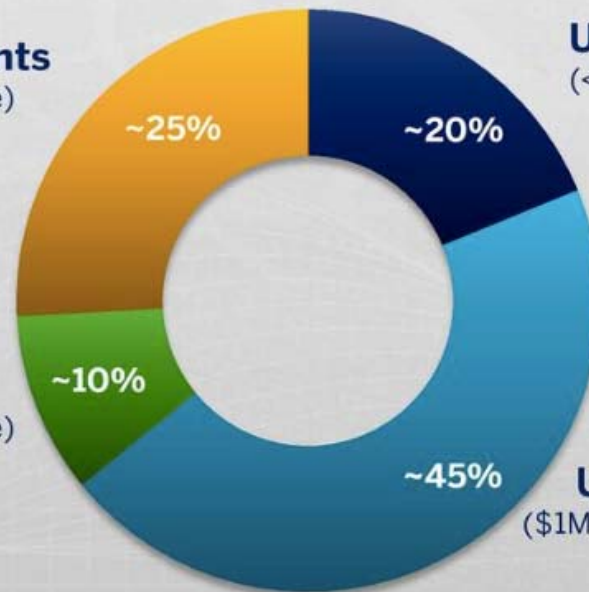
**International SME**  
(<\$300M in Annual Revenue)

~10%

**US SME**  
~65%

~45%

**US Middle Market**  
(\$1M-\$300M in Annual Revenue)



# Risk



- Face pressure from our higher merchant fee
- Anything that effects the economic environment effects our profitability
- Loss of third-party relationships or lack of contract renewal
  - Cobrand made up 18% of worldwide billed business
- Keeping up with tech growth

Growth

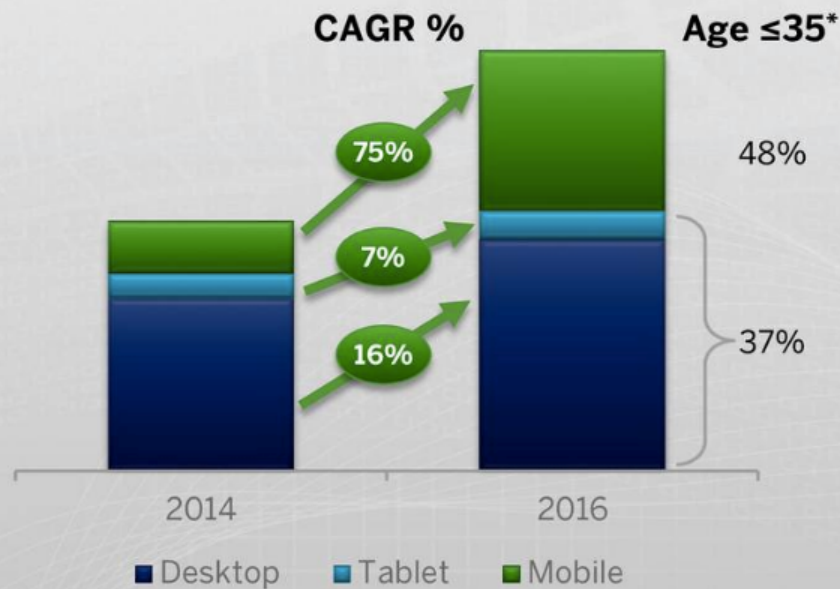
# Tech



## Mobile is Driving Growth



### Global Digital Application Volume



- Volume growth driven by digital
- Mobile growth at 75% 2014-16 CAGR
- Key to growth and reaching millennials

# Loans



## Consumer Lending Mix



- Our US loan portfolio makes up the majority of our loans
- International loan volumes are driven from UK, Australia, Canada, and Mexico
- Growth accelerated in US and international markets

# Loans



## Existing Customers Are Driving Growth



### Contribution to Loan Growth (U.S.)\*



- Tenured Card Members represent a substantial and growing source of loan growth
  - Lower marketing cost
  - Higher expected revenue with lower delinquency rates
  - Shorter time-to-revenue



# Global Merchant Services



32.8% growth

# Global Merchant Services



- Over 100,000 Restaurants started accepting Amex cards
- Over 40,000 Clothing stores started accepting Amex cards

# International Consumer Network Services



## International SME – Priority Markets



AUS



JPN



CAN



MEX



UK



FRA



ITA



IND



2016 YoY FX  
Adj. % Growth

8%

19%

11%

17%

28%

7%

13%

58%

% of AXP Int'l  
SME Billings

24%

17%

14%

8%

6%

6%

6%

4%

Why American Express?

# Rewards



Our pick for

## Everyday spending



**NW** Bonus value

**\$150** <sup>?</sup>

**Annual fee**

**\$95**



# US SME – Spending Capacity



## Average of AXP Capacity vs. Competitor Lines

We offer best-in-class spending capacity to support the needs of growing businesses

**U.S. Small Business Accounts**

**Largest Small Business Accounts\***



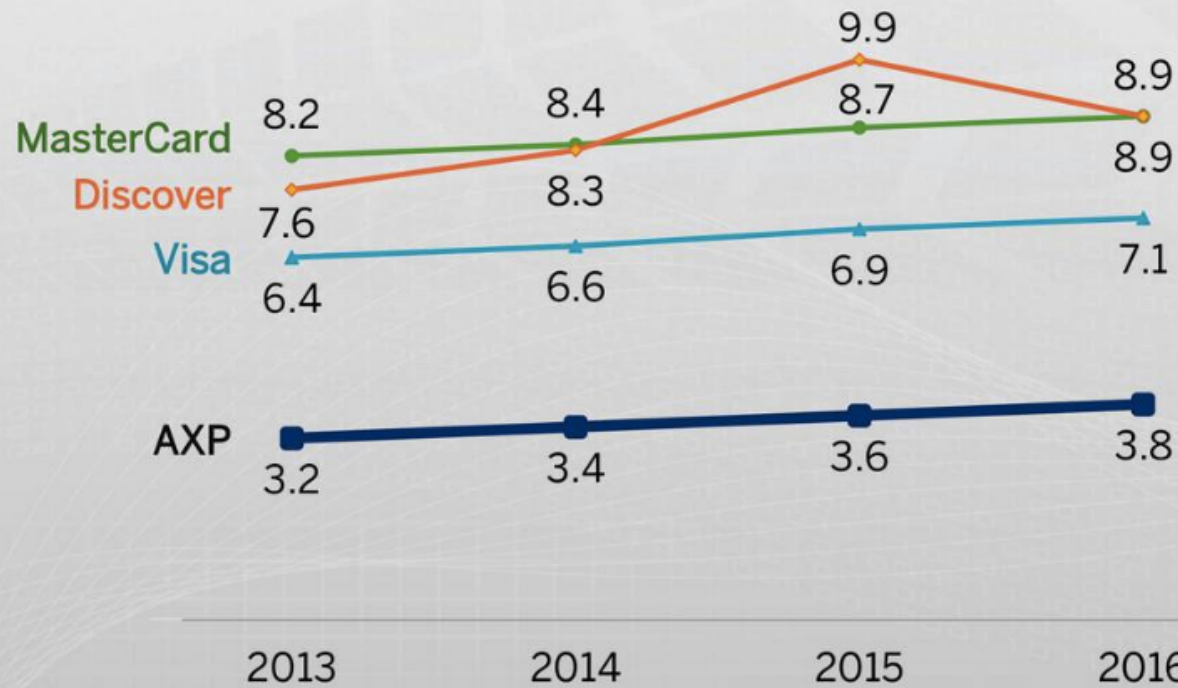
**8x**

Avg. AXP Spend Capacity  
vs.  
Competitor Lines

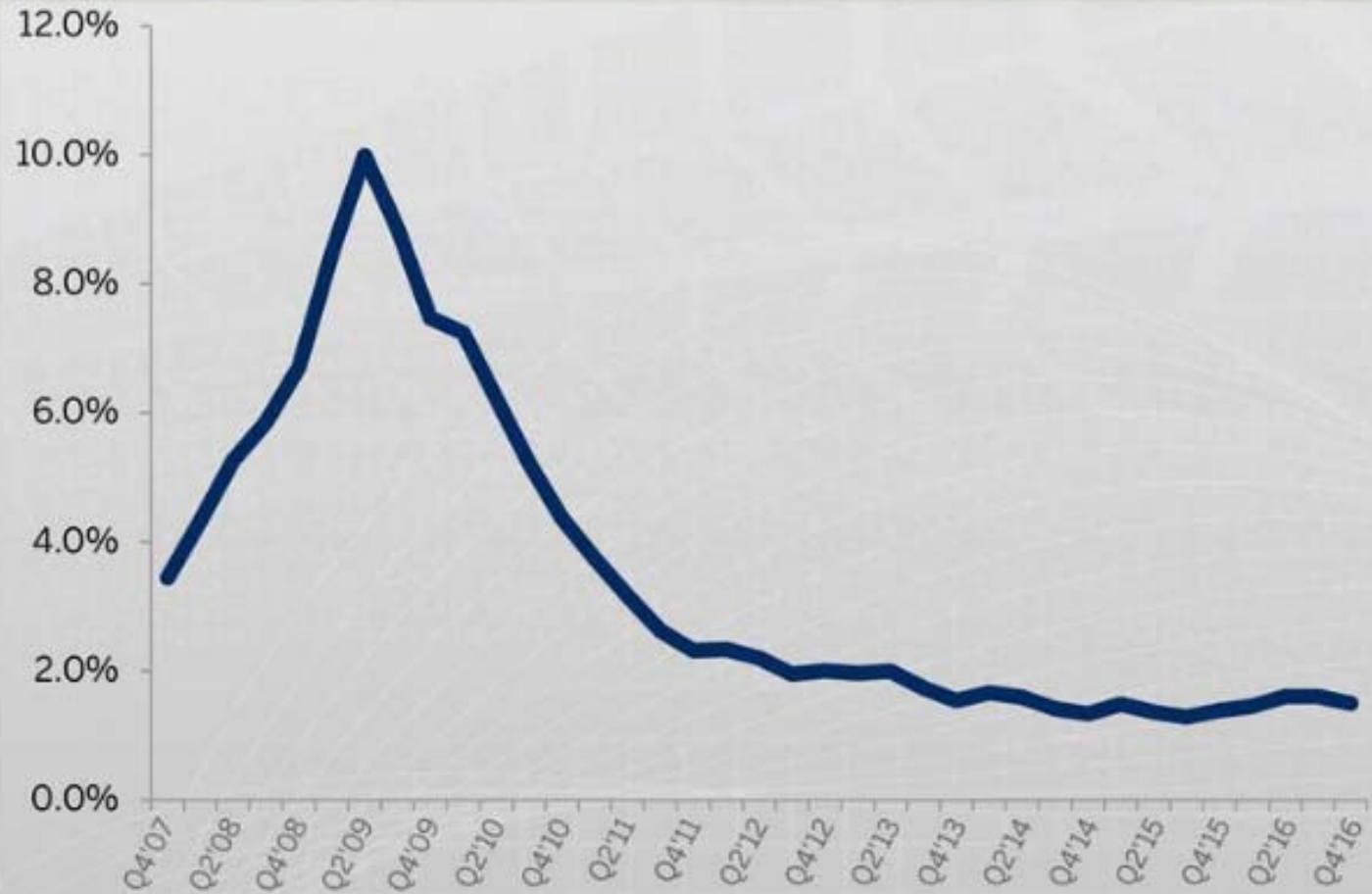


# Fraud Rates – U.S.

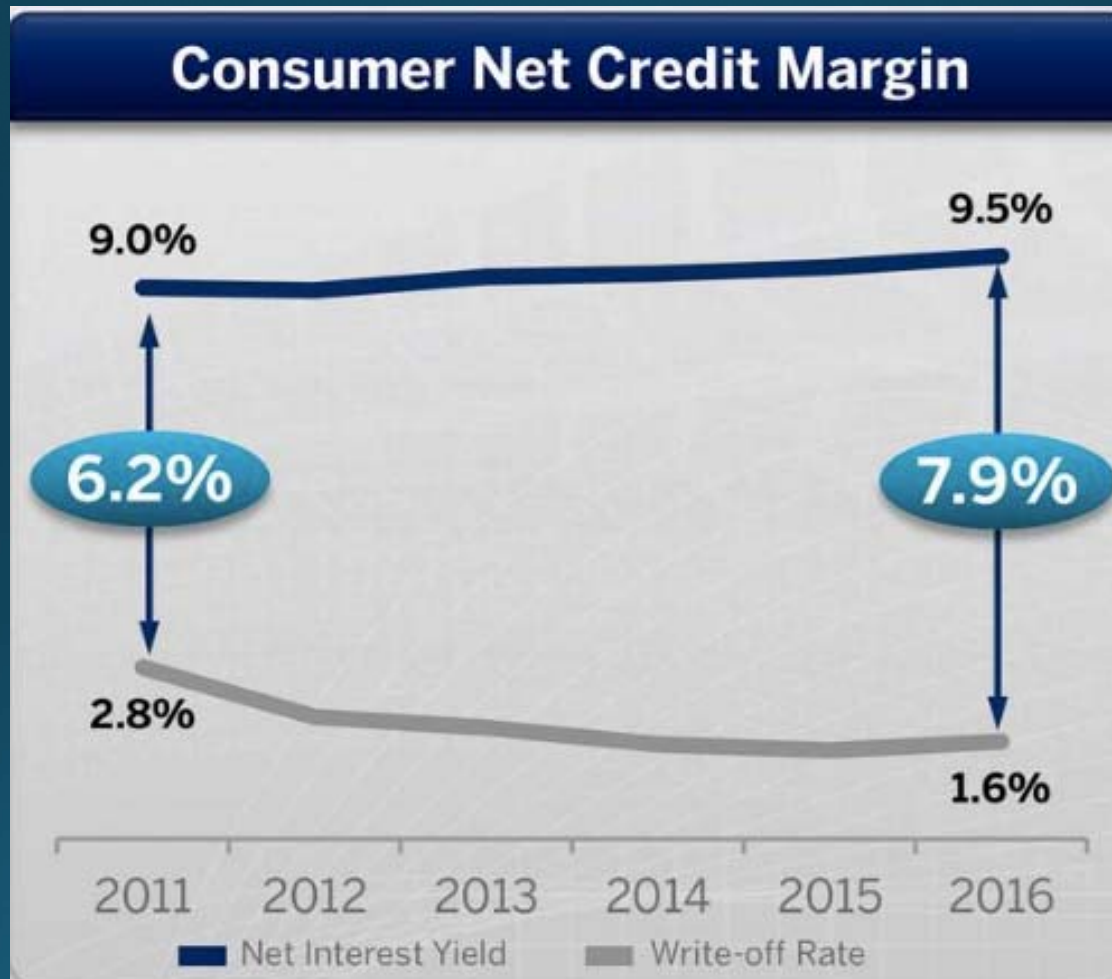
Fraud Rates in the U.S.\* – 2013 to 2016 (bps)



# Write-Off Rates

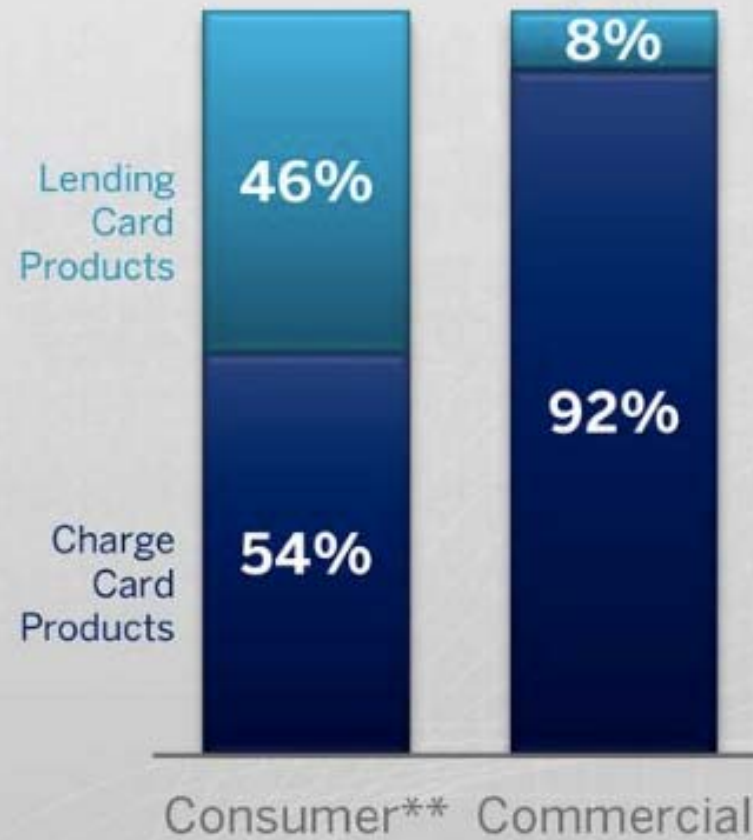






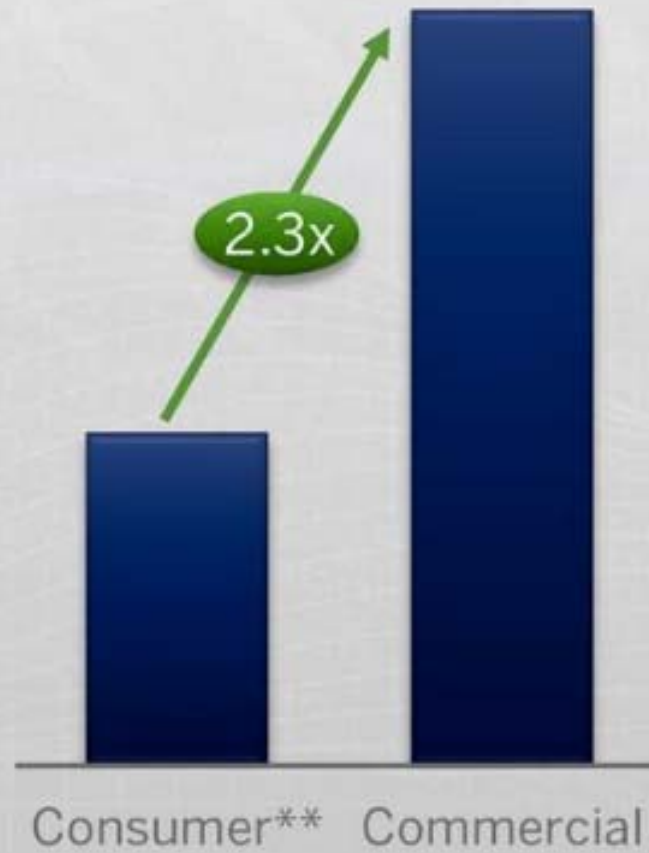


## 2016 Adj. Billings Distribution\*





## 2016 Avg. Spend per Account



# Spend-Centric Customers



- \$150 per transaction vs. Visa who averages \$50
- Average FICO score of 740
- Largest credit limits



# Competitive Advantage

- Brand name
- Switching Cost
- Network Effect
- Higher discount rate
- Closed - Loop
- "Spend-centric" business model



# Qualitative Analysis

Qualitative Review	
What type of business is this?	Sustained Competitive Advantage
Can you easily explain what the business does?	Yes
Is it heavily unionized?	No
Does it require heavy capital infusion?	Yes*
Does it require lots of research and development?	No
Can inventory become obsolete?	No
Are there chronic "one time" write offs?	Yes
Is the company able to raise its prices to offset inflation?	Yes
Will the company sell more in the future?	Yes
If I gave you \$1 billion could you create a competitor?	Yes



# Quantitative Analysis

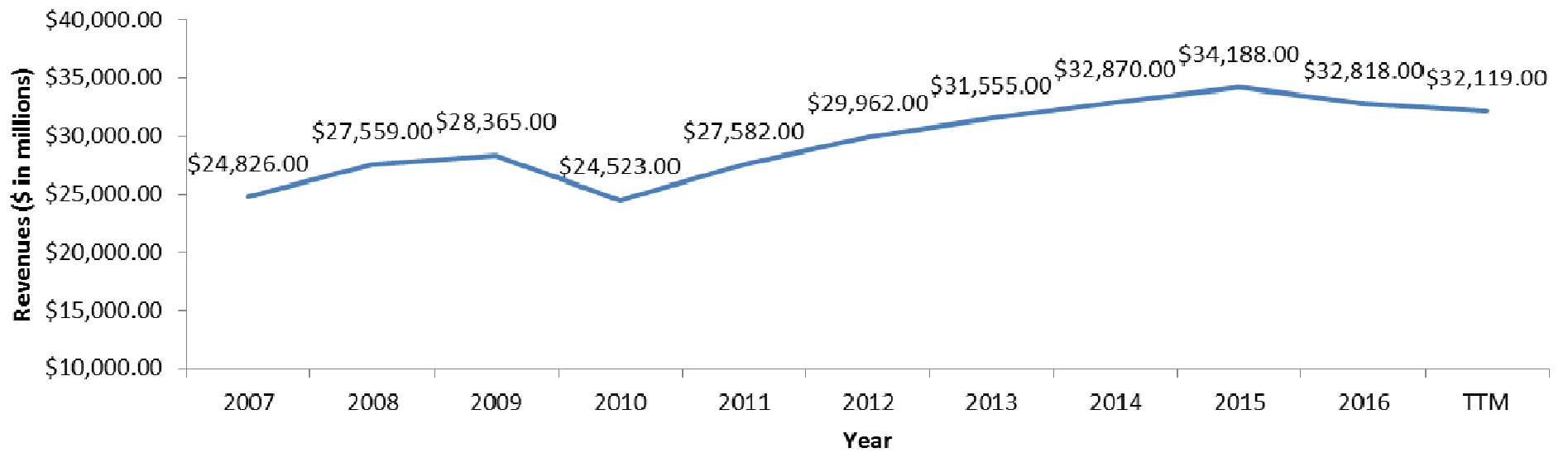


IOFS	TTM	THRESHOLD	PASS?
% SGA to Revenue	<b>53.4%</b>	≤ 80%	Yes
% Depreciation to Revenue	<b>3.41%</b>	≤ 10%	Yes
Interest % of OP	<b>21.05%</b>	≤ 35%	Yes
Net Profit Margin	<b>16.78%</b>	≥ 10%	Yes
Obligation Ratio	<b>4.17</b>	< 5 Years	Yes
Adj. Debt to Equity	<b>6.75</b>	< 10	Yes
Return on Equity	<b>26.38%</b>	≥ 15%	Yes
Return on Capital	<b>8.01%</b>	≥ 15%	No
Return On Assets	<b>4.07%</b>	> 1%	Yes
Dividend Payout Ratio	<b>22.32%</b>	≤ 60%	Yes
Preferred Stock	<b>Yes</b>	None	No
Capital Expenditures	<b>25.43</b>	≤ 25%	No
Net Earnings Trend	<b>Up</b>	Up	Yes
Retained Earnings Trend	<b>Up</b>	Up	Yes

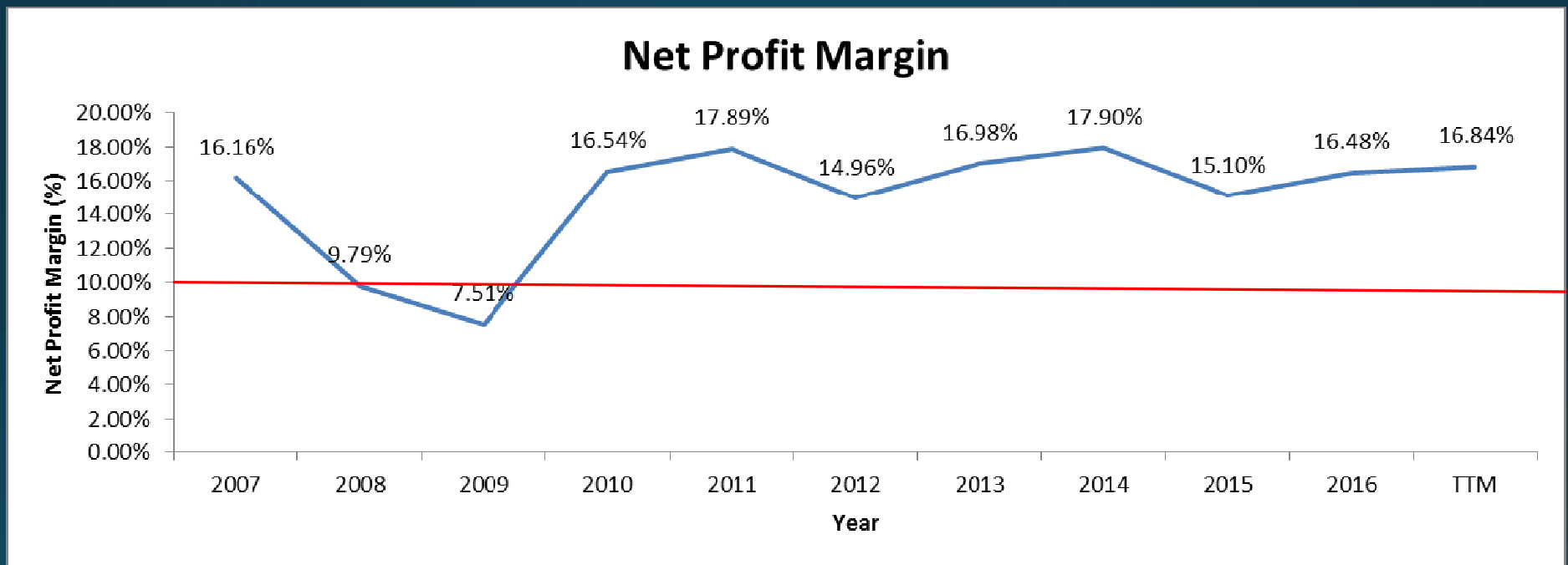
# Revenues



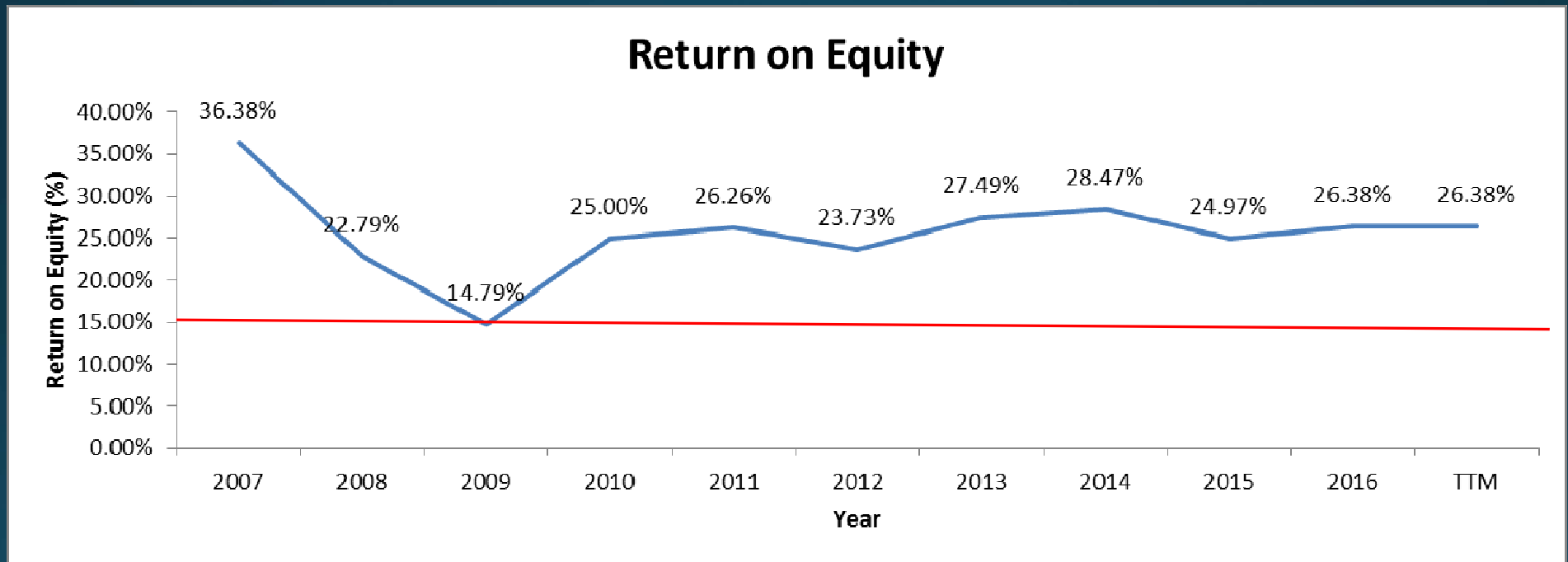
## Revenues (10 year)



# Net Profit Margin



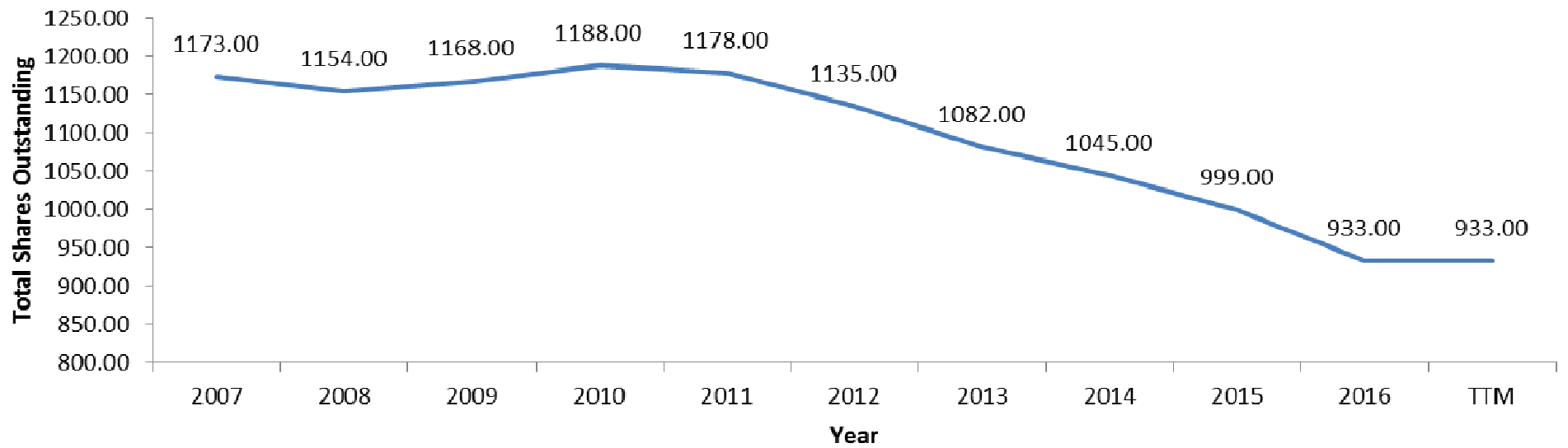
# Return on Equity



# Total Shares Outstanding



## Total Shares Outstanding

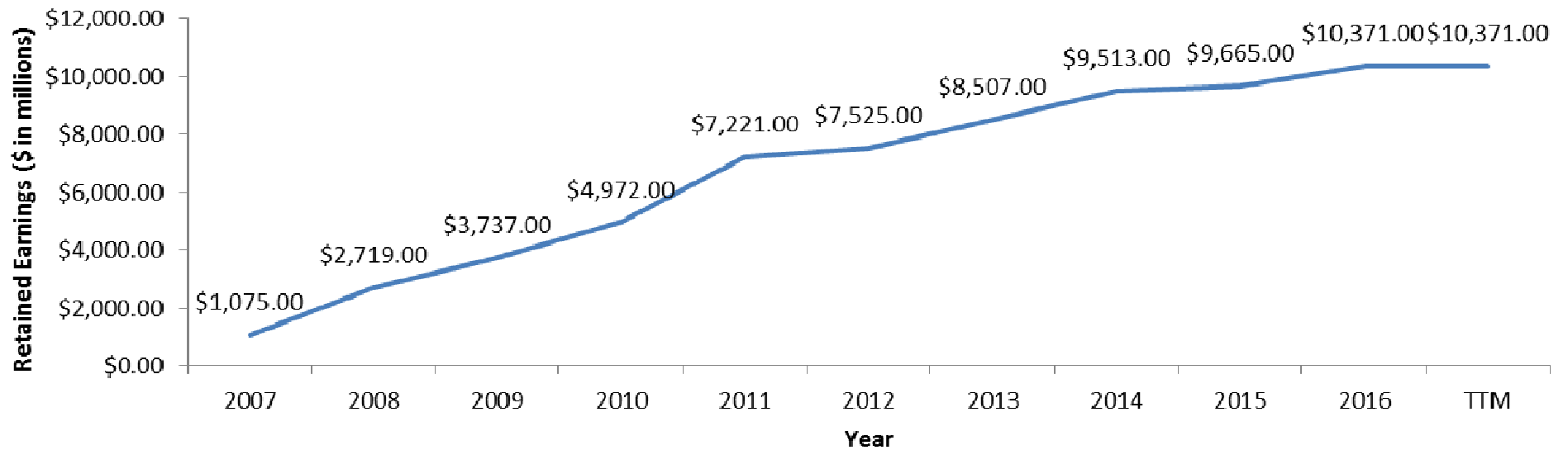


Bought back 20.4% shares

# Retained Earnings



## Retained Earnings



Statistical Array Analysis	Trend
Sales per Share	Increasing
Cash Flow per Share	Stable
Earnings per Share	Increasing
Dividends per Share	Increasing
Book Value per Share	Increasing
Revenues	Increasing
Operating Profit Margin	Increasing
Net Profit	Increasing
Net Profit Margin	Stable
Shareholder's Equity	Increasing
Return on Assets	Stable
Return on Equity	Stable
Common Shares Outstanding	Decreasing
Long Term Debt	Decreasing

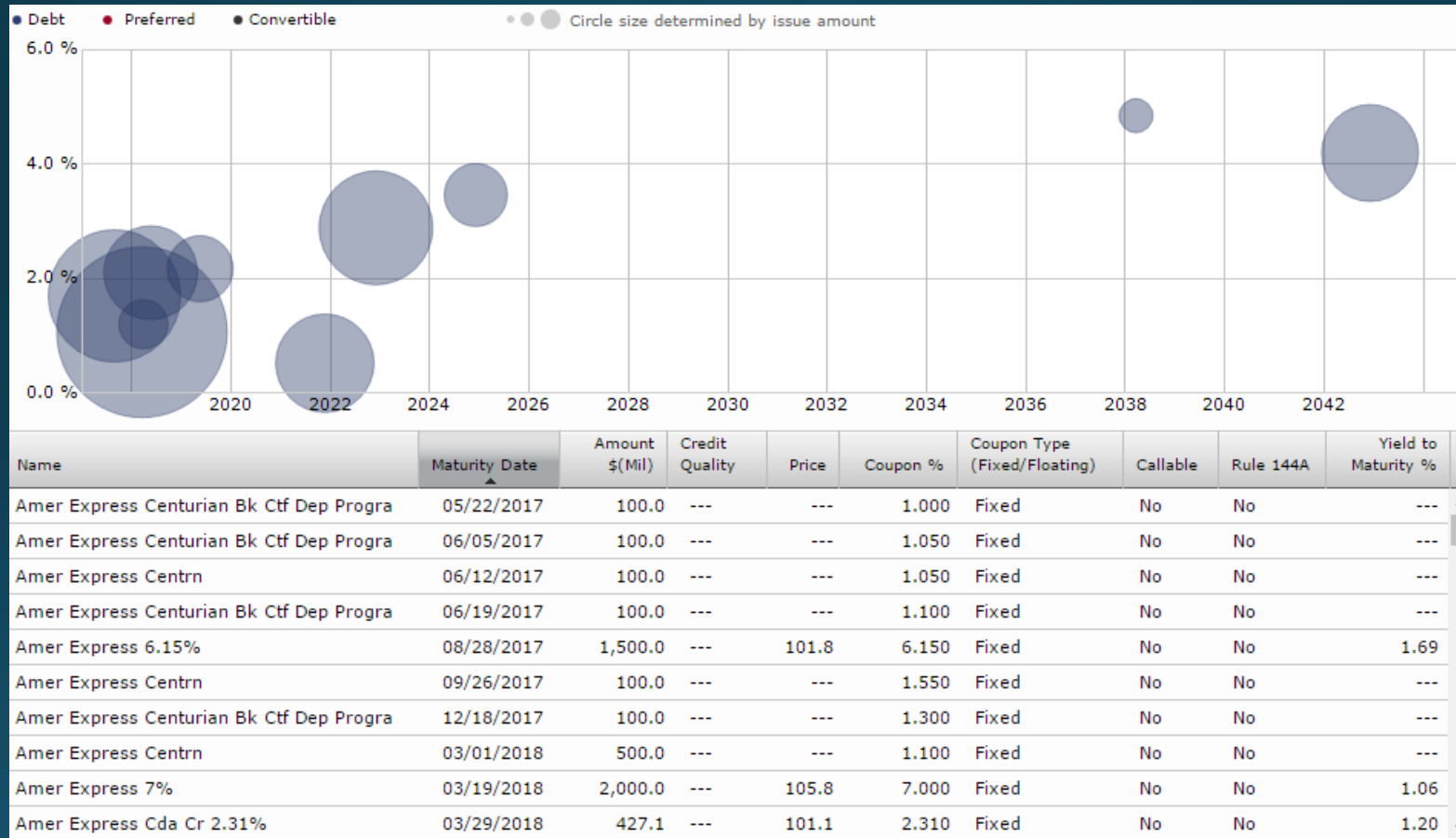
# DuPont Historical



AXP	Total Asset Turnover	Net Profit Margin	Financial Leverage Multiplier	Return on Equity
TTM	0.20	16.84%	7.62	25.67%
2016	0.20	16.84%	7.62	25.67%
2015	0.21	15.73%	7.41	24.49%
2014	0.22	17.21%	7.68	29.07%



# Debt Analysis





# Industry Breakdown

	Amex	Visa	Master	Discover	Citigroup
Market Cap	70.77B	206.82B	121.23B	26.06B	164.29B
Operating Profit Margin	25.21%	53.74%	53.46%	40.18%	30.74%
Net Profit Margin	16.84%	38.30%	37.67%	26.30%	21.34%
Return on Equity	25.67%	19.61%	69.46%	20.64%	5.99%
Return on Assets	3.38%	11.59%	23.24%	2.67%	0.85%
P/E	13.13	33.48	27.98	12.47	12.59
P/B	3.27	6.26	19.73	2.59	0.80
P/S	2.17	13.20	10.57	3.24	2.47
EV/EBIT	11.65	21.67	18.90	11.48	12.17

# Industry DuPont Analysis



Company	Total Asset Turnover	Net Profit Margin	Financial Leverage Multiplier	Return on Equity
Amex	0.20	16.84%	7.62	25.67%
Visa	0.27	38.30%	1.90	19.61%
Master Card	0.64	36.67%	2.88	69.46%
Discover	0.10	26.30%	7.85	20.64%
Citigroup	0.04	21.34%	7.02	5.99%



# Valuebands

# Price to Sales



# Price to Owners Earnings



# Price to Earnings less Cash

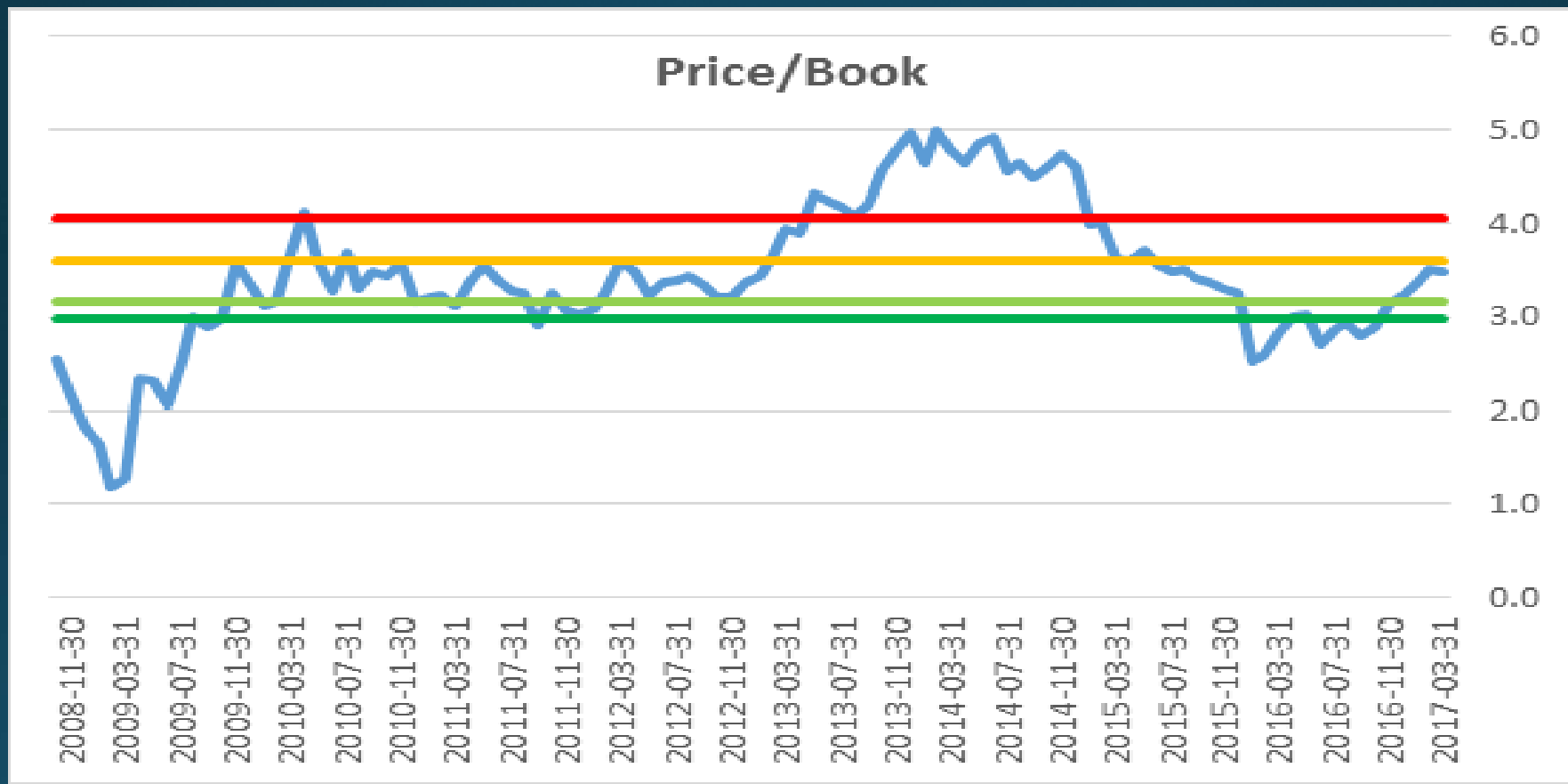




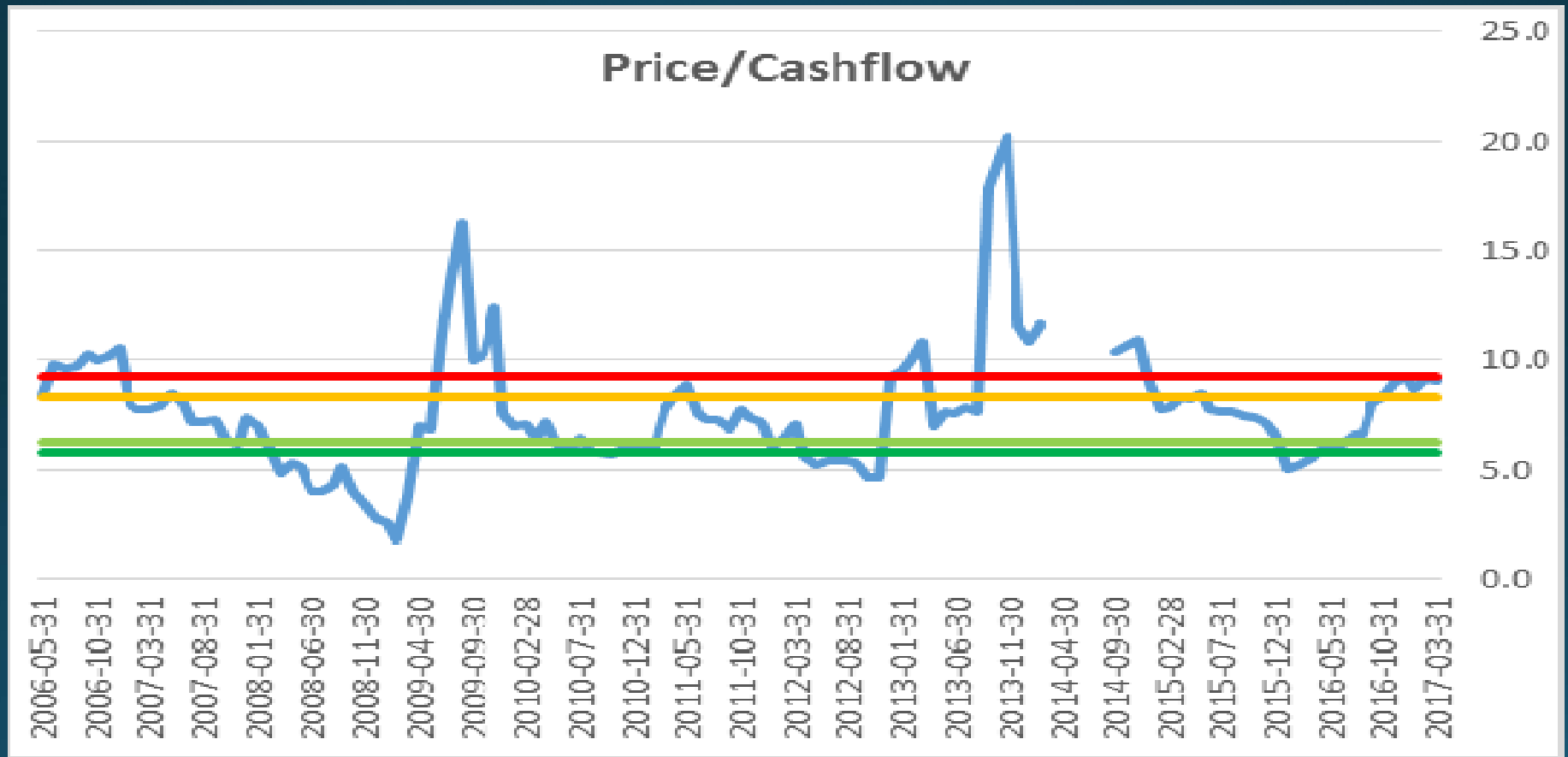
# Price to Earnings



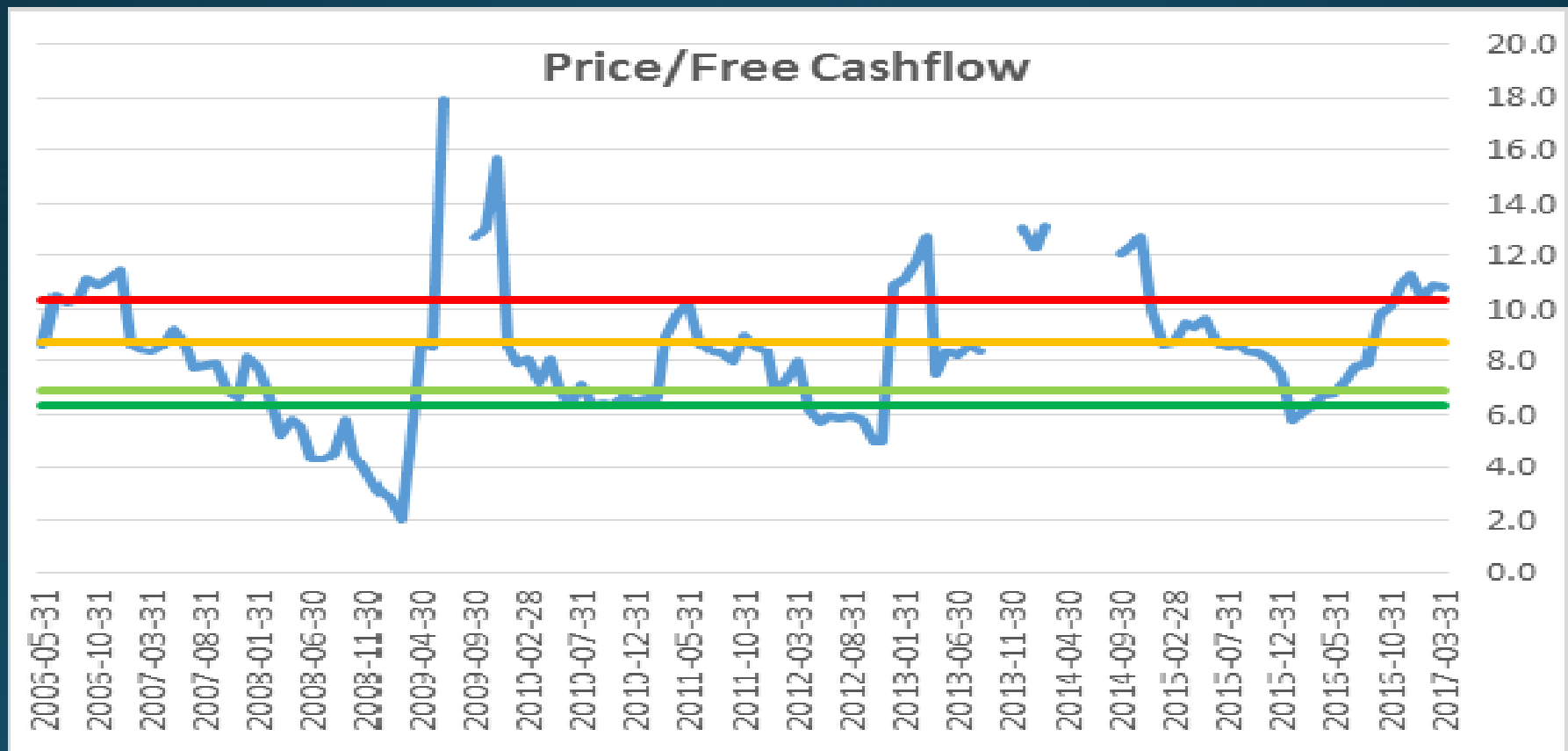
# Price to Book



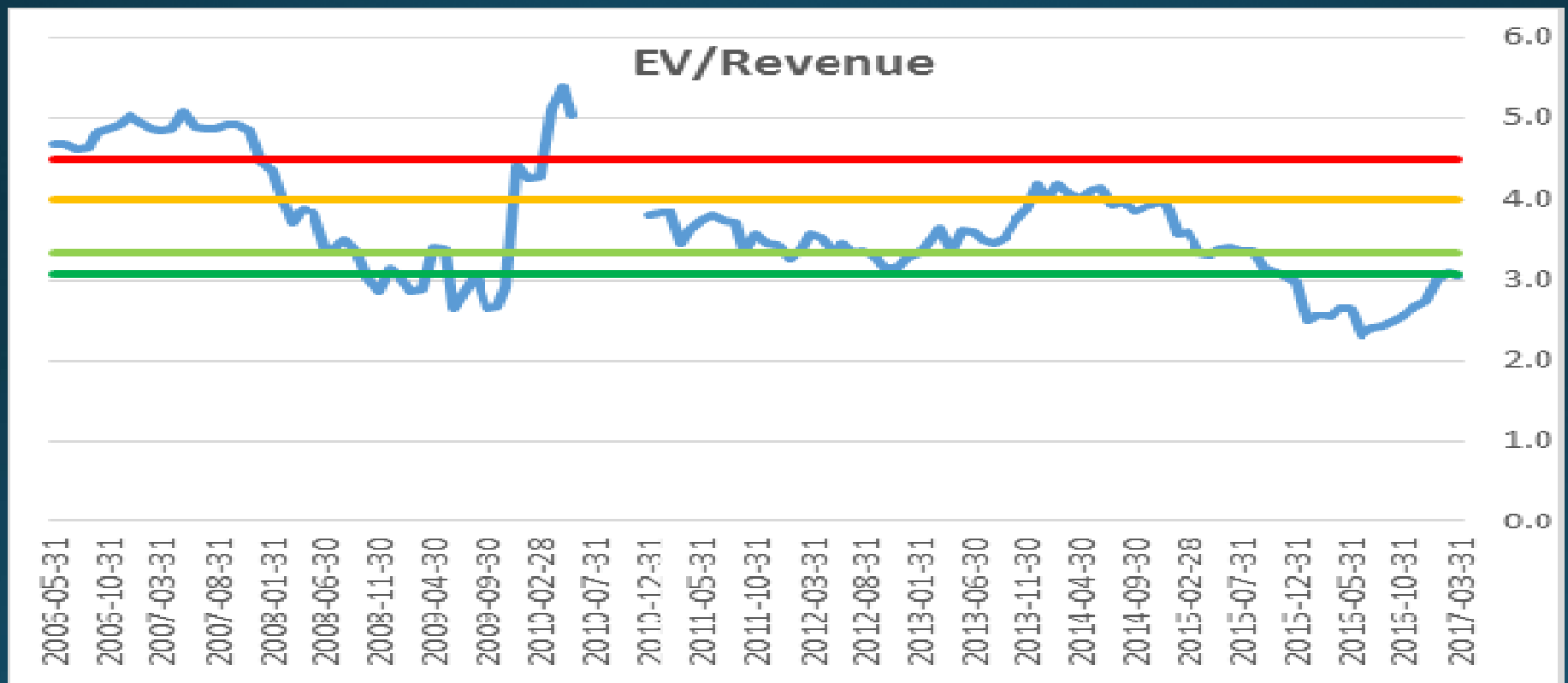
# Price to Cashflow



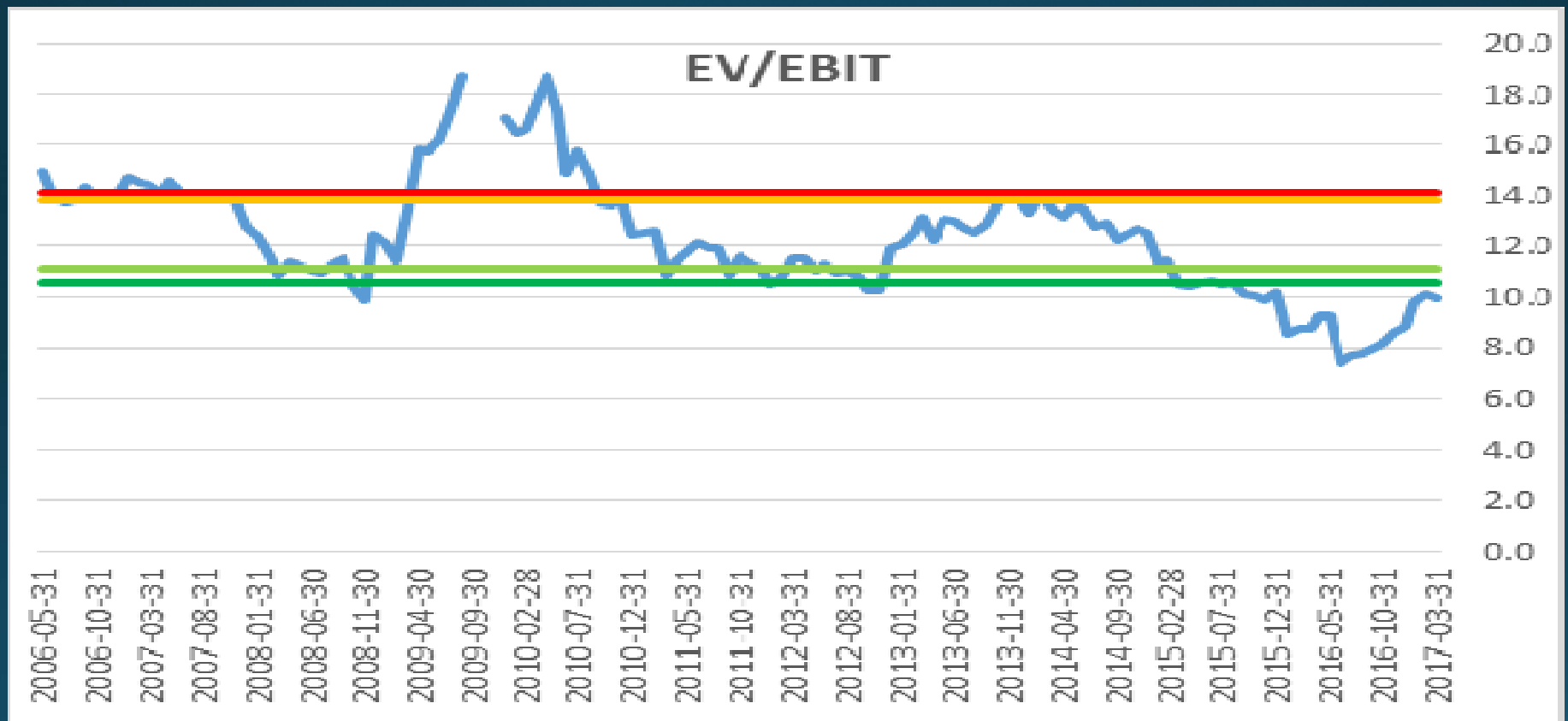
# Price to Free Cashflow

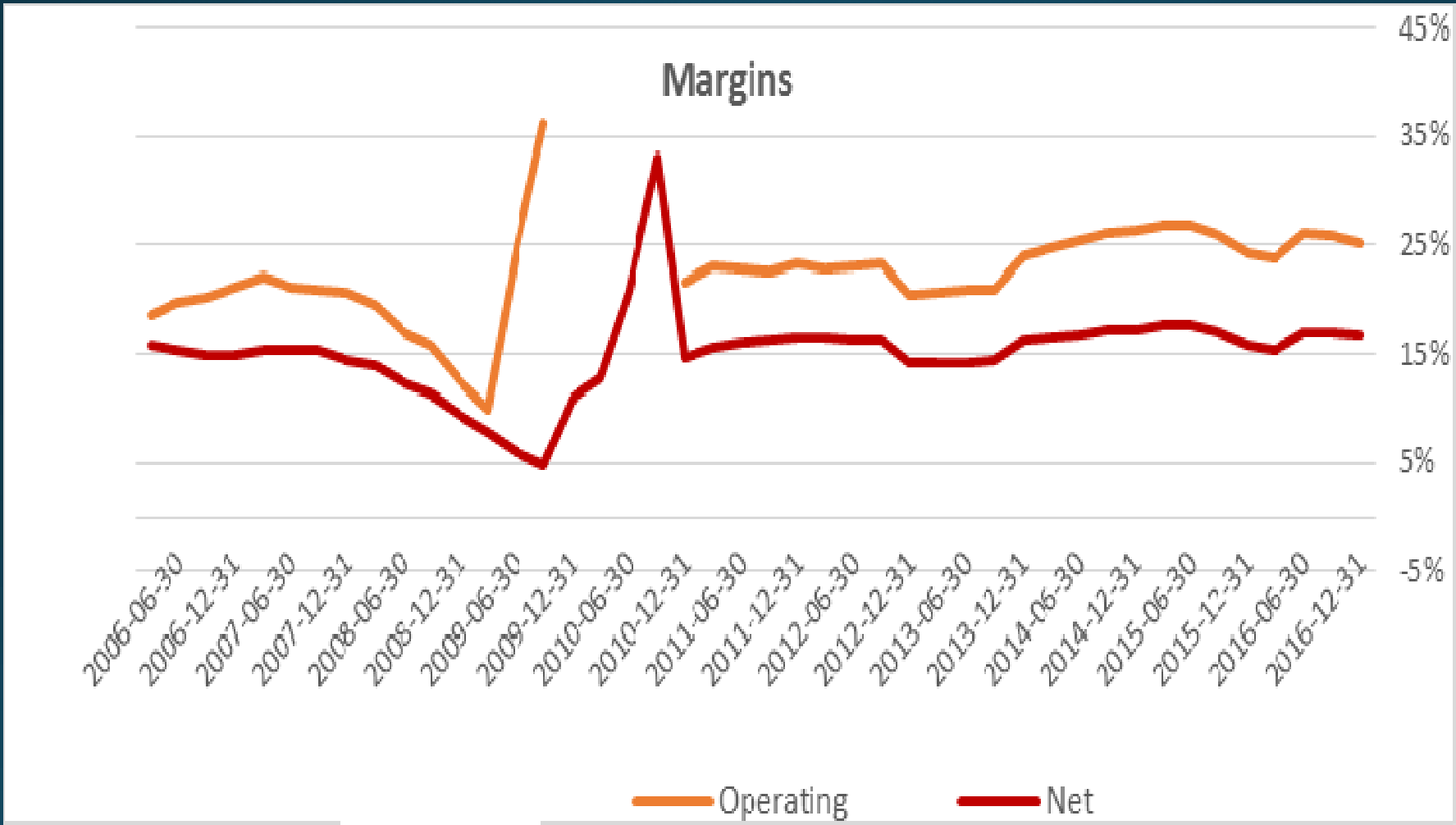


# Enterprise Value to Revenue



# Enterprise Value to Earnings Before Interest & Tax







# Discounted Cash Flow



# Discounted Cash Flow - Default



Earnings Per Share <sup>?</sup>: \$ 5.64

Growth Rate In the Next <sup>?</sup>: 10 Years: **9.20** %

Terminal Growth Rate <sup>?</sup>: 4 %

Years of Terminal Growth <sup>?</sup>: 10

Discount Rate <sup>?</sup>: 12 %

Business Predictability <sup>?</sup>: ★★★★★ <sup>?</sup>



DCF Reverse DCF <sup>NEW</sup>

**Fair Value <sup>?</sup>: \$ 78.99**

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Tangible Book Value <sup>?</sup>: \$ 22.68  
 Add to Fair Value

Growth Value <sup>?</sup>: \$ 49.2

Terminal Value <sup>?</sup>: \$ 29.79

Stock Price: \$ 78.64

Margin Of Safety: **0%**

## Financial Data of American Express Co

Annual Rates (per share)	10 yrs	5 yrs	12 months
Revenue Growth (%)	5.50	6.20	5.00
EBITDA Growth (%)	10.10	9.10	9.80
EBIT Growth (%)	10.60	9.30	9.40
EPS without NRI Growth (%)	<b>9.20</b>	7.50	11.90
Free Cash Flow Growth (%)	3.50	6.00	-20.70
Book Value Growth (%)	10.60	7.30	6.30

# Discounted Cash Flow



Earnings Per Share <sup>?</sup>: \$ 5.64

Growth Rate In the Next <sup>?</sup>: 10 Years: **7** %

Terminal Growth Rate <sup>?</sup>: 4 %

Years of Terminal Growth <sup>?</sup>: 10

Discount Rate <sup>?</sup>: 12 %

Business Predictability <sup>?</sup>: ★★★★★



DCF Reverse DCF <sup>NEW</sup>

**Fair Value <sup>?</sup>: \$ 68.56**

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Tangible Book Value <sup>?</sup>: \$ 22.68  
 Add to Fair Value

Growth Value <sup>?</sup>: \$ 44.25

Terminal Value <sup>?</sup>: \$ 24.31

Stock Price: \$ 78.64

Margin Of Safety: **-15%**

## Financial Data of American Express Co

Annual Rates (per share)	10 yrs	5 yrs	12 months
Revenue Growth (%)	5.50	6.20	5.00
EBITDA Growth (%)	10.10	9.10	9.80
EBIT Growth (%)	10.60	9.30	9.40
EPS without NRI Growth (%)	<b>9.20</b>	<b>7.50</b>	<b>11.90</b>
Free Cash Flow Growth (%)	3.50	6.00	-20.70
Book Value Growth (%)	10.60	7.30	6.30

# Discounted Cash Flow



Earnings Per Share <sup>?</sup>: \$ 5.64

Growth Rate In the Next <sup>?</sup>: 10 Years: **11** %

Terminal Growth Rate <sup>?</sup>: 4 %

Years of Terminal Growth <sup>?</sup>: 10

Discount Rate <sup>?</sup>: 12 %

Business Predictability <sup>?</sup>: ★★★★★



DCF Reverse DCF <sup>NEW</sup>

**Fair Value <sup>?</sup>: \$ 88.79**

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Tangible Book Value <sup>?</sup>: \$ 22.68  
 Add to Fair Value

Growth Value <sup>?</sup>: \$ 53.7

Terminal Value <sup>?</sup>: \$ 35.08

Stock Price: \$ 78.64

Margin Of Safety: **11%**

## Financial Data of American Express Co

Annual Rates (per share)	10 yrs	5 yrs	12 months
Revenue Growth (%)	5.50	6.20	5.00
EBITDA Growth (%)	10.10	9.10	9.80
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Free Cash Flow Growth (%)	3.50	6.00	-20.70
Book Value Growth (%)	10.60	7.30	6.30

# Discounted Cash Flow - Management



Earnings Per Share ? : USD

Growth Rate In the Next ? :  Years

Terminal Growth Rate ? :  %

Years of Terminal Growth ? :

Discount Rate ? :  %

Business Predictability ? :  stars



DCF Reverse DCF <sup>NEW</sup>

**Growth Rate ? : 8.81%**

Revenue Growth Rate ? : 5.50%(10y) 6.20%(5y) 5.00%(1y)

EBITDA Growth Rate ? : 10.10%(10y) 9.10%(5y) 9.80%(1y)

Earnings Growth Rate ? : 9.20%(10y) 7.50%(5y) 11.90%(1y)

Free Cash Flow Growth Rate ? : 3.50%(10y) 6.00%(5y) -20.70%(1y)

Book Value Growth Rate ? : 10.60%(10y) 7.30%(5y) 6.30%(1y)

## Financial Data of American Express Co

Annual Rates (per share)	10 yrs	5 yrs	12 months
Revenue Growth (%)	5.50	6.20	5.00
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EPS without NRI Growth (%)	9.20	7.50	11.90
Free Cash Flow Growth (%)	3.50	6.00	-20.70
Book Value Growth (%)	10.60	7.30	6.30



# Conscious Investor

# 3 Year



	12/07	12/08	12/09	12/10	12/11	12/12	12/13	12/14	12/15	12/16	EPSttm	Years
EPS (\$)	3.360	2.330	1.540	3.350	4.120	3.890	4.880	5.560	5.050	5.650	\$5.650	3
SPS (\$)	23.947	24.455	20.573	23.241	25.741	28.581	30.991	33.521	33.868	35.530		3

HGROWTH	STAEGR®
0.81%	96.10%
2.95%	99.49%

# 3 Year



	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRET®
Default	78.25	\$5.650	15.21	0.81%	20.4%	5.37%
Safety	78.25	\$5.650	12.13	-0.02%	0.0%	-4.34%

Cut P/E by 20%  
Cut Growth by 102%

# 6 Year



	12/07	12/08	12/09	12/10	12/11	12/12	12/13	12/14	12/15	12/16	EPSttm	Years
EPS (\$)	3.360	2.330	1.540	3.350	4.120	3.890	4.880	5.560	5.050	5.650	\$5.650	6
SPS (\$)	23.947	24.455	20.573	23.241	25.741	28.581	30.991	33.521	33.868	35.530		6

HGROWTH	STAEGR <sup>®</sup>
7.18%	93.28%
6.43%	98.10%



# 6 Year



	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRET®
Default	78.25	\$5.650	15.21	7.18%	20.4%	10.07%
Safety	78.25	\$5.650	12.13	4.34%	0.0%	2.06%

Cut P/E by 20.2%  
Cut Growth by 39.6%

# 10 Year



	12/07	12/08	12/09	12/10	12/11	12/12	12/13	12/14	12/15	12/16	EPSttm	Years
EPS (\$)	3.360	2.330	1.540	3.350	4.120	3.890	4.880	5.560	5.050	5.650	\$5.650	10
SPS (\$)	23.947	24.455	20.573	23.241	25.741	28.581	30.991	33.521	33.868	35.530		10

HGROWTH	STAAGR <sup>®</sup>
11.11%	79.18%
5.76%	92.99%

# 10 Year



	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRET®
Default	78.25	\$5.650	15.21	11.11%	20.4%	13.10%
Safety	78.25	\$5.650	12.13	4.39%	0.0%	3.02%

Cut P/E by 20.2%  
Cut Growth by 60.5%

# Kill It – 6 Year



	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRET®
Default	78.25	\$5.650	15.21	7.18%	20.4%	10.07%
Safety	78.25	\$5.650	12.13	4.34%	0.0%	2.06%
Saved 2016-04-22	65.02	\$5.048	10.00	2.00%	0.0%	-0.44%

Cut P/E by 42.7%  
Cut Growth by 72.1%  
Cut Payout by 100%



# Intraportfolio

Symbol	P/E
AIG	N/A
BBBY	8.61
AXP	13.13
IBM	14.03
DG	16.00
WMT	16.31
UHAL	16.85
BRK.B	17.15
QCOM	17.44
MCK	17.67
BF.B	17.97
UNP	21.05
ORCL	21.28
CHRW	21.67
PII	25.55
PEP	25.73
NSRGY	27.55
MSFT	30.85



Symbol	P/S
MCK	0.17
WMT	0.46
BRK.B	0.46
BBBY	0.51
CHRW	0.85
DG	0.91
PII	1.20
AIG	1.33
IBM	2.09
UHAL	2.18
AXP	2.32
PEP	2.61
NSRGY	2.62
QCOM	3.60
UNP	4.48
ORCL	5.06
MSFT	6.07
BF.B	6.12



Symbol	EV/EBIT
BBBY	5.82
UHAL	9.48
DG	10.87
WMT	11.47
BRK.B	11.57
MCK	11.95
AXP	12.21
BF.B	13.30
UNP	13.43
QCOM	13.56
ORCL	13.58
CHRW	14.30
IBM	15.28
PEP	18.32
NSRGY	18.97
PII	19.08
MSFT	21.56
AIG	66.10





Symbol	P/Free cashflow
UHAL	N/A
MCK	5.90
BBBY	6.94
WMT	19.66
AXP	10.91
IBM	13.06
PII	15.09
QCOM	15.57
ORCL	16.32
MSFT	16.91
DG	19.17
NSRGY	21.44
BRK.B	21.99
PEP	22.14
UNP	22.22
CHRW	25.42
AIG	28.93
BF.B	43.00



Symbol	ROE
BF.B	77.11%
IBM	74.04%
PEP	53.33%
CHRW	41.86%
BBBY	28.03%
AXP	25.50%
DG	23.21%
MSFT	23.11%
PII	22.99%
MCK	21.65%
UNP	20.79%
ORCL	18.60%
UHAL	18.13%
WMT	17.59%
QCOM	15.92%
NSRGY	13.94%
BRK.B	9.05%
AIG	-0.98%





# Conclusion

- Valuable customers – with growth potential
- Offer the biggest limits and spenders
- Brand name
- Closed – Loop
- Network Effect

# American EXPRESS

Put this in your pipe and smoke it.



FROM THE GUYS WHO BROUGHT YOU **UHAUL**

AMERICA PICTURES PRESENTS IN ASSOCIATION WITH RELATIVITY MEDIA AN APATOW COMPANY PRODUCTION "KNOCKED UP" STYLING: PHILIPPE EXPRESS  
BY GRACIE BEVELL HEADS: JEFF DUNN PRODUCED BY SARA WEINTRAUB WRITTEN BY CRAIG ALPERT DIRECTED BY MICHAEL SPELLMAN CASTING BY TIM RYAN EXECUTIVE PRODUCERS: SEAN ROSEN EVAN GOLDBERG  
JUDY APATOW AND SETH ROSEN & EVAN GOLDBERG PRODUCED BY SETH ROSEN & EVAN GOLDBERG WRITTEN BY JUDY APATOW SEANINA ROBERTSON DIRECTED BY GAVIN GORDON GREEK  
RESTRICTED PARENTS STRONGLY CAUTIONED  
AUGUST 2008  
RideTheExpress.com



# Recommendation



Current Price	P/S	P/E	P/B
\$79.31	2.03	13.13	3.27
Per Share figures	34.15	5.64	22.68
*based on 30 percentile	\$69.32	\$74.05	\$74.16
Average Price	<b>\$72.51</b>		

- Put at \$73.00 with a premium of \$0.75
- Expiration date of May 5, 2017
- Would require price drop of 7.9%

# Appendix



# Global Merchant Services



## Key Improvements



- New “Merchant-Friendly” Policies
  - Reduced number of Low Dollar Chargebacks
  - Reduced Chargebacks on Older Transactions (Transactions > 120 days)
- Expansion of “Amex Offers”
- Expansion and Reinforcement of Small Merchant Pricing
- Enhanced Digital Servicing Capabilities