

The BIClings

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WHAT IS SYNCHRONY FINANCIAL



- **Ticker Symbol: SYF**

SYF is the largest provider of private label credit cards in the United States.



- **Largest Purchase Volumes and Loan Receivables**

SYF provides a range of financing programs through its 410,000 partner locations in both Canada and the United States.

- **Synchrony offers a variety of credit products through three sales platforms:**

Retail Card (private-label credit cards).

Payment Solutions (consumer financing for major purchases).

CareCredit (financing for elective healthcare procedures).



TIMELINE (HISTORY)

- **1932** – General Electric begins offering financing plans to help consumers more easily pay for appliances.
- **1970** – First GE-branded credit card is released
- **1981** – GE Capital Retail Bank is founded to provide retail credit services to consumers
- **1981** – Car Care is established, providing financing for auto repair and products.
- **1998** - Establishes partnerships with JCPenney and Walmart.
- **2007** – Partnerships with Chevron and Texaco.
- **2009** – First mobile banking app.
- **2014** – Spun-off into Synchrony Financial
- **2014** – IPO
- **2017**- Value investors Buffett owns 3% of SYF outstanding shares at an average price of \$30 a share.

MANAGEMENT



Executive Leadership Team

Margaret Keane



- Chief Executive Officer
- Former president and CEO of GE Capital Retail Finance Business from 2004 - 2011

Kurt Grossheim



- EVP & COO 2015 – Present
- Former CEO of GE Capital Bank

Neeraj Mehta



- CEO of payment solutions
- Chief Commercial Officer
- Former GE EVP and CEO of commercial distribution. finance, started with GE in 1996

Paul Whynott



- EVP and Chief Risk Officer
- Former senior VP of the Federal Reserve Bank of New York from 1992-2014

Brian Doubles



- EVP and CFO
- Joined GE Capital Retail Bank in 2010
- Key asset in spinning off and the IPO of synchrony

Carol Juel



- CIO and EVP
- Former CIO of GE capital retail finance
- 2009-Present

SHOW ME THE MONEY

- **Interest Income**

Charged on loans

Spread between loans/deposits

- **Interchange fees**

\$748 million as of 2019

- **Interest**

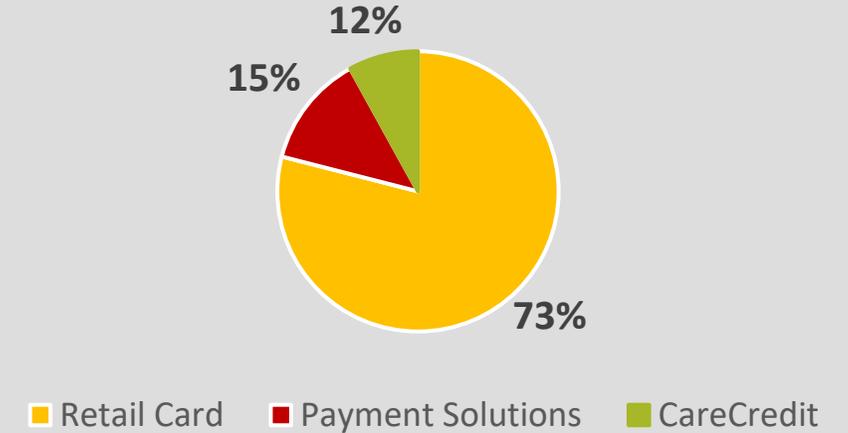
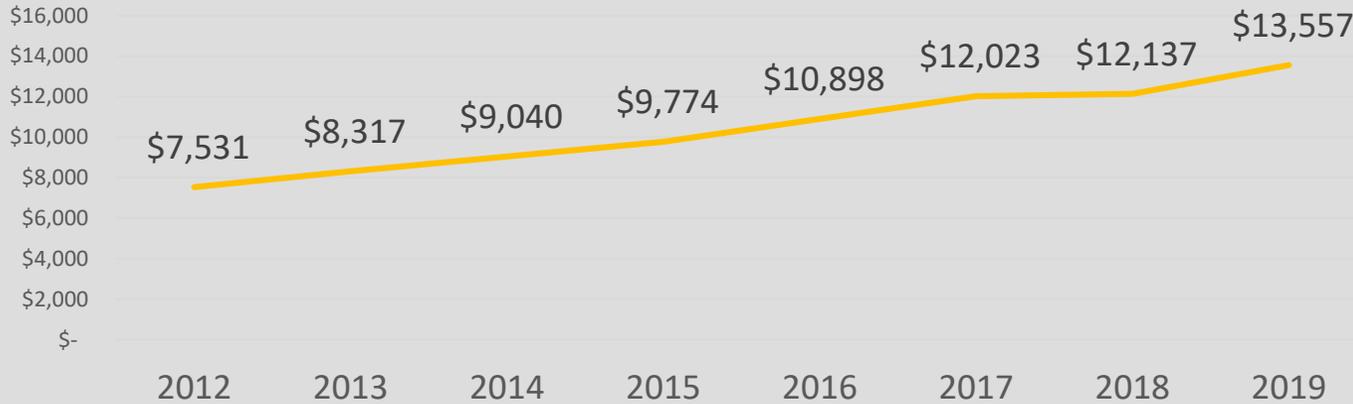
When balances are not immediately paid off.

- **Late fees**

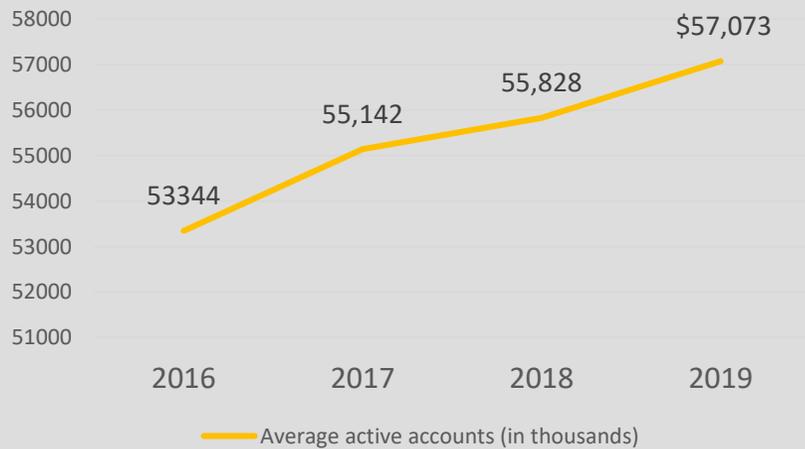


HOW DO THEY MAKE MONEY?

Retail Card Interest Fees on Loans



Average active accounts

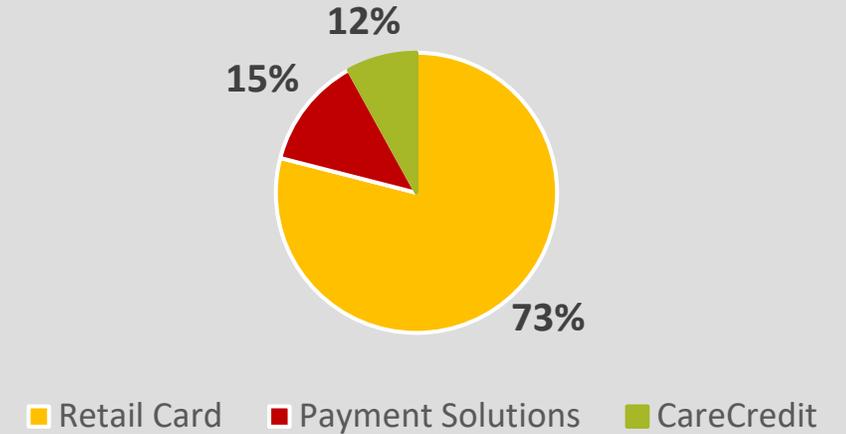
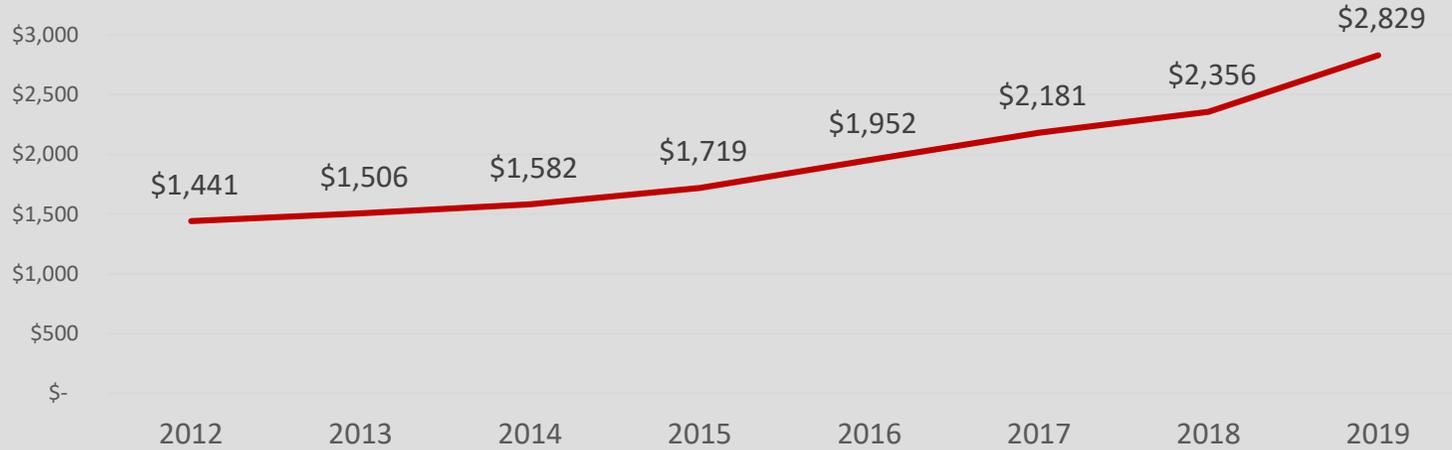


Average receivables

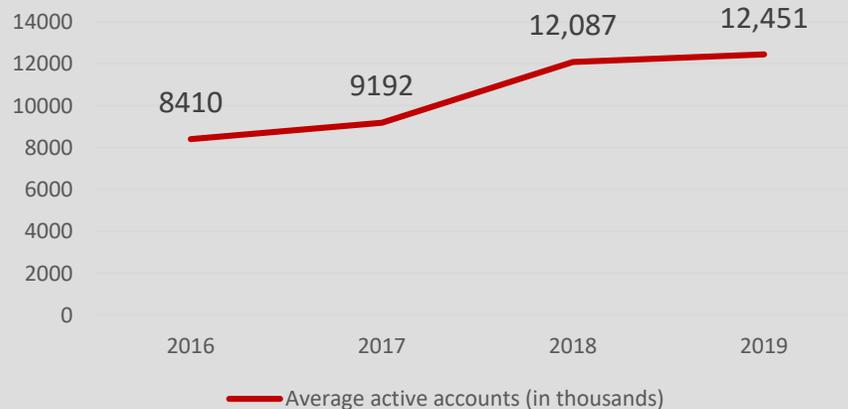


HOW DO THEY MAKE MONEY?

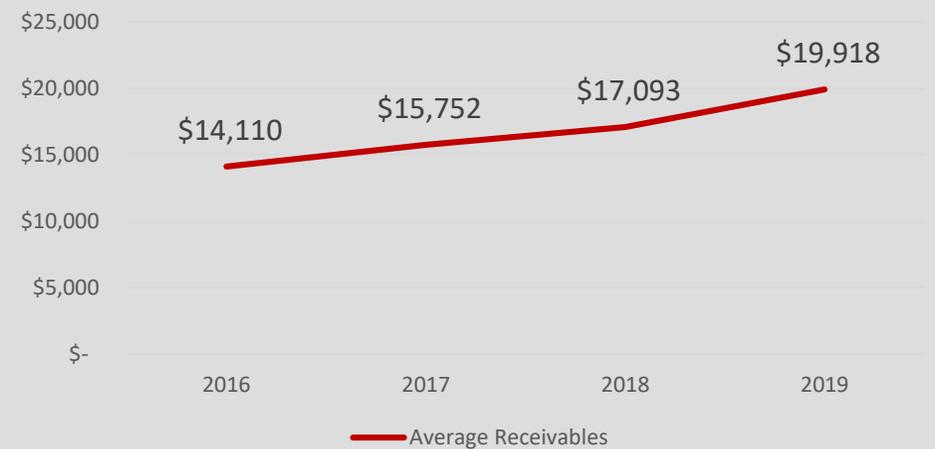
Payment Solutions Interest Fees on Loans



Average active accounts

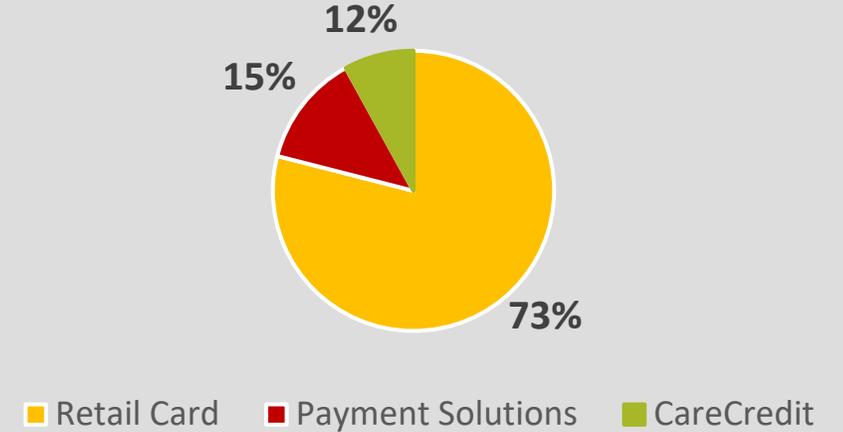
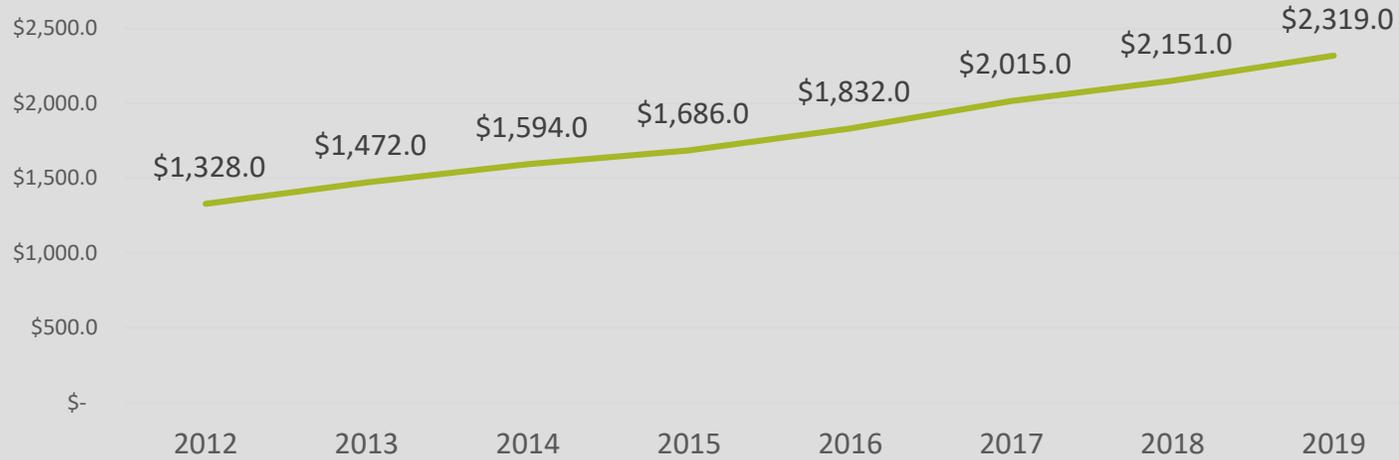


Average Receivables



HOW DO THEY MAKE MONEY?

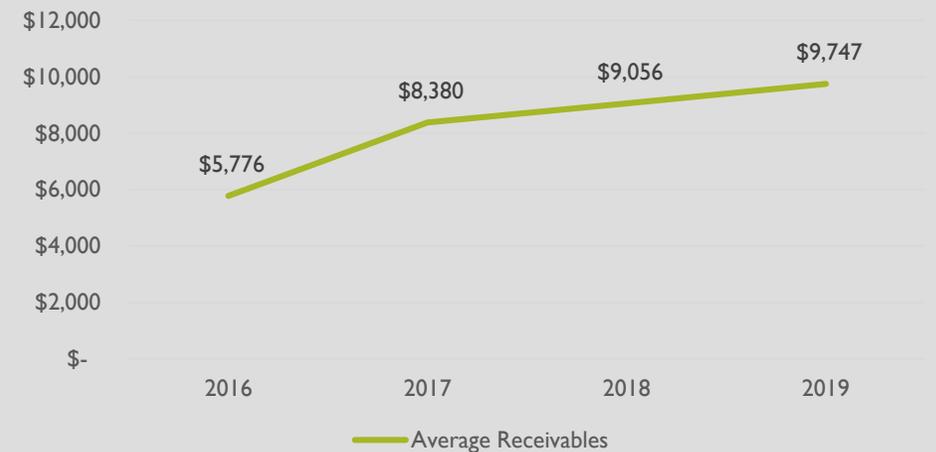
CareCredit Interest on Fees and Loans



Average active accounts



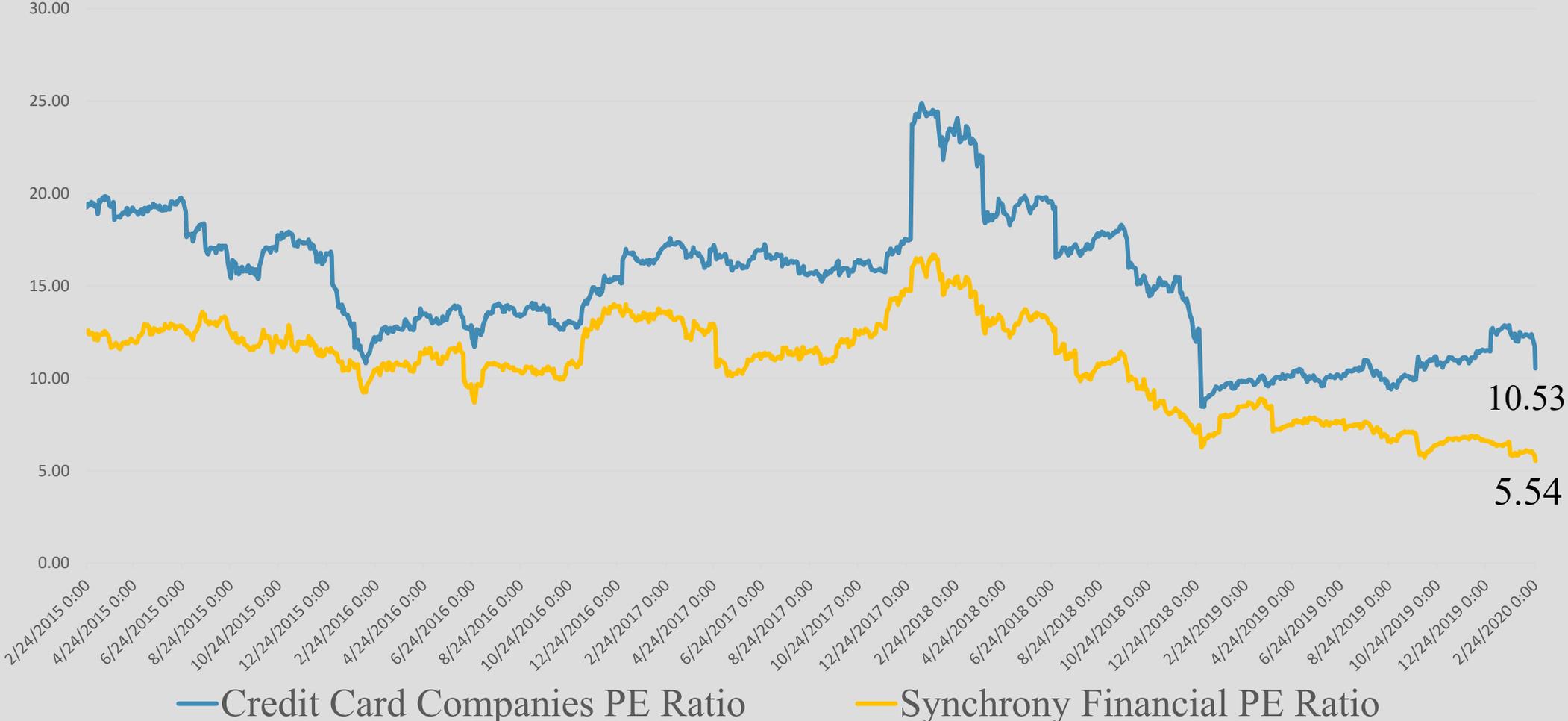
Average receivables





WHY ARE WE LOOKING AT SYF?

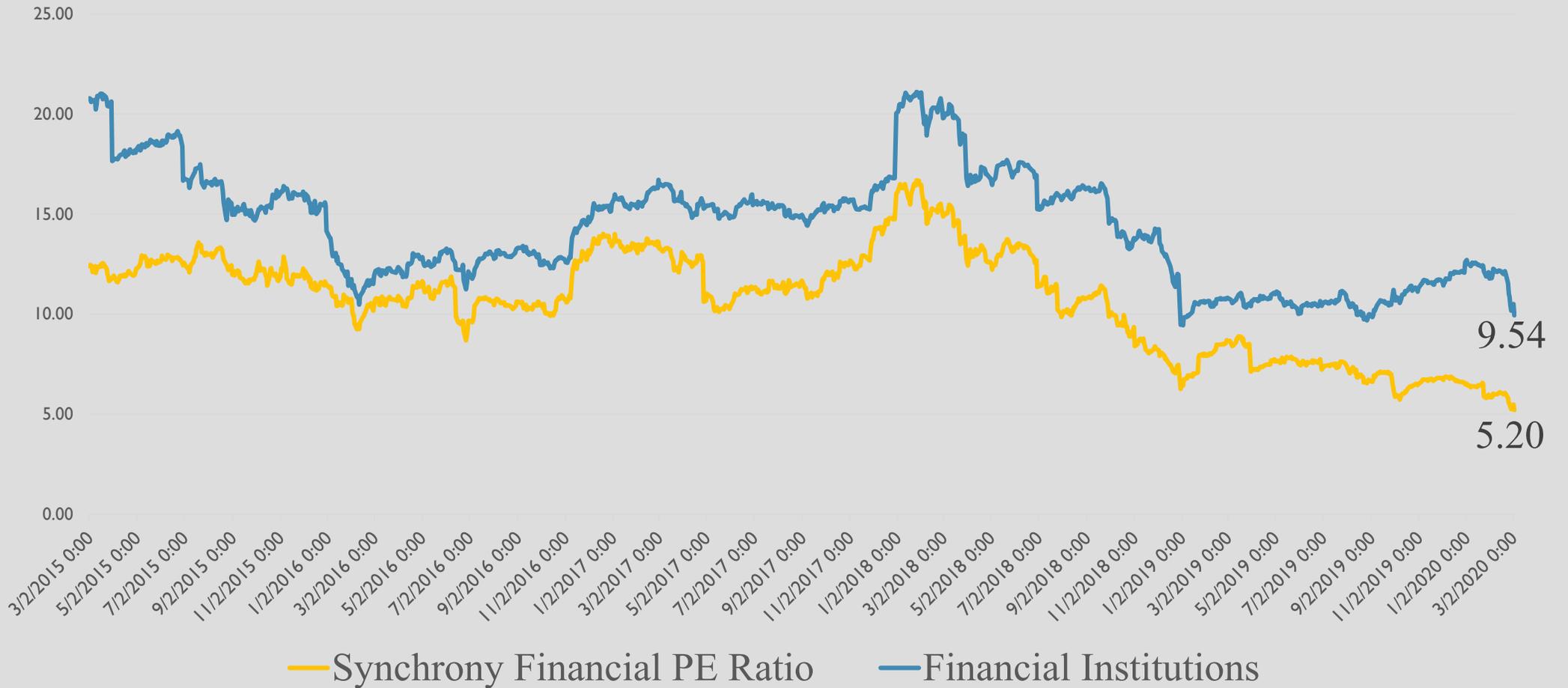
5 year PE



Prior to coronavirus

Includes AXP, DFS, ADS, C, COF,

5 Year PE

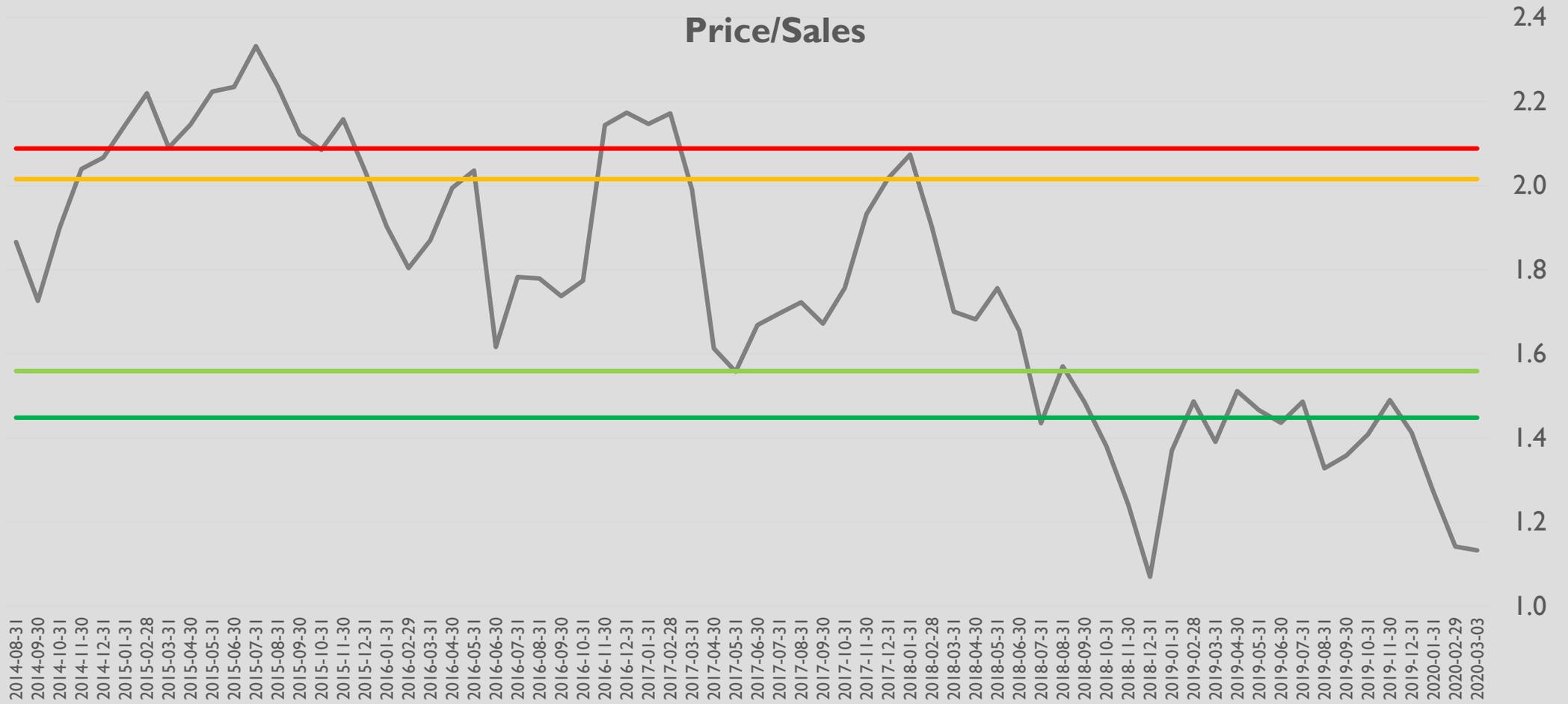


After coronavirus

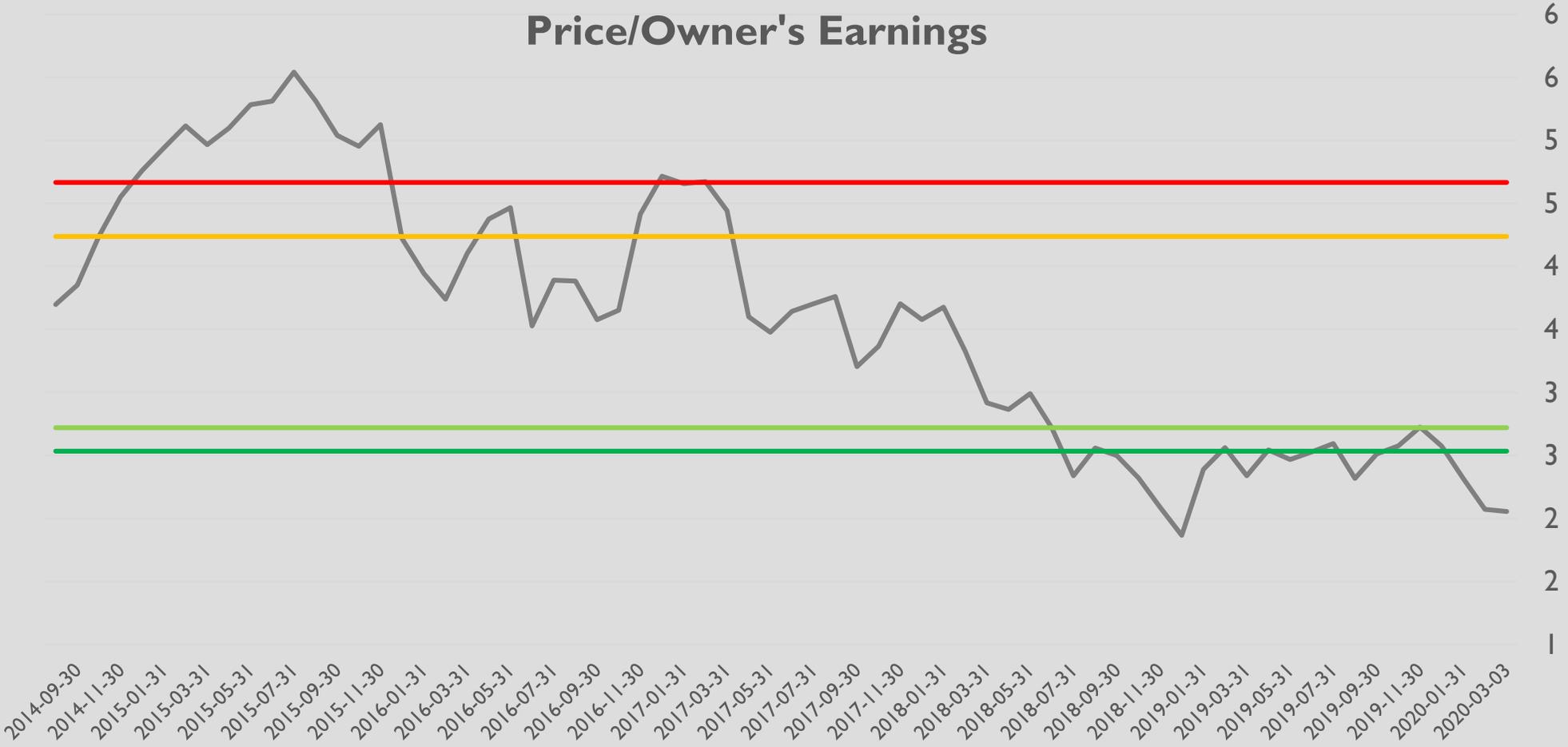
Includes AXP, DFS, ADS, C, COF.

This includes Bank of America, WFC, JPM AND BK.

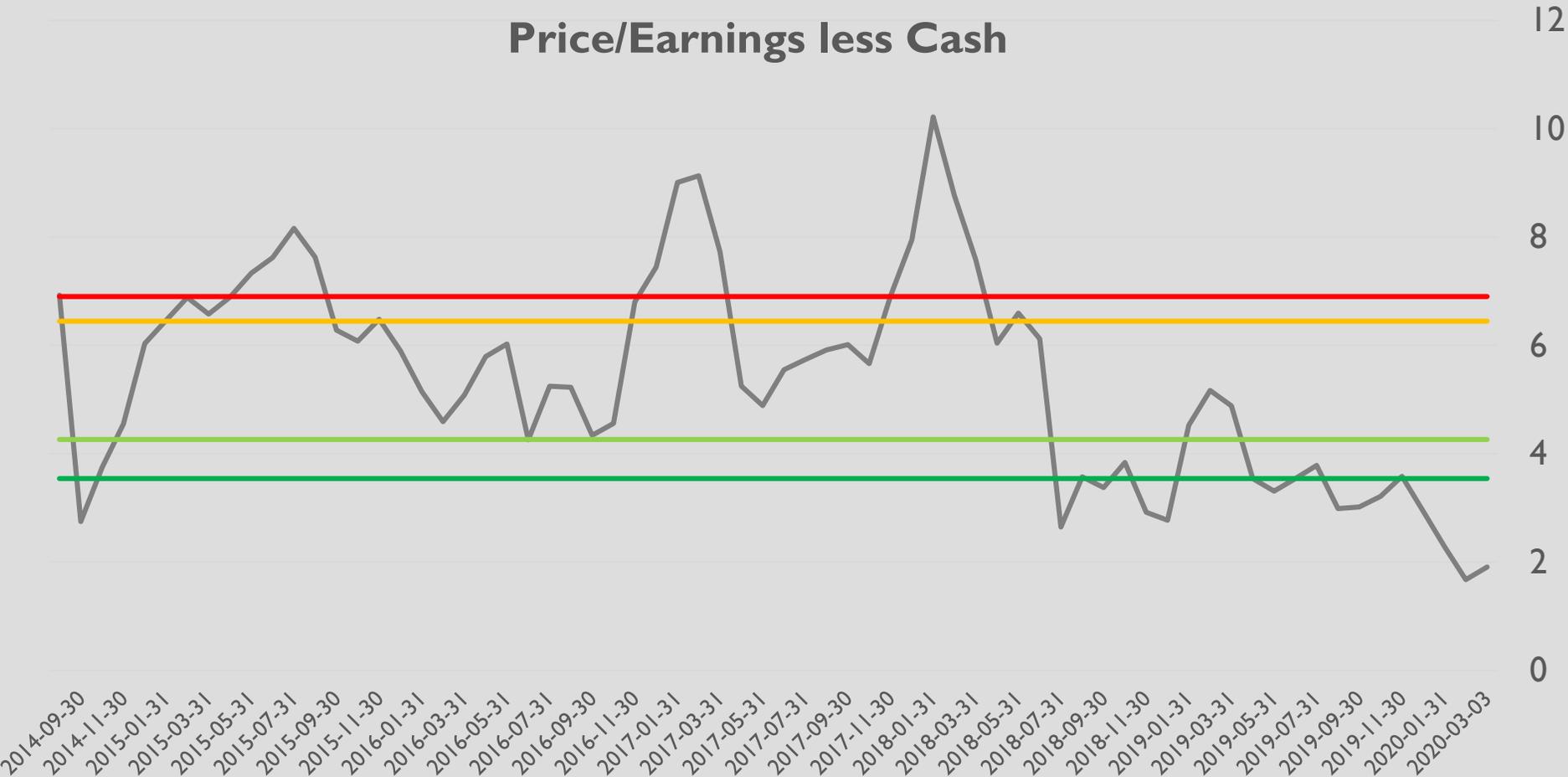
Price/Sales



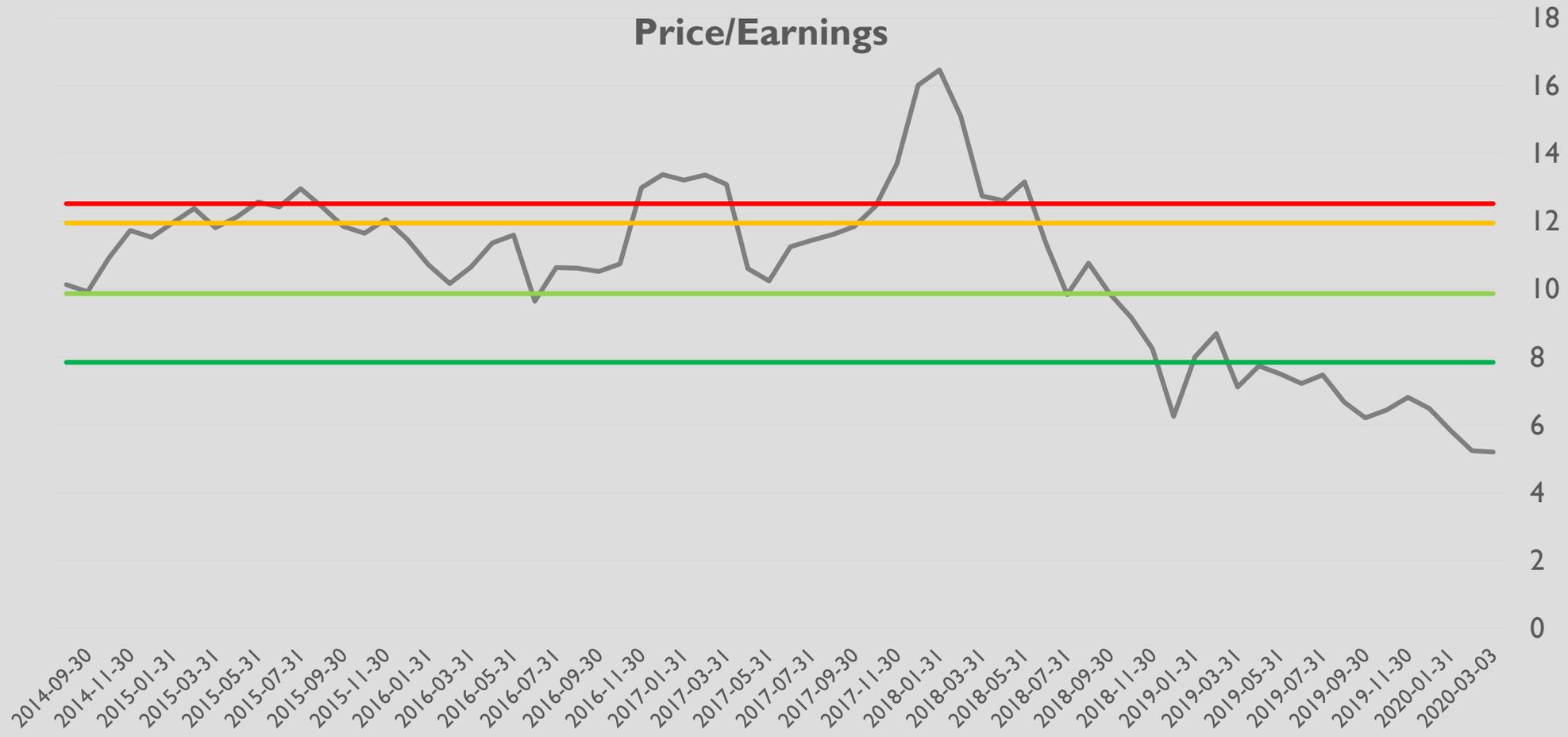
Price/Owner's Earnings



Price/Earnings less Cash



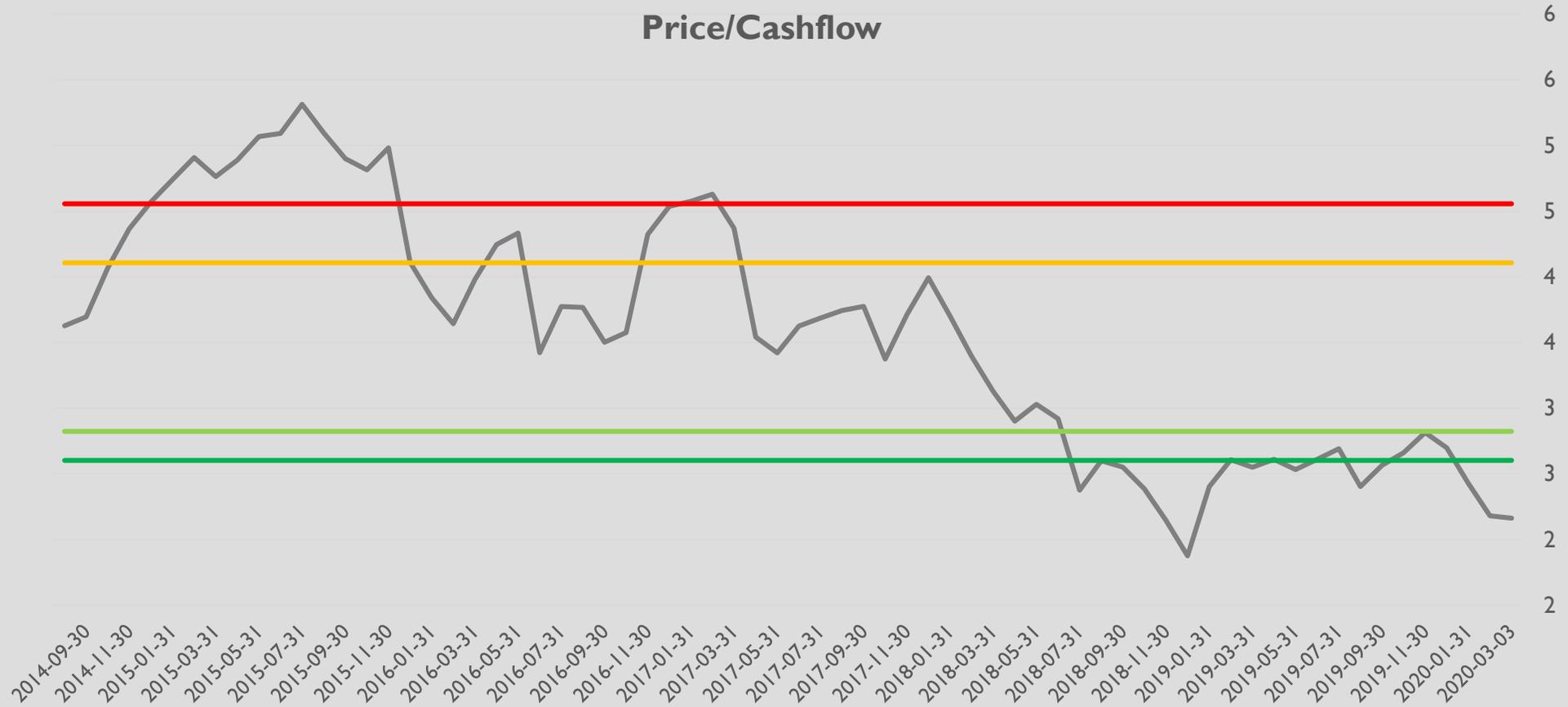
Price/Earnings



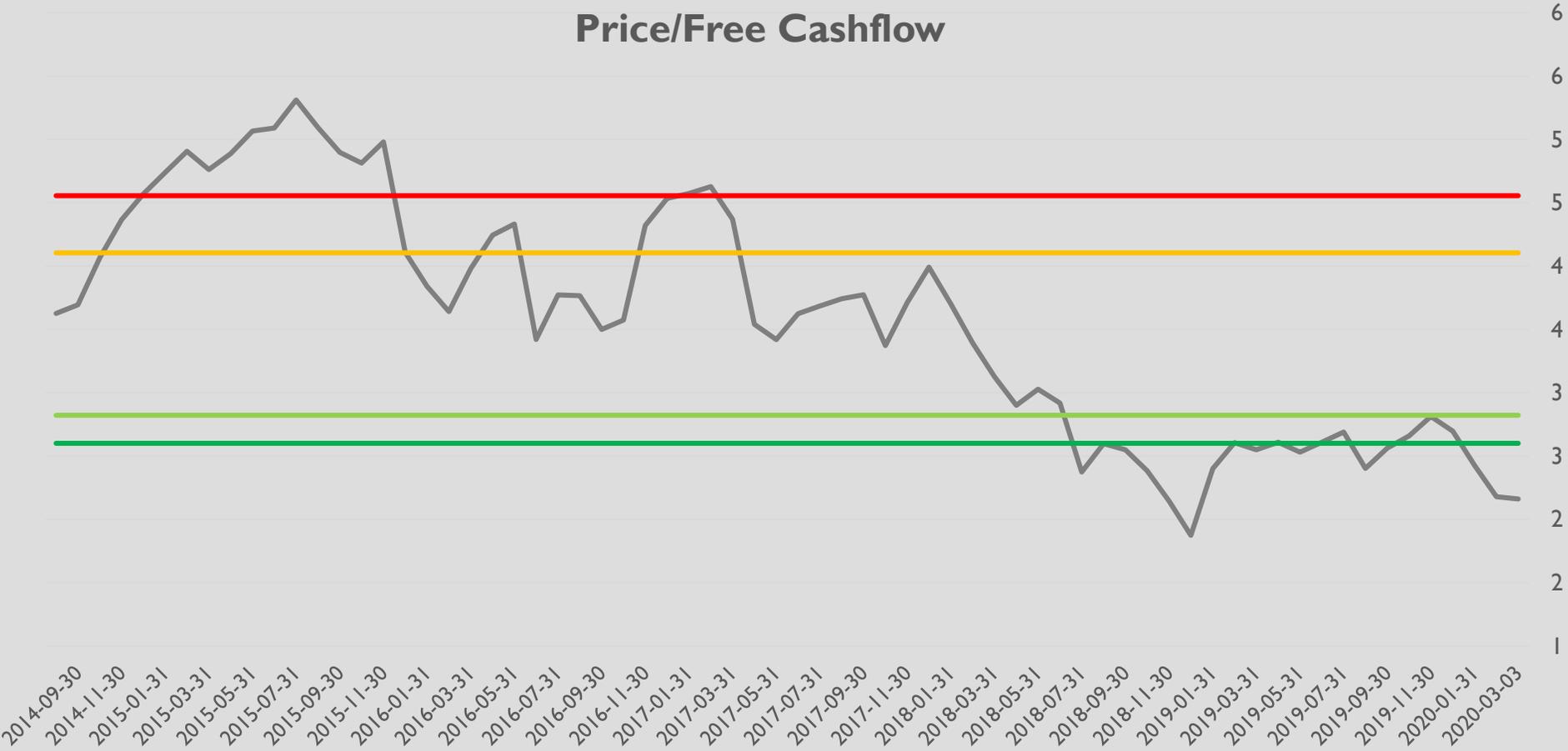
Price/Book



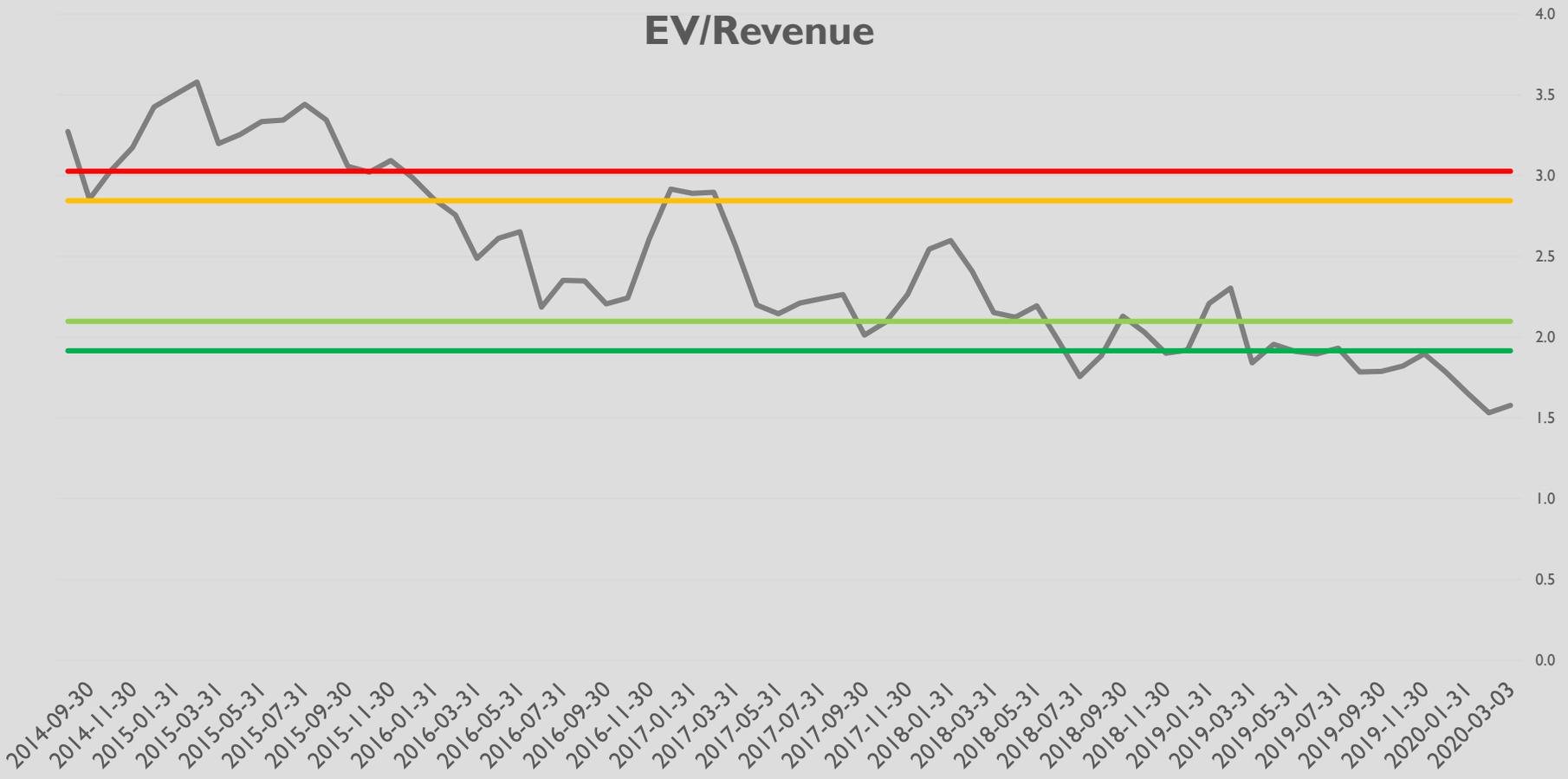
Price/Cashflow



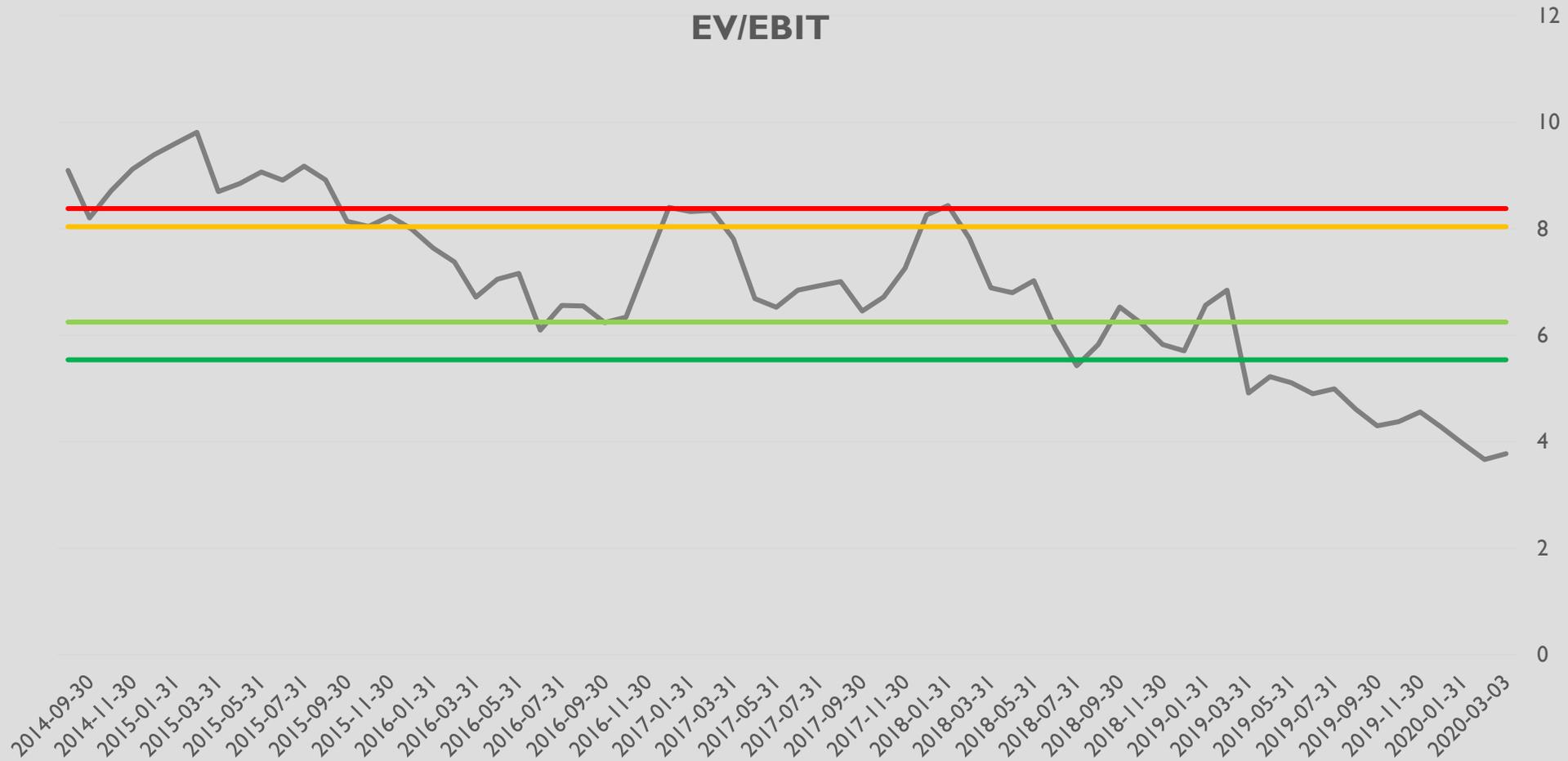
Price/Free Cashflow



EV/Revenue



EV/EBIT



INTRAPORTFOLIO



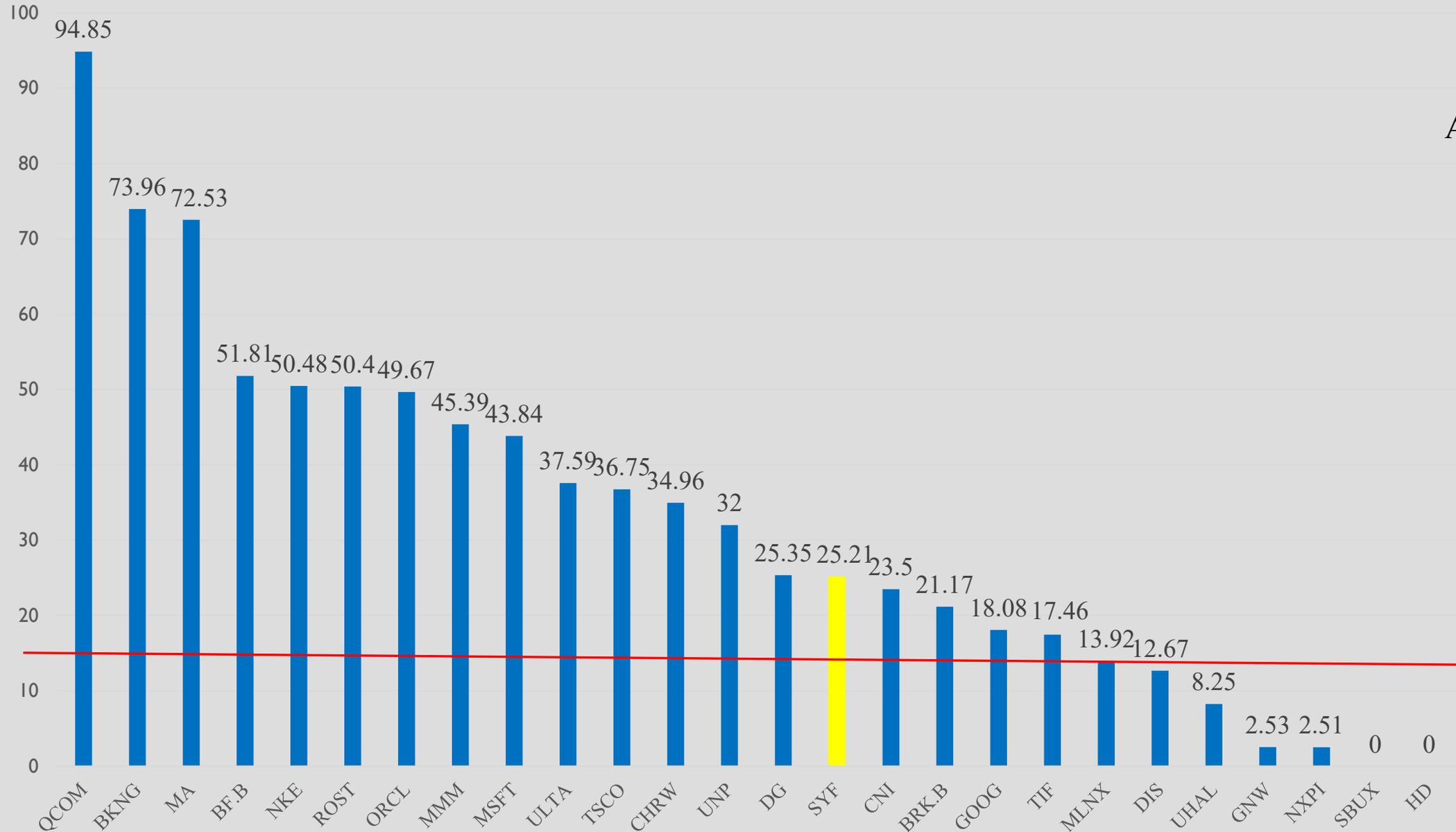
DOLLAR GENERAL



**BERKSHIRE
HATHAWAY INC.**

ROSS
DRESS FOR LESS

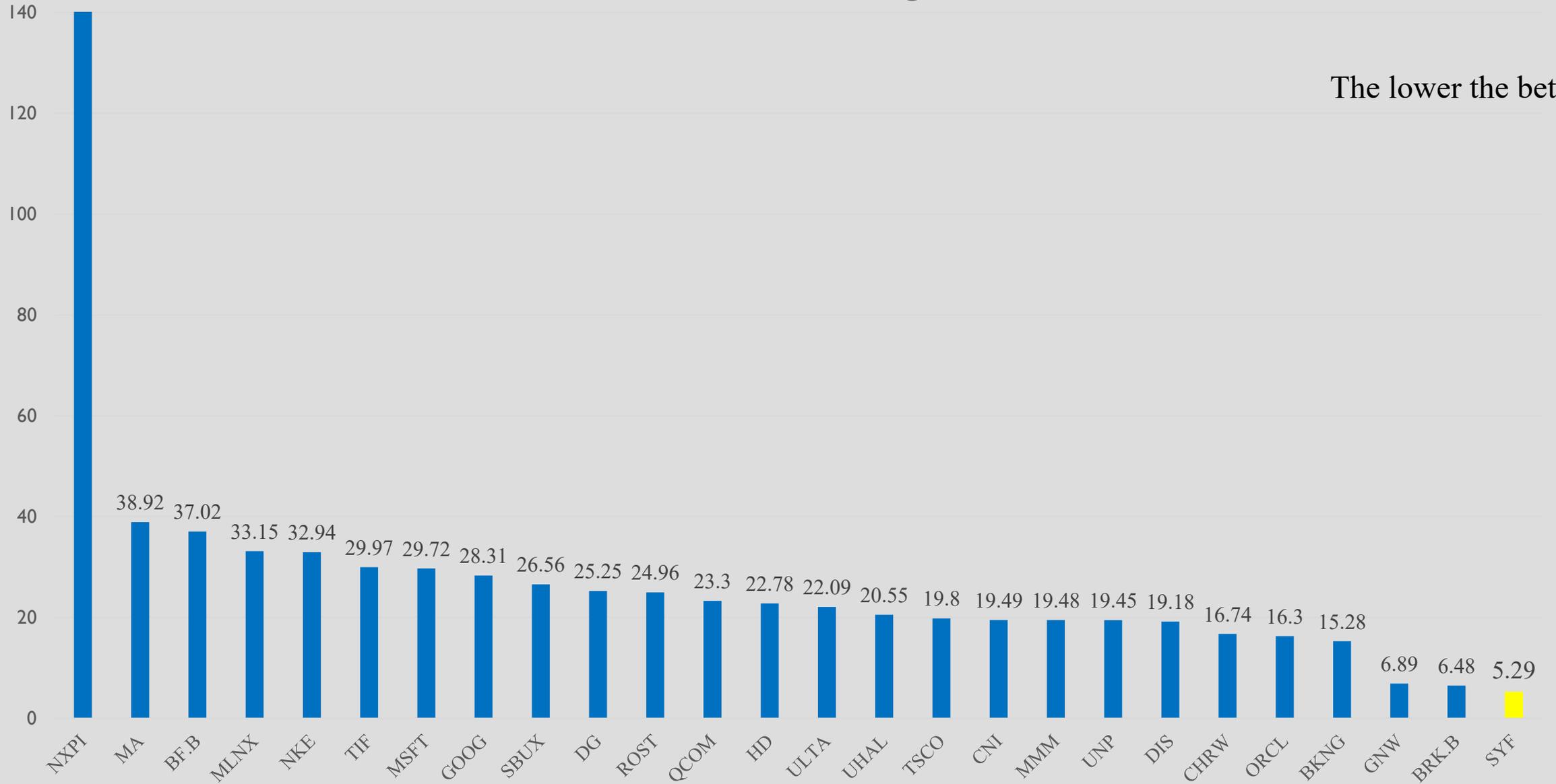
Return on Equity



Above 15%

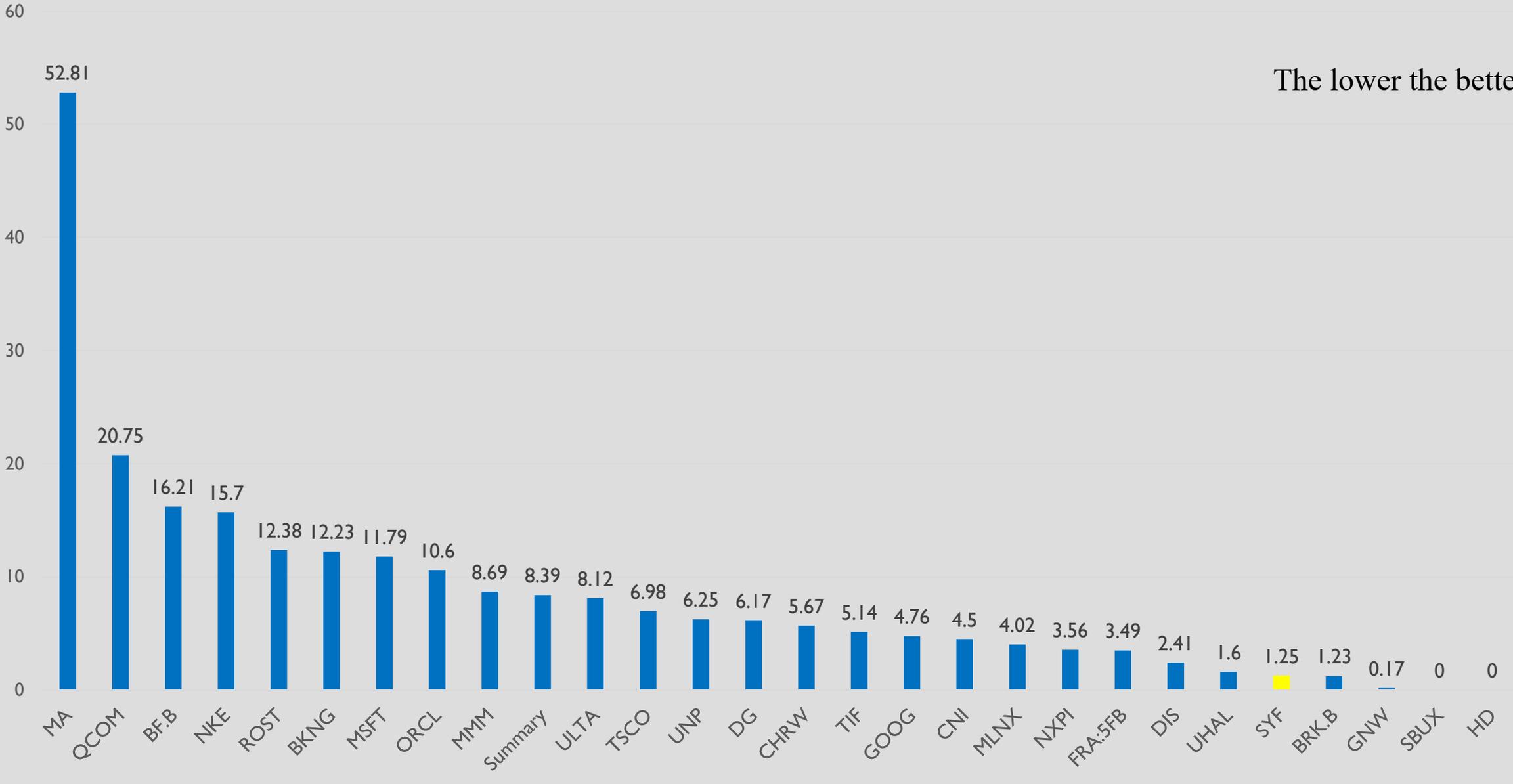
Price to Earnings

The lower the better



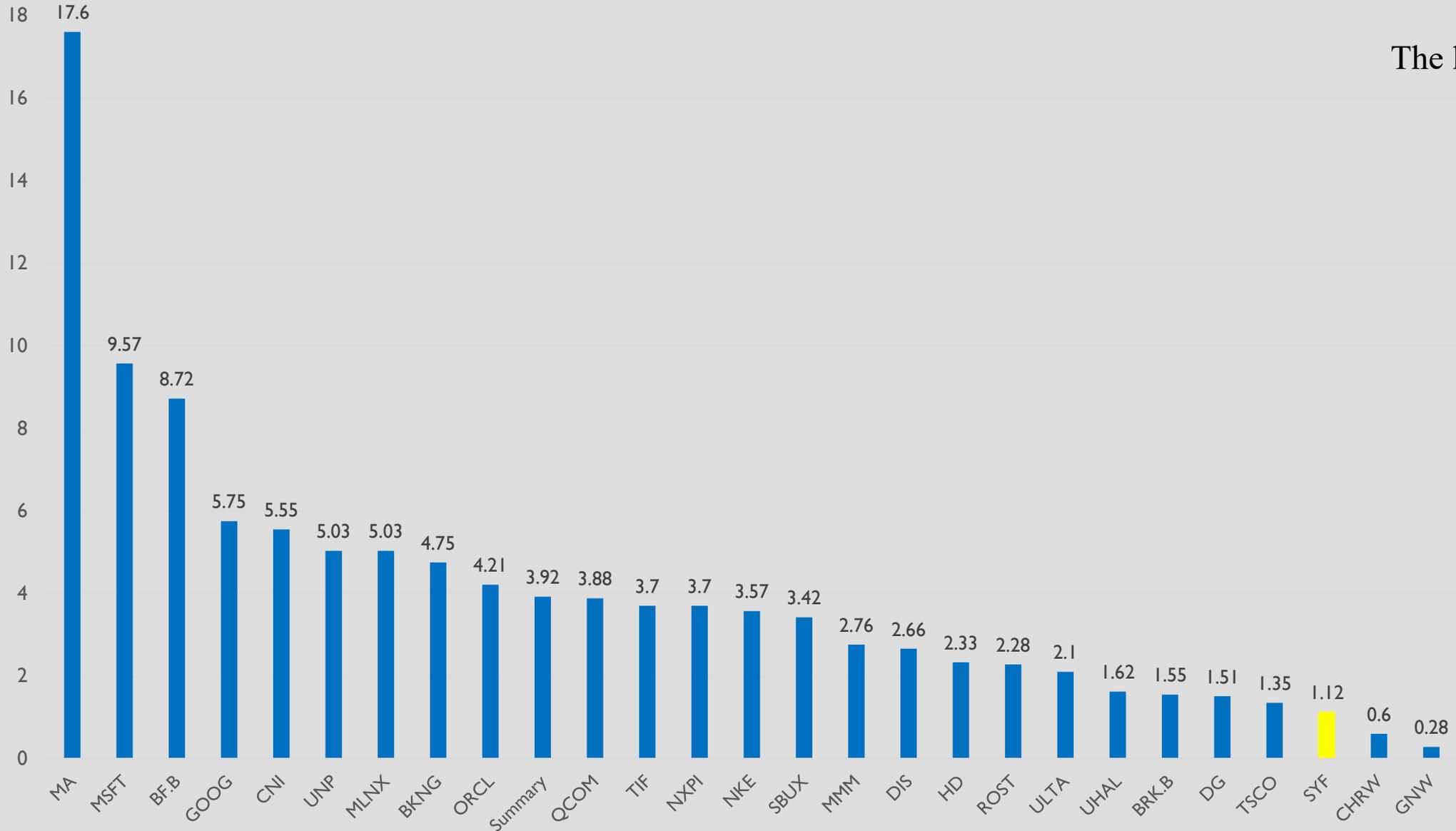
Price to Book

The lower the better

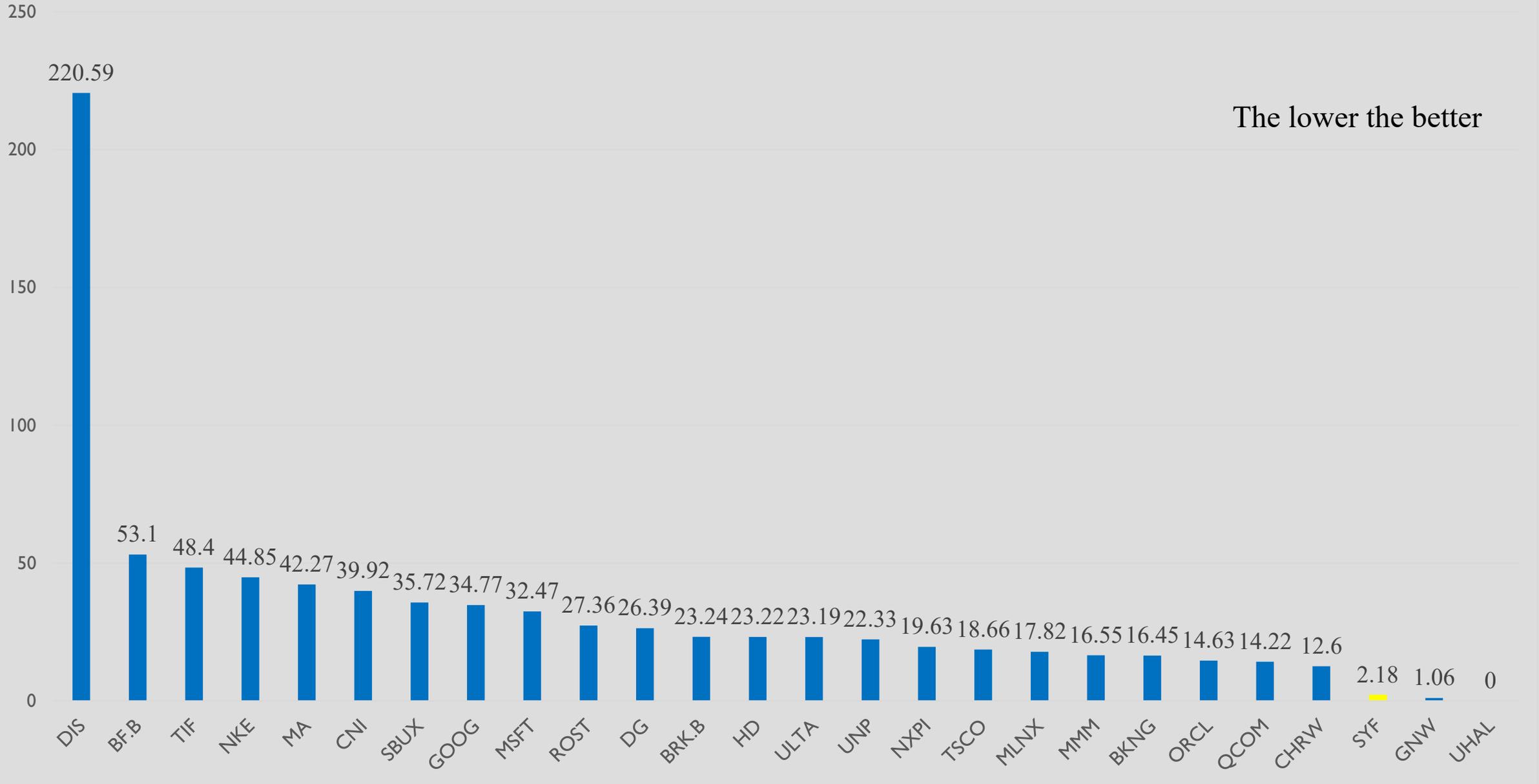


Price to Sales

The lower the better

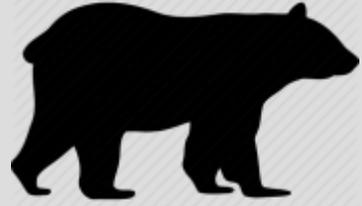


Price to Free Cash Flow





DISCOUNTED CASH FLOWS



DCF - BEAR

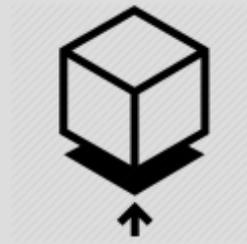
Current Price: \$28.87

Earnings Per Share	\$3.94
Years	10
Growth Rate	3%
Terminal Growth Rate	4%
Years of Terminal Growth	10
Discount Rate	12%
Fair Value	\$37.18
Margin of Safety	22.35%

$$\text{EPS}_{2018} = \$3.74$$

$$\text{EPS}_{2019} = \$5.56$$

$$\text{EPS}_{2020} = \$4.75$$



DCF - BASE

Current Price: \$28.87

Earnings Per Share	\$3.94
Years	10
Growth Rate	8%
Terminal Growth Rate	4%
Years of Terminal Growth	10
Discount Rate	12%
Fair Value	\$51.07
Margin of Safety	43.47%



DCF - BULL

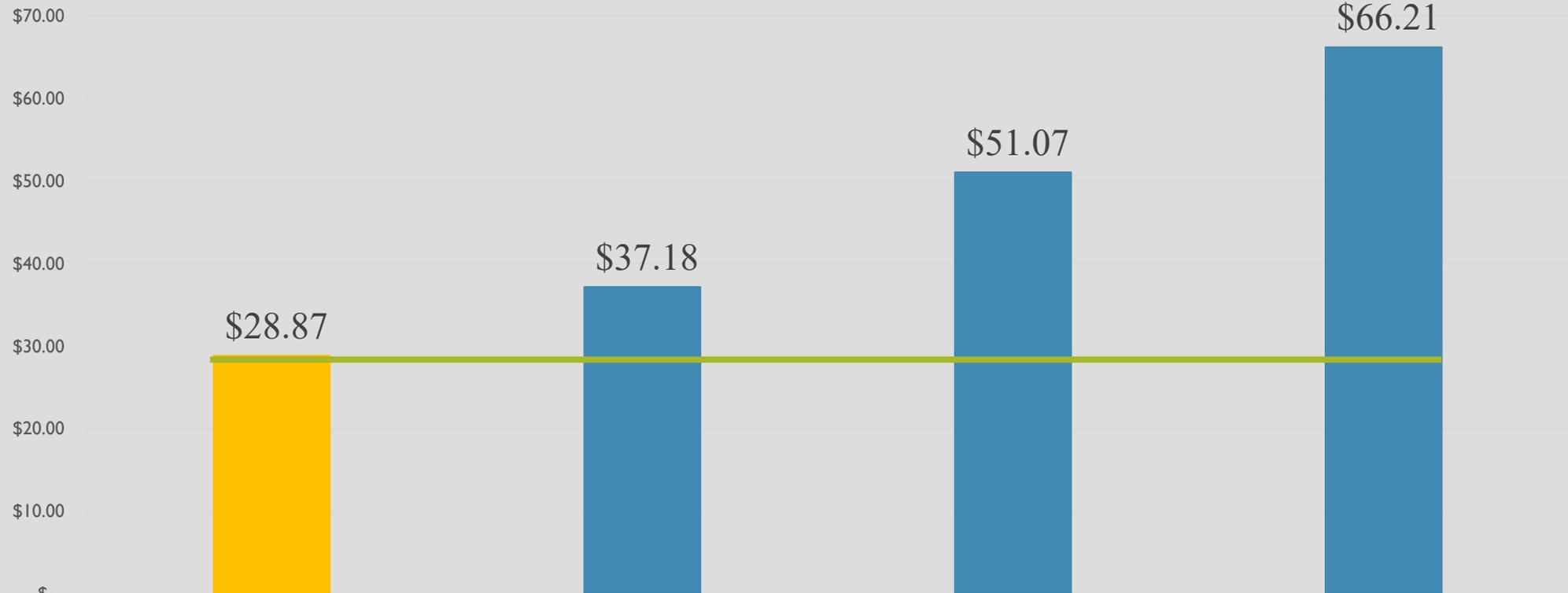
Current Price: \$28.87

Earnings Per Share	\$3.94
Years	10
Growth Rate	12%
Terminal Growth Rate	4%
Years of Terminal Growth	10
Discount Rate	12%
Fair Value	\$66.21
Margin of Safety	56.40%

 Reverse DCF	
Discount Rate of 12%	-1.10%

At a Discount Rate of 12%, SYF only has to grow at -1.10% over the next 10-years to give us a 0% Margin of Safety.

DCF vs Current Price



Current Price

Bear Case

Base Case

Bull Case

Margin of Safety

22.35%

43.47%

56.40%

EPS Growth Rate

3%

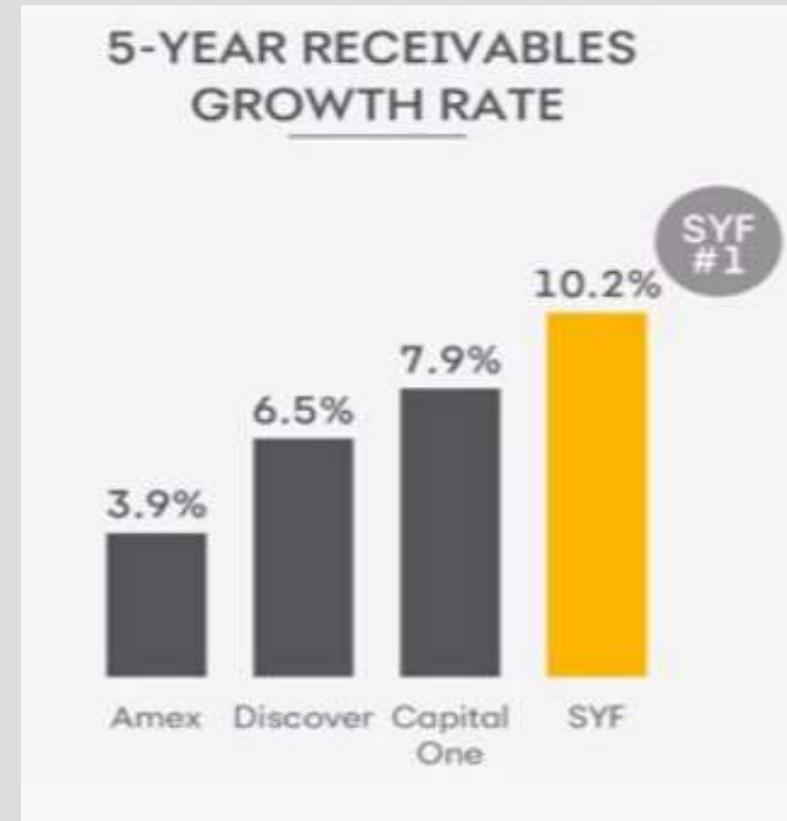
8%

12%

A black and white photograph of a snowy mountain landscape. The foreground is a vast, smooth expanse of snow. In the middle ground, there are rolling hills and valleys covered in snow. In the background, several jagged mountain peaks rise against a cloudy sky. A thin, dark line, possibly a cable or a path, stretches across the snow in the distance. A semi-transparent white rectangular box is centered horizontally across the middle of the image, containing the text "INDUSTRY SPECIFIC METRICS" in a bold, black, serif font.

INDUSTRY SPECIFIC METRICS

INDUSTRY SPECIFIC METRICS



INDUSTRY SPECIFIC METRICS

2018 RETURN ON ASSETS



SYF	2014	2015	2016	2017	2018	2019
Average FICO score	715	715	714	715	718	719

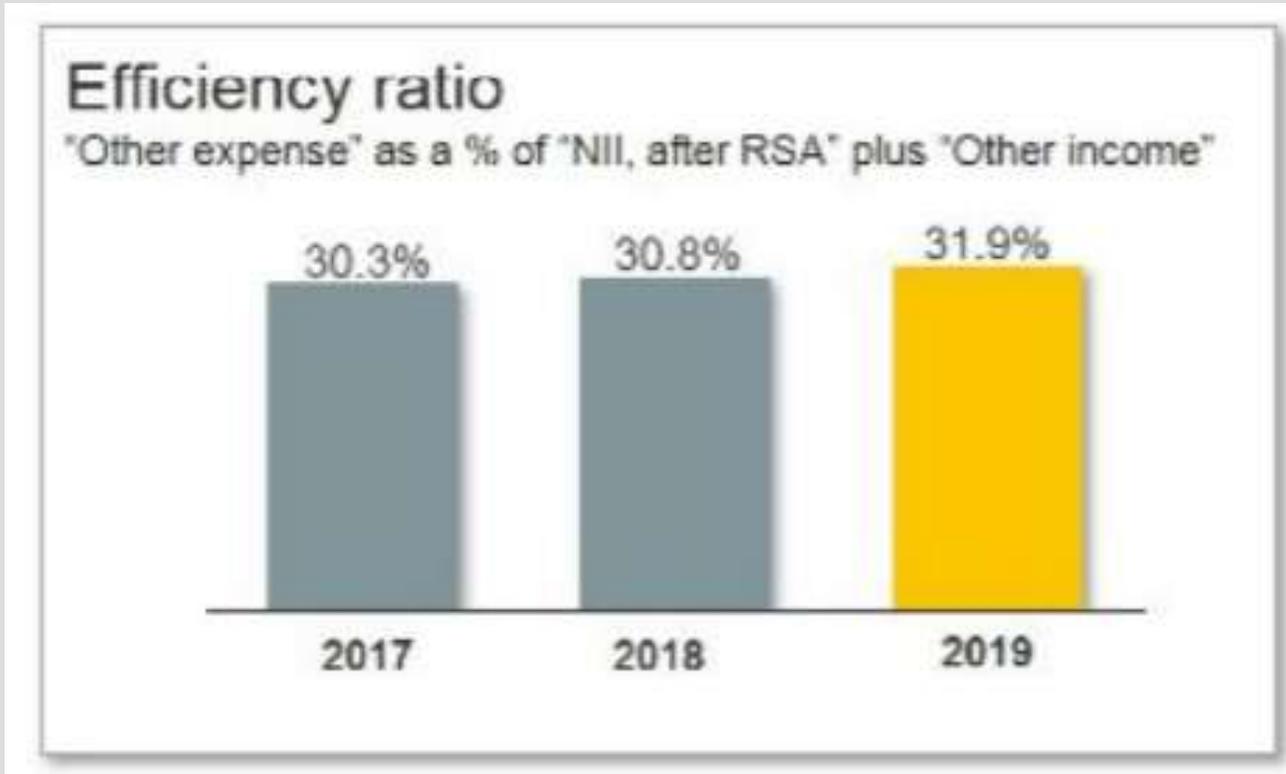
Companies	2019
Discover	660
American Express	740
Capital One	660

DISCOVER

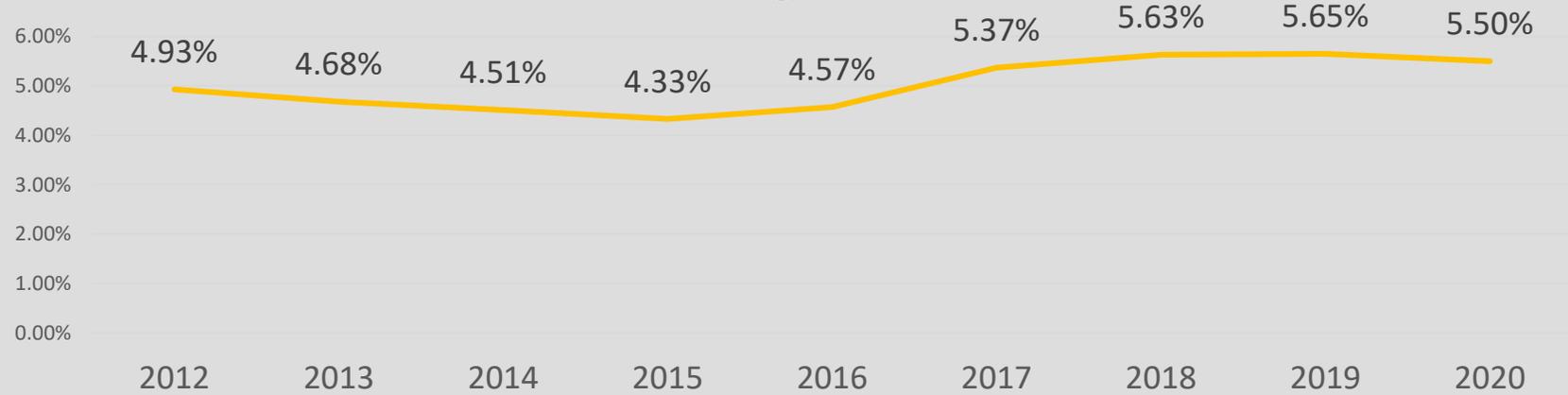
AMERICAN EXPRESS

Capital One

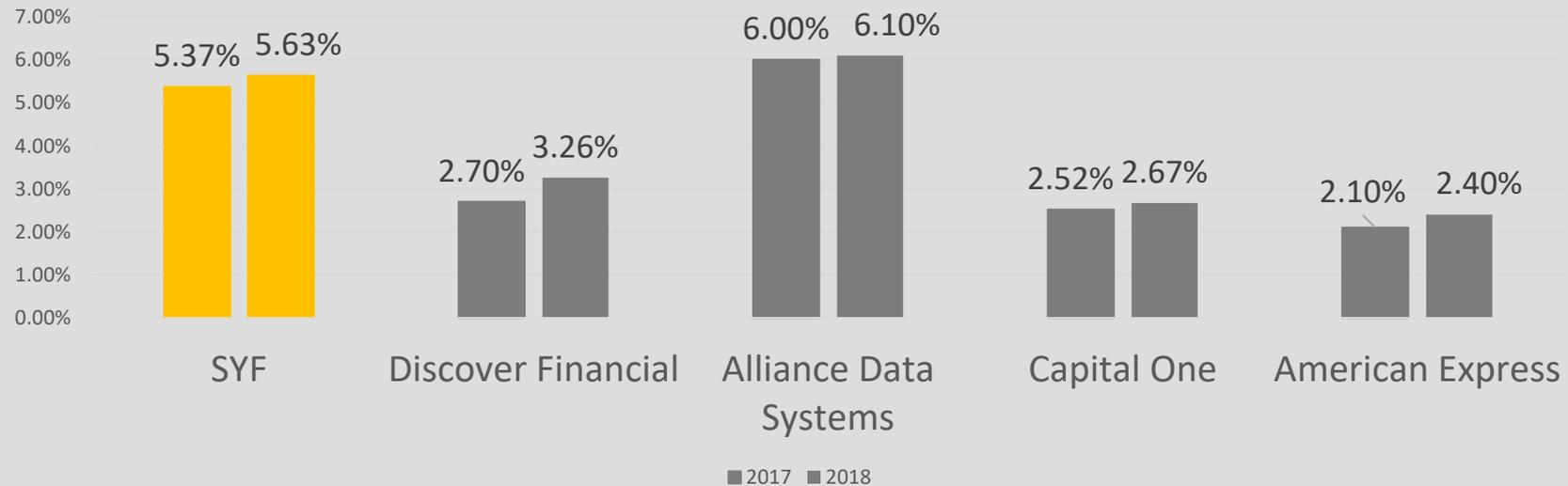
INDUSTRY SPECIFIC METRICS



Net Charge-Off Rate

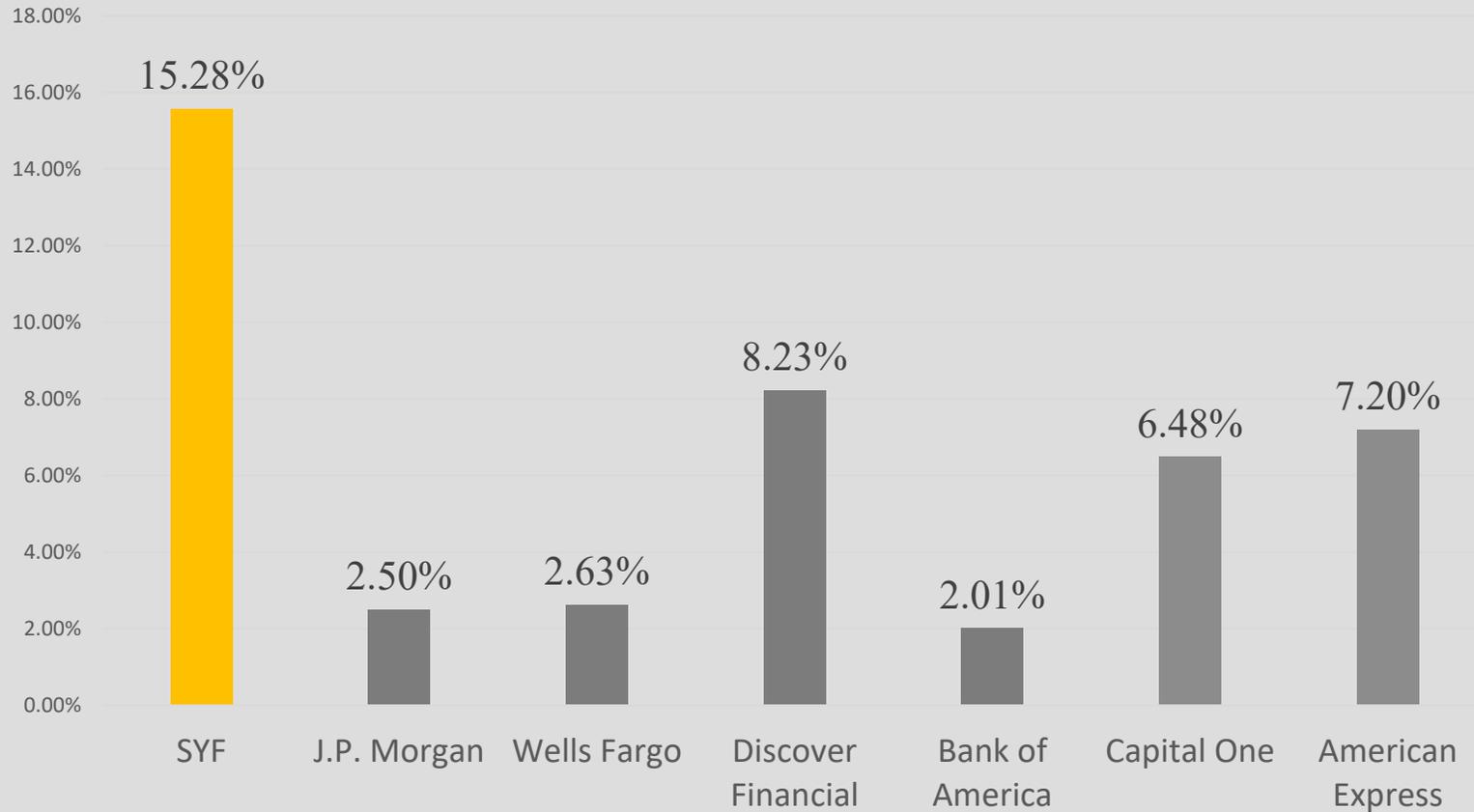


Net Charge-Off Rate



INDUSTRY SPECIFIC METRICS

Net Interest Spread- 2019



- Although the net charge off rate is high, it is more than offset by the higher interest they charge.
- SYF- 26.99% interest charged on credit cards.
- Peers- 17% interest charged on credit cards.
- This is also why the Net Interest Spread is so high.



DEBT ANALYSIS AND OBLIGATION RATIO



OBLIGATION RATIO

LT Debt: \$19,866 mill

2019 Net Income \$3,799 **2.55**

2020 Net Income \$3,040 **3.19**

+ Leases * 7 + \$294 mill * 7

+ Pension shortfall + 0

+ Preferred stock + 750 mill

- Cash - \$12,963 mill

2018 Net Income \$2,790 mill

OBLIGATION RATIO: 3.48 YEARS < 5 = *PASSES*





DEBT MATURITIES

	2019	2020	2021	2022	2023	Thereafter
Borrowing	\$ 5,985	\$ 4,208	\$ 5,659	\$ 4,350	\$ 708	\$ 3,150

	2017	2018	2019
ST Debt to LT Debt	14.3%	13.4%	30.1%
LT Debt to ST Debt	85.7%	86.6%	69.9%

Financials Good:

- 1/3 ST debt 33%
- 2/3 LT debt 66.7%

As of 2019

- 12,963 million in Cash Assets
- 3,799 million net Income

A black and white photograph of a snowy mountain landscape. The foreground is a vast, smooth expanse of snow. In the middle ground, there are rolling hills and valleys covered in snow. In the background, several sharp, rocky mountain peaks are visible, some with patches of snow. The sky is a uniform, light gray, suggesting an overcast day. A thin, dark line, possibly a cable or a power line, stretches across the sky from the left towards the right. A semi-transparent gray rectangular box with a white border is centered horizontally across the middle of the image, containing the text "GROWTH OPPORTUNITIES" in a bold, black, serif font.

GROWTH OPPORTUNITIES

GROWTH DRIVERS

Health Care

- 40% of Americans couldn't afford an unplanned expense of \$400.
- Over \$3.3 trillion in payments flows through the U.S. healthcare system.
- In 2018 the Pet Health Insurance market was worth 72 billion dollars, anticipated to double by 2022.



Consumer Data

- SYF purchased PayPal's credit business for \$7.6 billion.
- Venmo has over 40 million users.
- Verizon Wireless has over 151.48 million subs.
- Investing in technology.



CO-BRANDED CREDIT CARDS

ALSO KNOWN AS THE MULTI-CATEGORY CARD



Car Care

- 2019- 730,000 partner locations
- 2018- 500,000 partner locations
- 2019- 6.7 million cardholders



Care Credit

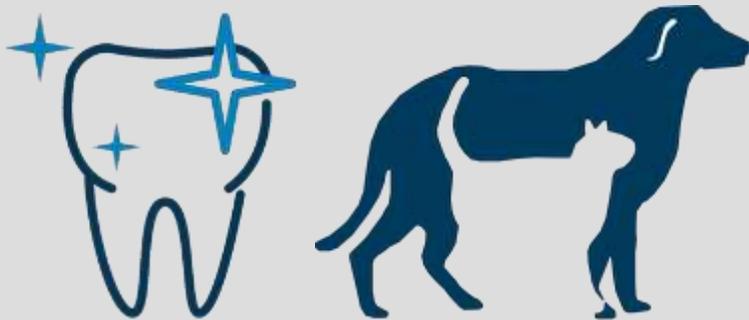
- 2019- 240,000 partner locations
- 2018- 200,000 partner locations



All Things Home

- Accepted in over 1 million home-retail locations nationwide.
- 5 million cardholders

PROMOTIONAL FINANCING



PRIVATE LABEL AND DUAL CREDIT CARDS

- The majority of Synchrony's credit cards are in a closed-loop network.
- These are known as **private label credit cards**, meaning they can only be used at their co-branded stores.
- The open-loop network, also known as **dual credit cards**.
- Affiliated with a credit card network like Visa or Mastercard and can be used anywhere those card types are accepted.





OPEN LOOP NETWORK

Customer



Merchant



Acquirer



Network



Issuer



Bank of America.





CLOSED LOOP NETWORK

Customer



Merchant



Acquirer



Network



Issuer





SWITCHING COSTS

Transaction Data

- Card transactions
- Payment Data



Behavioral Attributes

- In-store vs Online
- Frequency Patterns



Industry Benchmarks

- Competitor Key Metrics
- Macro-economic Trends



Purchase Data

- SKU Level Data
- Loyalty Program Data
- Shopping Visit Patterns



Customer Insights

- Profile
- Social Preference Index
- Social Media Feed



SWITCHING COSTS

- SYF shares a portion of its revenue with partners.



- In 2019, SYF paid \$3.9 billion in retail share arrangements.



- This motivates retailers to incentivize customers to use their private label card.

- Switching private label credit card providers is a risk.

- Lost in quality data. Disruption of customer purchasing behaviors.

- In 2016, Costco discontinued American Express for Citi Group.

- Customers cancelled their membership, or they started using other credit cards.





NETWORK EFFECT

Co-Branded Credit Cards



An aerial photograph of a dense forest of evergreen trees covered in snow. The trees are scattered across a light-colored, snow-covered ground. A large, white rectangular box is centered horizontally across the middle of the image, containing the text "RISK FACTORS" in a black, serif font.

RISK FACTORS

RISK FACTORS

- Top 5 partners accounted for 47% of total interest and fees on loans.



- Retail Apocalypse
- In 2017 Toys R us filed for bankruptcy
- Just because they go bankrupt does not mean people stop paying their debt
- SYF turned the Toy R us private label credit card into a general-purpose card.





- Walmart 13% of total interest and fees on loans.
- SYF s renewed over 50 relationships, including five of their largest ongoing programs:
- Including Sam's Club, a Walmart subsidiary.
- In addition SYF won over 35 new business deals.
- PayPal Credit for \$7.6 billion and to buy back shares.
- SYF reduced share count by 14%. \$3.6 B in 2019 and authorized \$4.0 more in 2020.



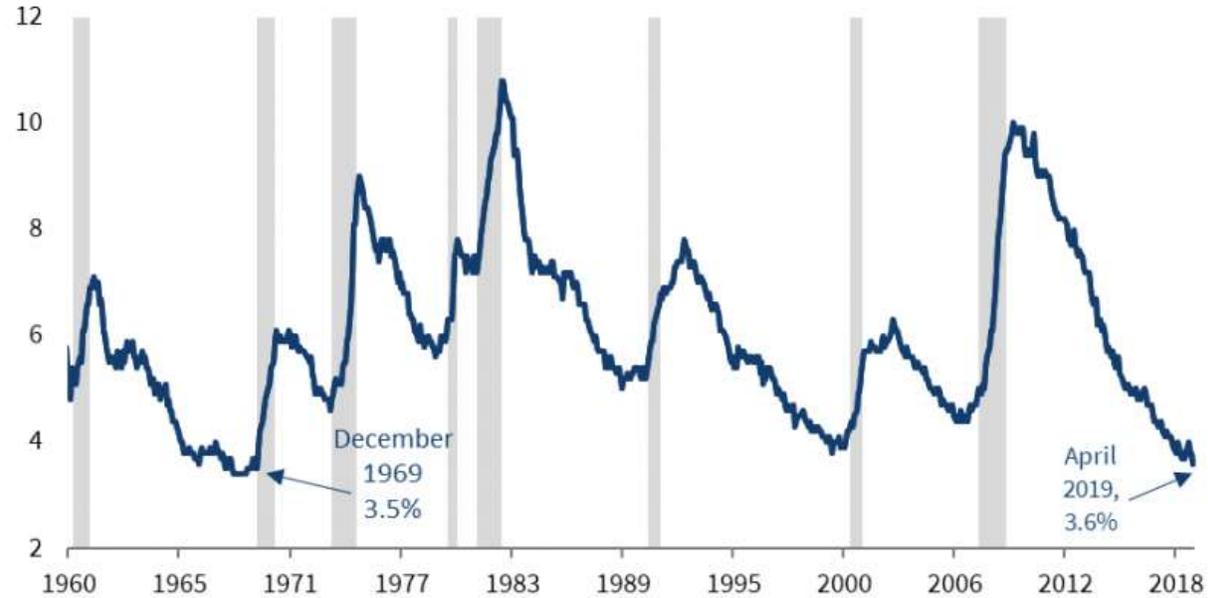


RISK FACTORS



Unemployment Rate, 1960-2019

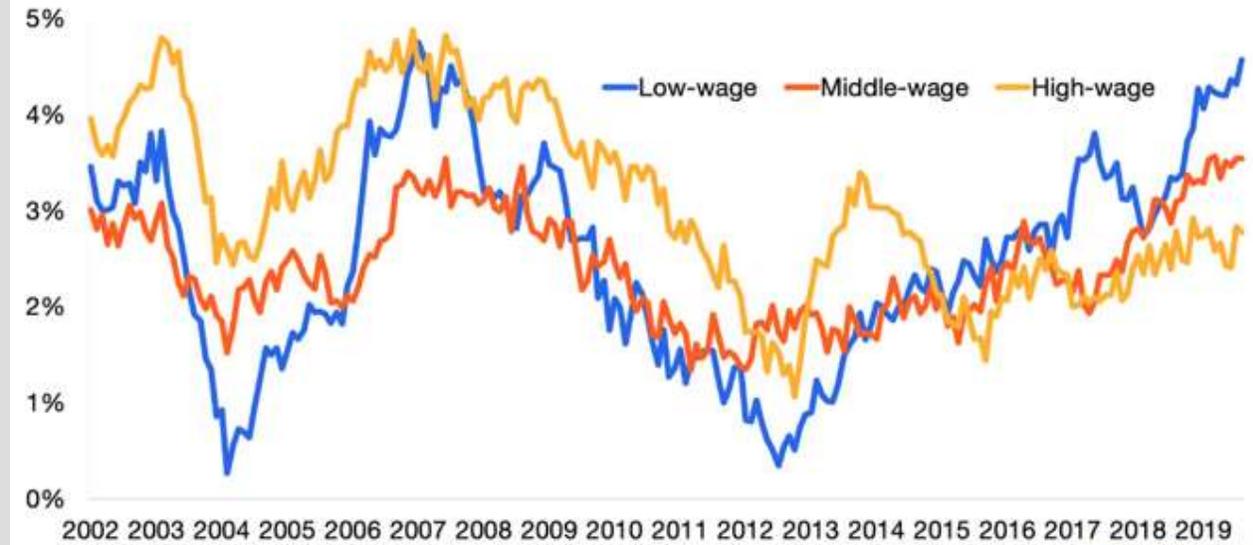
Unemployment rate (percent)



Source: Bureau of Labor Statistics.

Wage growth is being led by low-wage industries

Average hourly earnings, production and nonsupervisory workers, year-over-year changes



Source: Indeed analysis of Bureau of Labor Statistics data





Recommendations

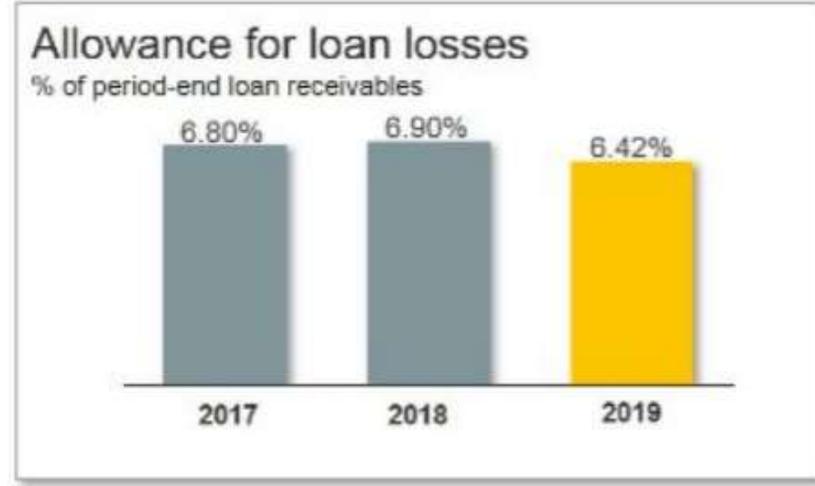
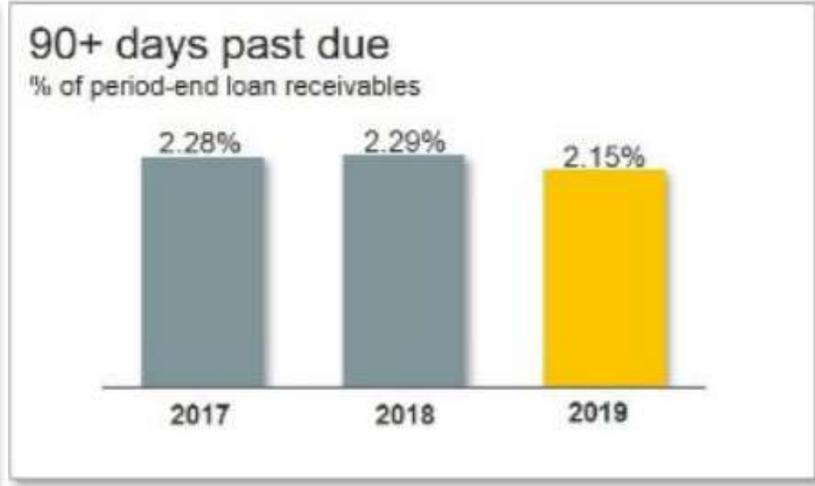
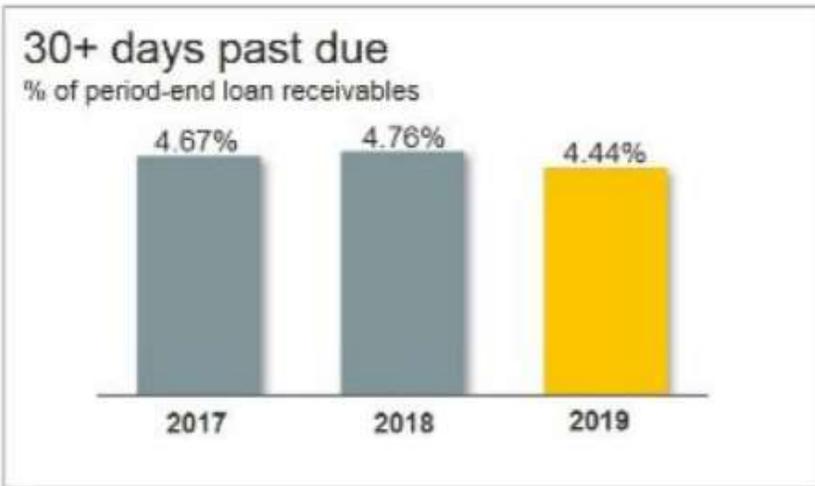
400 shares

- Limit order 
- Great business 
- Strong moat 
- Opportunities for growth 
- Being offered at a value gap 
- Or



Sell Put			
Strike Price	Expiration Date	Premium	Cost Average
\$28	19-Jun	\$2.20	\$25.28

Appendix



SYF	2014	2015	2016	2017	2018	2019
Average FICO score	715	715	714	715	718	719

CONSCIOUS INVESTOR 5 YEAR

	12/14	12/15	12/16	12/17	12/18	EPSttm	Years
EPS (\$)	2.780	2.650	2.710	2.420	3.740	\$5.560	5
SPS (\$)	14.159	14.973	16.974	19.862	22.793		5

	HGROWTH	STAEGR [®]
EPS (\$)	5.06%	90.48%
SPS (\$)	13.27%	98.02%

CONSCIOUS INVESTOR 3 YEAR

	12/14	12/15	12/16	12/17	12/18	EPSttm	Years
EPS (\$)	2.780	2.650	2.710	2.420	3.740	\$5.560	3
SPS (\$)	14.159	14.973	16.974	19.862	22.793		3

	HGROWTH	STAEGR [®]
EPS (\$)	17.48%	88.07%
SPS (\$)	15.88%	99.77%

CONSCIOUS INVESTOR 2 YEAR

	12/14	12/15	12/16	12/17	12/18	EP Sttm	Years
EPS (\$)	2.780	2.650	2.710	2.420	3.740	\$5.560	2
SPS (\$)	14.159	14.973	16.974	19.862	22.793		2

	HGROWTH	STAEGR [®]
EPS (\$)	54.55%	100.00%
SPS (\$)	14.76%	100.00%

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WARREN BUFFETT

AND THE
INTERPRETATION OF
FINANCIAL STATEMENTS

The Search for the Company with a Durable Competitive Advantage



MARY BUFFETT & DAVID CLARK

Bestselling Authors of

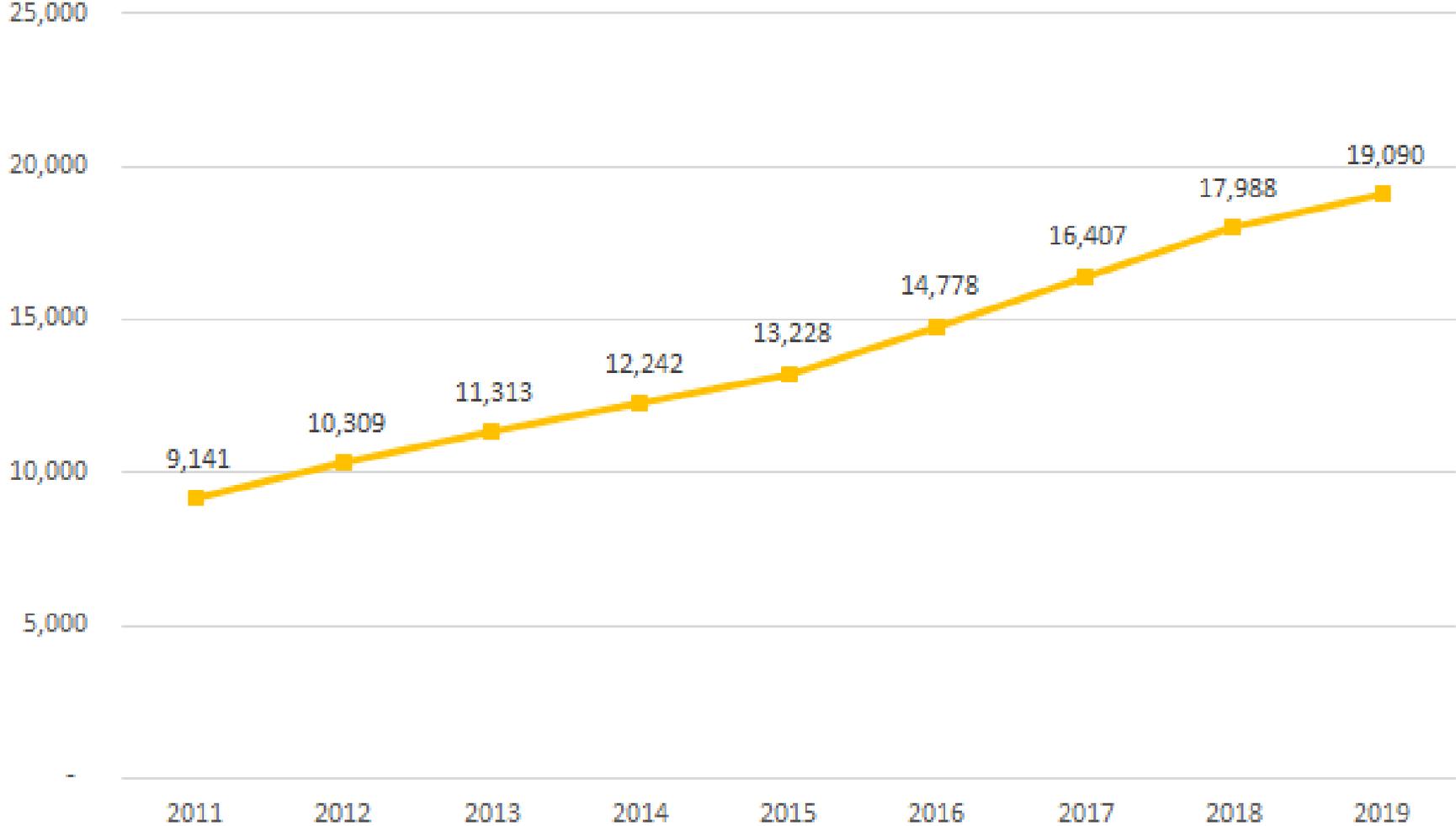
BUFFETTOLOGY

and

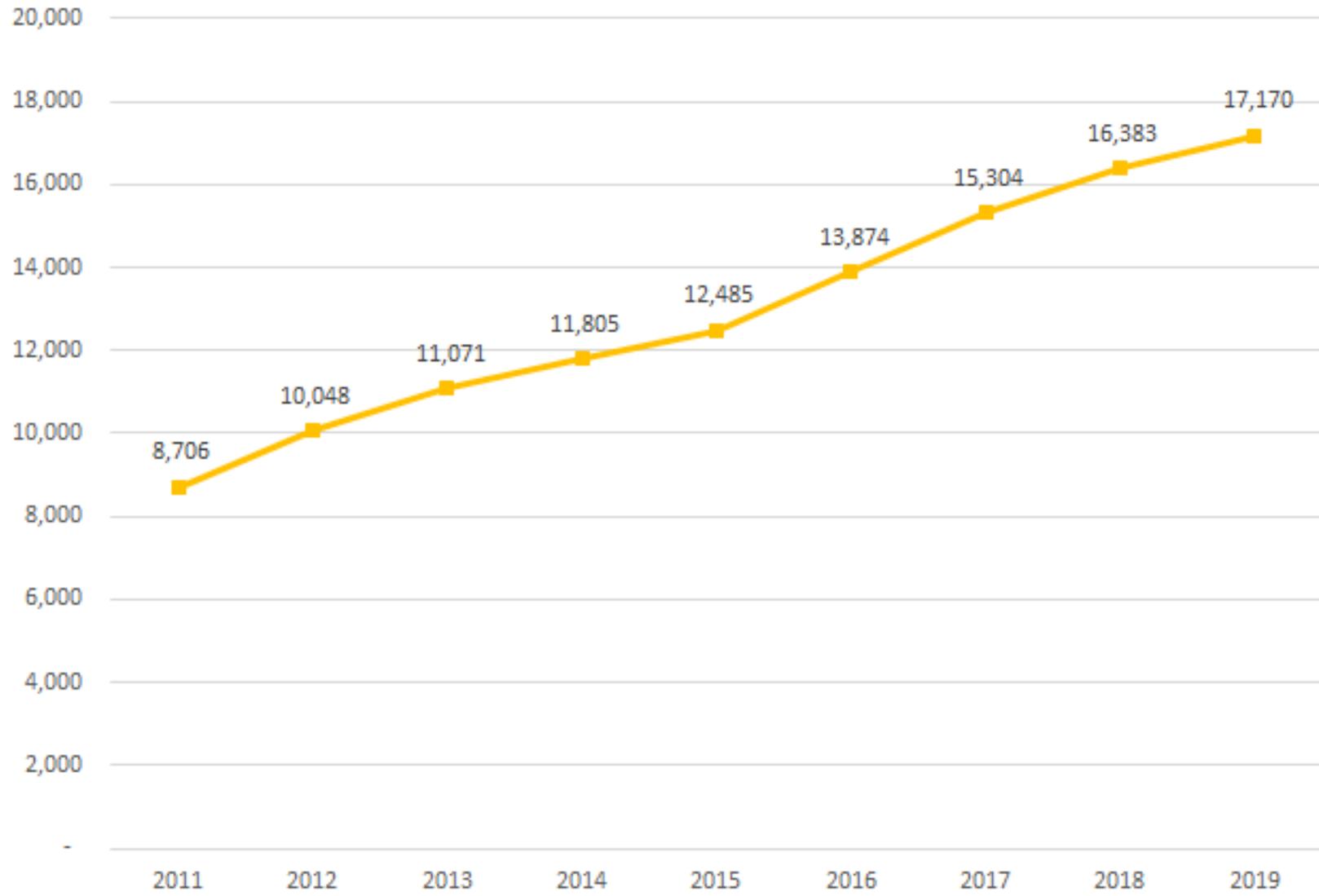
THE TAO OF WARREN BUFFETT

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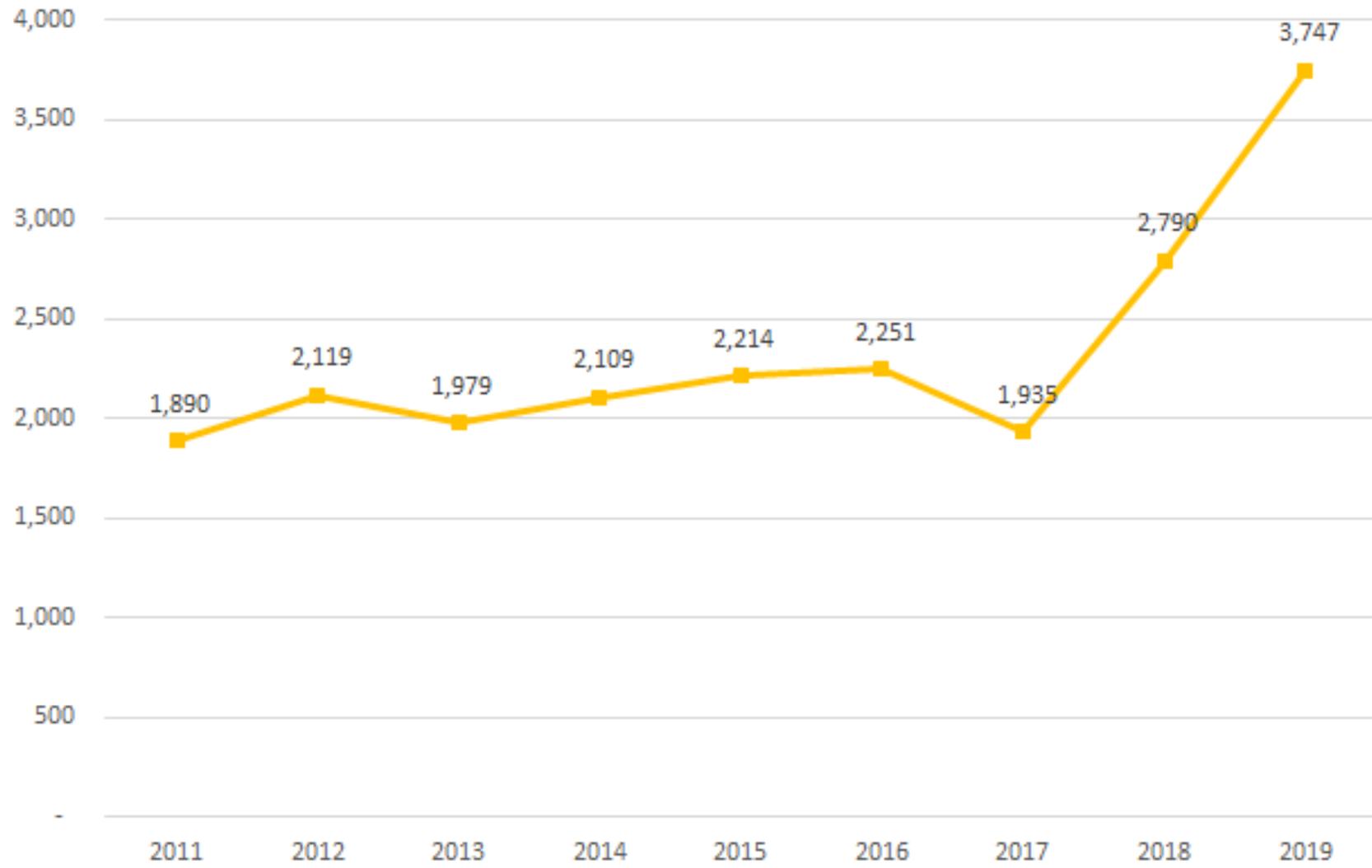
Interest Income (in millions)



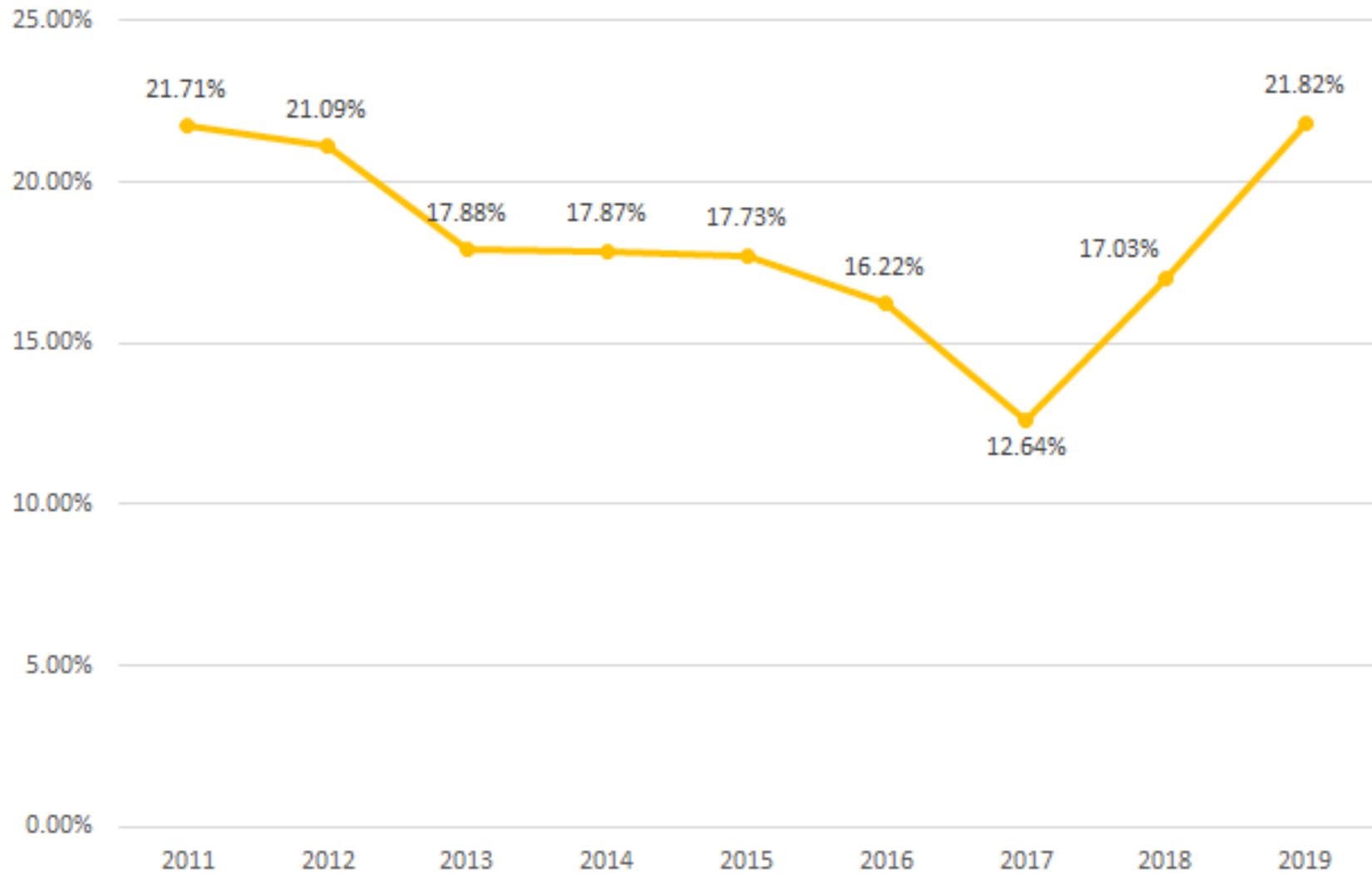
Revenue (in millions)



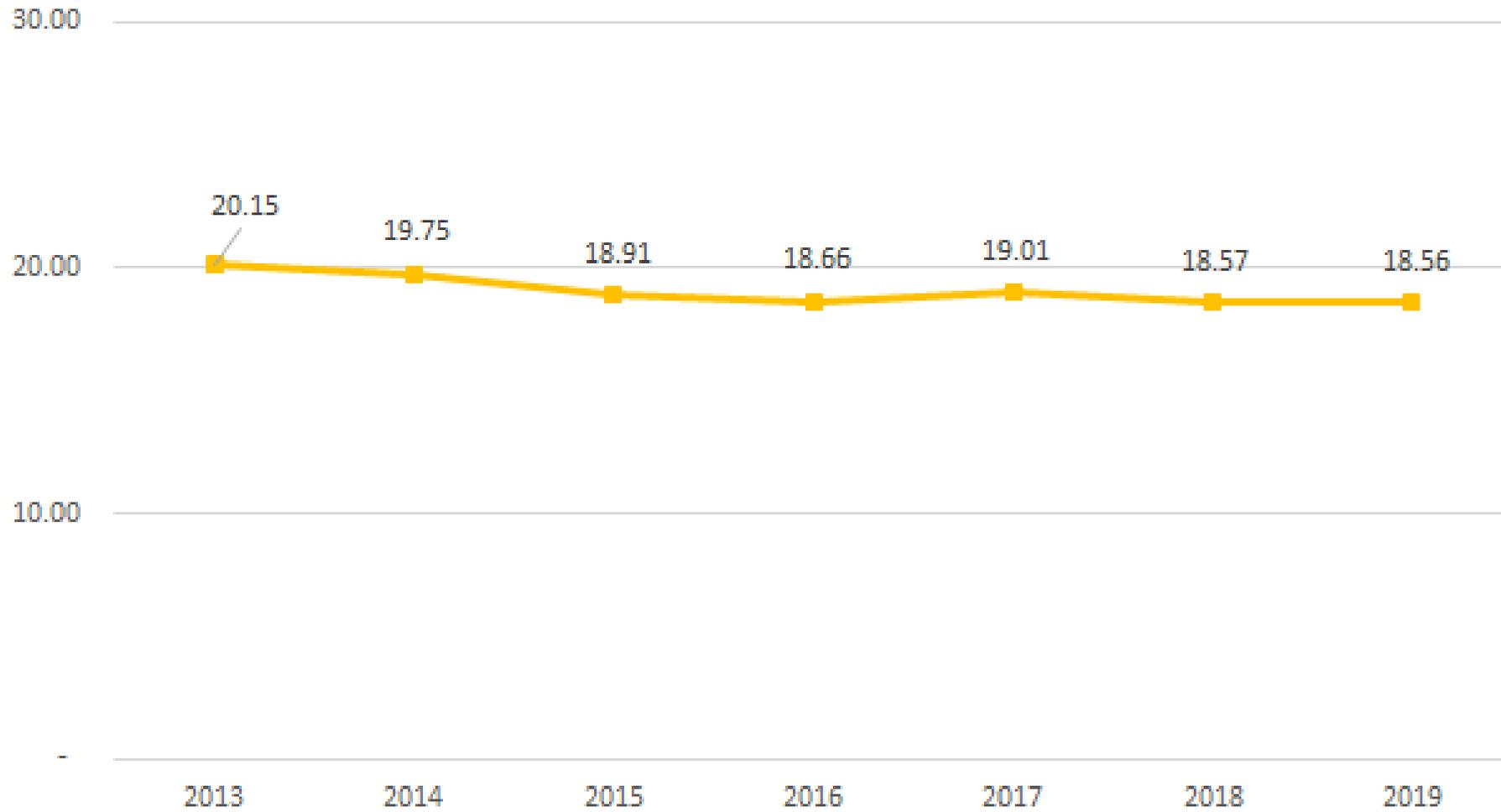
Net Income (in millions)



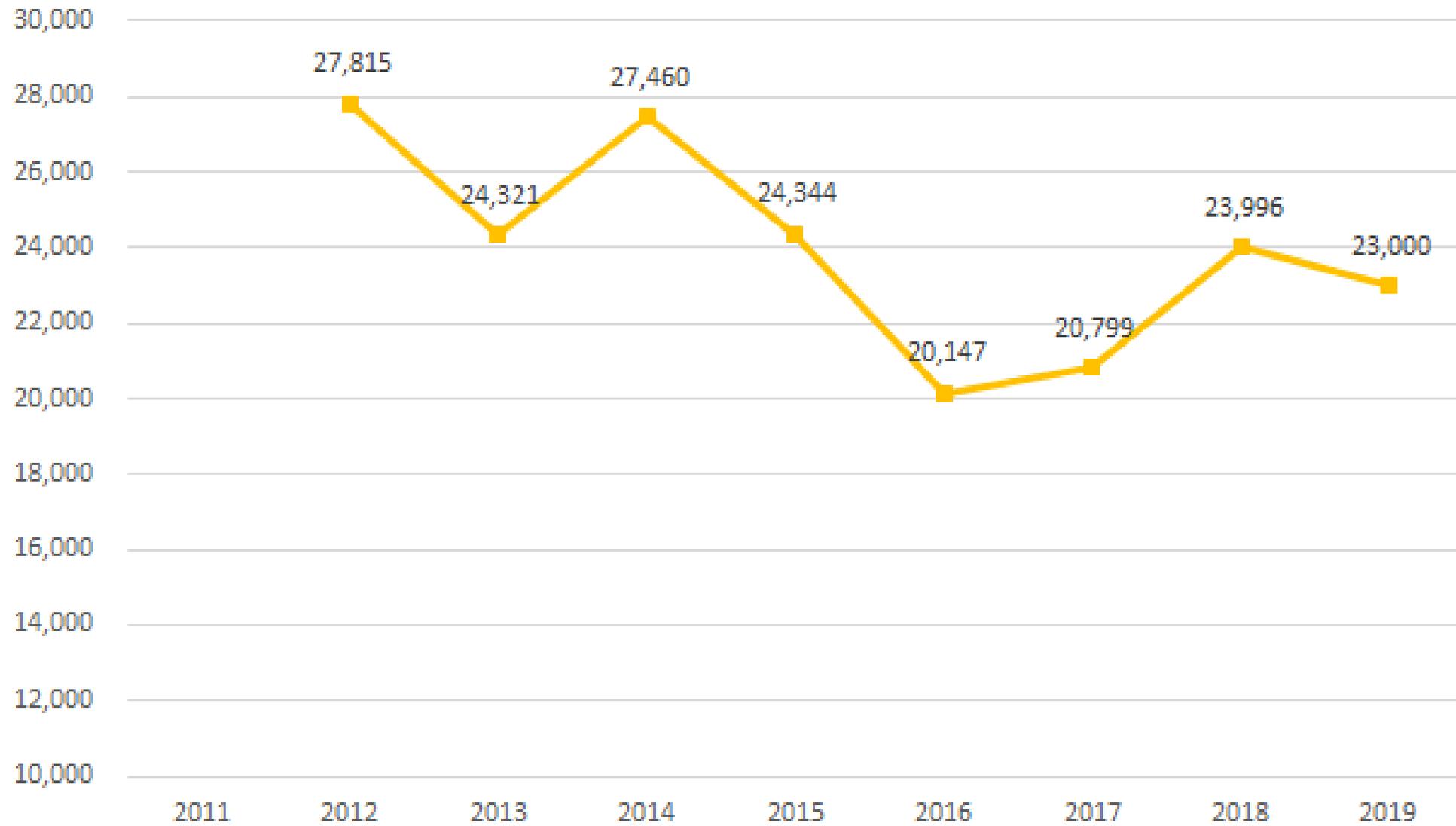
Net Margin



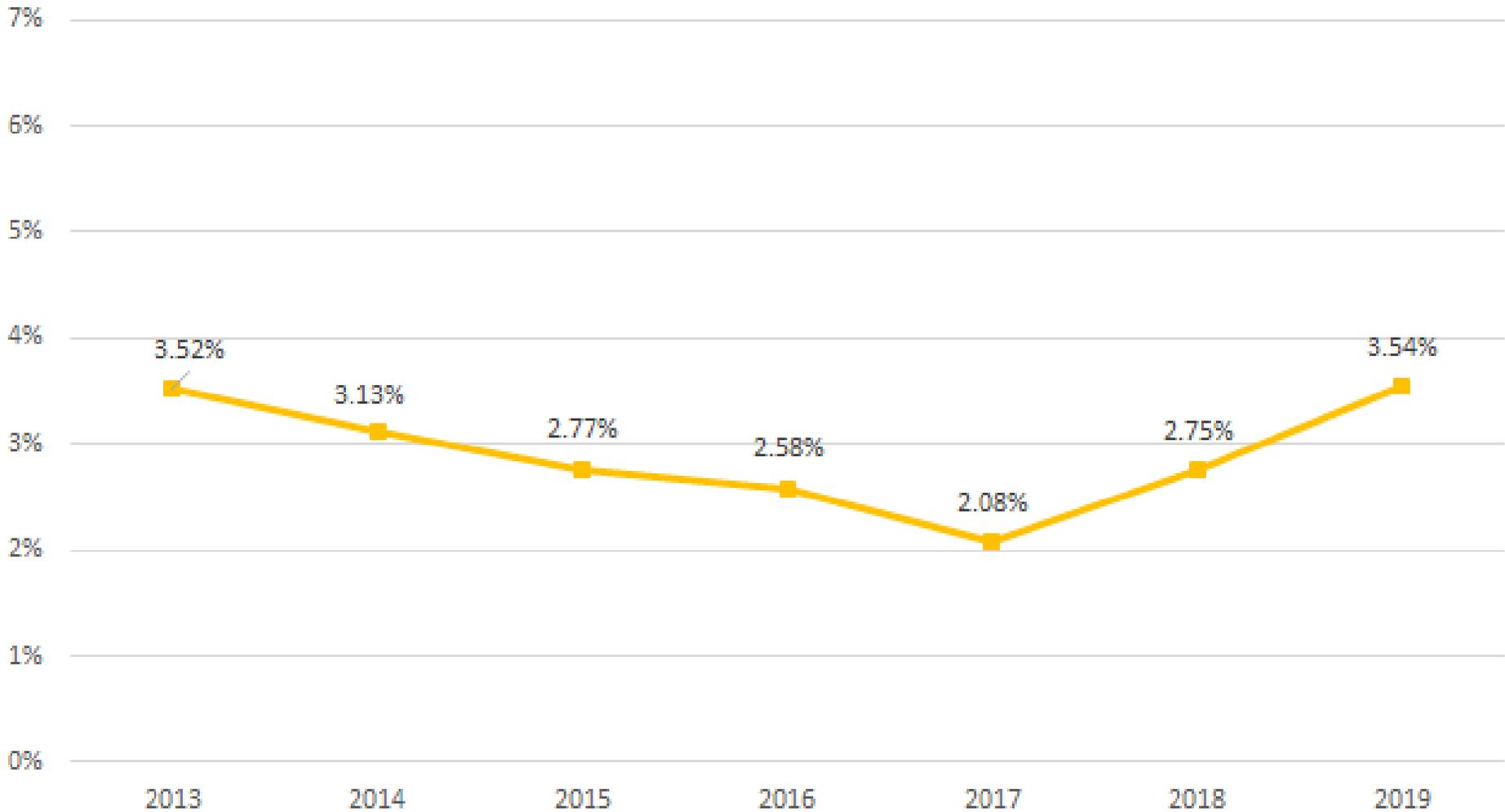
Net Interest Margin



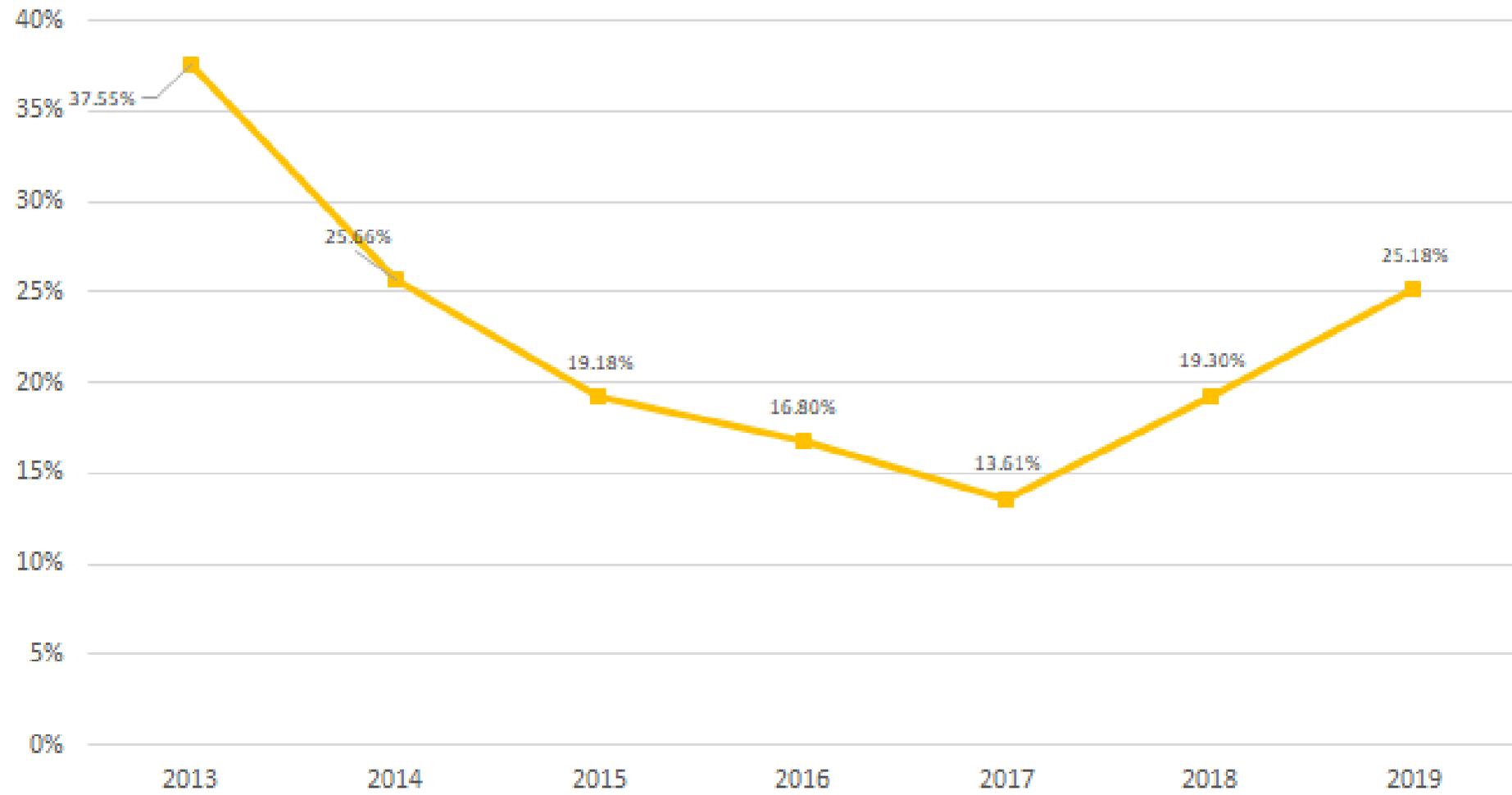
LTD (in millions)



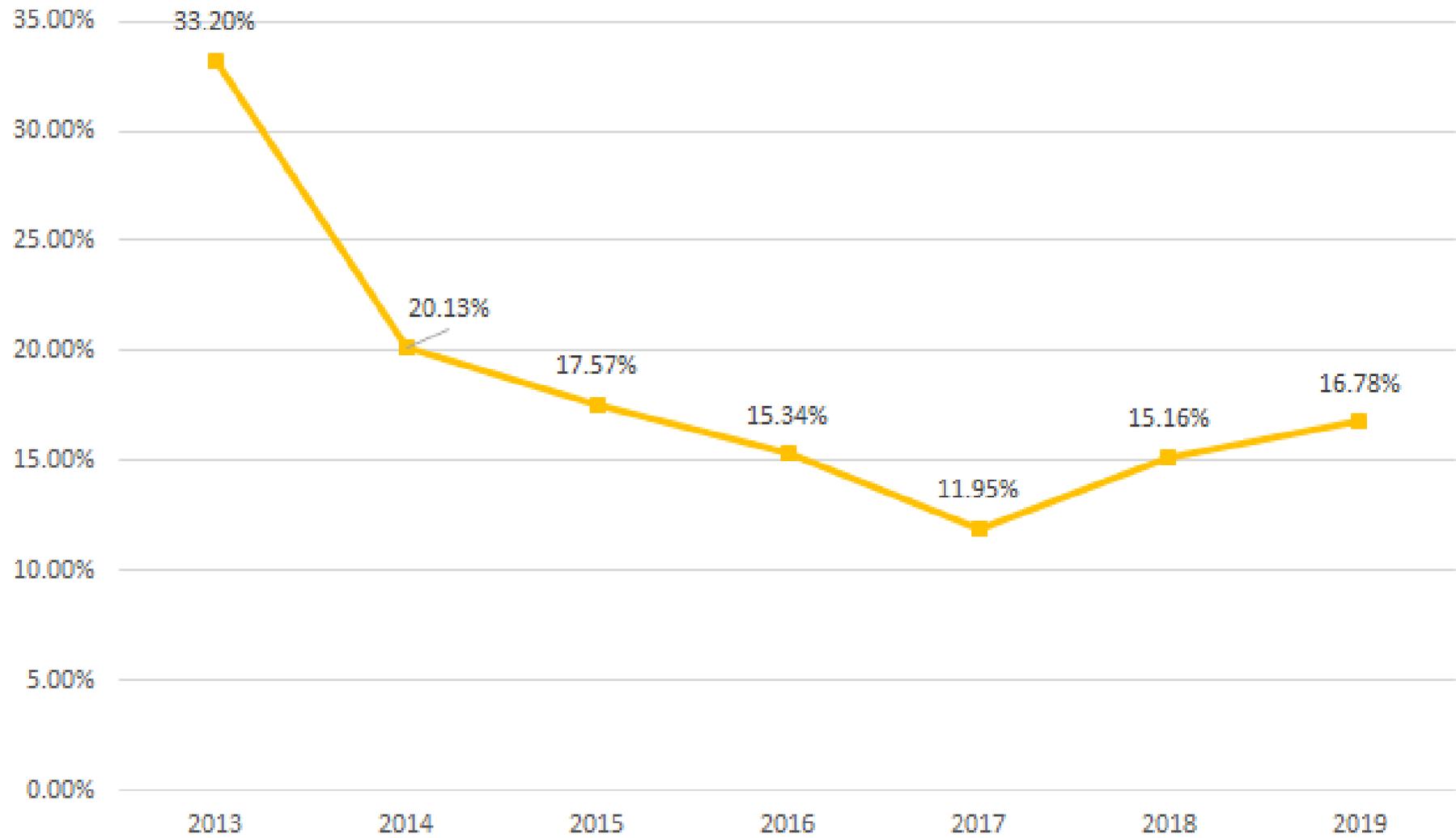
ROA



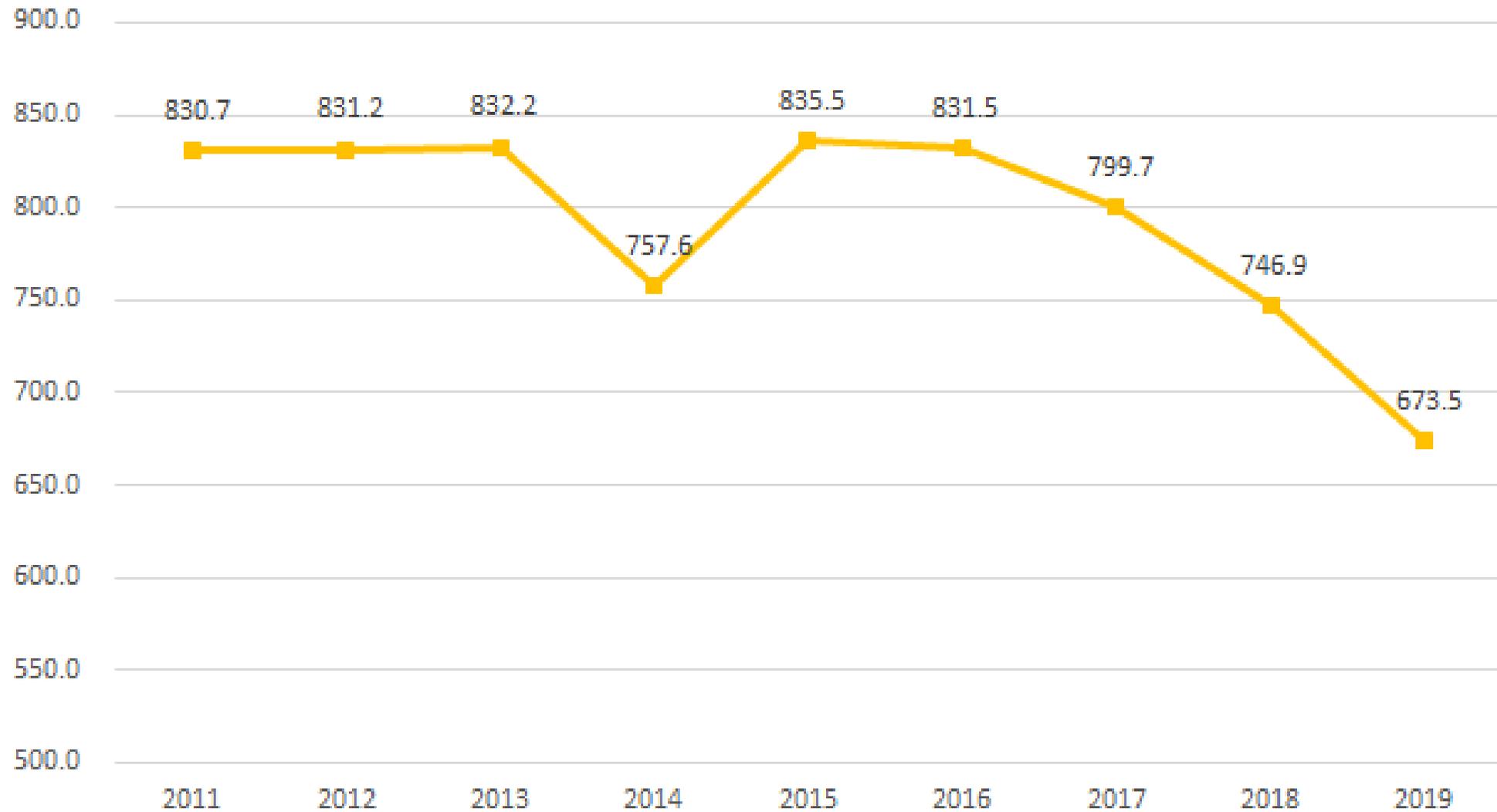
ROE



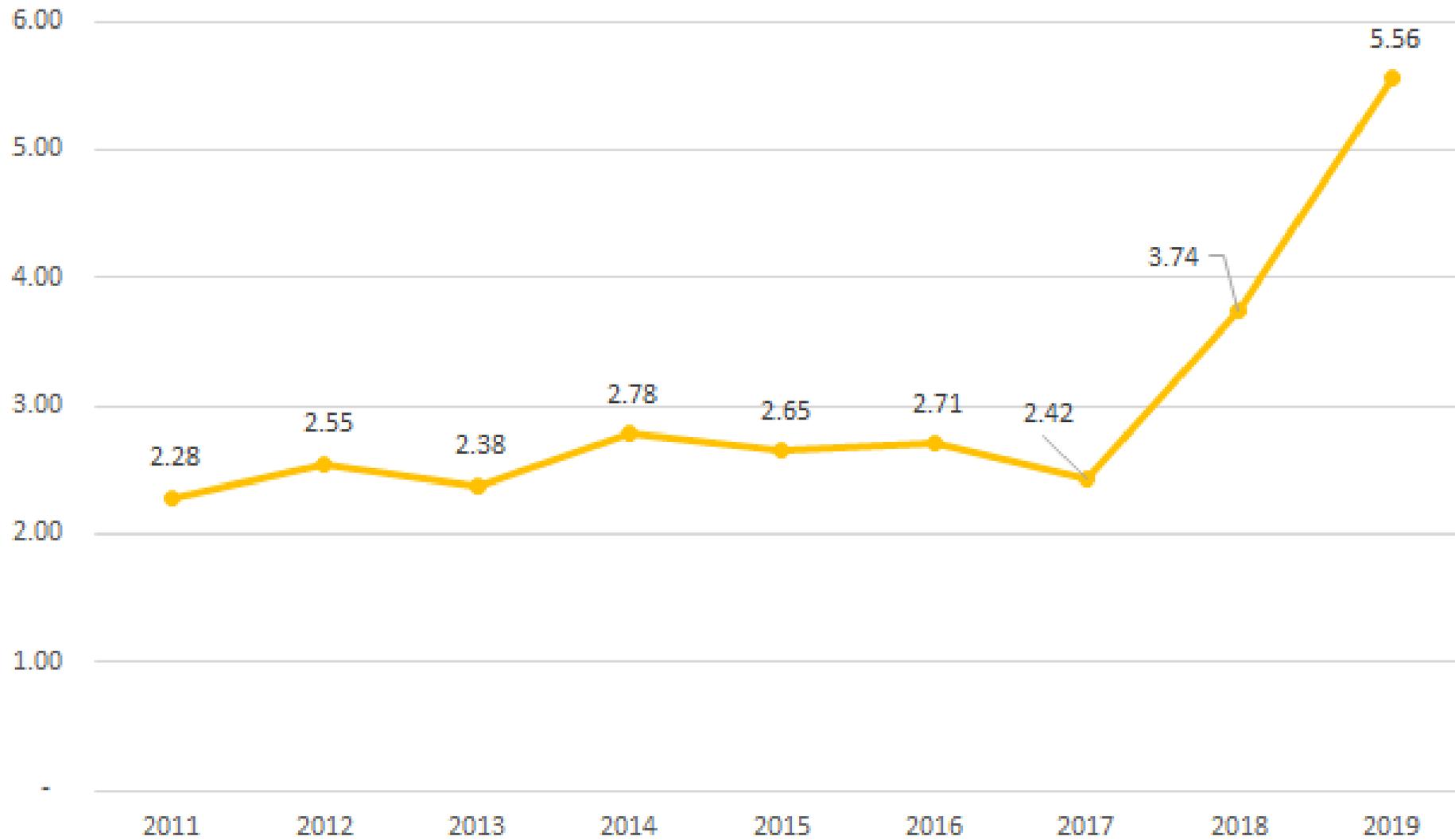
Adjusted ROE



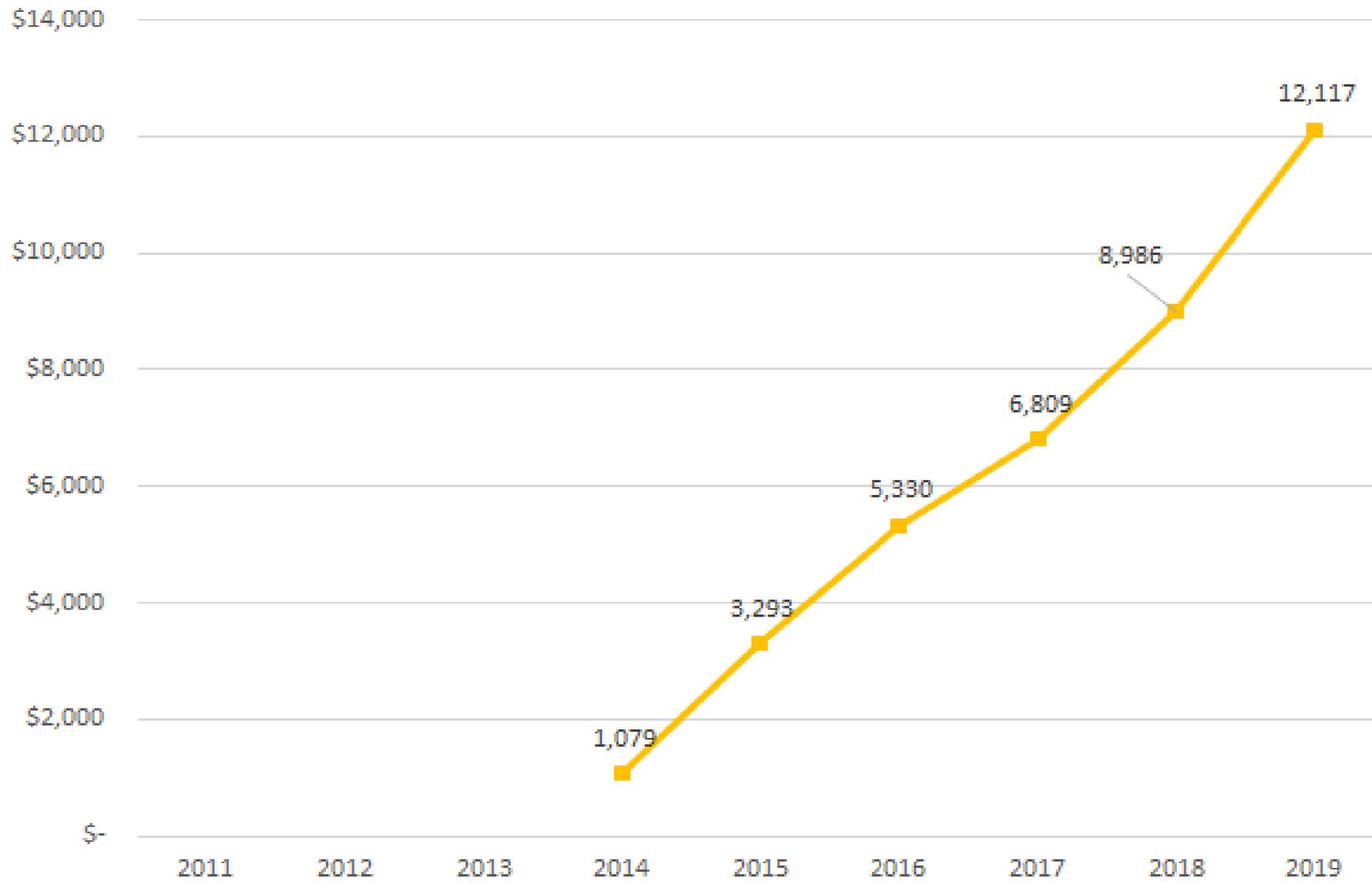
Shares Outstanding (in millions)



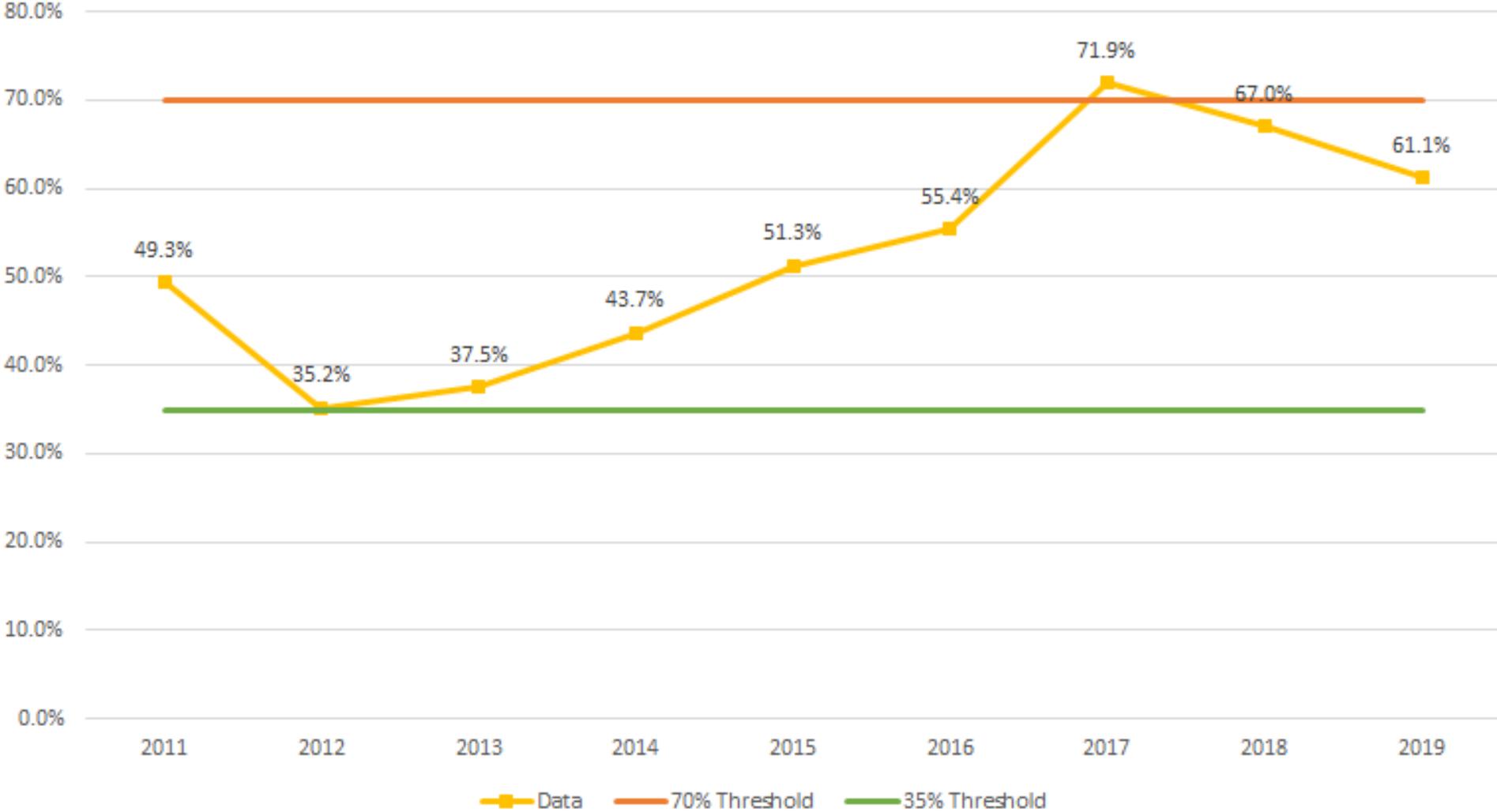
Diluted EPS



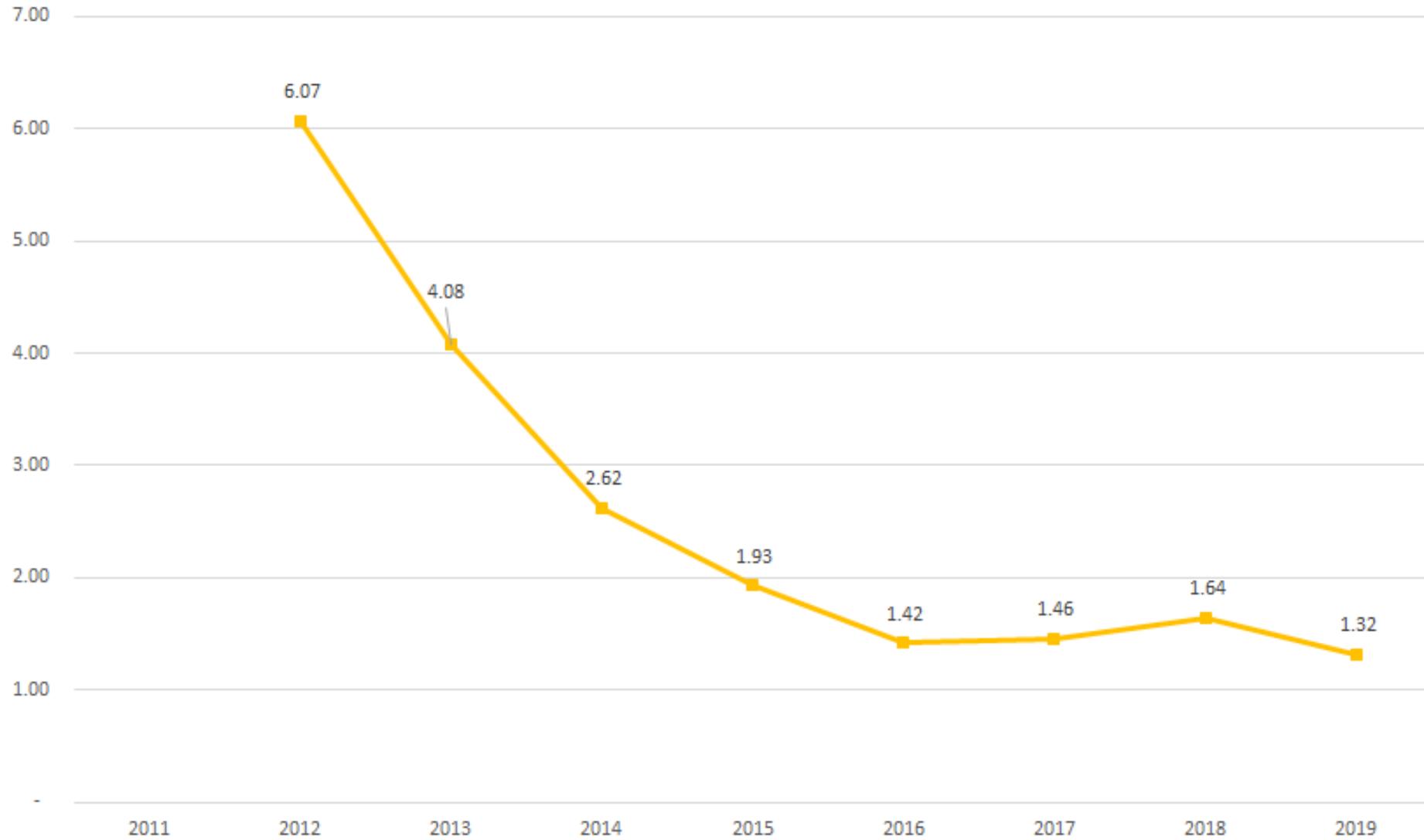
Retained Earnings (in millions)



Interest Expense to Net Income



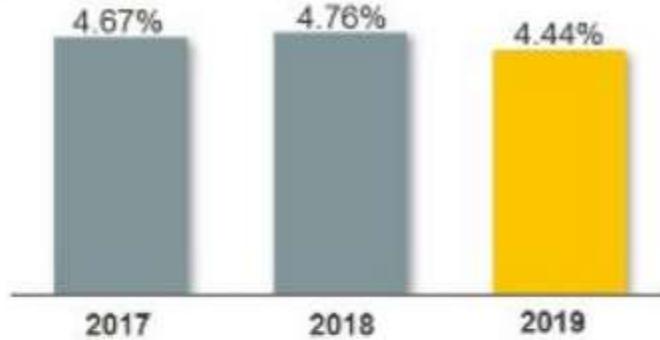
Debt-to-Equity Ratio



ASSET QUALITY METRICS

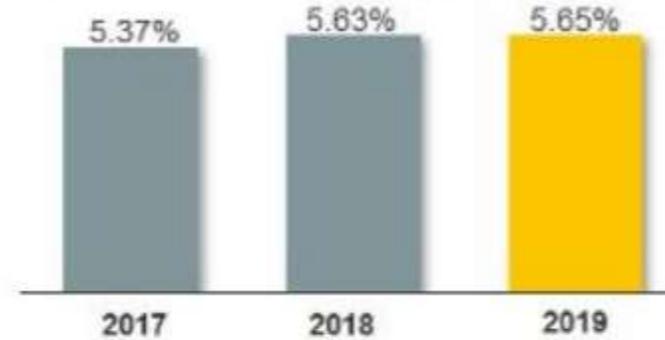
30+ days past due

% of period-end loan receivables



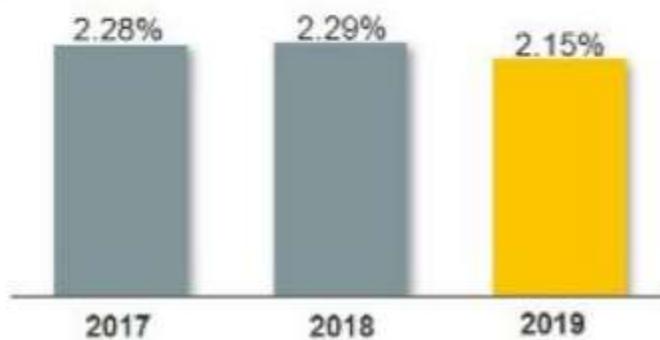
Net charge-offs

% of average loan receivables including held for sale



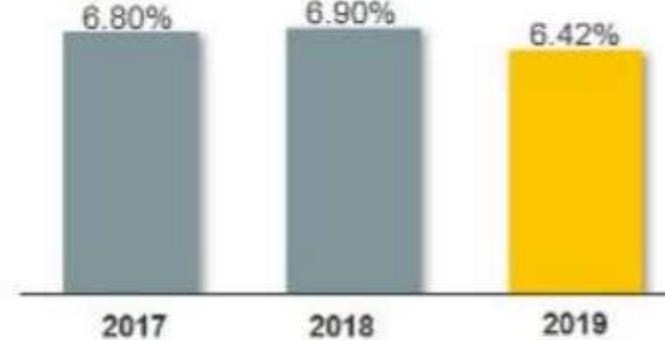
90+ days past due

% of period-end loan receivables

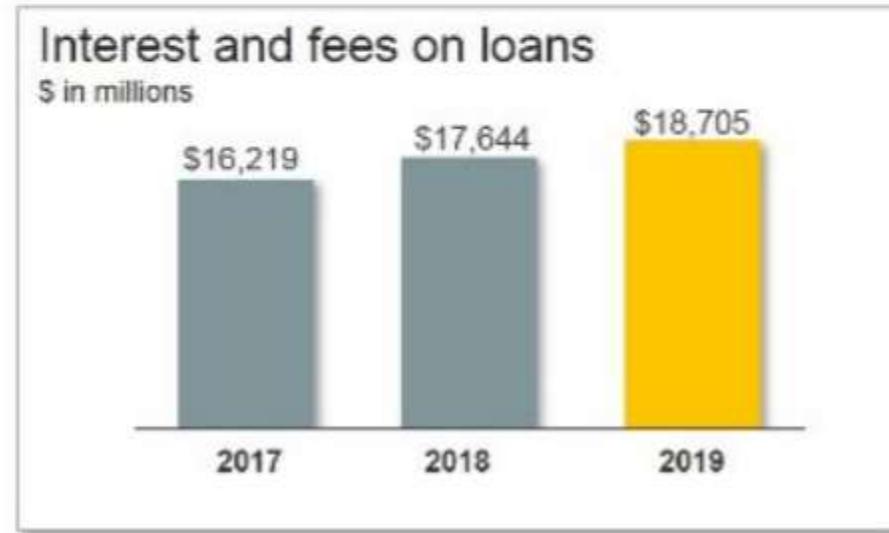
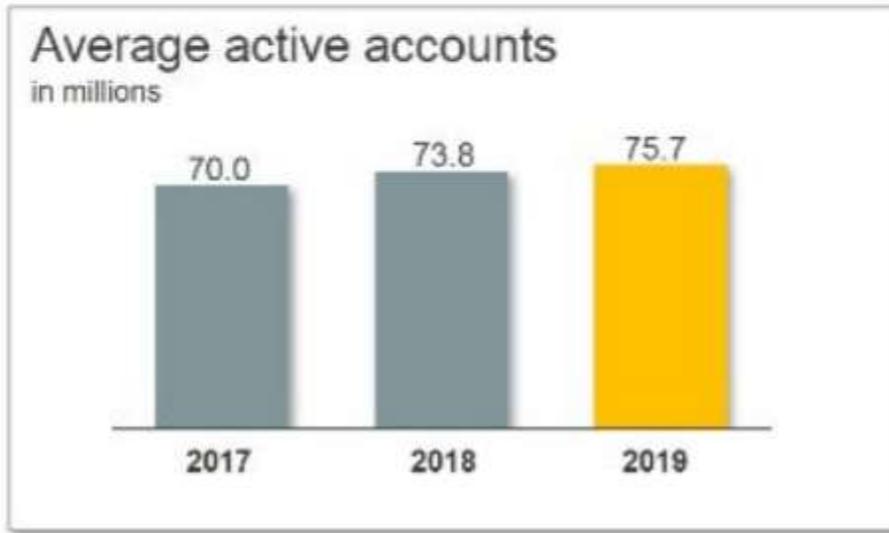
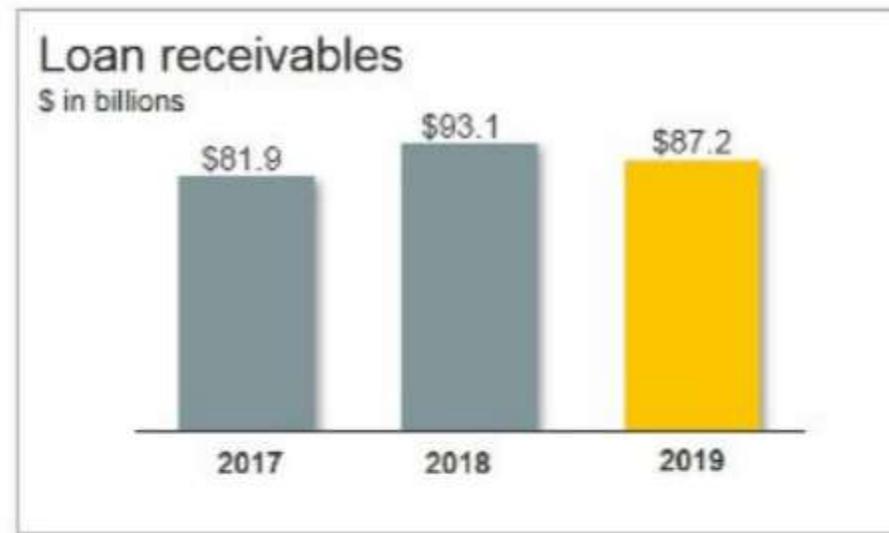
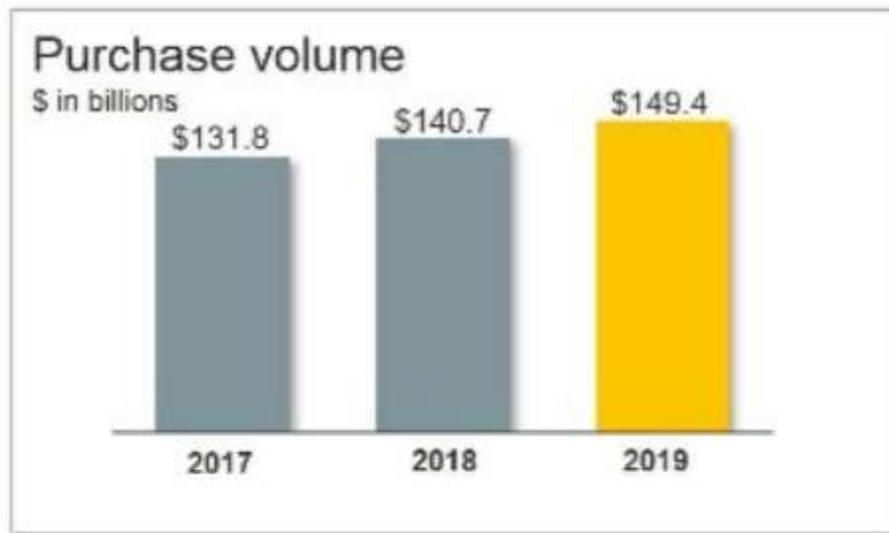


Allowance for loan losses

% of period-end loan receivables



GROWTH METRICS



HISTORICAL DUPONT ANALYSIS

Year	Total Asset Turnover	Net Profit Margin	Financial Leverage Multiplier	Return on Equity
2019	0.16	22%	6.95	24.6%
2018	0.16	17%	7.28	20.0%
2017	0.16	13%	6.73	14.0%
2016	0.16	16%	6.35	16.4%
2015	0.16	18%	6.66	18.5%

INDUSTRY DUPONT ANALYSIS

Company	Total Asset Turnover	Net Profit Margin	Financial Leverage Multiplier	Return on Equity
 synchrony	0.16	22%	6.95	24.6%
 DISCOVER	0.10	25.8%	9.61	25.4%
 AllianceData.	0.19	5.6%	16.34	17.7%
 citigroup	0.04	26.1%	10.10	10.1%
 AMERICAN EXPRESS	0.16	21.9%	8.61	30.1%
 Capital One	0.07	19.4%	6.73	9.8%

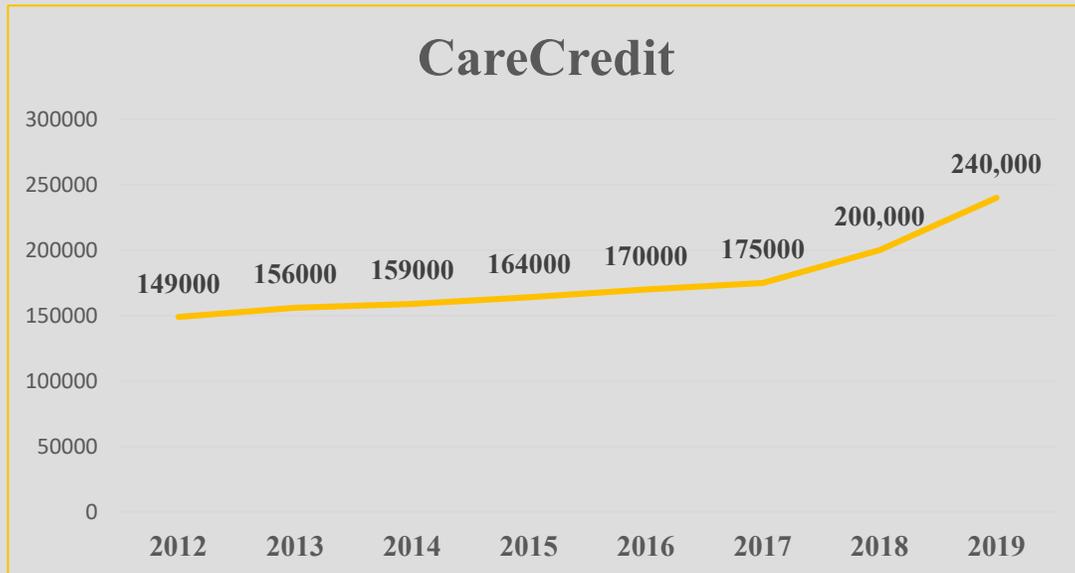


GROWTH DRIVERS

- Using Care Credit provides flexibility when paying for a wide range of healthcare and personal care expenses that are not covered by insurance.
- You can use it for dental care, eye surgery, eye-glasses and contacts, hearing, trips to the veterinary and more.
- Total Interest and Fees on Loans, 7 years, 7.28% CAGR.

- SYF acquired Pets Best to expand Care Credit Platform in rapidly growing pet market.
- In 2018 the Pet Health Insurance market was worth 72 billion dollars.
- The Pet Health Insurance market is anticipated to double by 2022.

Location



Interest Income

