Synchrony Financial (SYF)

Presented by Steven Gorelik

Firebird U.S. Value

June 2019

Presentation Index

1. Firebird U.S. Value Investment Approach

2. Investing in Financials Companies

3. Synchrony Financials (SYF)

Firebird U.S. Value Investment Approach

Quality

We invest in companies with strong moats
- What is the source of competitive advantage?
- What is the value proposition to all stakeholders?

Value

Cash flow focus
- Look at how the company generates and uses its cash
- Consider value derived from actual returns to investors (dividends + buybacks)

Macro

Macroeconomic analysis helps avoid value traps
- 20+ years of emerging market investing experience
- We don't simply "putup with macro economics"

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Why is investing in financials scary?

Lehman Files for Bankruptcy; Merrill Is Sold

By ANDREW ROSS SORKIN SEPT. 14, 2008

Countrywide shares plunge on plan for emergency fundraising

ts to sell new shares at 80% discount to previous market value

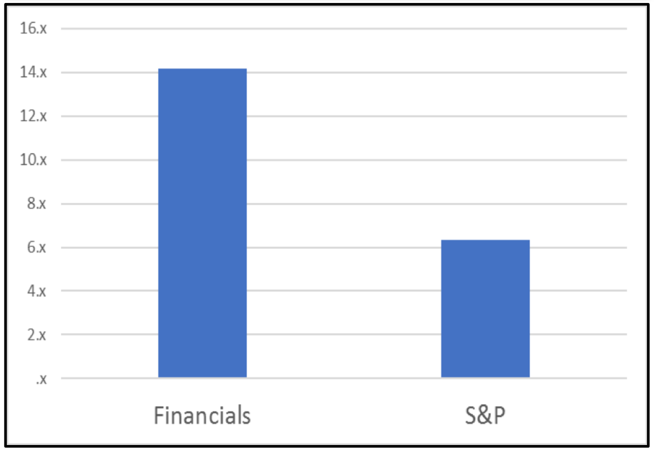
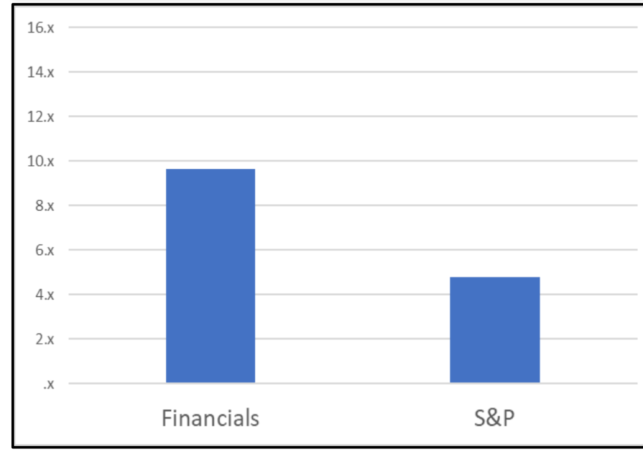
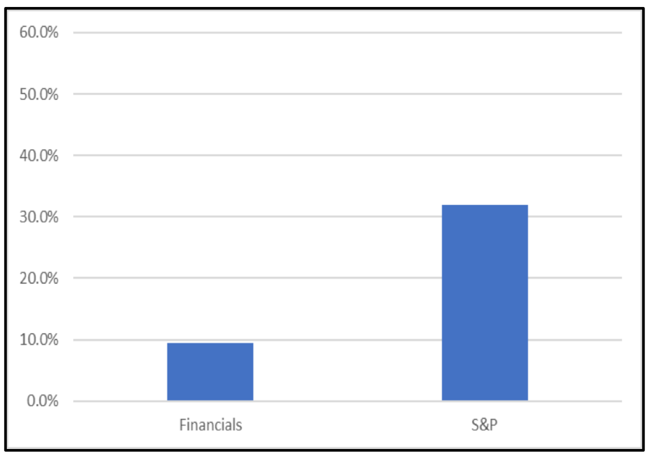
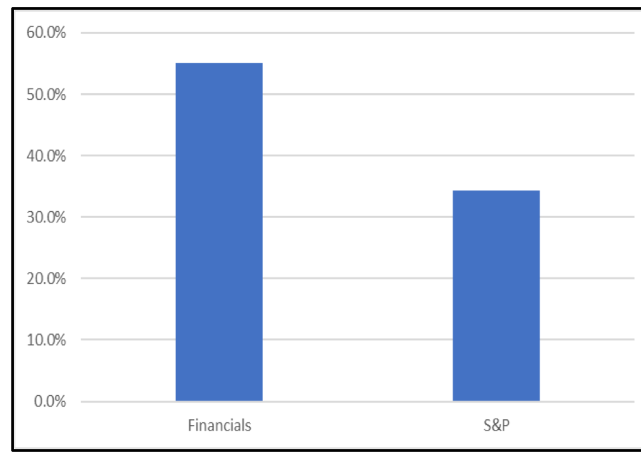
BUSINESS NEWS OCTOBER 22, 2008 / 7:16 AM / 11 YEARS AGO

Wachovia has $23.9 billion loss on writeoff, mortgages

U.S. to Take Over AIG in $85 Billion Bailout; Central Banks Inject Cash as Credit Dries Up

Emergency Loan Effectively Gives Government Control of Insurer; Historic Move Would Cap 10 Days That Reshaped U.S. Finance

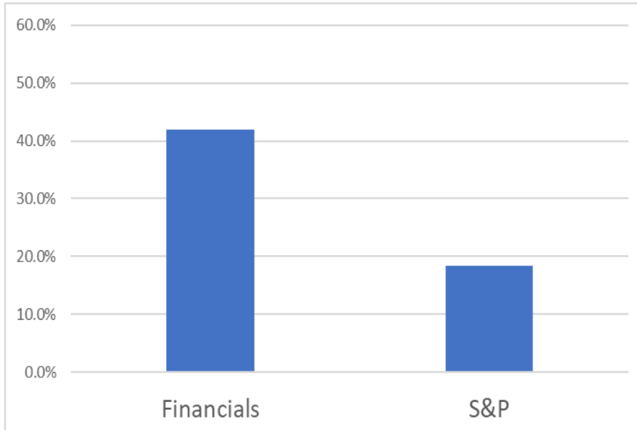
Analyzing Financial Companies

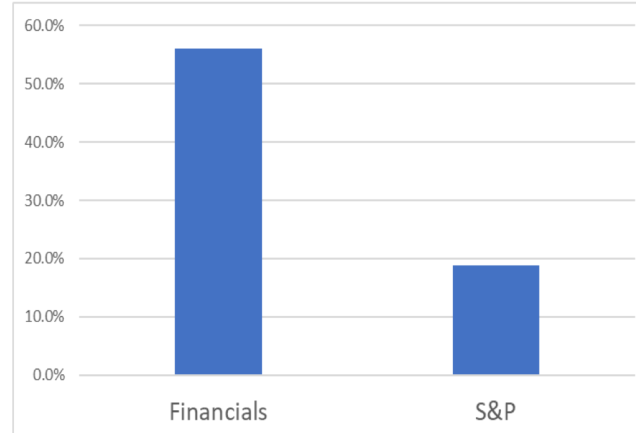
	2007	2018
Leverage*		
Gross Margin		

Source: CapitalIQ, Bloomberg, Firebird US Value Advisors calculations
* Leverage in this case is defined as Total Assets/Total Equity

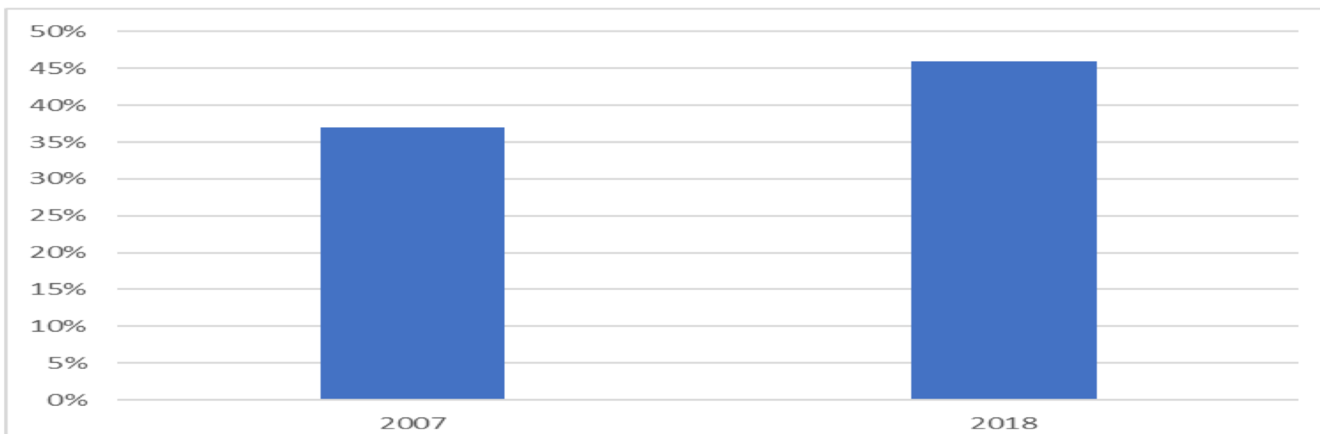
Analyzing Financial Companies (cont'd)

	2007	2018
Operating Expenses		





Non-Interest Revenues



Source: CapitalIQ, Bloomberg, Firebird US Value Advisors calculations

Analyzing Financial Companies (Summary)

- Higher Leverage than average company, but not as high as it was in 2007
- Higher Operating Expenses than average company
- Significant percentage of revenues coming from non-interest sources – volatile and hard to understand
- Higher Gross Margins than average company and much improved since 2007
- No CapX needs means all of operating cash flow is either reinvested in core business or used for corporate needs

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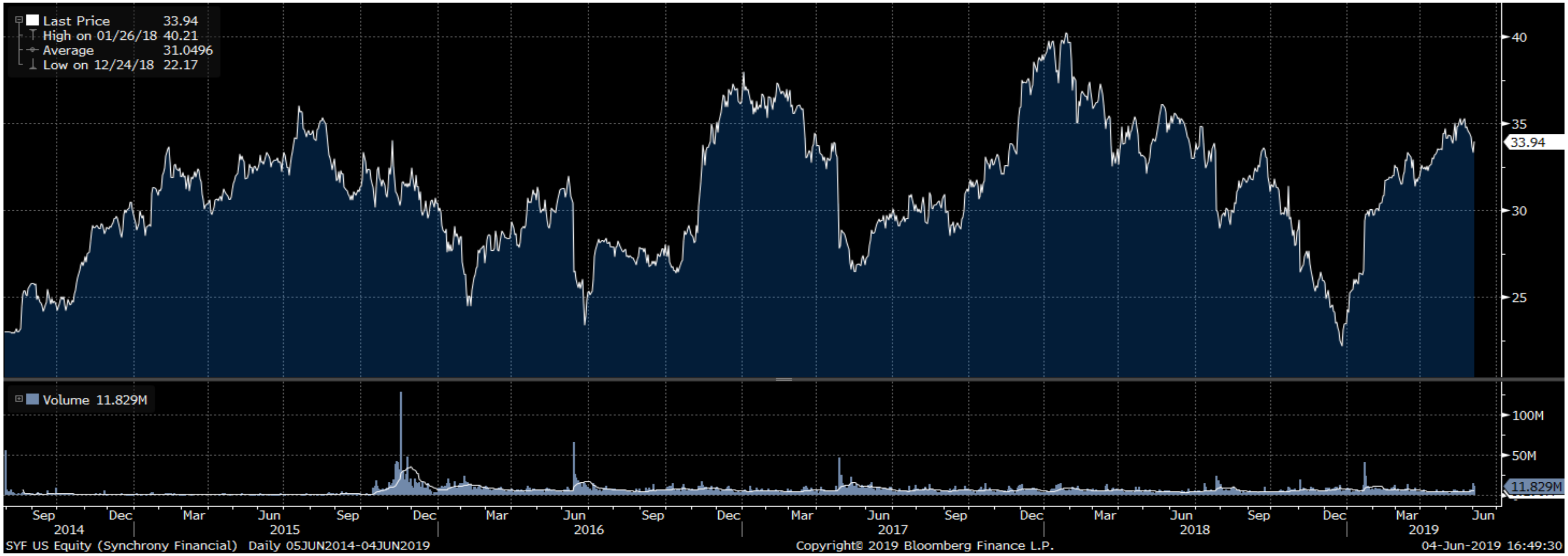
Synchrony Financial - Introduction

- Ticker – SYF - $23B market cap
- Spun out of GE Financial in 2014
- $90B+ portfolio of loans mostly in private label credit cards



Synchrony Competitive Advantage – Network of Partnerships

Retail Cards	Payment Solutions	Care Solutions
29 partners & Growing	130k retail locations	220k locations

Retail Cards

Lowe's, amazon.com, Sam's Club – Savings Made Simple, ebay, PayPal, QVC, American Eagle Outfitters, bp, Crate&Barrel, T.J.maxx, Cathay Pacific, Dick's Sporting Goods, Marvel

Payment Solutions

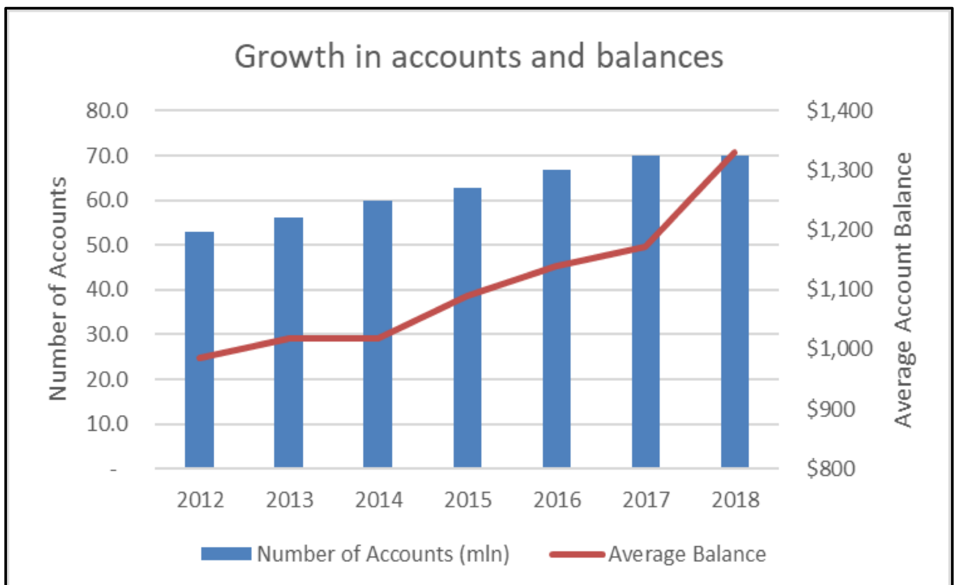
Ashley HomeStore, Mattress Firm, Discount Tire, Rooms To Go, nationwide marketing group – Appliances • Audio/Video • Furniture, Jewelers of America, P.C. Richard & Son – "The Appliance • TV • Electronics • Mattress Giant!", sleep number, Yamaha, North American Home Furnishings Association

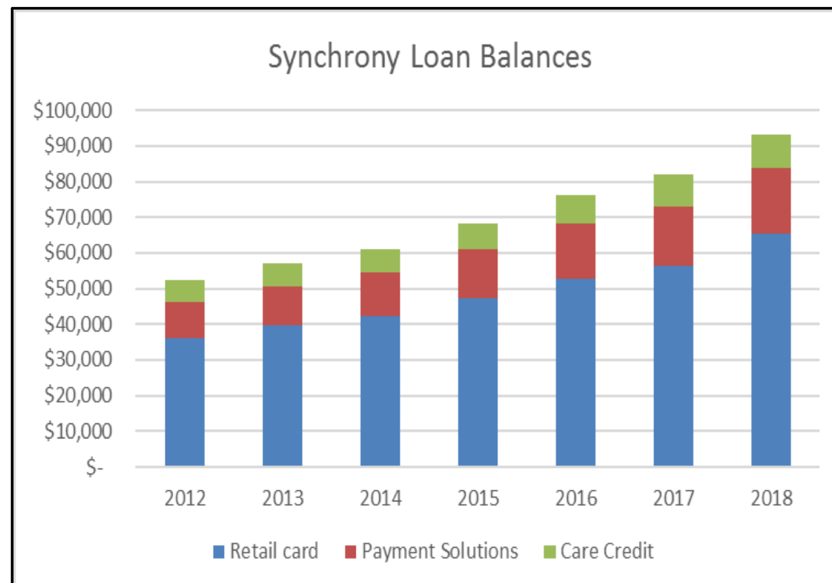
Care Solutions

LCA Vision, AspenDental, MARS petcare – A better world for pets, ADA American Dental Association, American Society of Plastic Surgeons, AVMA – Our Passion. Our Profession.

Synchrony Growth

- Number of accounts growing by 5% p.a.
- Overall Loans growing by 10% p.a.
- All segments are growing at roughly the same pace (8-10% p.a.)

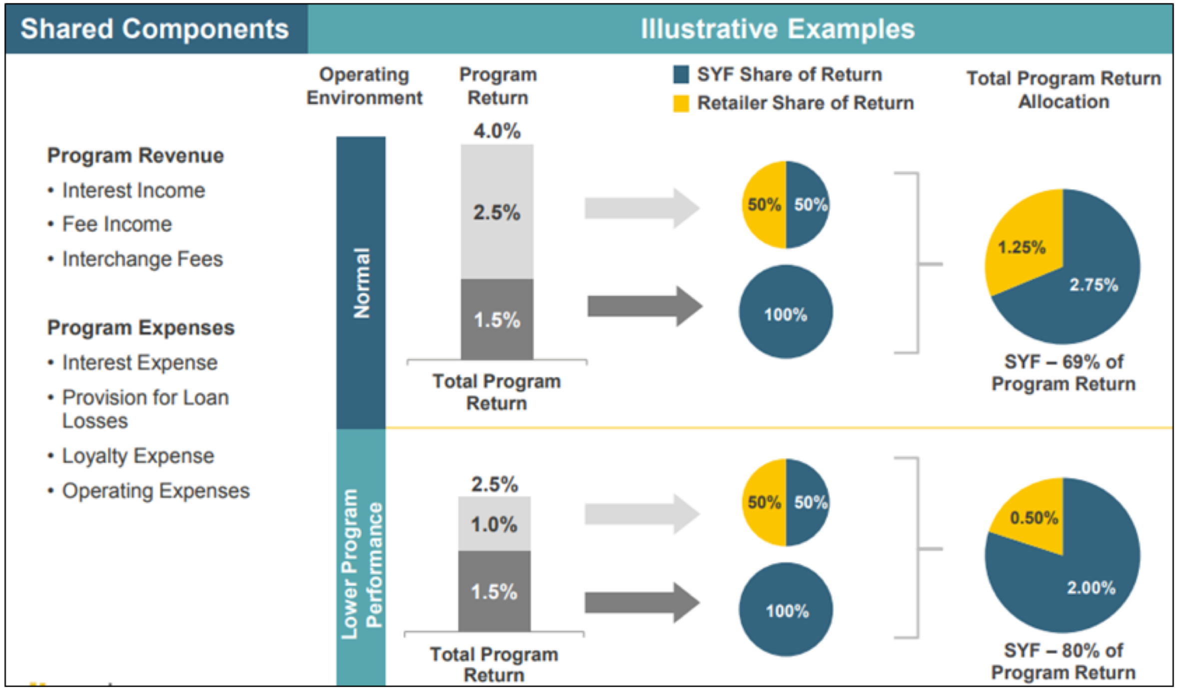




Source: Company Filings, Firebird US Value Advisors calculations

Synchrony Differentiation

- Specialty lender focused on retail credit card partners
- Synchrony rewards retail clients via revenue sharing arrangement based on profitability.

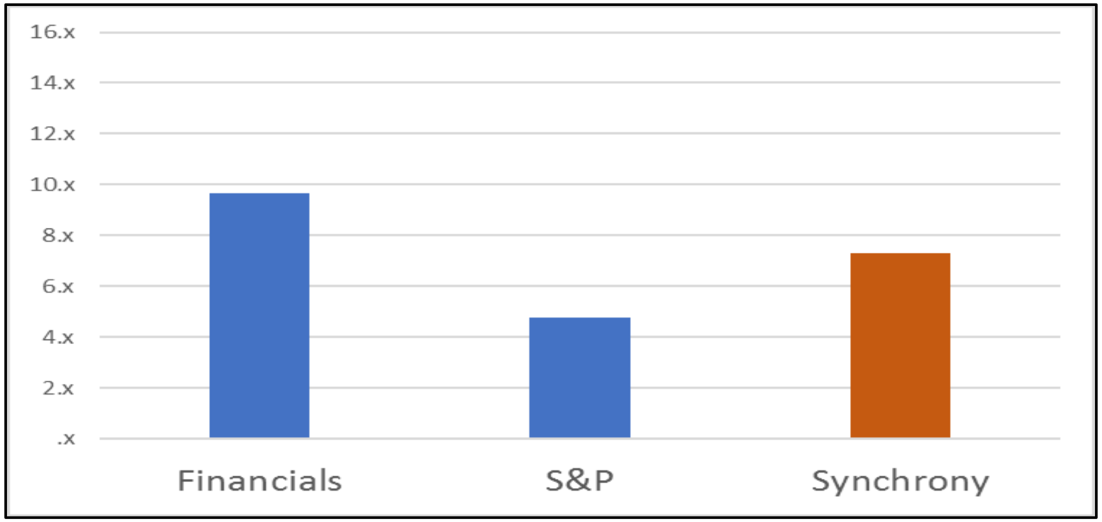


Store Branded Credit Cards Landscape

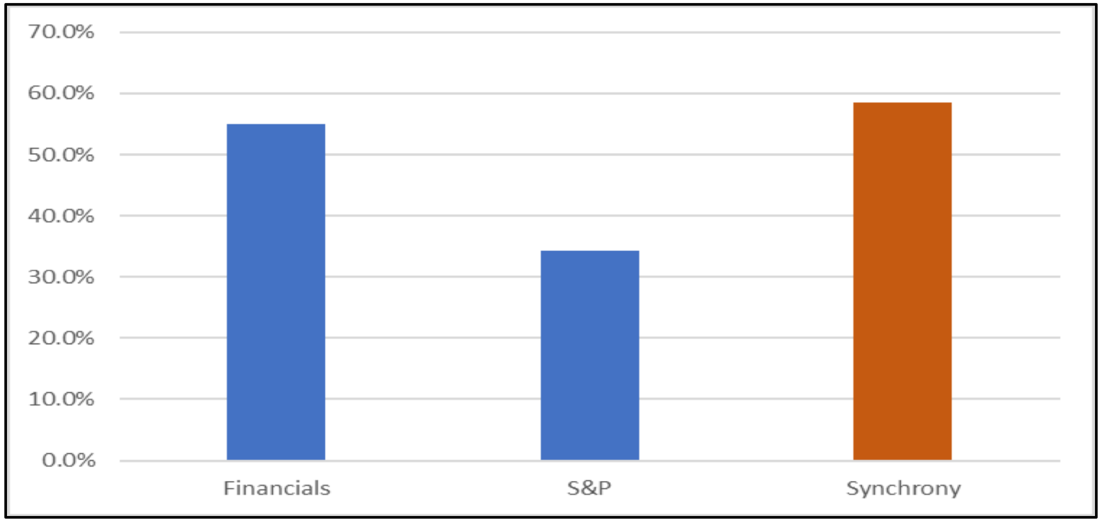
	Large Banks		Specialty Finance	
	citi	Capital One	synchrony FINANCIAL	Alliance Data
Largest partner	Best Buy	Wal-Mart	Paypal	L Brands
Number of Partners	20	8	29	160+
Type of Cards	Open/closed loop	Open/closed loop	Open/closed loop	Mostly Closed Loop
Differentiation	Price	Price	Service	Data Analysis
Credit Card Loans	$170B	$100B	$65B	$19B

Analyzing Synchrony Financial

Leverage



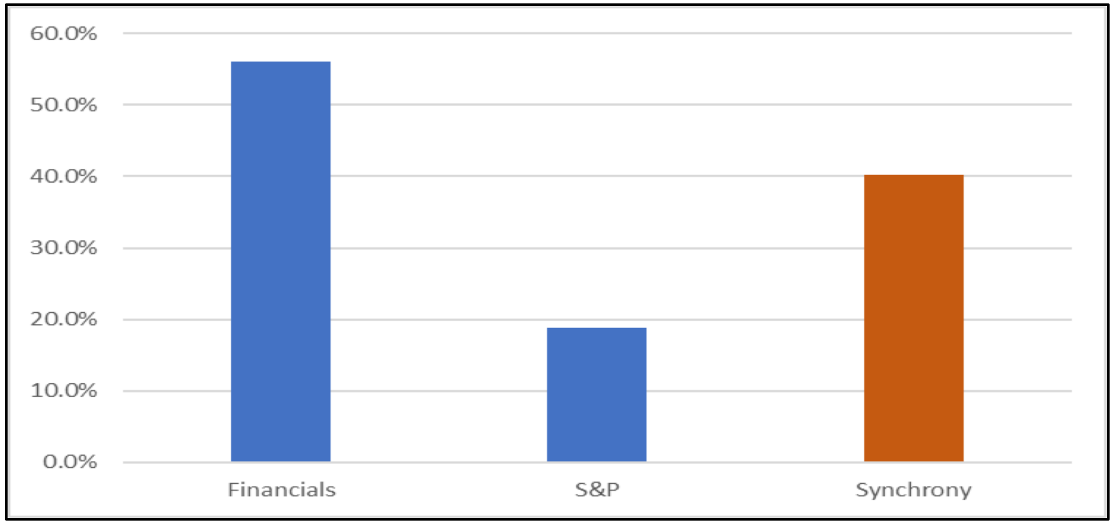
Gross Margin



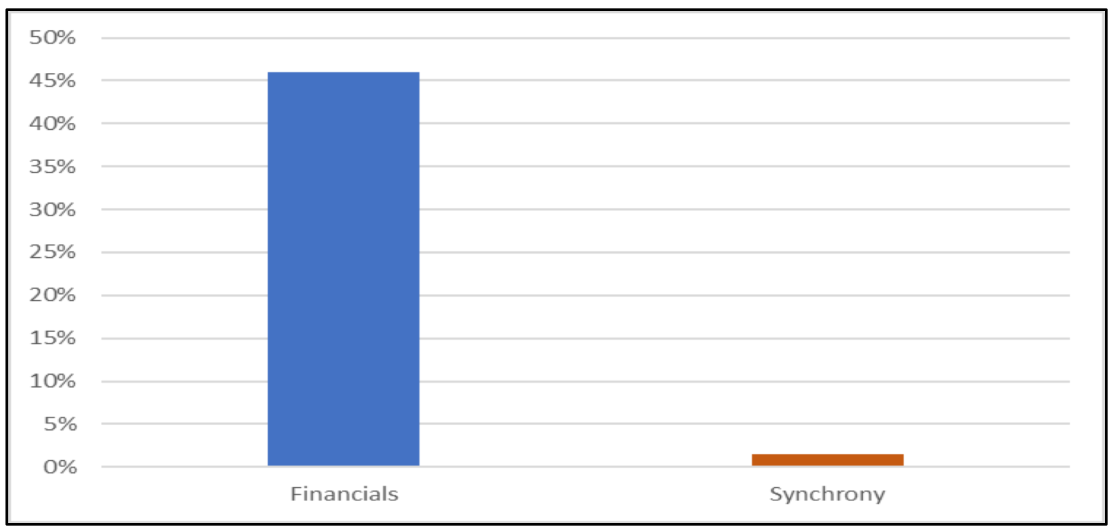
Source: Bloomberg, Firebird US Value Advisors calculations

Analyzing Synchrony Financial (cont'd)

Operating Expenses



Non-Interest Revenues



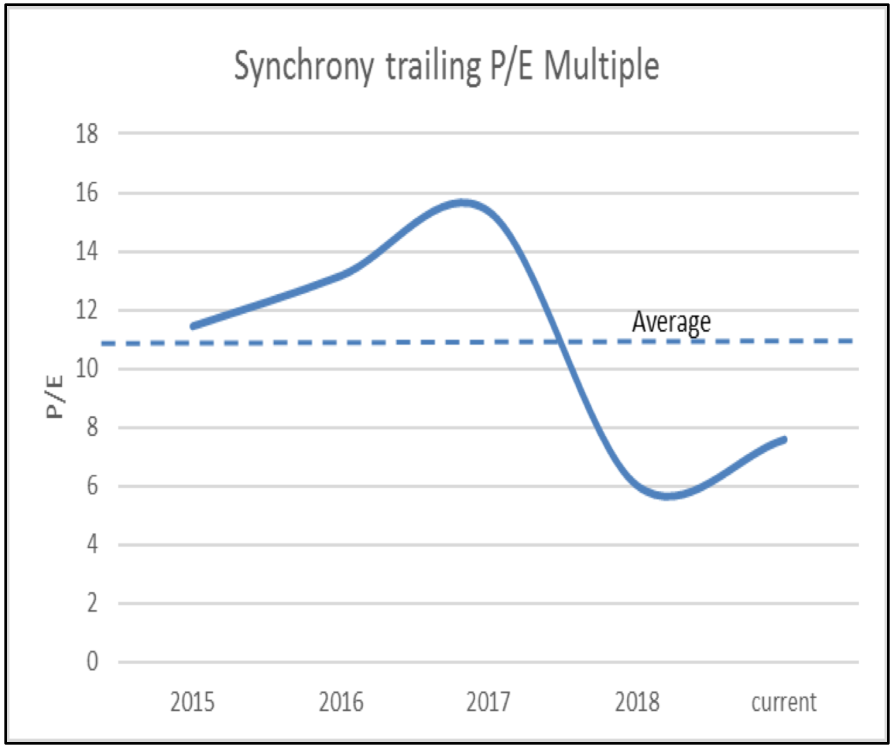
Source: Bloomberg, Firebird US Value Advisors calculations

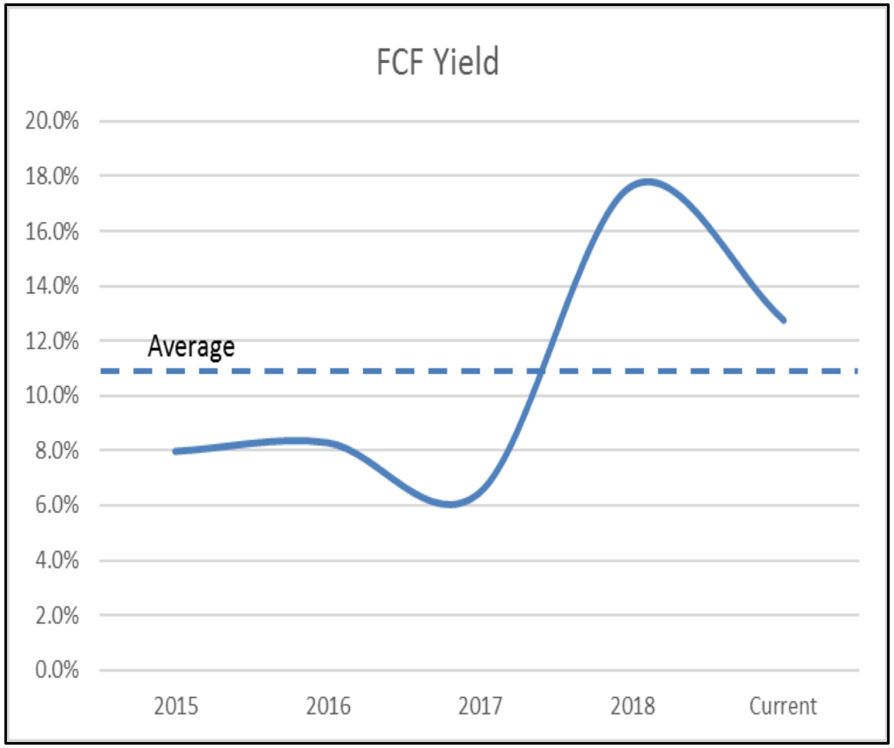
Analyzing Synchrony Financial (Summary)

- Lower leverage than average financial company
- Lower operating expenses than average financial company
- All the revenue comes from interest income
- Higher Gross Margins than average financial company
- No CapX needs means all of operating cash flow is either reinvested in core business or used for corporate needs

Valuation

- Currently trading well below historical averages on P/E and FCF Yield
- 60% discount to S&P 500 on P/E basis despite higher growth rates

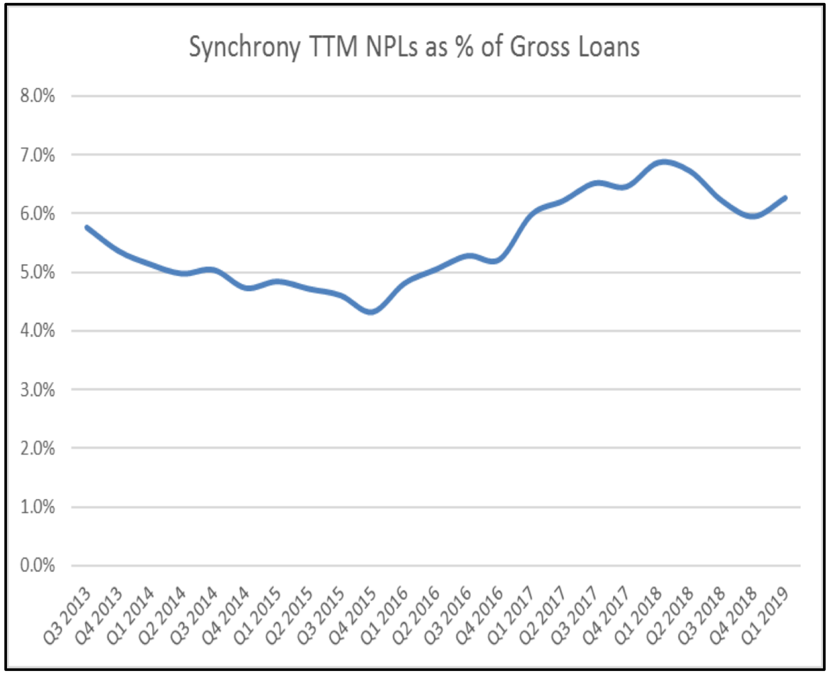




Source: Bloomberg, Company Filings, Firebird US Value Advisors calculations

Why is it cheap?

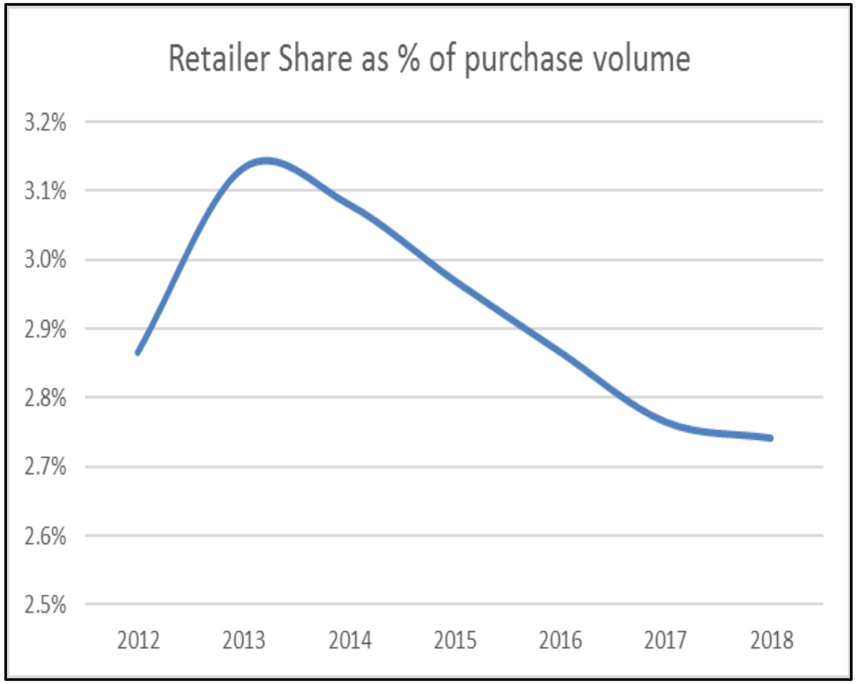
- Loss of Wal-Mart Account to Capital One
  - Wal-Mart was single largest retail relationship responsible for 10% of the loan book
- Negative NPL Trends



Source: Bloomberg, Company Filings, Firebird US Value Advisors calculations

Synchrony Response to Loss of Wal-Mart

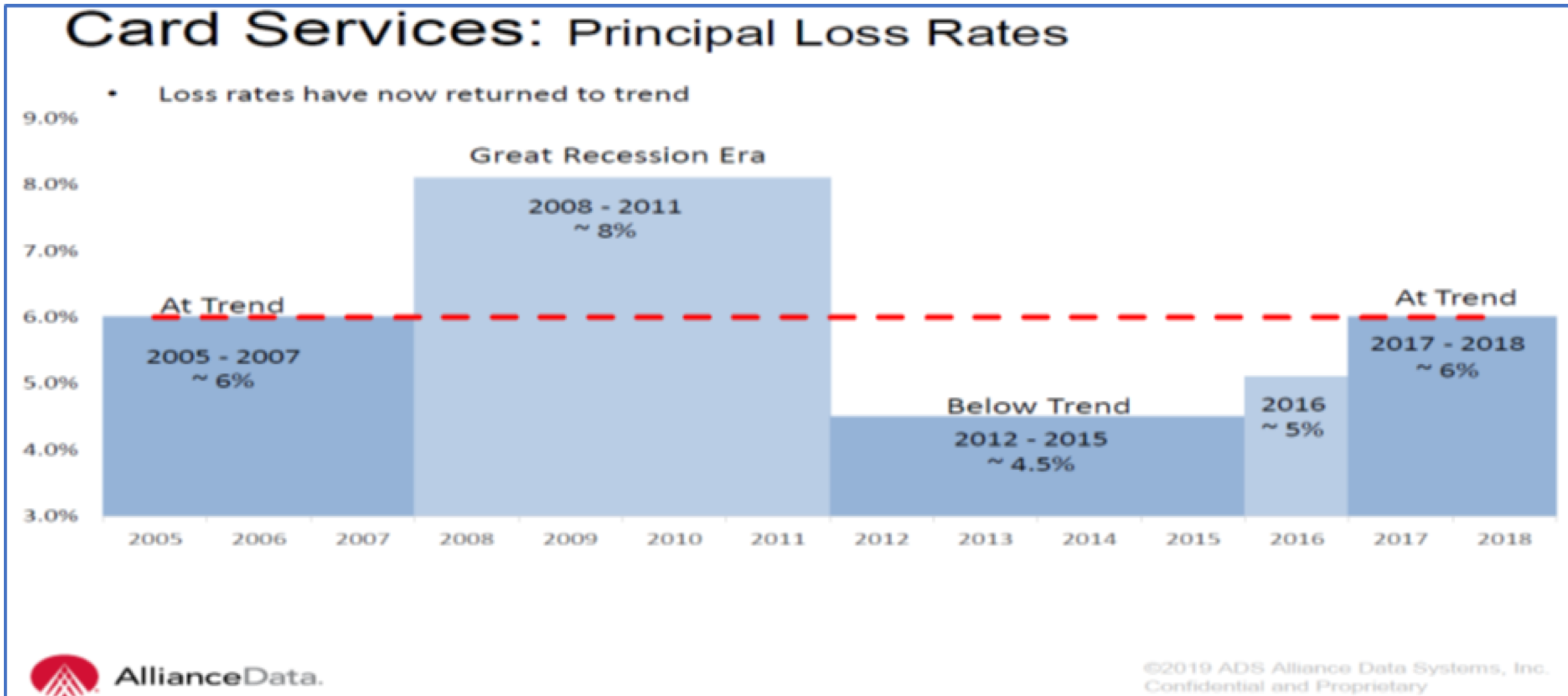
- Sold existing Walmart loan portfolio to Capital One freeing up $1B of capital for growth and buybacks
- Signed up PayPal as credit card partner
- Renewed card relationship with Sam's Club, Amazon & others
  - 97% of loans are in partnerships expiring after 2022
- Did not compete on price to retain/win business



Source: Company Filings, Firebird US Value Advisors calculations

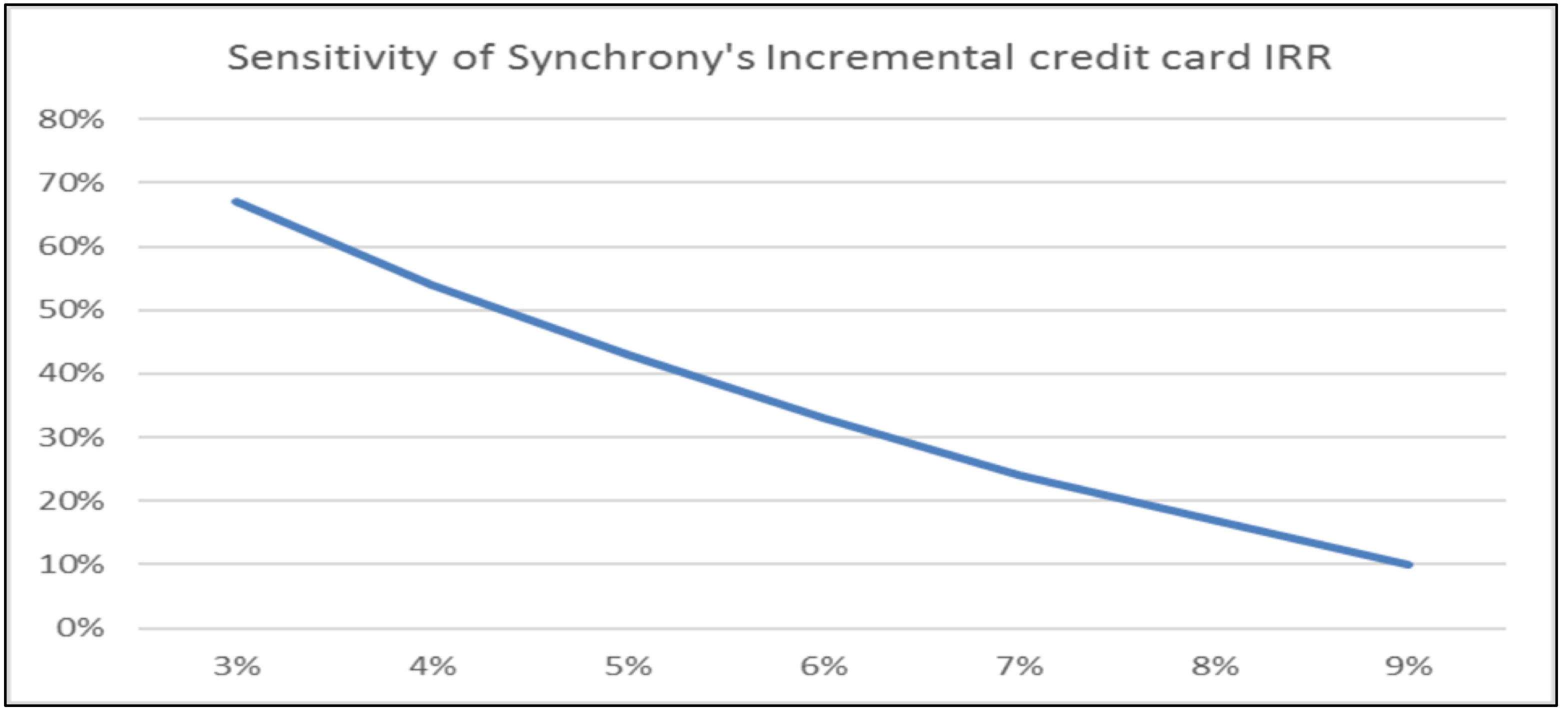
Negative NPL trends

- Recent increases in NPLs are result of normalization of losses to historical trends
- At 6% default rates lending generates ROE of 24%



Why does it makes sense to lend at higher default rates?

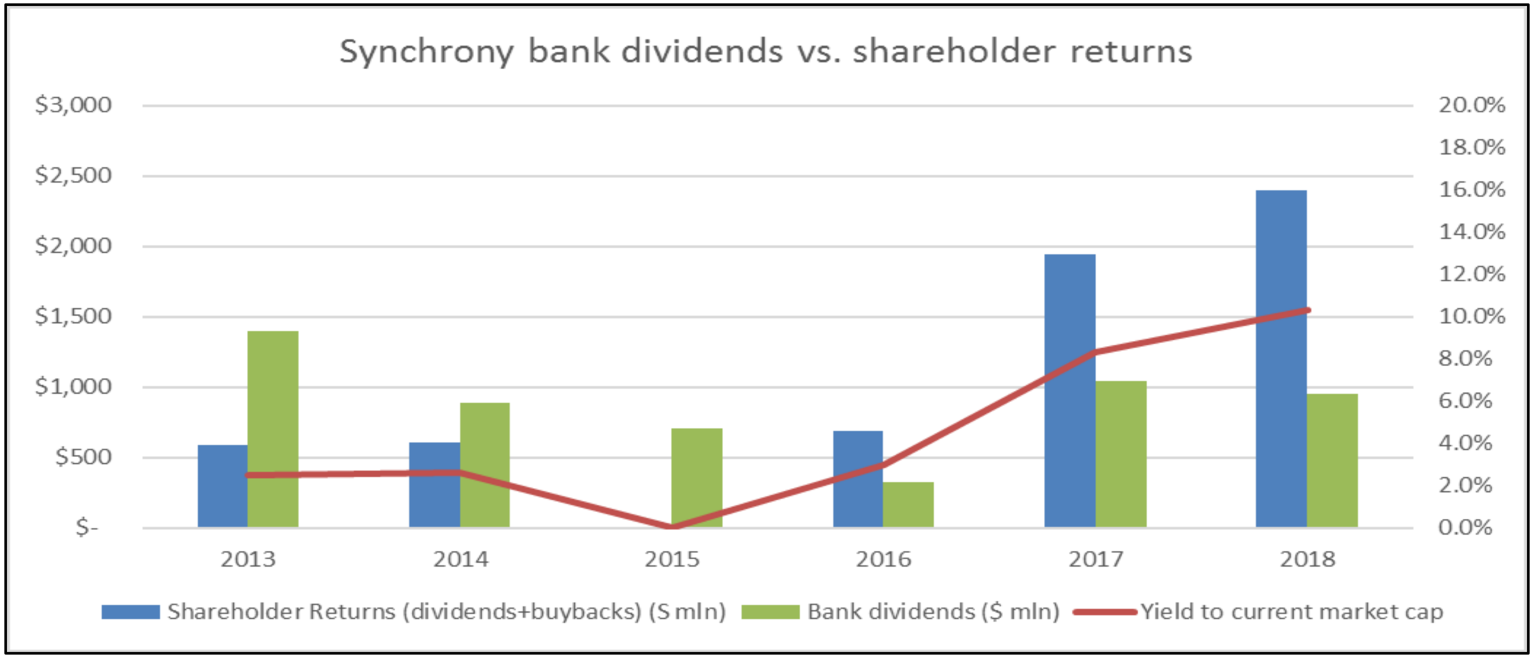
- Return on incremental lending is above 10% with default rates below 9%
  - Default rates did not exceed 9% even in 2007-2008



Source: Firebird US Value Advisors calculations; see Appendix for assumptions

Capital Allocation

- Synchrony receives excess capital as dividends from the banking subsidiary
- Excess capital traditionally paid out to shareholders in form of dividends and buybacks



Source: Company Filings, Firebird US Value Advisors calculations

Valuation & IRR

- Synchrony is trading at PE of 7x 2021* estimated earnings
- At 11x P/E it would be worth almost double the current price
  - At market average P/E it would be worth 250% of current market price

Total Return	2019	2020	2021	2022
Outflow	(34.18)			
Dividend	0.95	1.10	1.22	1.34
Exit Price				63.84
Total CF	(33.23)	1.10	1.22	65.19
IRR	**27.3%**			

* Assuming annual revenue growth of 5% and Net Income margin of 15.4%

Summary & Contact

- Fast growing Specialty Finance Company
- Network of partnerships & switching costs create sustainable competitive advantage
- Conservatively financed with leverage below industry levels
- Trades at double digit free cash flow yield
- Reduced shares outstanding by 15% since 2015 listing
- Estimated IRR of 25% on 2-3 year time horizon

synchrony FINANCIAL

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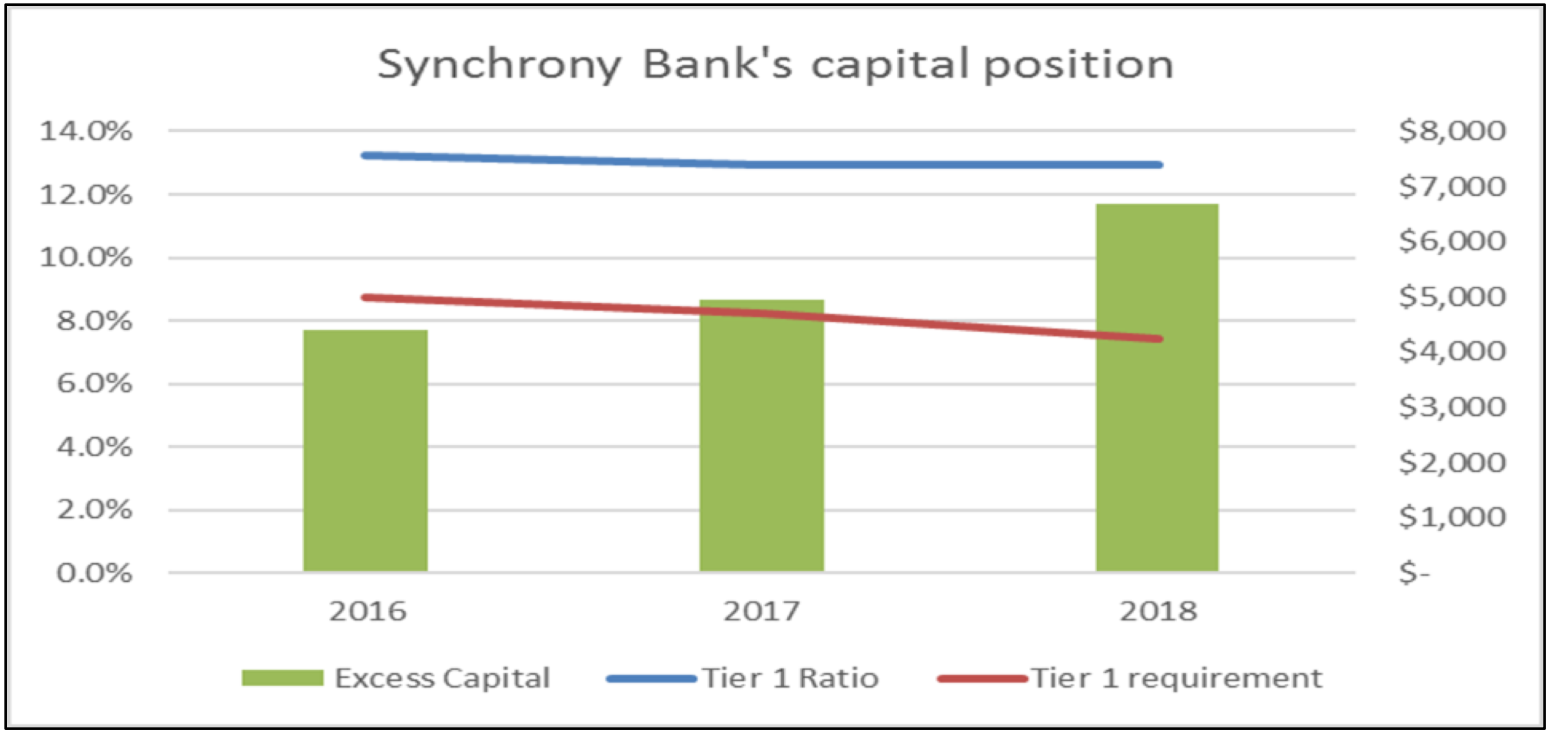
Appendix – Capital Position

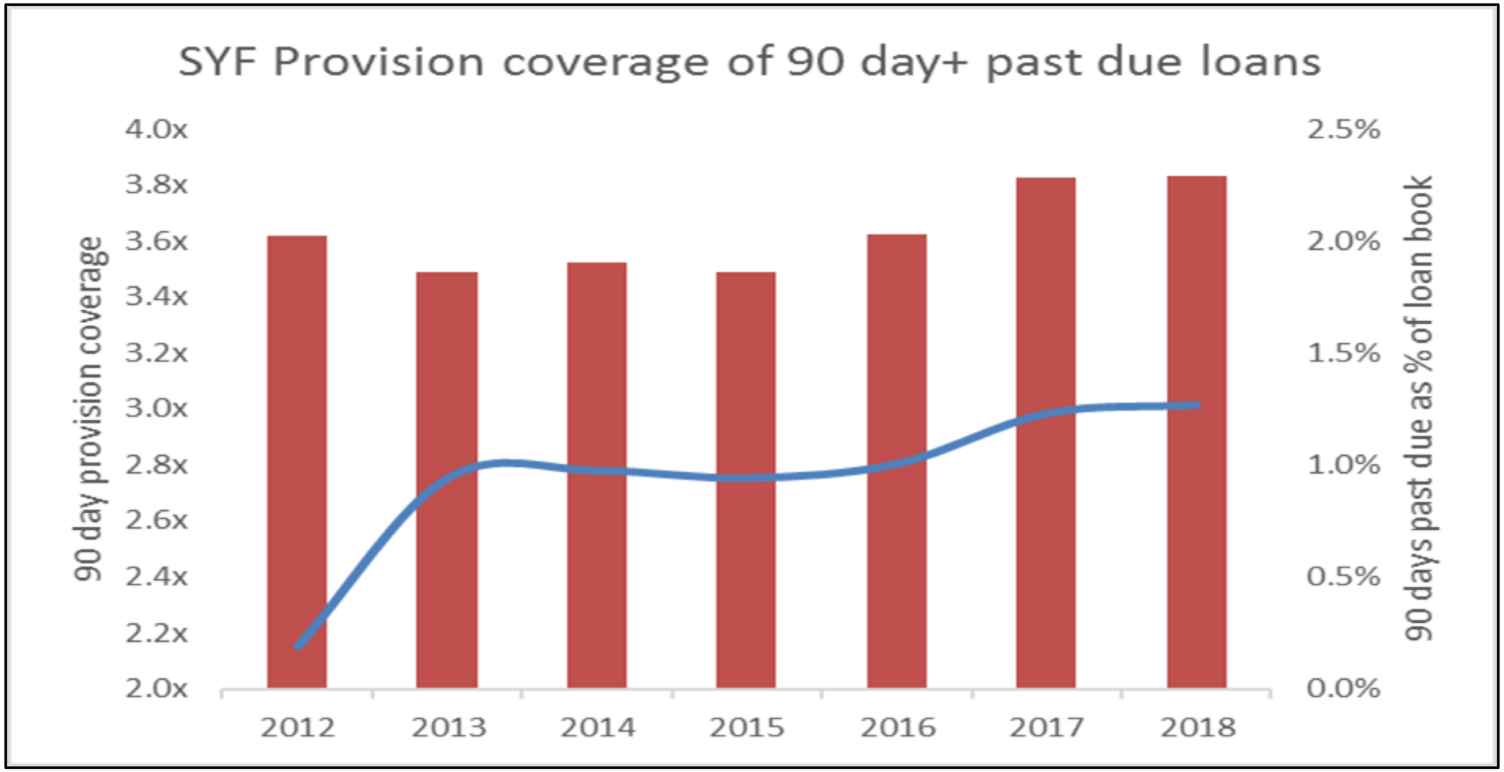
- Regulator is lowering capital requirements on Synchrony Bank creating excess capital



Source: Company Filings, Firebird US Value Advisors calculations

Appendix – NPL Coverage

- Synchrony bank provisions exceed highly risky loans by almost 4x



Source: Company Filings, Firebird US Value Advisors calculations

Appendix – ROE Sensitivity

- 15% capital requirement; interest rate of 21%; interest expense of 2.3%; charge-offs of 6%, Retail Share of 2.7% of transactions; Cost of Loyalty 0.6% of transactions; interchange fees of 0.5% of transaction and Operating Expenses of 3.5% of loans outstanding.

	YR 1	YR 2	YR 3	YR 4	YR 5	YR 6	YR 7	YR 8	YR 9	YR 10
Initial Capital	$ (150)									
Interest Income	$ 210.0	$ 210.0	$ 210.0	$ 210.0	$ 210.0	$ 210.0	$ 210.0	$ 210.0	$ 210.0	$ 210.0
Interchange Income	$ 9.0	$ 9.0	$ 9.0	$ 9.0	$ 9.0	$ 9.0	$ 9.0	$ 9.0	$ 9.0	$ 9.0
Interest Expense	$ (19.6)	$ (19.6)	$ (19.6)	$ (19.6)	$ (19.6)	$ (19.6)	$ (19.6)	$ (19.6)	$ (19.6)	$ (19.6)
Charge Offs	$ (60.0)	$ (60.0)	$ (60.0)	$ (60.0)	$ (60.0)	$ (60.0)	$ (60.0)	$ (60.0)	$ (60.0)	$ (60.0)
RSA	$ (48.6)	$ (48.6)	$ (48.6)	$ (48.6)	$ (48.6)	$ (48.6)	$ (48.6)	$ (48.6)	$ (48.6)	$ (48.6)
Loyalty	$ (9.9)	$ (9.9)	$ (9.9)	$ (9.9)	$ (9.9)	$ (9.9)	$ (9.9)	$ (9.9)	$ (9.9)	$ (9.9)
Operating Expenses	$ (35.0)	$ (35.0)	$ (35.0)	$ (35.0)	$ (35.0)	$ (35.0)	$ (35.0)	$ (35.0)	$ (35.0)	$ (35.0)
Taxes	$ (9.6)	$ (9.6)	$ (9.6)	$ (9.6)	$ (9.6)	$ (9.6)	$ (9.6)	$ (9.6)	$ (9.6)	$ (9.6)
Return of initial capital										$ 150
Total Cash Flows	$ (114)	$ 36	$ 36	$ 36	$ 36	$ 36	$ 36	$ 36	$ 36	$ 186
ROE		**24%**	**24%**	**24%**	**24%**	**24%**	**24%**	**24%**	**24%**	
IRR	**33%**									

Source: Company Filings, Firebird US Value Advisors calculations

Appendix – Ownership

- One of few companies that counts both Berkshire Hathaway and Baupost as its shareholders

- Government of Singapore is the largest shareholder

SYF US Equity | 25) Export | Settings | Security Ownership

SYNCHRONY FINANCIAL CUSIP 87165B10

1) Current | 2) Historical | 3) Matrix | 4) Ownership Summary | 5) Insider Transac[tions] | 7) Debt

SYNCHRONY FINANCIAL Ticker: SYF US Equity

Search Name: All Holders, Sorted by Size | 21) Save Search | 22) Delete Search | 23) Refine Search

Text Search | Holder Group: All Holders | Investment Manager View

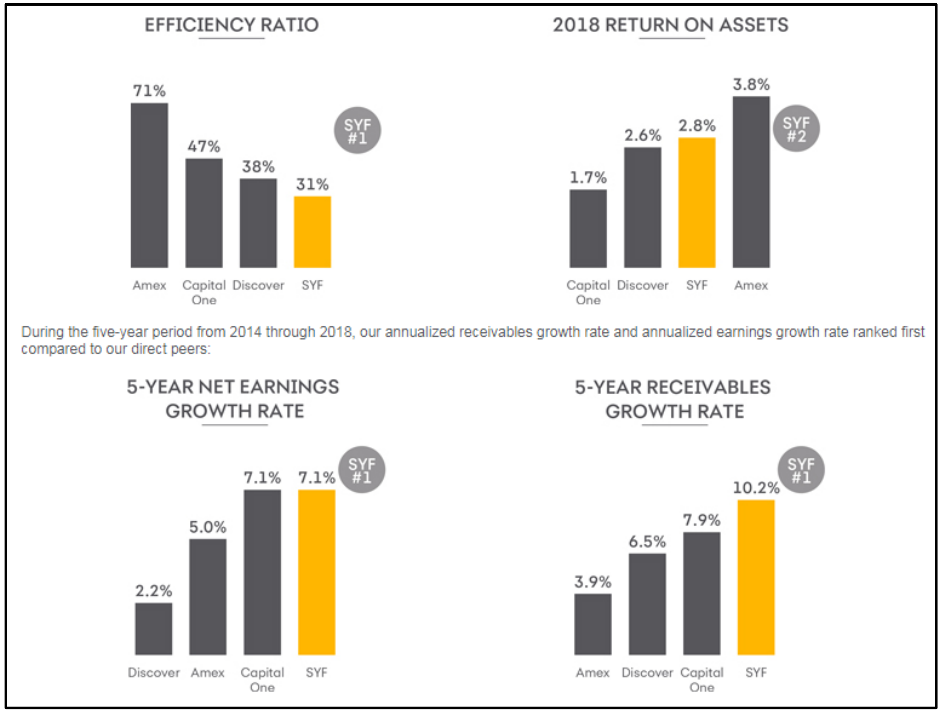
24) Color Legend | Shrs Out 689.3M | % Out 99.81 | Float/Shrs Out 96.73 | SI % Out 1.39

	Holder Name	Portfolio Name	Source	Opt	Position	% Out	Latest Chg	File Dt
			All	All				
1.	GIC Pte Ltd		13G		55,468,263	8.05	0	12/31/18
2.	Vanguard Group Inc/The		ULT-AGG		53,841,651	7.81	5,013,391	03/31/19
3.	BlackRock Inc		ULT-AGG		44,351,592	6.43	-2,145,012	03/31/19
4.	FMR LLC		ULT-AGG		33,683,582	4.89	619,258	03/31/19
5.	State Street Corp		ULT-AGG		28,830,986	4.18	-280,036	03/31/19
6.	Berkshire Hathaway Inc		ULT-AGG		20,803,000	3.02	0	03/31/19
7.	Janus Henderson Group PLC	JANUS HENDERSON ...	13F		19,243,280	2.79	452,123	03/31/19
8.	Baupost Group LLC/The	THE BAUPOST GROU...	13F		14,260,557	2.07	-293,000	03/31/19
9.	AQR Capital Management LLC	AQR CAPITAL MANA...	13F		10,848,426	1.57	4,281,422	03/31/19
10.	Geode Capital Management L...	GEODE CAPITAL MA...	13F		10,536,999	1.53	188,552	03/31/19
11.	APG Asset Management NV	APG ASSET MANAGE...	13F		10,293,286	1.49	2,256,600	03/31/19
12.	AllianceBernstein LP		ULT-AGG		10,105,131	1.47	671,255	03/31/19
13.	UBS AG		ULT-AGG		9,996,827	1.45	-157,443	03/31/19
14.	BANK OF NEW YORK MELLON C...		ULT-AGG		9,708,676	1.41	54,088	03/31/19
15.	CI Investments Inc/Canada		ULT-AGG		9,703,487	1.41	-1,952	03/31/19
16.	T Rowe Price Group Inc		ULT-AGG		9,109,068	1.32	-2,962,632	03/31/19
17.	Teachers Insurance & Annuit...		ULT-AGG		8,316,464	1.21	2,671,204	03/31/19
18.	Northern Trust Corp	NORTHERN TRUST C...	13F		7,670,887	1.11	372,055	03/31/19
19.	ClearBridge LLC		ULT-AGG		7,416,348	1.08	467,216	03/31/19

Source: Bloomberg

Appendix –Management Incentives

- Management is incentivized based on growth in earnings, loan growth efficiency ratio, and Total Shareholder Returns (TSR)
- Company is achieving best in class growth and profitability



Source: Company Filings

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