

AMERICAN EXPRESS (AXP)

LAYING OUT THE BEAR CASE

DEC 2, 2016

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**ANSWERED AT THE END OF THE CALL*



AMERICAN EXPRESS (AXP)

AMERICAN EXPRESS: COMPANY OVERVIEW

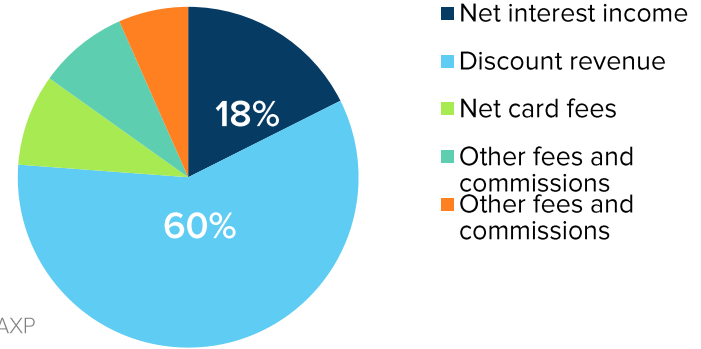
SEGMENTS

- U.S. Consumer Services
- International Consumer and Network Services
- Global Commercial Services
- Global Merchant Services



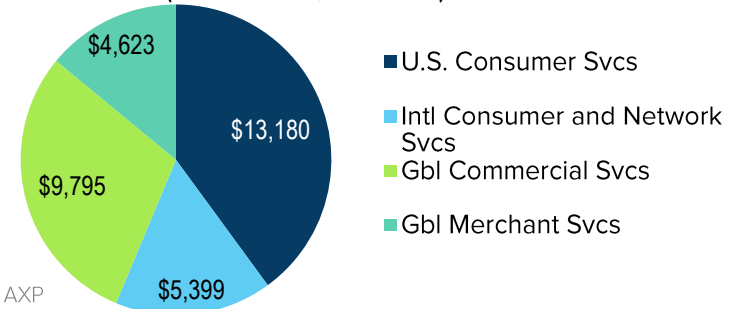
AXP REVENUE BY TYPE

(2Q16 TTM, Millions)



AXP NET REVENUE BY SEGMENT

(2Q16 TTM, Millions)



THE AMEX TRIPLE THREAT

1

SLOWING VOLUME

Billed business volume growth has been decelerating over the last half decade and is inexorably converging upon zero growth. There are numerous moving parts here, but we endeavor to keep it simple.

2

ACCELERATING PRICING PRESSURE

Pricing pressure is the unstoppable force for Amex and is an underappreciated risk, especially when combined with the aforementioned slowdown in volume growth. Pricing pressure is growing on multiple fronts and is poised worsen at an accelerating rate.

3

OTHER HEADWINDS → \$↑, COMPETITION↑, VALUATION ↑

The post-Trump strong dollar, rising rate environment is not helpful for Amex. Neither is the 20% rise in the stock in the last month. But the biggest challenge by far facing the company is the enormous growth in major competition.

INSIDER BEHAVIOR – AMERICAN EXPRESS (AXP)

It's worth noting at the outset that much of what we'll be describing today seems apparent to those in high places at American Express as well.

American Express saw significant insider buying from 2003-2010. Since then, however, there have been just two insiders who've bought stock in the open market in the last six years.





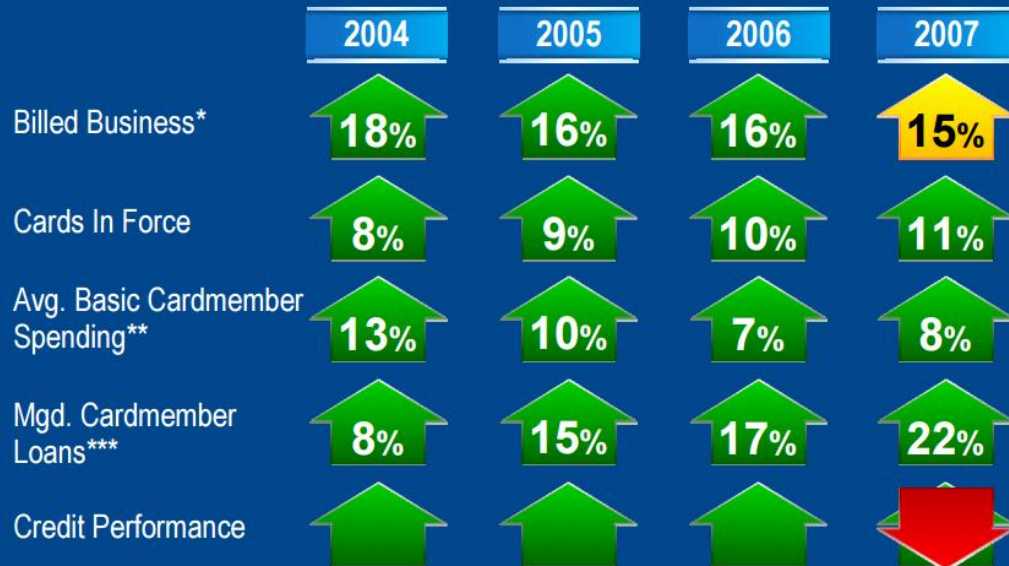
1. SLOWING VOLUME



BILLED BUSINESS → THE GOOD OLD DAYS



Metric Trends



*Activities related to proprietary cards, including cash advances and certain insurance fees, and cards issued under network partnership agreements.

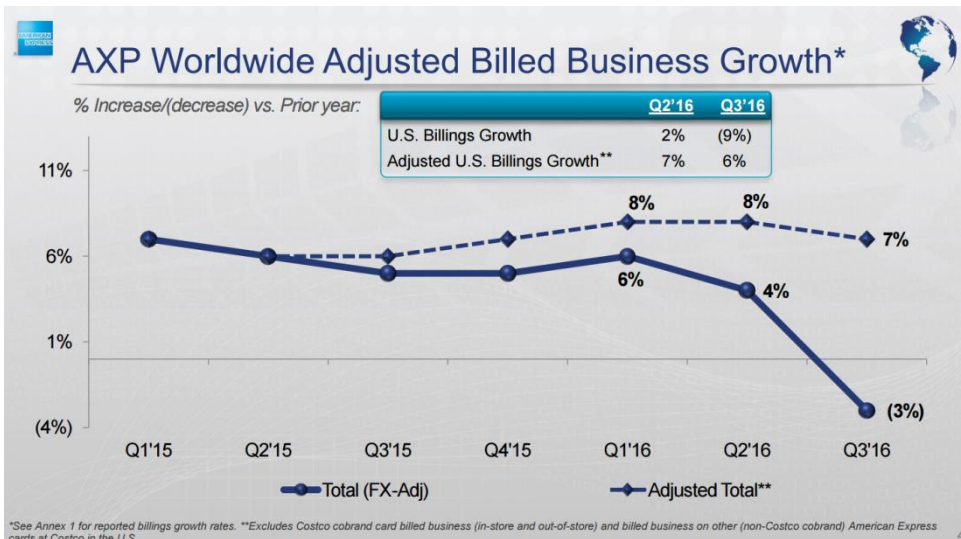
Computed from proprietary card activities only. *Managed basis includes owned and securitized loans. On a GAAP basis, owned loan growth was 10% in 2004, 23% in 2005, 31% in 2006 and 26% in 2007.

4

The halcyon days of Amex were in the early-to-mid 2000s when volume growth was steadily in the mid-to-high teens and the great paper-to-plastic tailwind was filling its growth sails.

This slide is taken from Amex' early-2008 investor day. While the cracks of the great recession were already manifest in the 2007 data, we thought the part that was interesting and noteworthy was the high-teens volume growth from 2004-2007.

BILLED BUSINESS → NOW



Today, the company's growth is but a shadow of its former self. Consider this: here are the last 7 quarterly Y/Y global volume readings: +3%, +2%, 0%, +2%, +3%, +3%, -3%.

Amex offers up favorably adjusted growth numbers in an effort to camouflage the realities of the actual business. Case in point: the chart above doesn't show actual growth at all. It shows an adjusted measure of growth with another, further adjusted, measure of growth on top of it.

To find the corresponding real growth numbers you have to go to the Appendix.

Annex 1

➤ **Segment Billed Business – Reported & FX-Adjusted***

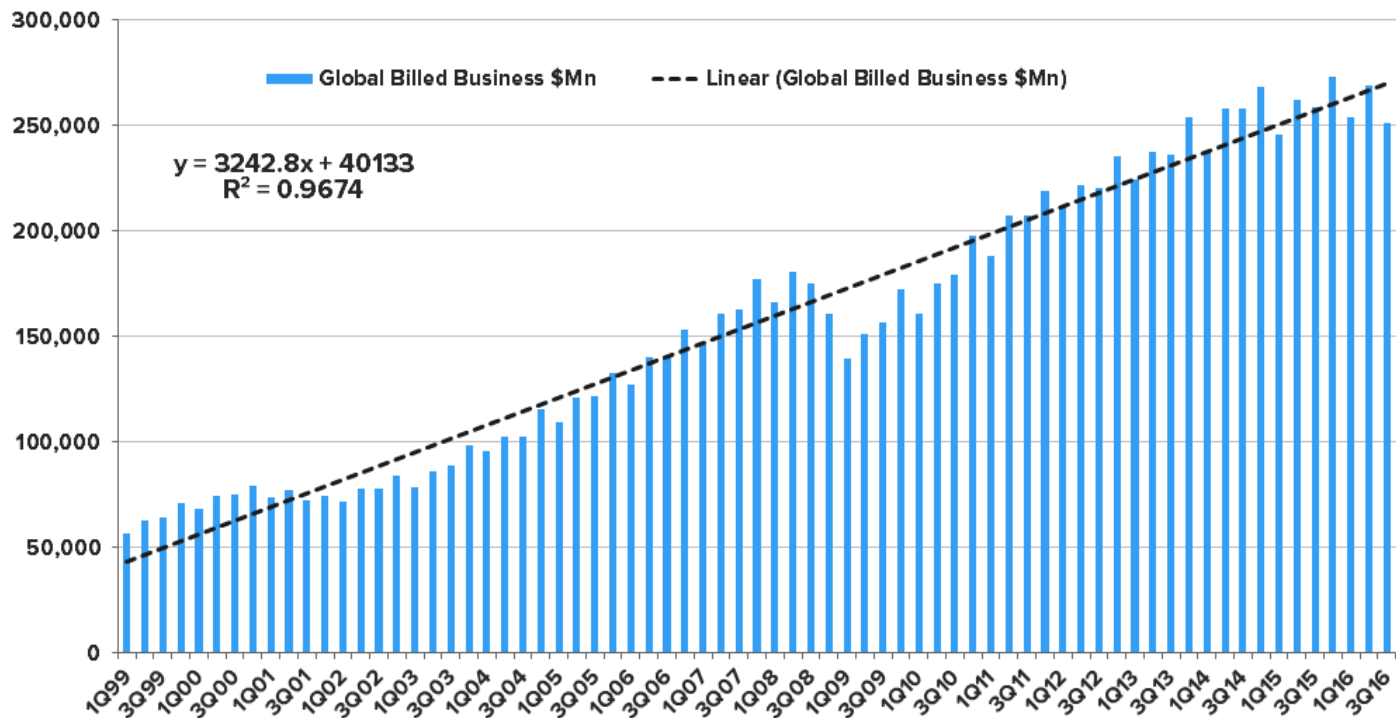
% Increase/(decrease) vs. prior year

	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16
Worldwide									
Reported	9%	6%	3%	2%	0%	2%	3%	3%	(3%)
FX-Adjusted	10%	8%	7%	6%	5%	5%	6%	4%	(3%)

*See slide 2 for an explanation of FX-adjusted information. **Excludes Costco cobrand billed business (in-store and out-of-store) and billed business on other (non-Costco cobrand) American Express Cards at Costco in the U.S.

BILLED BUSINESS → THE TREND

American Express Global Billed Business (1999-3Q16)



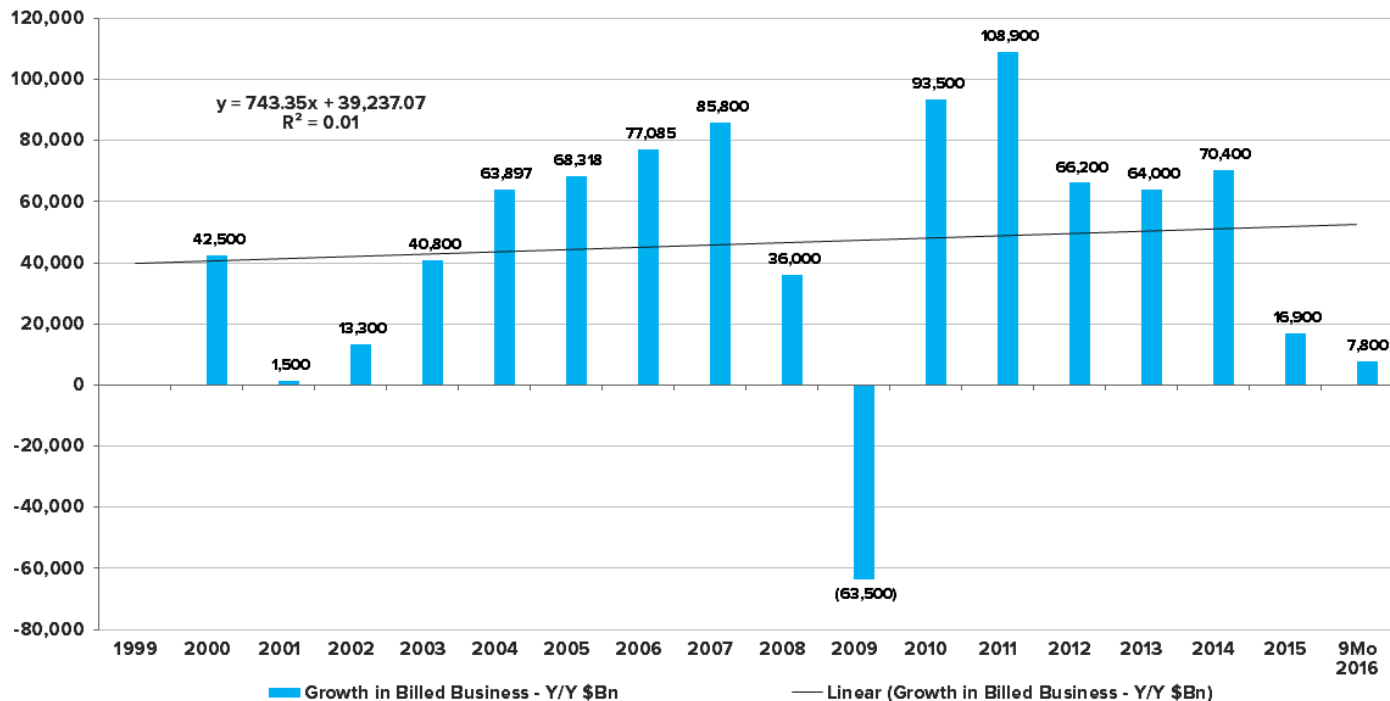
Source: SEC Filings

© 2016 Hedgeye Risk Management

American Express had grown billed business at a fairly consistent linear rate in dollar terms until recently. That, however, is the problem.

BILLED BUSINESS → Y/Y \$ GROWTH

American Express Global Billed Business Growth - Y/Y Change \$Mn



Source: SEC Filings, Hedgeye

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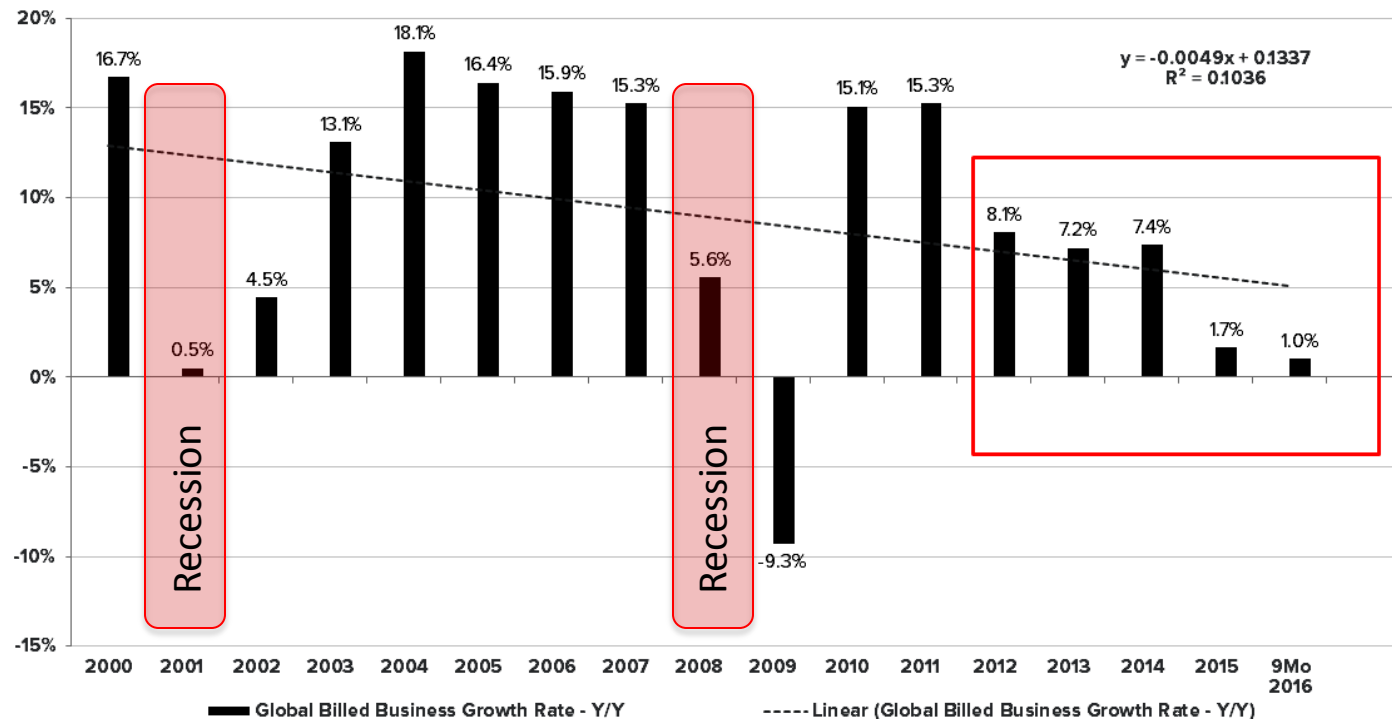
Through 2014, the company was still relatively on track toward maintaining steady dollar growth.

In 2015 and 2016, however, the international business was twice bitten by the rising dollar and the loss of Costco Canada. In the US, the loss of Costco and Jet Blue and Fidelity co-brand relationships hurt mightily.

The question is, what's the real growth rate at this point?

BILLED BUSINESS → Y/Y % GROWTH

American Express Global Billed Business Growth - Y/Y % Change



Source: SEC Filings, Hedgeye

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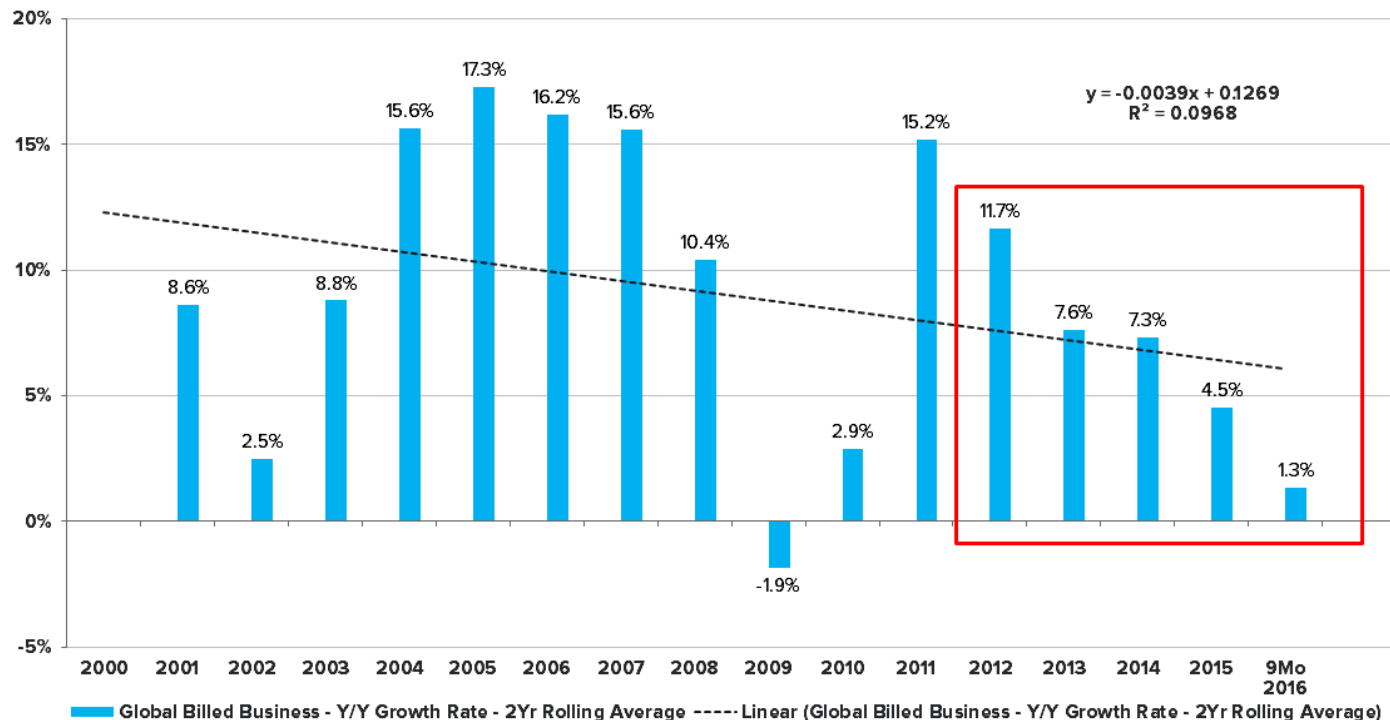
While the incremental dollars were still reasonably impressive a few years back, from a growth rate standpoint they were less so.

Volume growth in the 2012-2014 period was in the 7-8% Y/Y range. Admittedly, this is not terrible, but it is still a far cry from the steady mid-to-high teens growth posted in the non-recessionary periods since the turn of the century.

More recently, the growth has been anemic at just 1-2%.

BILLED BUSINESS → Y/Y % GROWTH (2YR AVG)

American Express Global Billed Business Growth - Y/Y Change (2Yr Rolling Average)



The two-year growth trend smooths things out a bit, but one arrives at the same conclusion.

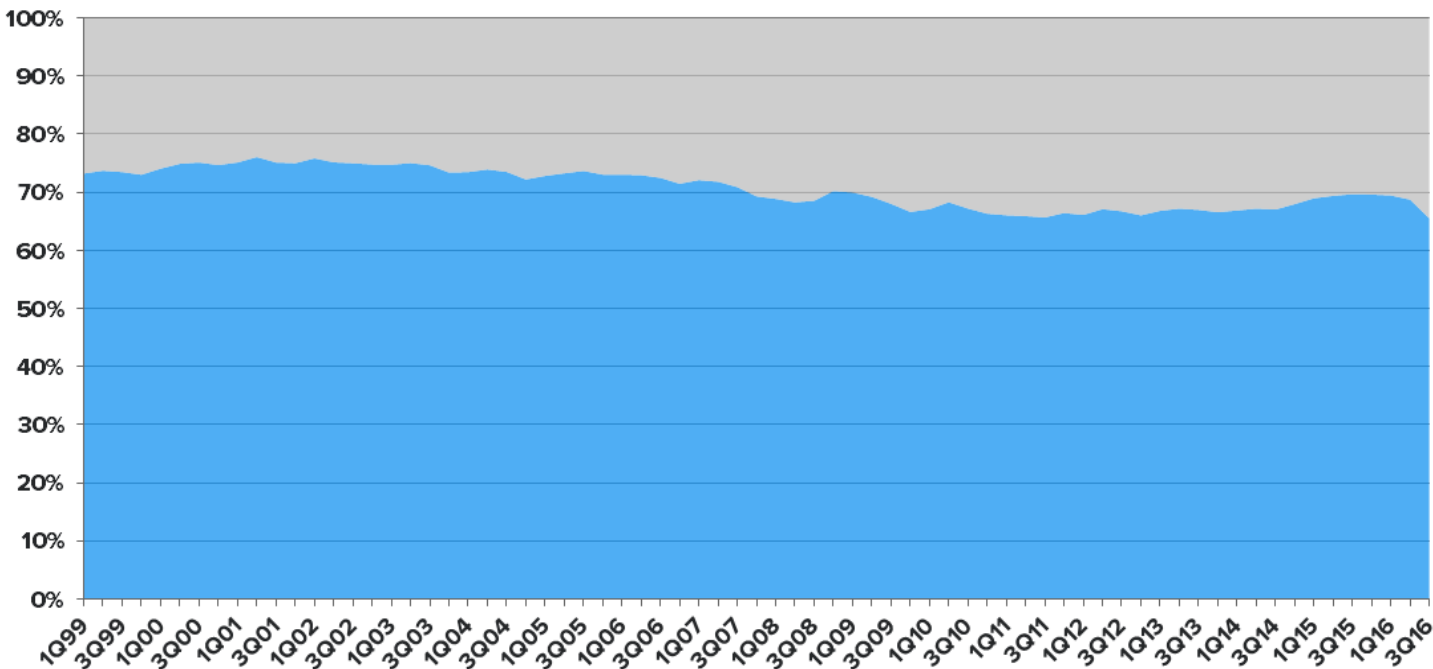
Source: SEC Filings, Hedgeye

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BILLED BUSINESS → THE MIX

Share of Billed Business: US vs. International

■ US Share of Billed Business ■ International Share of Billed Business



Source: SEC Filings

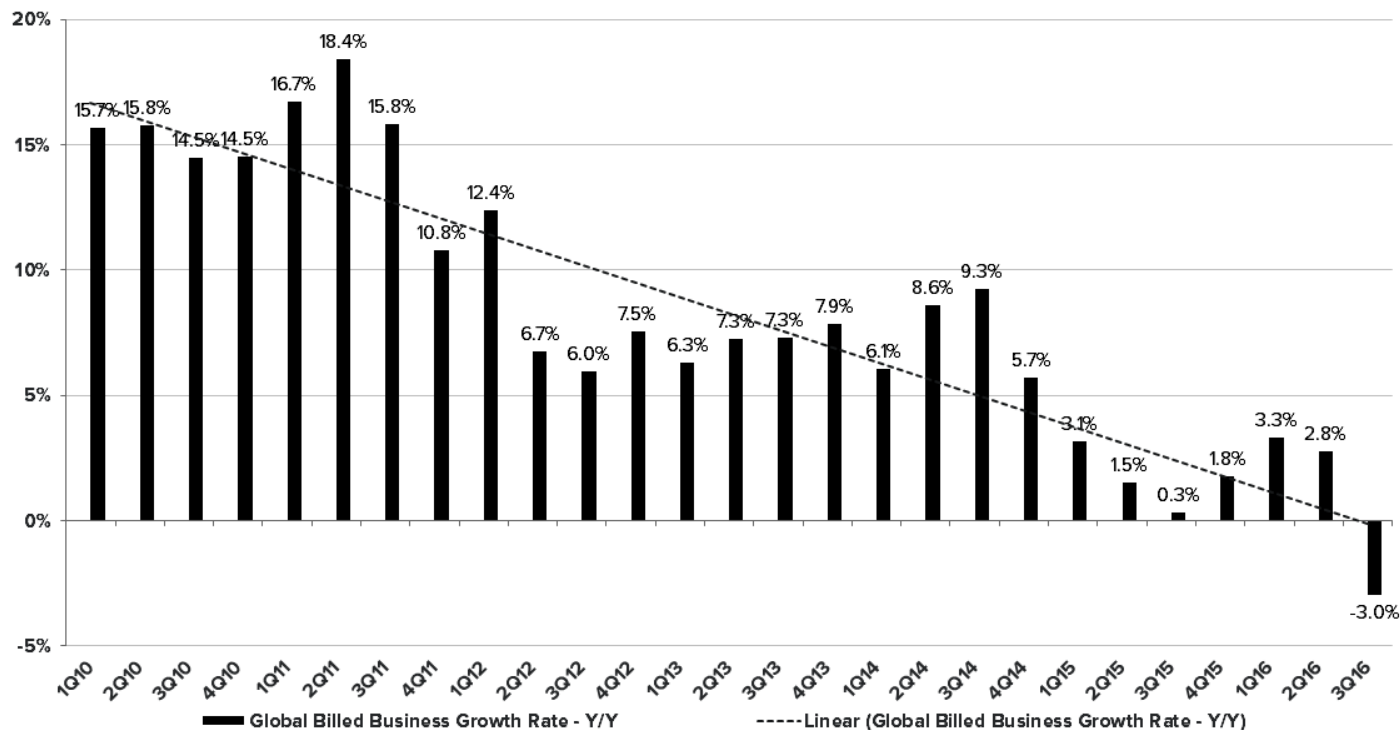
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An interesting feature of Amex is that it's relative mix of volume from the US and abroad has been fairly stable for the last 16 years. International has crept up slightly from ~27% to 31% over that time period, and more recently rose to ~33% with the loss of Costco, but the point here is that the mix isn't really shifting.

In other words, the weakening growth is manifest on both fronts.

BILLED BUSINESS → Y/Y % GROWTH (GLOBAL)

American Express Global Billed Business Growth - Y/Y % Change



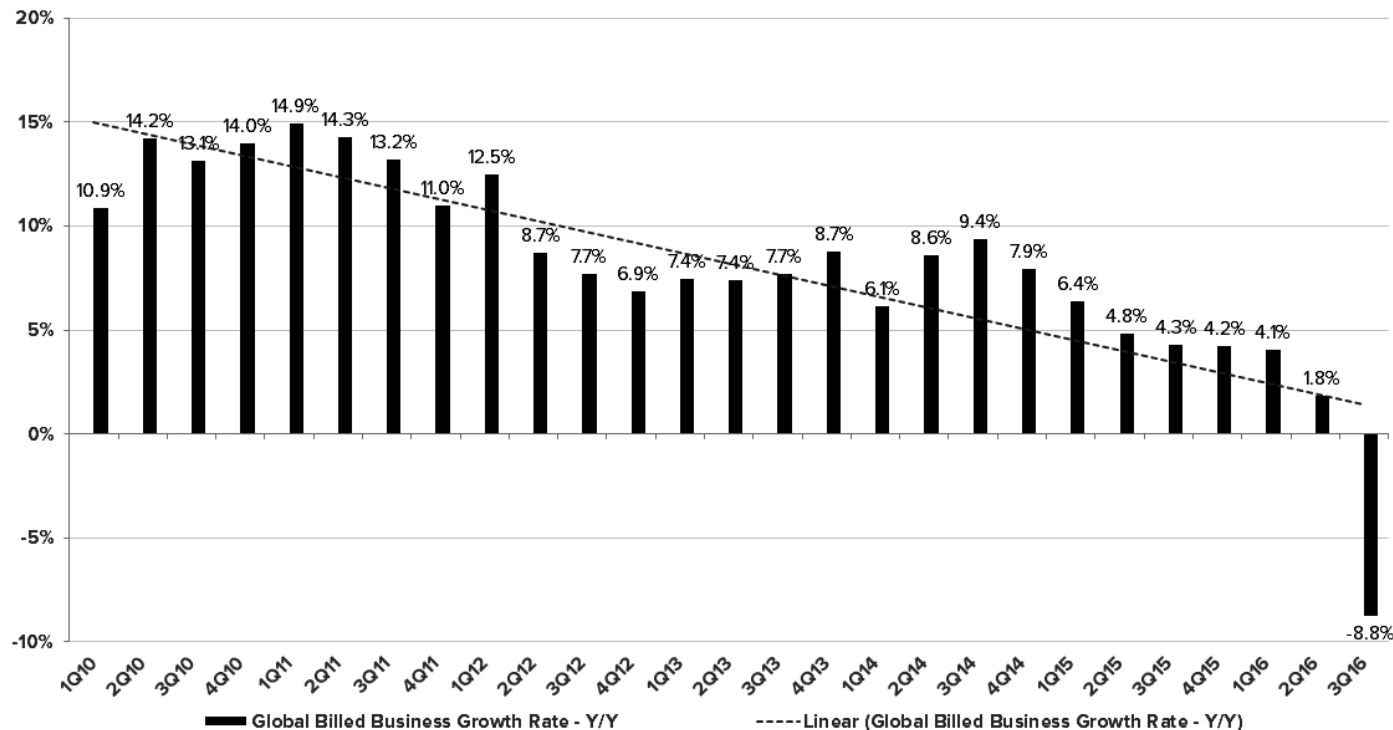
Looking at the more recent trend from 2010 to today, we see more of the same.

Source: SEC Filings, Hedgeye

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BILLED BUSINESS → Y/Y % GROWTH (USA)

American Express US Billed Business Growth - Y/Y % Change



When we look at the US trend, however, a few things are apparent. First, the current growth rate of -9% is atrocious, but owes mostly to Costco.

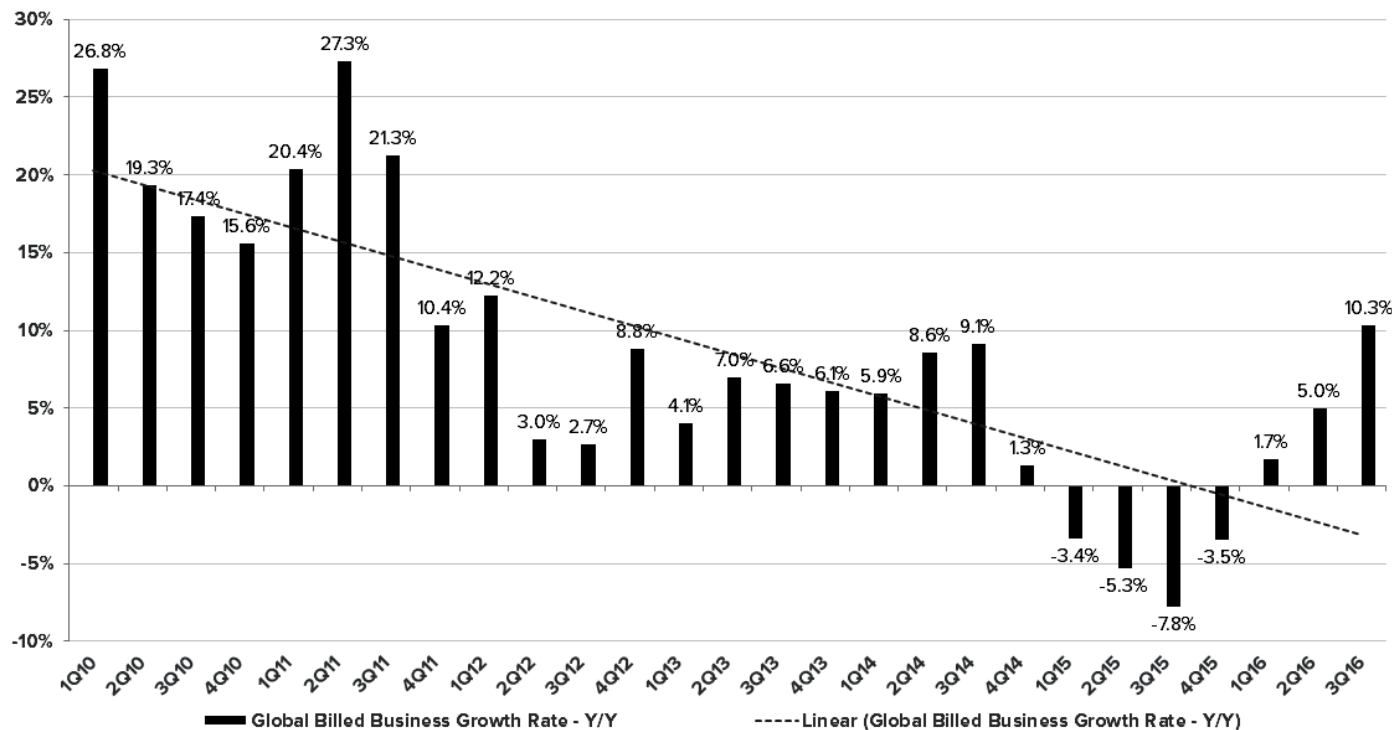
However, even going back to the 2Q15-1Q16 period, US volume growth had already slowed to 4%. This is easily the slowest rate of non-recessionary domestic growth in the company's history.

Source: SEC Filings, Hedgeye

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BILLED BUSINESS Y/Y % GROWTH (INTERNATIONAL)

American Express International Billed Business Growth - Y/Y % Change



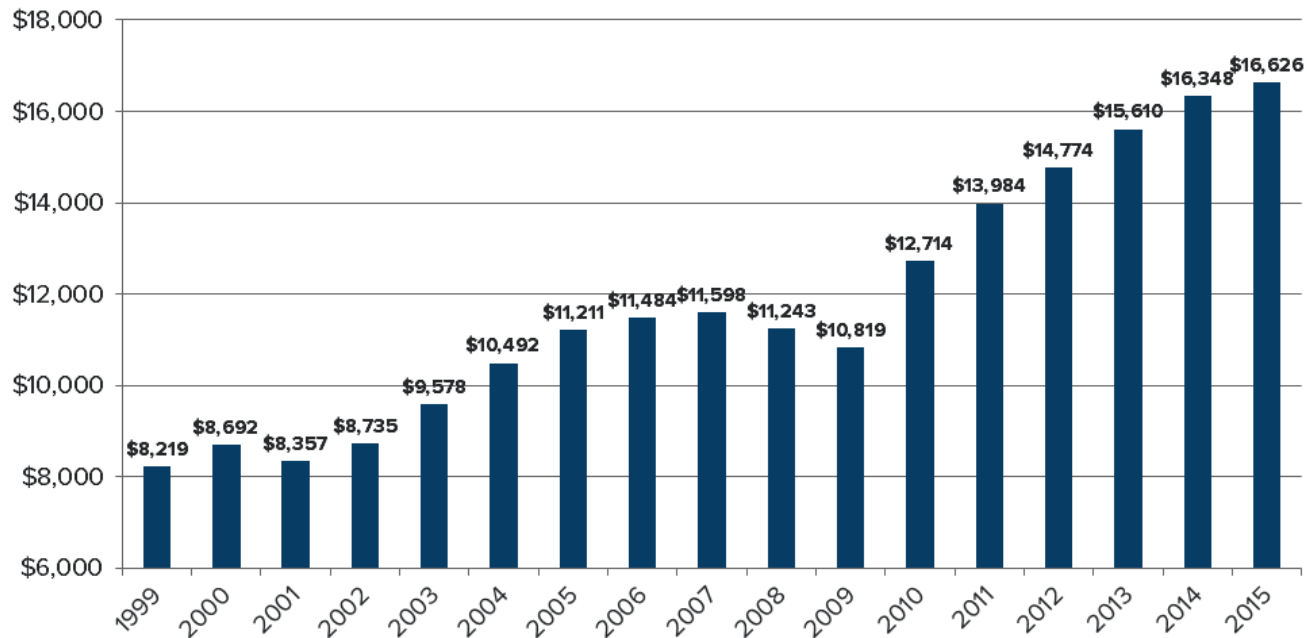
Source: SEC Filings, Hedgeye

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Looking at the International volume picture, it's interesting to note that clearly the strong dollar was a massive headwind to growth in the 2015 period. The recent "core" international growth rate has been stronger than the domestic growth rate at around 6-10%, but remains well below 2010-2011 growth rates of roughly double that.

US BILLED BUSINESS PER BASIC CARD IN FORCE

US Billed Business Per Basic Card in Force



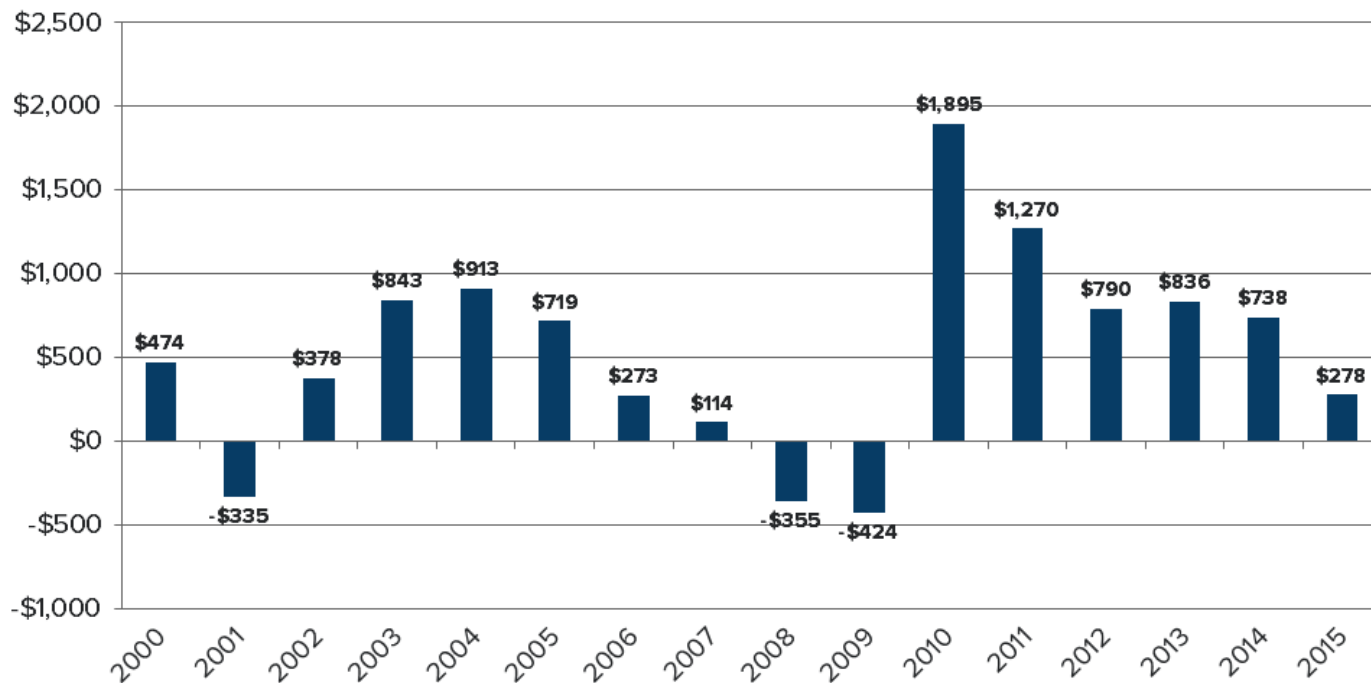
Source: SEC Filings

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Growth in the volume spent per basic card in force (BCIF) has grown nicely in the US since the end of the Great Recession.

US BILLED BUSINESS PER BCIF (Y/Y \$ GROWTH)

US Billed Business Per Basic Card in Force - Y/Y \$ Growth



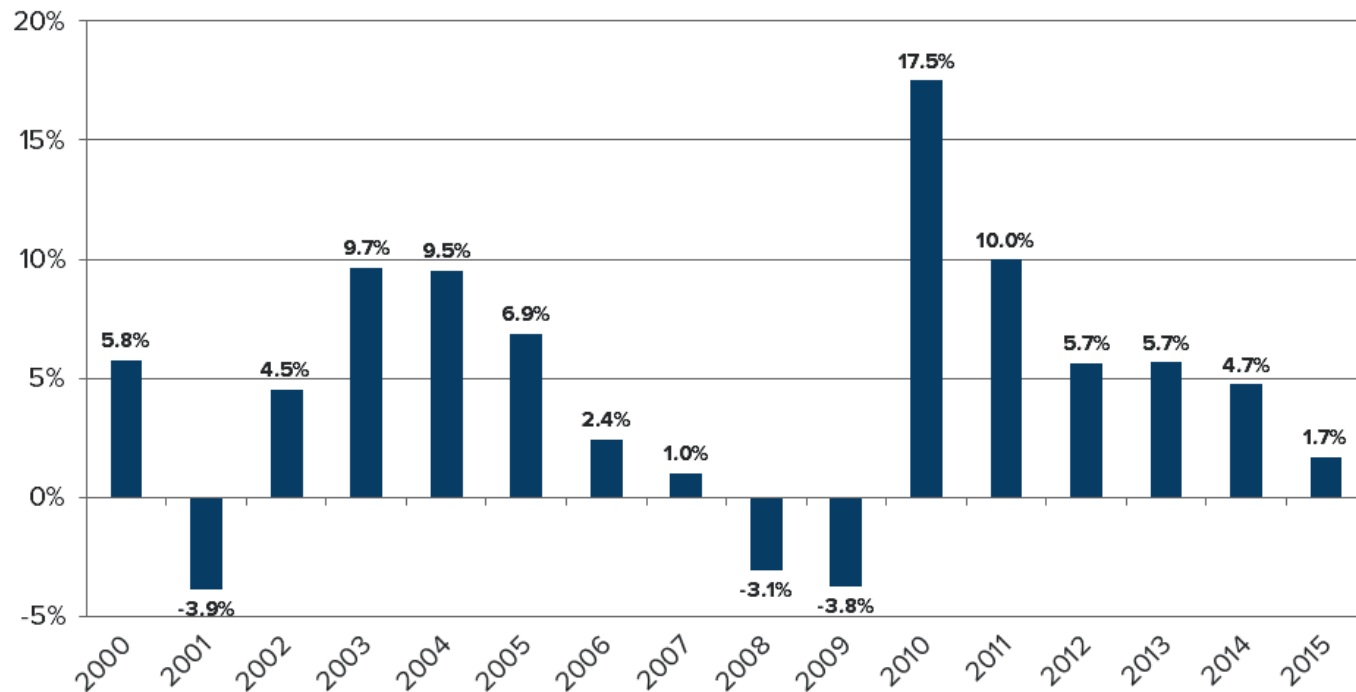
However, the growth in spending per card has slowed meaningfully too. Note that this chart excludes 2016 and the \$278 growth in 2015 is the slowest on record outside of recessionary periods.

Source: SEC Filings

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US BILLED BUSINESS PER BCIF (Y/Y % GROWTH)

US Billed Business Per Basic Card in Force - Y/Y % Growth



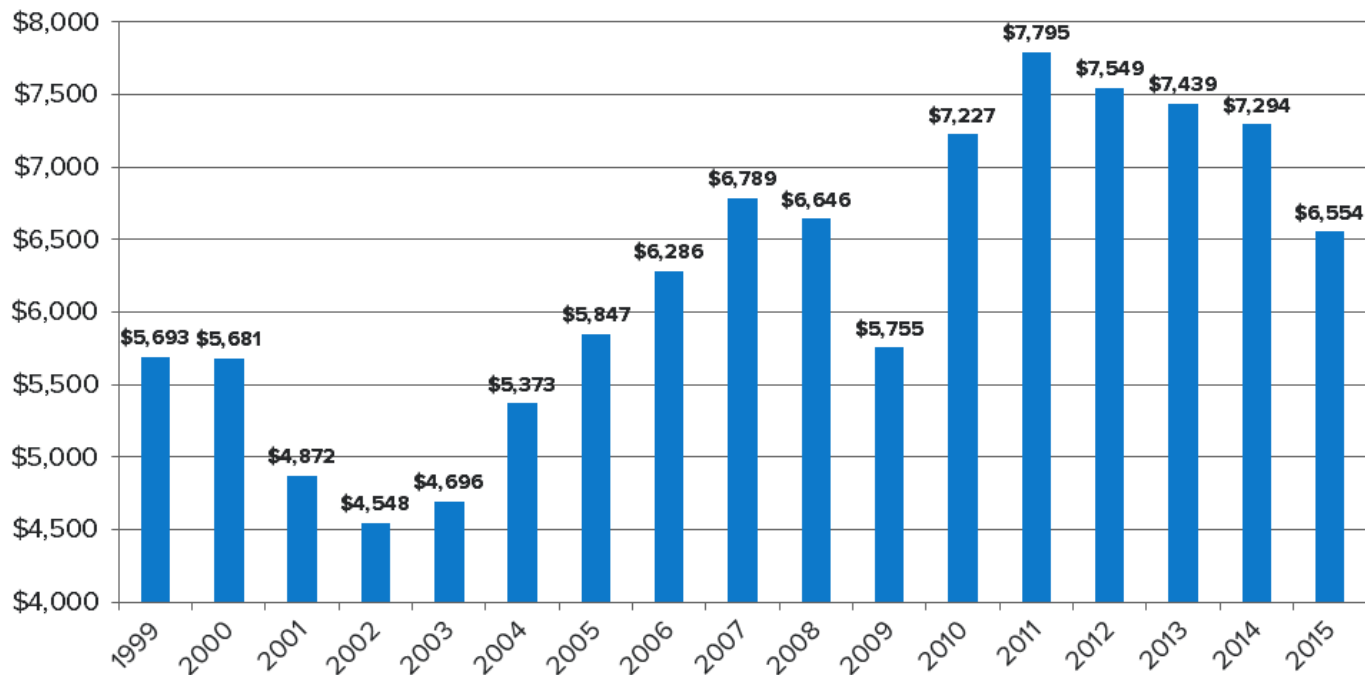
The results look the same on a growth rate basis.

Source: SEC Filings

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INTL BILLED BUSINESS PER BASIC CARD IN FORCE

International Billed Business Per Basic Card in Force



International growth in spending per basic card in force looks very different though. Clearly, volumes dropped significantly due to the FX headwinds of 2015, but what's more interesting is that the volumes had been declining steadily from 2011 through 2014 before plunging in 2015.

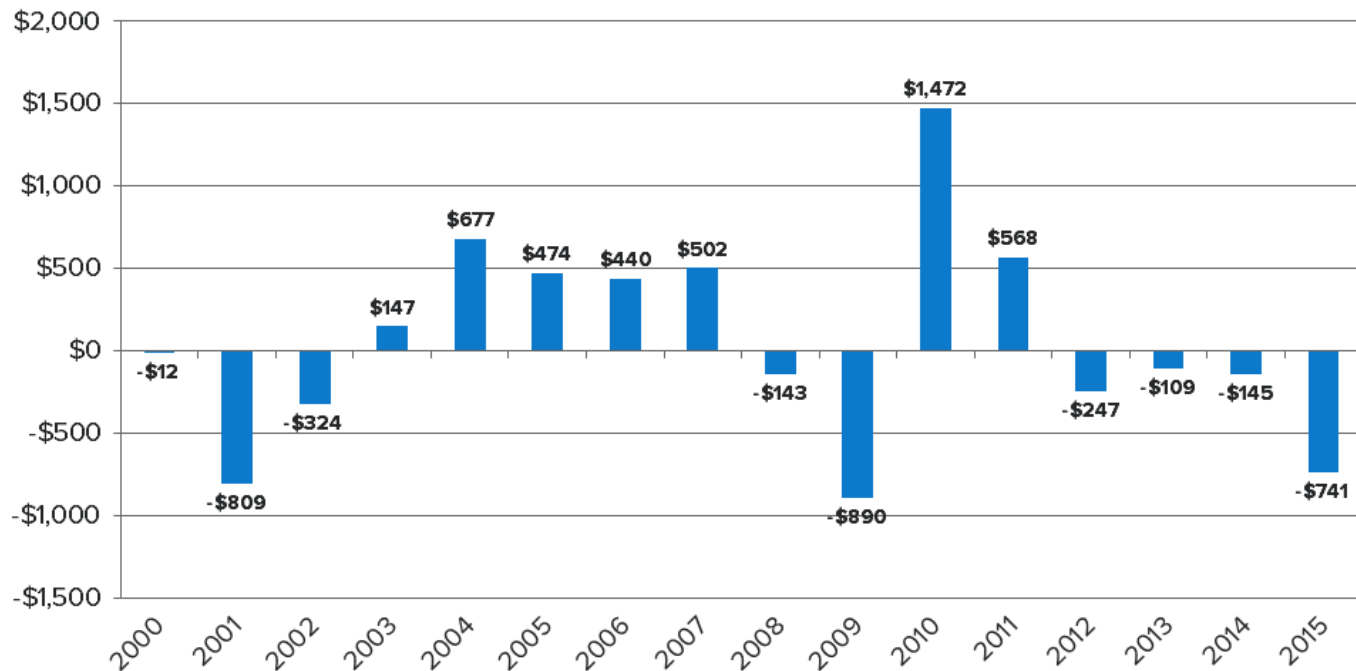
Source: SEC Filings

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INTL BILLED BUSINESS PER BCIF (Y/Y \$ GROWTH)

This phenomenon can be seen pretty clearly on a Y/Y \$ basis.

International Billed Business Per Basic Card in Force - Y/Y \$ Growth

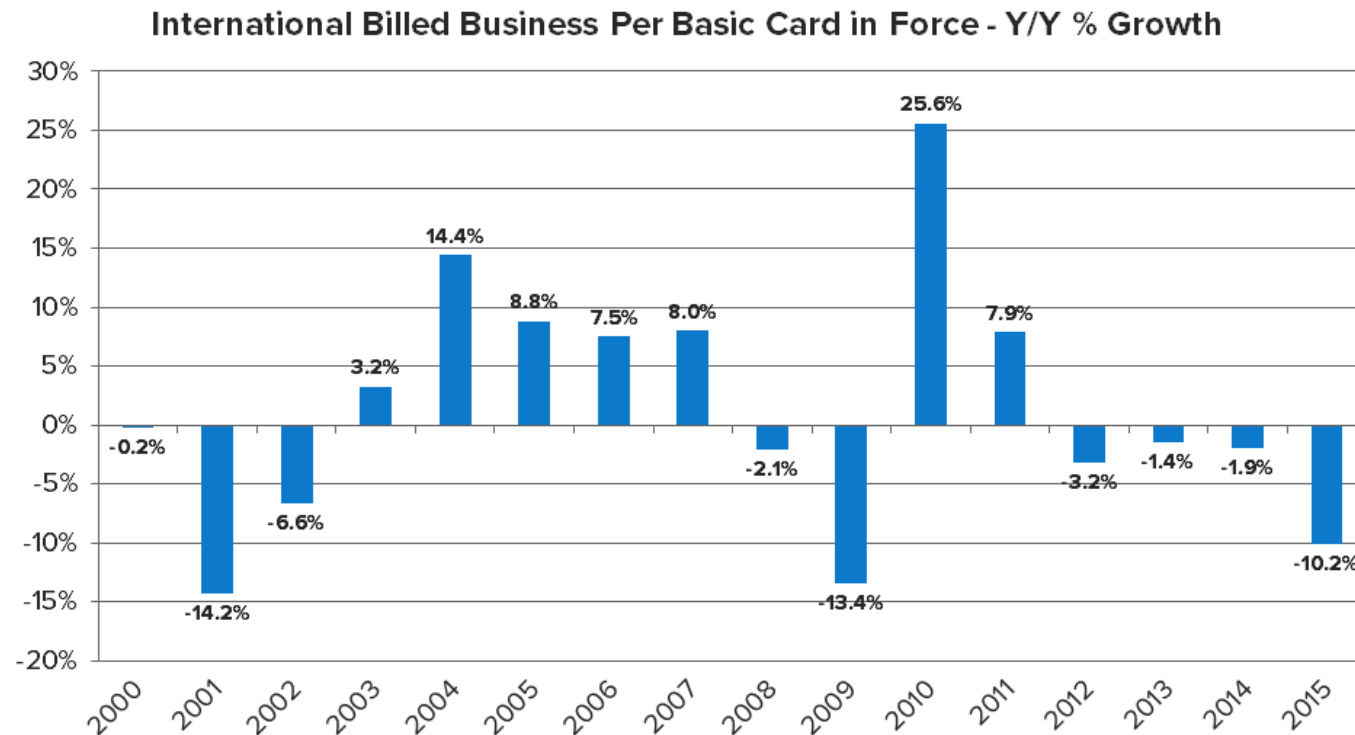


Source: SEC Filings

© Hedgeye Risk Management

INTL BILLED BUSINESS PER BCIF (Y/Y % GROWTH)

Or on a Y/Y % change basis.



Source: SEC Filings

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WALLET SHARE → LOSING GROUND



Wallet Share is High, But Losing Ground



	2013	2014	2015
Tenured U.S. Card Member Share of Wallet	46.9%	46.3%	45.9%
Tenured U.S. Card Member Spend Growth	2.2%	2.1%	1.6%
Wallet Growth	3.9%	3.5%	2.5%
Change in Tenured Share of Wallet	-	(0.6%)	(0.4%)

US tenured defined as AXP Proprietary Card Members for 24+ months as of December 2013, 2014 and 2015. All metrics are internal based on average tenured US Card Members and are internal estimates based on credit bureau data. Share of Wallet does not include Network business.

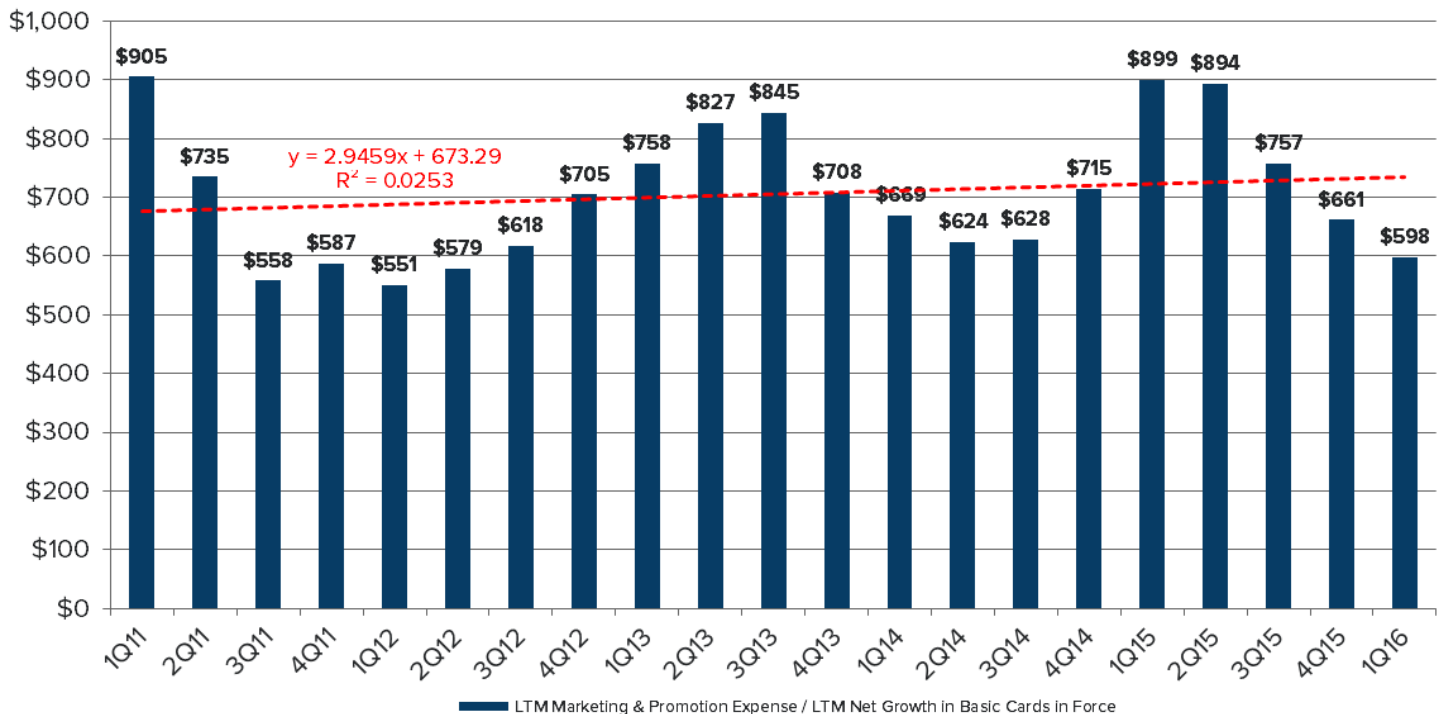
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This slide from Amex' investor day earlier this year pretty much sums it up. Amex has long been the king of the hill, but is now losing ground to competitors.

We will cover the competitive environment later in this presentation, but it's important to understand that this is one of the key reasons that Amex is struggling.

MEANWHILE, THE COST OF ACQUISITION IS GOING UP

Estimated Marketing & Promotion Spend Per New Basic Card Added



■ LTM Marketing & Promotion Expense / LTM Net Growth in Basic Cards in Force

--- Linear (LTM Marketing & Promotion Expense / LTM Net Growth in Basic Cards in Force)

Source: SEC Filings, Hedgeye Calculations

© Hedgeye Risk Management

This is a simplistic analysis of cardholder acquisition costs, but we think it's aimed in the right direction.

We divided trailing 12 months Marketing & Promotion expense by trailing 12 month growth in Basic Cards in Force to gauge how much the company is spending to add new BCIFs.

Over the last five years, the cost of adding a new cardholder has risen from \$673 to around \$732 (the trend line), but the returns per card have fallen off.

COSTCO
WHOLESALE

citi



4128 0012 3456 7890

100

Valid from

Expiration date

1.2 COSTCO

L WALKER
Member since **10**

VISA

How Bad Will It Get for American Express?

As Costco cuts ties, Amex struggles to hang on.

By Devin Leonard and Elizabeth Dexheimer | October 15, 2015

Photographs by Sarah Anne Ward for Bloomberg Businessweek

Amex wasn't happy about competing with global banks such as Citigroup and JPMorgan Chase and its archrivals Visa and MasterCard. But Chenault fought for the deal—even though his company might actually lose money in some cases when Costco customers swiped the card. As the negotiations dragged into January 2015, however, he became agitated and called his counterpart to remind him that Amex hadn't only furnished Costco with its prestigious card; it had been Costco's "trusted partner." Jelinek interrupted, according to people who were briefed by Chenault about the call, and told him that as far as he was concerned, Amex was another vendor, just like the one that sold Costco ketchup. "If I can get cheaper ketchup somewhere else, I will," he said. As rumors about the call spread, the rank and file who heard about it couldn't believe someone from Costco had the nerve to insult Amex like that. Ketchup! Chenault called Jelinek a few weeks later to say Amex was pulling out.

This is an excerpt from a solid Bloomberg article laying out the inside baseball of how Amex came to lose its largest customer, Costco.

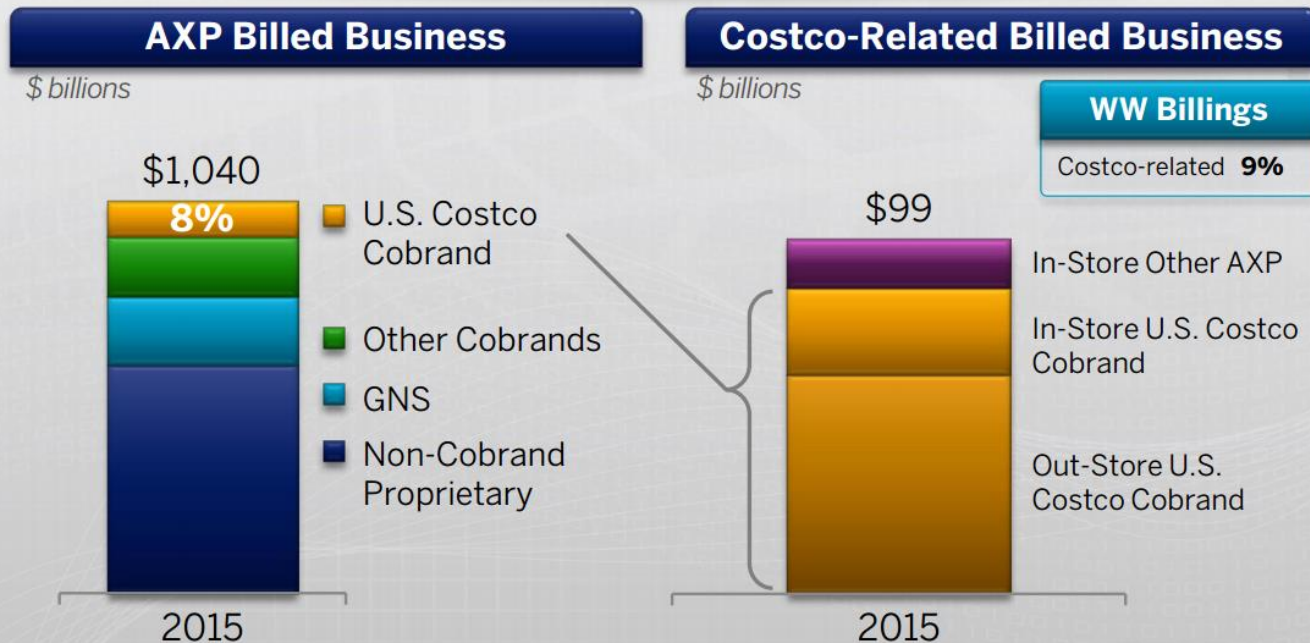
We've highlighted the key passage both for its humor but also because we genuinely believe it raises the profound question.

From a merchant's standpoint (or a cardmember's, for that matter), are cards becoming commodities, like ketchup?

COSTCO'S KETCHUP TRADE



...but the percentage will decline with the end of the Costco U.S. relationship in 2016...



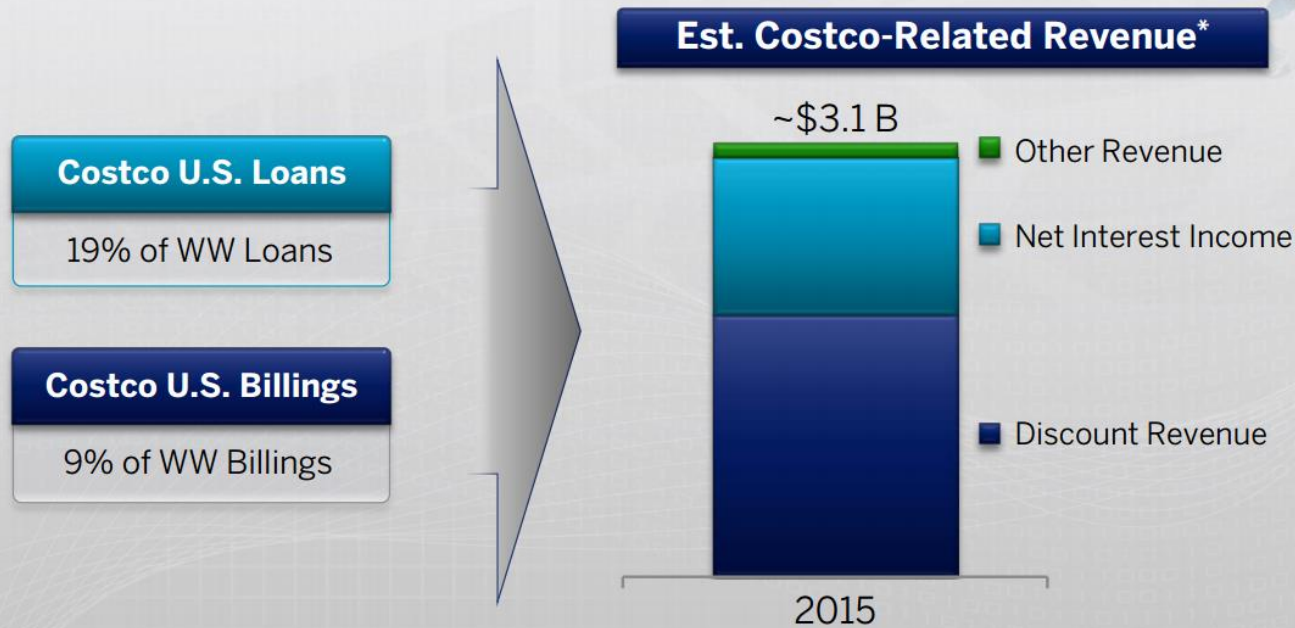
The basics on the Costco deal. In a nutshell, Amex lost \$100 Billion (9% of total) in annual spending volume because they were seen as being no different from a ketchup vendor.

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COSTCO'S KETCHUP TRADE



...which will reduce our core revenue.



*Other revenue and Net Interest Income from Costco cobrand Card Members; Discount Revenue from Costco and other merchants for out-of-store spend on the Costco cobrand card.

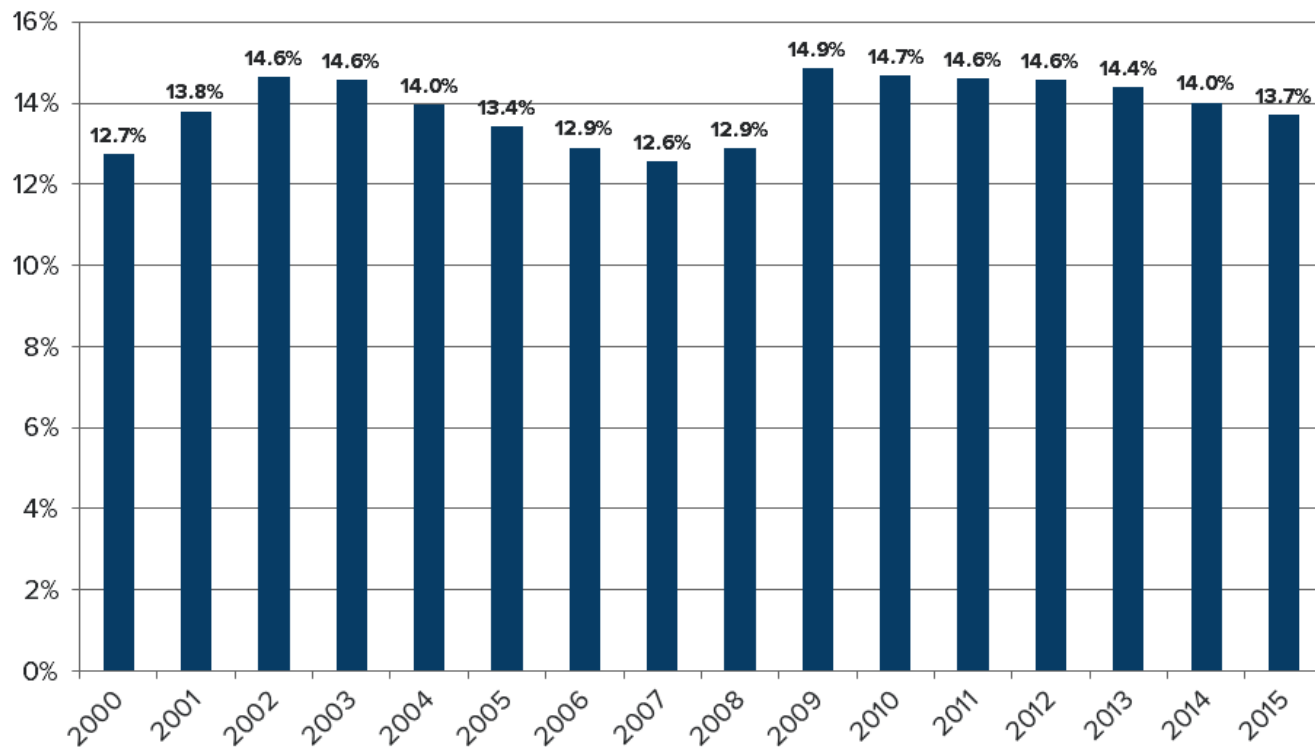
Here are a few more details considering Costco was Amex' largest customer.

Not only was it 9% of total global volume, but it was a further 19% of global loans.

19%!

COSTCO'S KETCHUP TRADE

Costco Share of Amex US Volume - Hedgeye Estimates



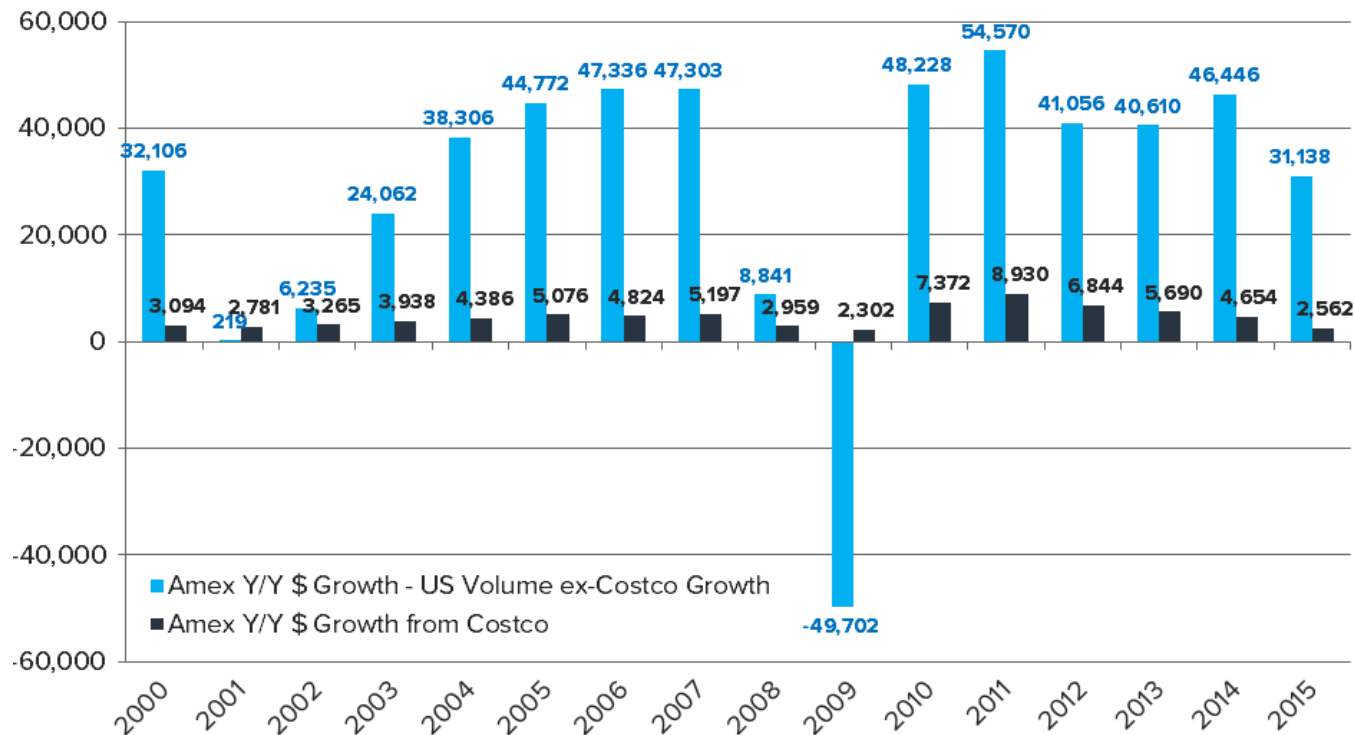
We ran the numbers on Costco back to dawn of the millennia and Costco's contribution to Amex' US volume has been pretty consistent at 12-15% year-in, year-out.

Source: Company Filings, Hedgeye Estimates

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COSTCO'S KETCHUP TRADE

Costco Share of Amex US Volume Growth - Hedgeye Estimates



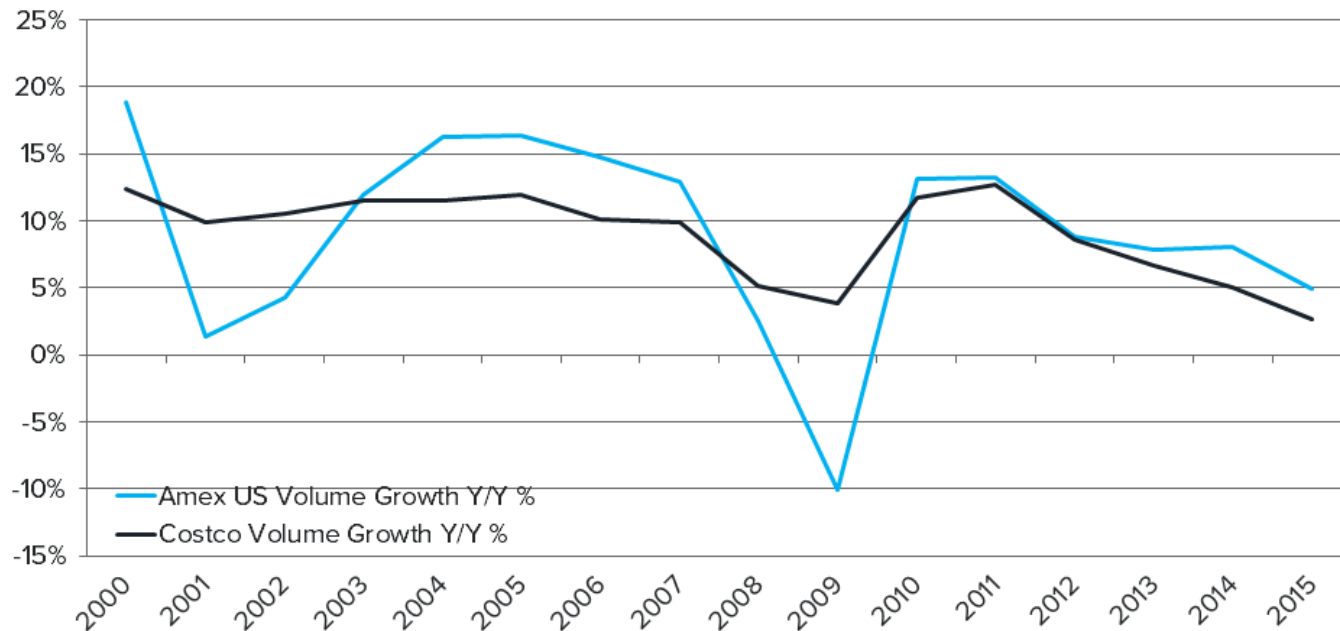
Source: Company Filings, Hedgeye Estimates

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Here's a look at how much volume **growth** Costco contributed each year relative to Amex' US business' growth ex-Costco.

COSTCO'S KETCHUP TRADE

Costco Is More Defensive Than Amex



Source: Company Filings, Hedgeye Estimates

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One final point is that Costco's growth (and its contribution to Amex' growth) was actually more defensive than Amex' as this chart shows.

Why this matters is that Costco actually helped cushion the blow meaningfully in the last downturn by still putting up positive absolute growth contribution even in 2009.

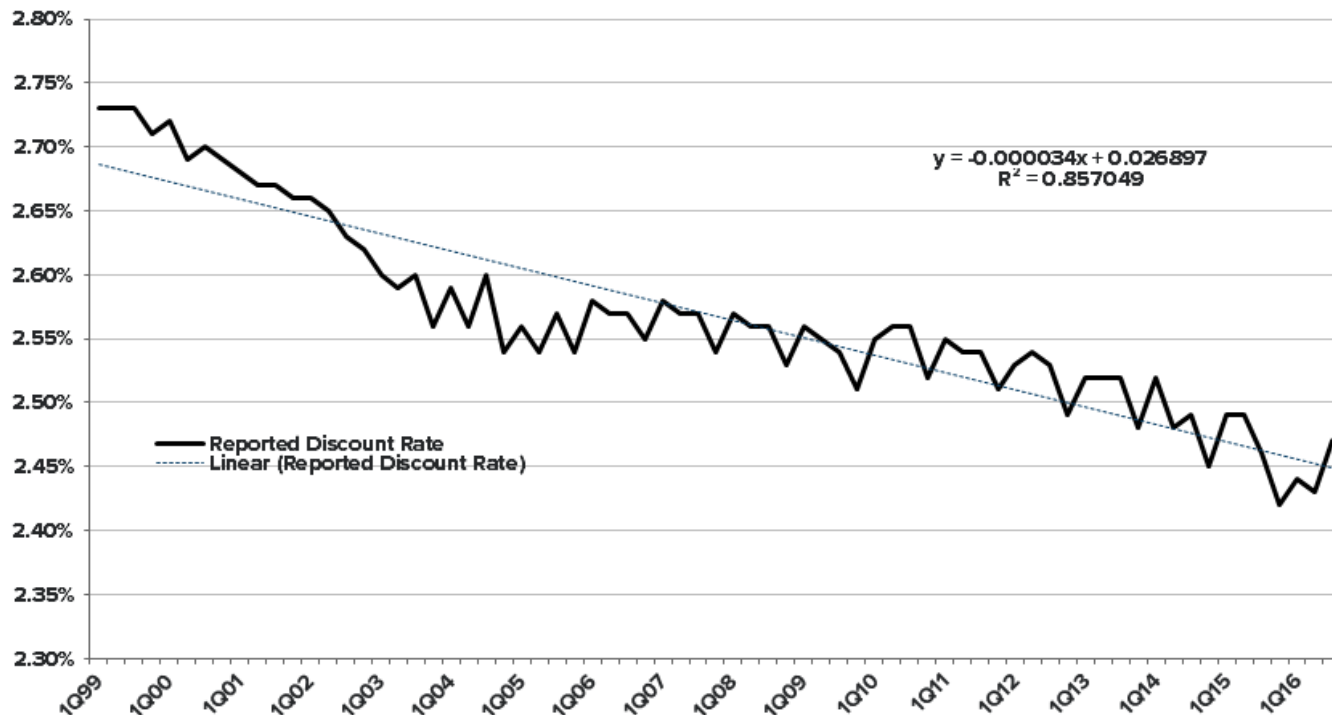
In the next downturn Costco won't be there to help cushion the blow.



2. GROWING PRICING PRESSURE

THE DISCOUNT RATE → DON'T DISCOUNT THE RISK

American Express Reported Discount Rate (1999-Present)



Source: SEC Filings

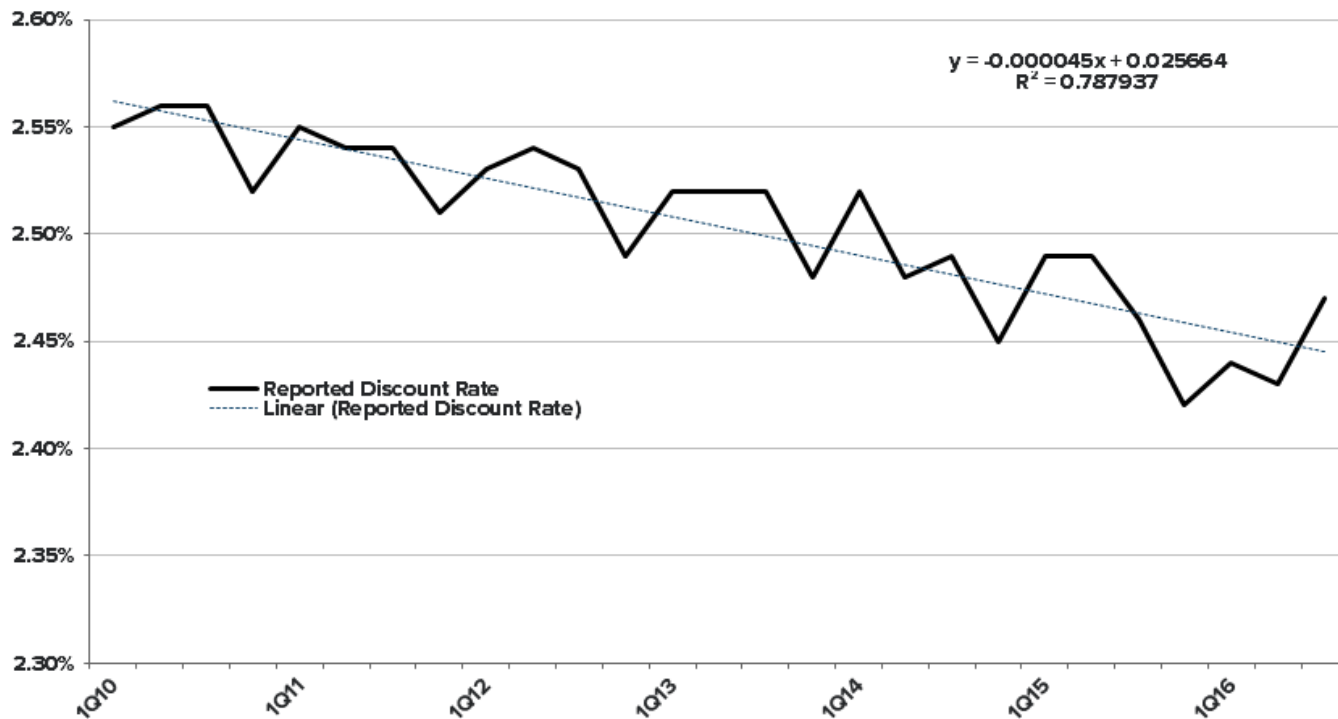
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This is American Express' purported Discount Rate. This is the number they report.

The reported Discount Rate at Amex has been declining for 16 years.

THE DISCOUNT RATE → DON'T DISCOUNT THE RISK

American Express Reported Discount Rate (2010-Present)



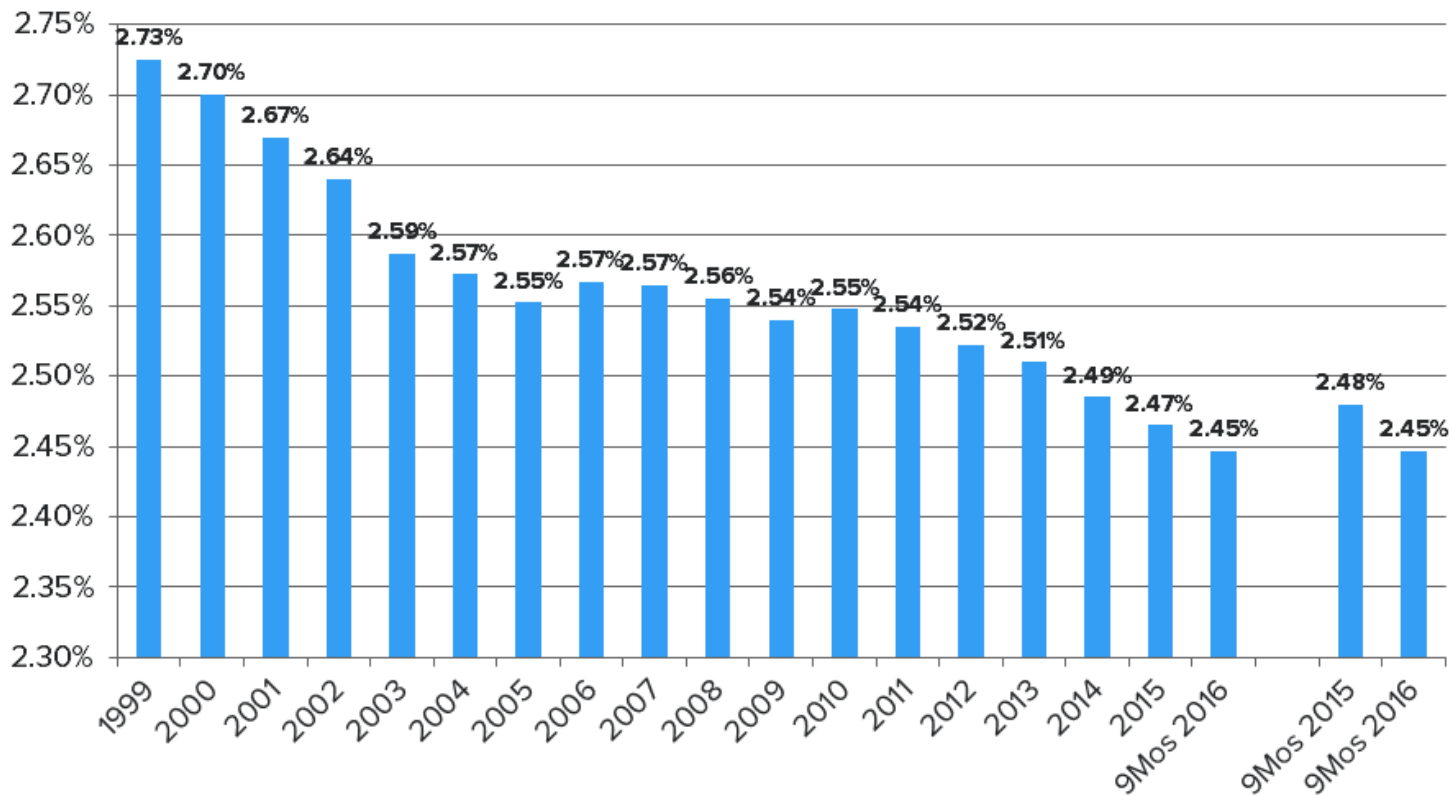
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This is the more recent trend (last six years).

Note that the slope is steeper, i.e. the rate of decline is accelerating.

THE DISCOUNT RATE → DON'T DISCOUNT THE RISK

American Express Annual Reported Discount Rate (1999-3Q16)



Source: SEC Filings

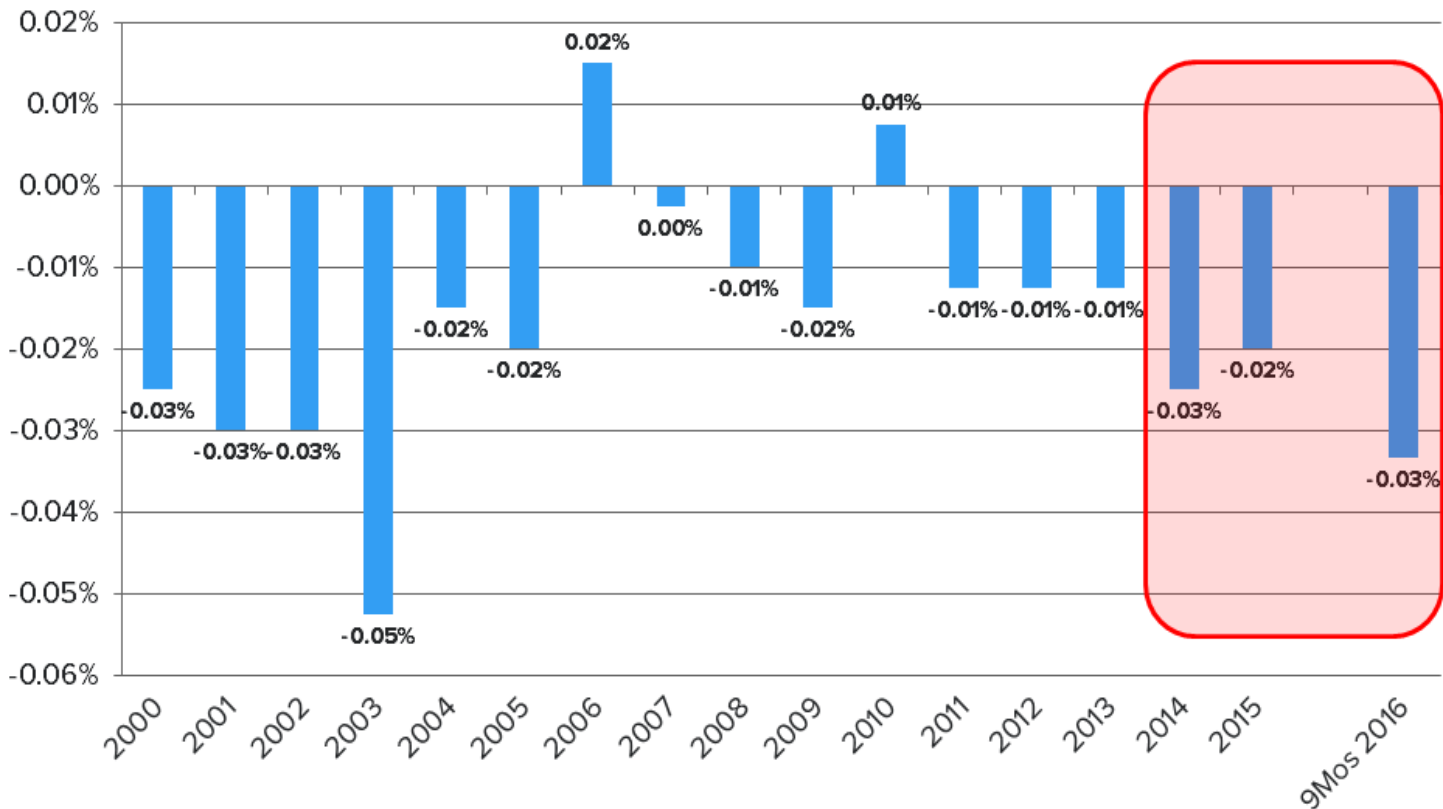
© Hedgeye Risk Management

This is the reported discount rate on an annual basis as well as for the first 9 months of 2015 and 2016.

We think this data set makes clearer the trend since 2011.

THE DISCOUNT RATE → DON'T DISCOUNT THE RISK

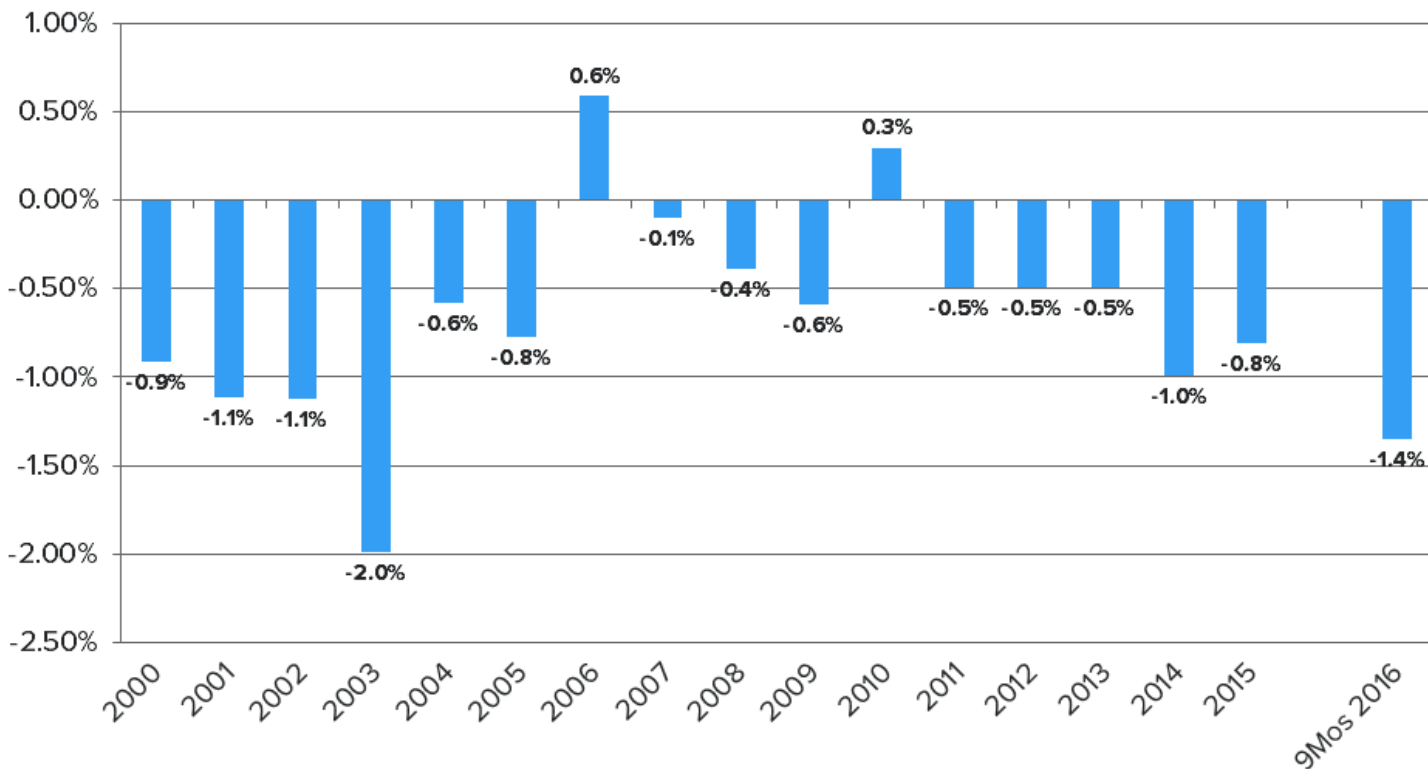
American Express Annual Reported Discount Rate - Y/Y % Change



Here's the Y/Y change in reported discount rate.

THE DISCOUNT RATE → DON'T DISCOUNT THE RISK

American Express Reported Revenue Headwind - Pricing Pressure



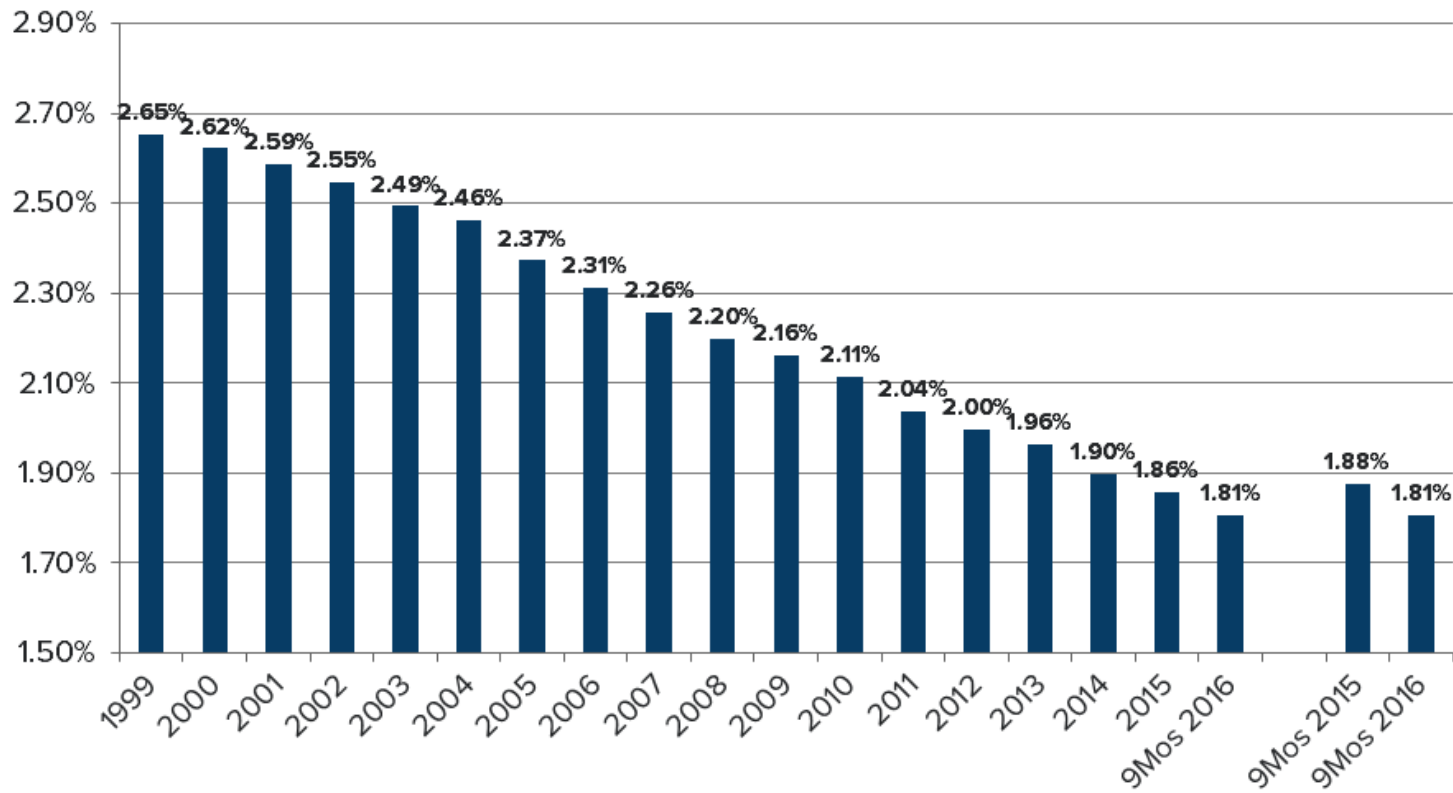
Source: SEC Filings

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And here is what that Y/Y change translates to on a revenue headwind basis, i.e. taking into account the compressing denominator.

THE DISCOUNT RATE → DON'T DISCOUNT THE RISK

American Express Annual Calculated Discount Rate (1999-3Q16)



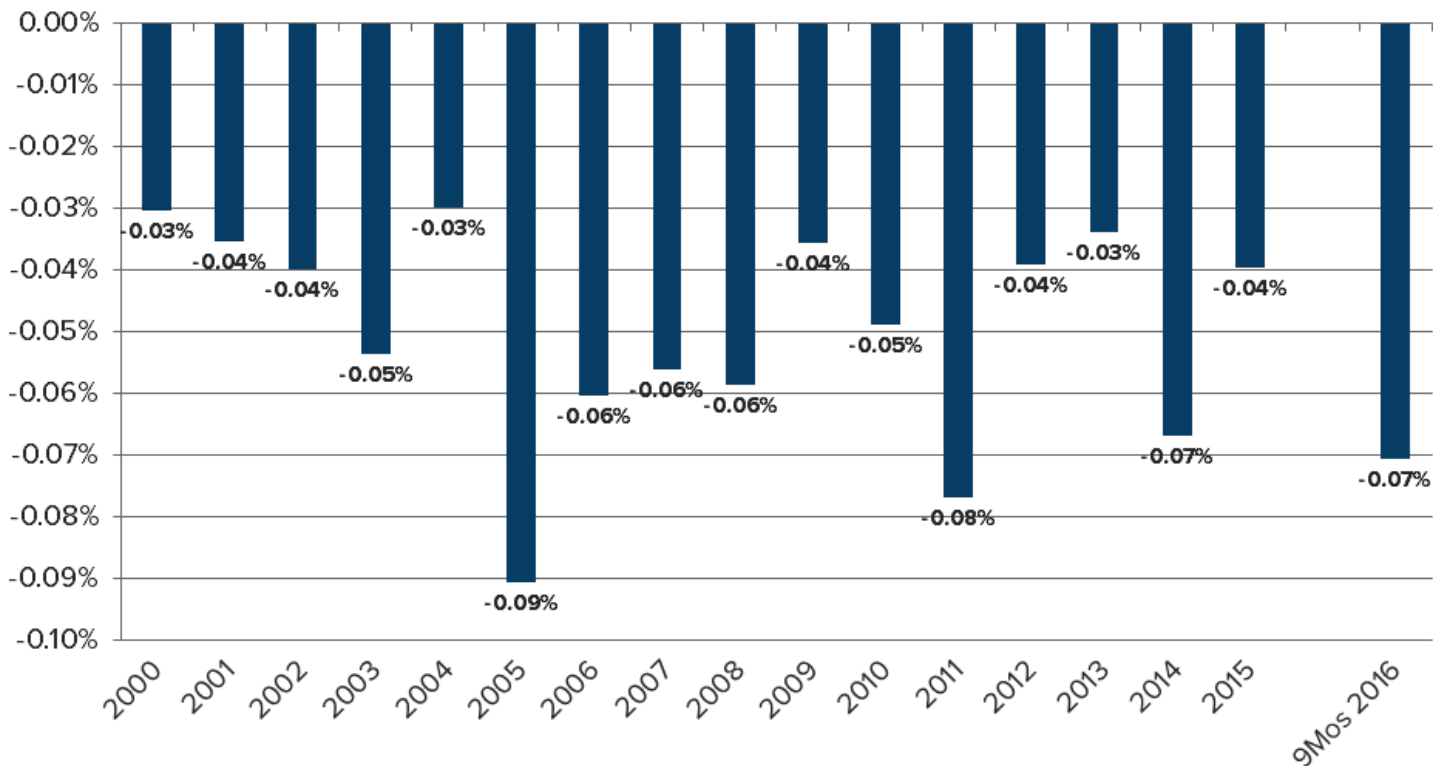
Source: SEC Filings

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Now, the good stuff.
This is the calculated discount rate, which is net of discount contra-revenue (cash-back costs).

THE DISCOUNT RATE → DON'T DISCOUNT THE RISK

American Express Annual Calculated Discount Rate - Y/Y % Change



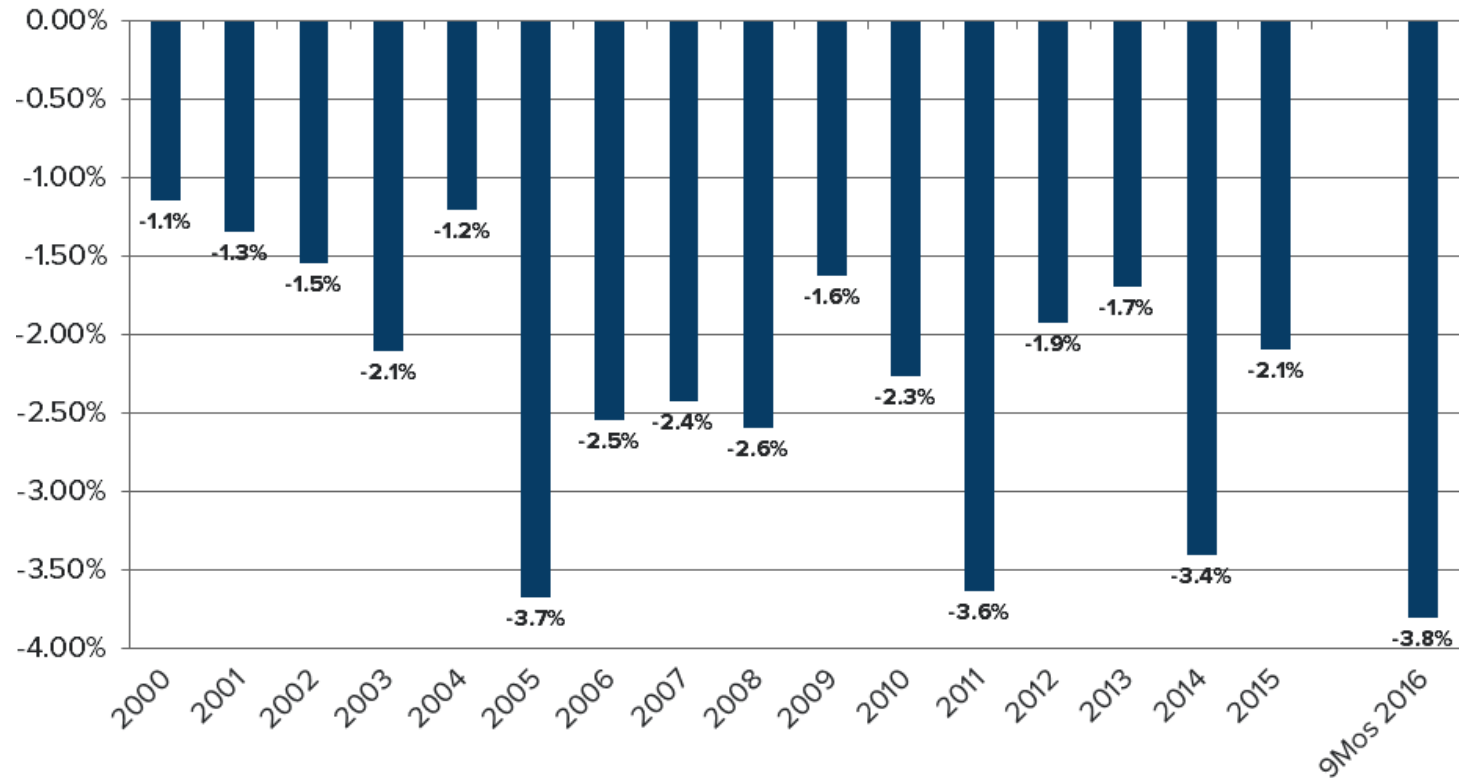
And here is the Y/Y change in the calculated discount rate.

Source: SEC Filings

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THE DISCOUNT RATE → DON'T DISCOUNT THE RISK

American Express Calculated Revenue Headwind - Pricing Pressure



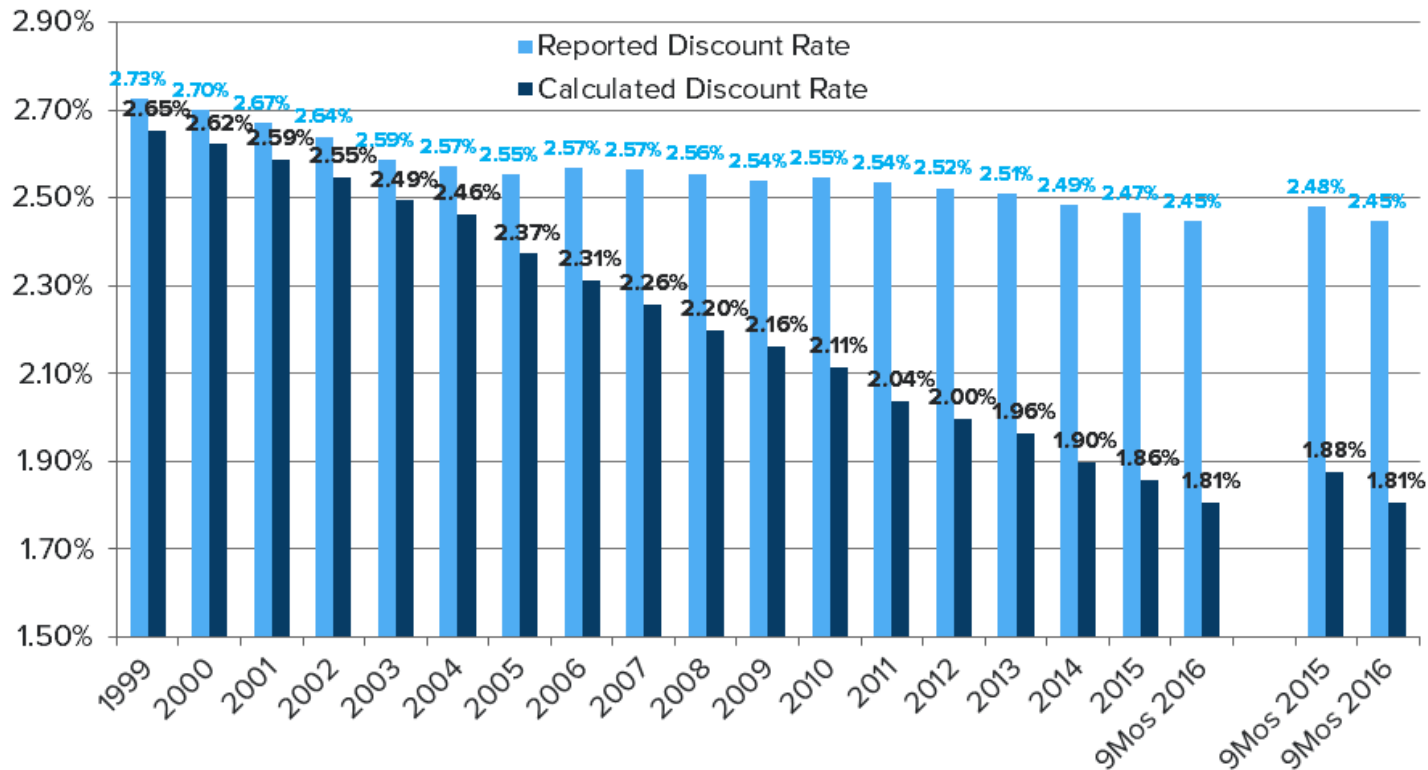
And this is the revenue headwind from that Y/Y decline on a compressing denominator.

Source: SEC Filings

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THE DISCOUNT RATE → DON'T DISCOUNT THE RISK

Reported vs Calculated Discount Rate (1999-3Q16)



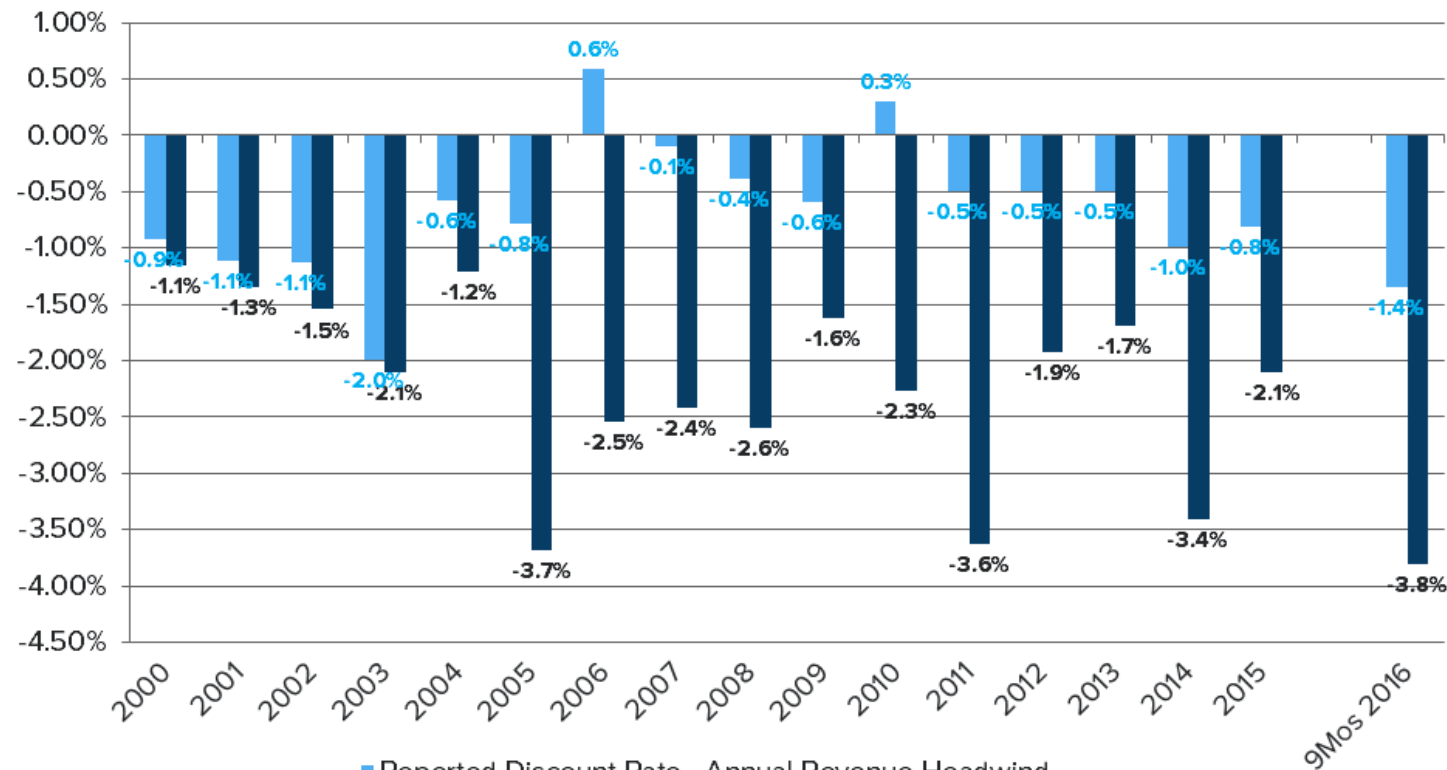
Source: SEC Filings

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Here are the reported vs calculated discount rates side-by-side.

THE DISCOUNT RATE → DON'T DISCOUNT THE RISK

American Express Calculated Revenue Headwind - Pricing Pressure



■ Reported Discount Rate - Annual Revenue Headwind
 ■ Calculated Discount Rate - Annual Revenue Headwind

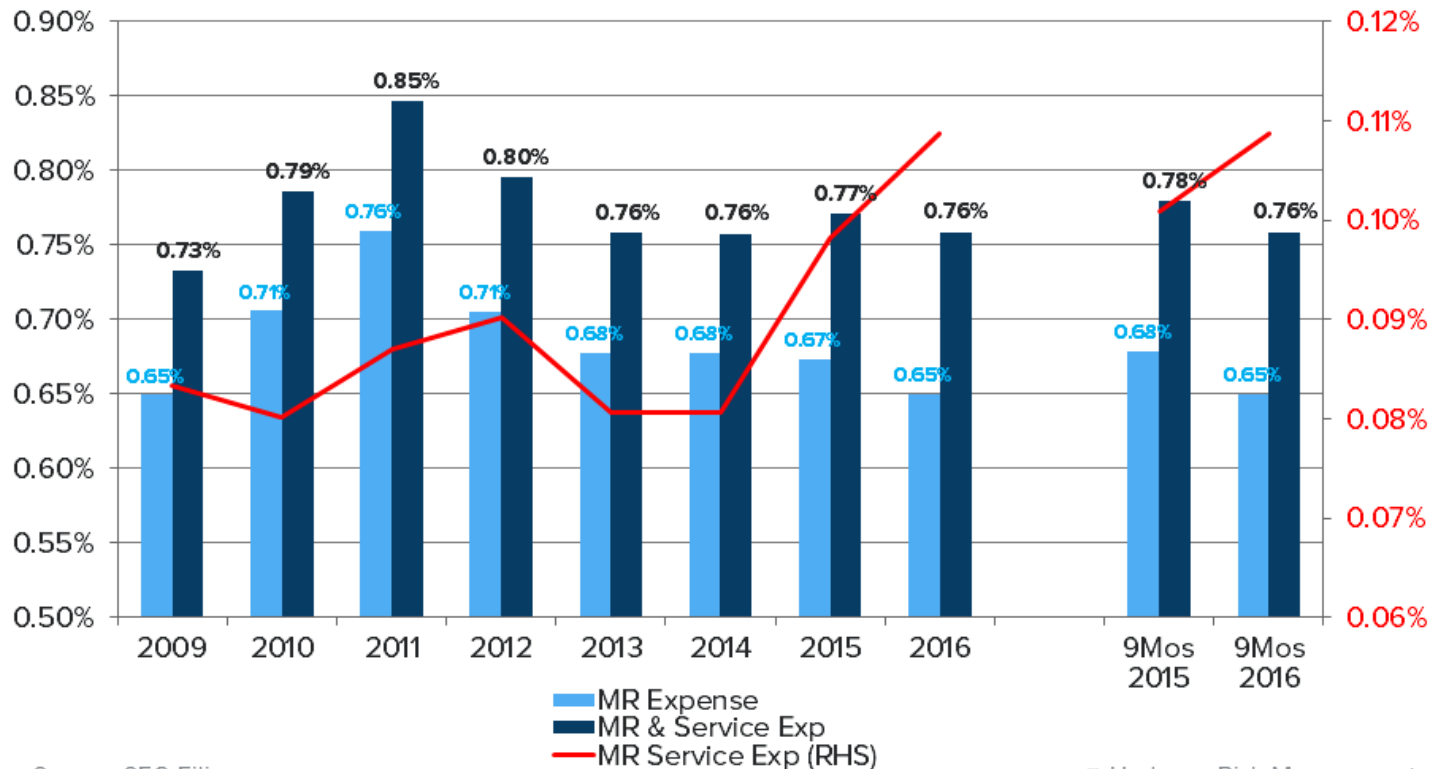
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And here are the Y/Y revenue headwinds side by side.

Source: SEC Filings

THE DISCOUNT RATE → DON'T DISCOUNT THE RISK

Member Rewards & Service Expense in bps (2009-3Q16)



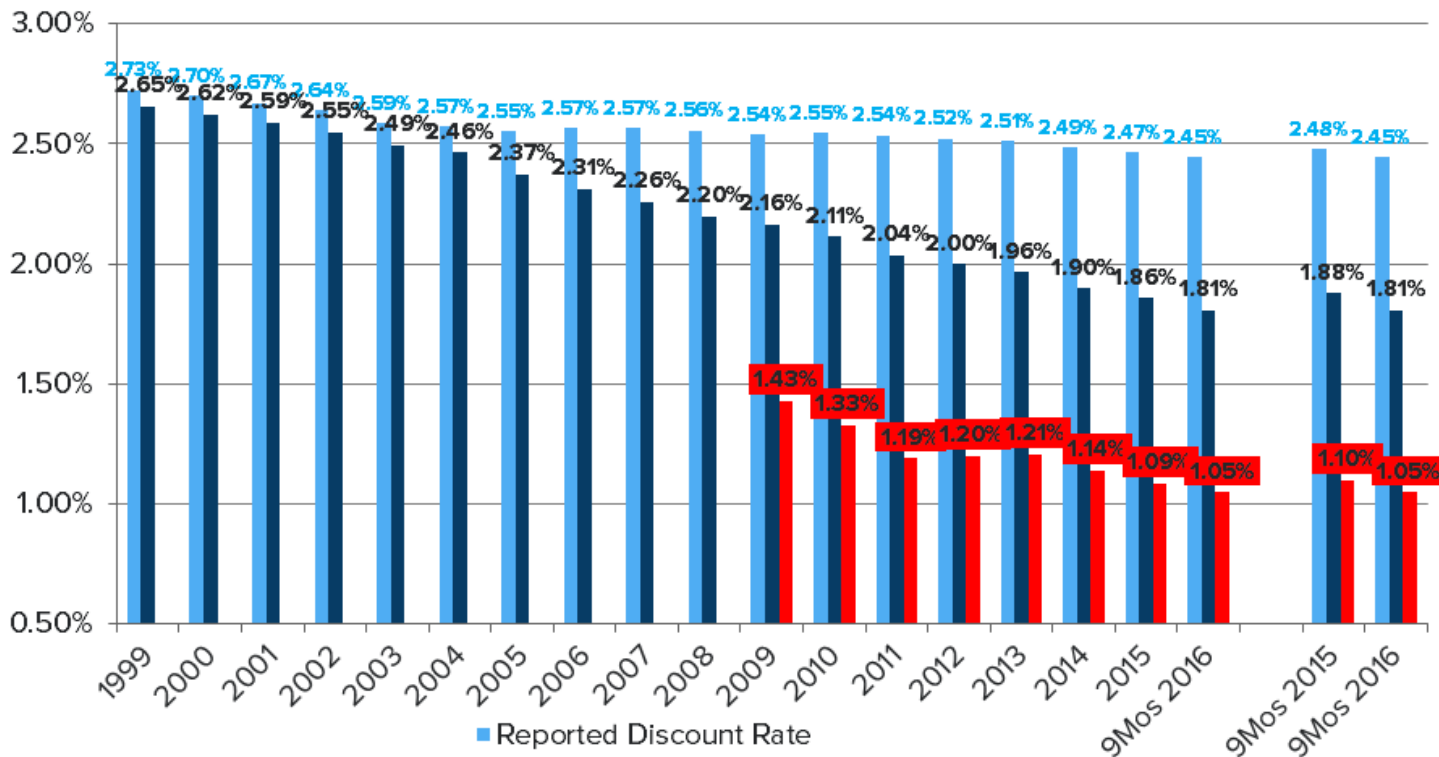
Source: SEC Filings

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Member rewards expense and the associated Member Rewards Service expense must be factored into the equation.

THE DISCOUNT RATE → DON'T DISCOUNT THE RISK

Reported vs Calculated vs "Net" Discount Rate (1999-3Q16)



Source: SEC Filings, Hedgeye Calculations

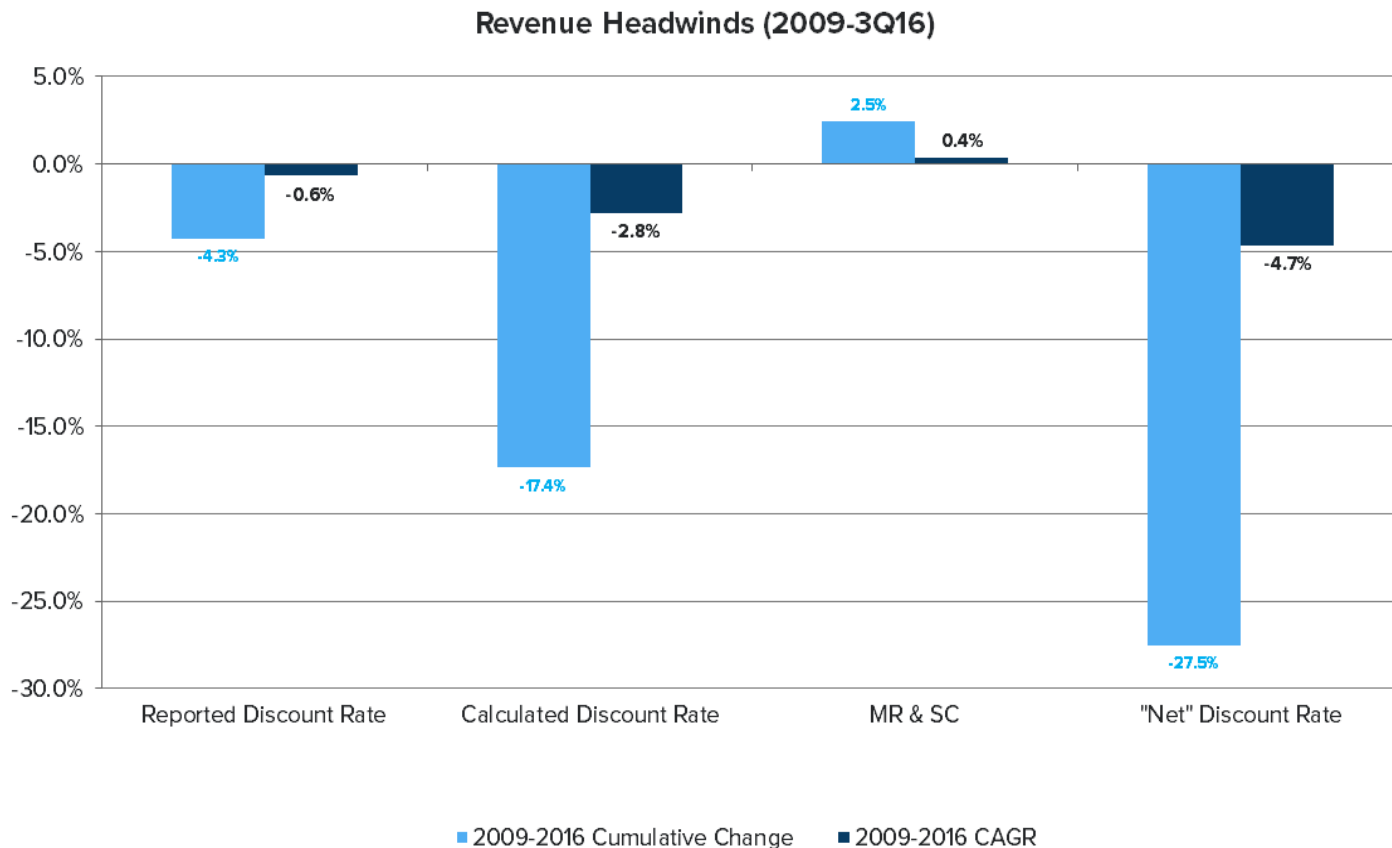
Calculated Discount Rate Net of MR&MSC

© Hedgeye Risk Management

Here's what the "Net" discount rate looks like when those costs are included.

These costs were only broken out separately beginning in 2009.

THE DISCOUNT RATE → DON'T DISCOUNT THE RISK



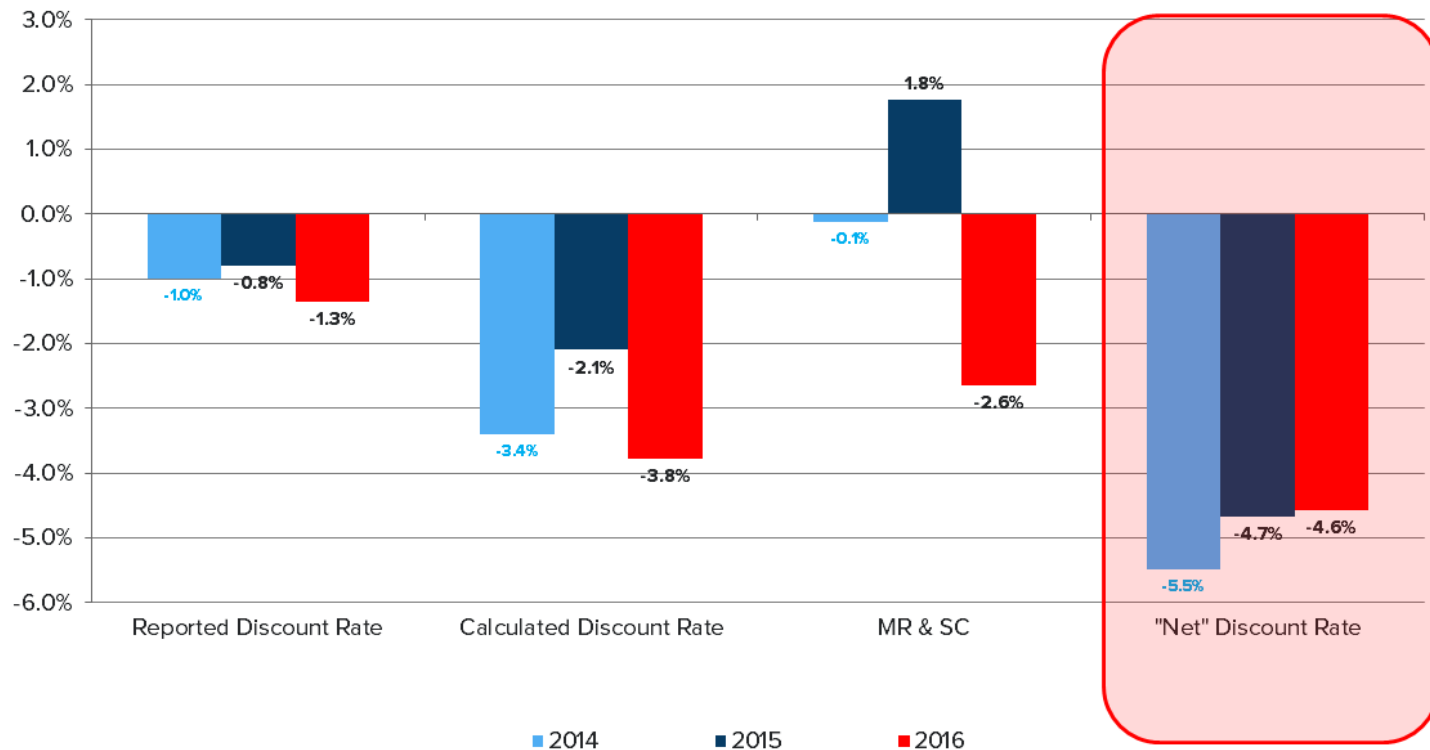
Here's what the pricing power compression looks like since 2009 under the different frameworks.

Source: SEC Filings, Hedgeye Calculations

© Hedgeye Risk Management

THE DISCOUNT RATE → DON'T DISCOUNT THE RISK

Revenue Headwinds - Y/Y % Chg (Last Three Years)



And here's how it looks over the last three years.

Source: SEC Filings, Hedgeye Calculations

© Hedgeye Risk Management

THE DISCOUNT RATE → DON'T DISCOUNT THE RISK



Global Discount Rate Trend



	2012	2013	2014	2015	2016 Outlook
Reported Discount Rate	2.52%	2.51%	2.48%	2.46%	
Discount Rate Erosion (bps)	(1.5)	(1.2)	(2.7)	(1.4)	~(3.0)-(4.0)
Merchant Specific Negotiations (excl. Europe)	↓		↓		↓
Merchant Specific Negotiations (Europe)					↓
Volume-Driven Rate Changes			↓	↓	↓
Accrual/Release				↑	↓
Costco U.S.					↑ ↑ ↑
Mix (excluding Costco U.S.)	↓	↓	↓	↑	↓
OptBlue			↓	↓ ↓	↓ ↓

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This is the company's slide from its investor day showing its outlook for the discount rate in 2016.

Notable are the preponderance of downforces vs the sole benefit → the loss of their largest customer.

THE DISCOUNT RATE → DON'T DISCOUNT THE RISK



Global Discount Rate Trend – 2016



	First Half – 2016	Second Half – 2016
Discount Rate Erosion (bps)	~(6.0) – (7.0)	~(1.0) – 0
Merchant Specific Negotiations (excl. Europe)	↓	↓
Merchant Specific Negotiations (Europe)	↓	↓
Volume-Driven Rate Changes	↓	↓
Accrual/Release	↓	
Costco U.S.		↑ ↑ ↑ ↑
Mix (excluding Costco U.S.)	↓	↓
OptBlue	↓ ↓	↓ ↓

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We saw much of the 2H16 “benefit” accrue in the third quarter, suggesting 4Q will see another notable decline.

THE DISCOUNT RATE → DON'T DISCOUNT THE RISK



Global Discount Rate Outlook – 2016 to 2018



	2016 Outlook	2017 Outlook	2018 Outlook
Discount Rate Erosion (bps)	~(3.0) – (4.0)	~(1.0) – (2.0)	~(2.0) – (3.0)
Merchant Specific Negotiations (excl. Europe)	↓	↓	↓
Merchant Specific Negotiations (Europe)	↓	↓	
Volume-Driven Rate Changes	↓		
Accrual/Release	↓		
Costco U.S.	↑↑↑	↑↑↑	
Mix (excluding Costco U.S.)	↓	↓	↓
OptBlue	↓↓	↓	↓

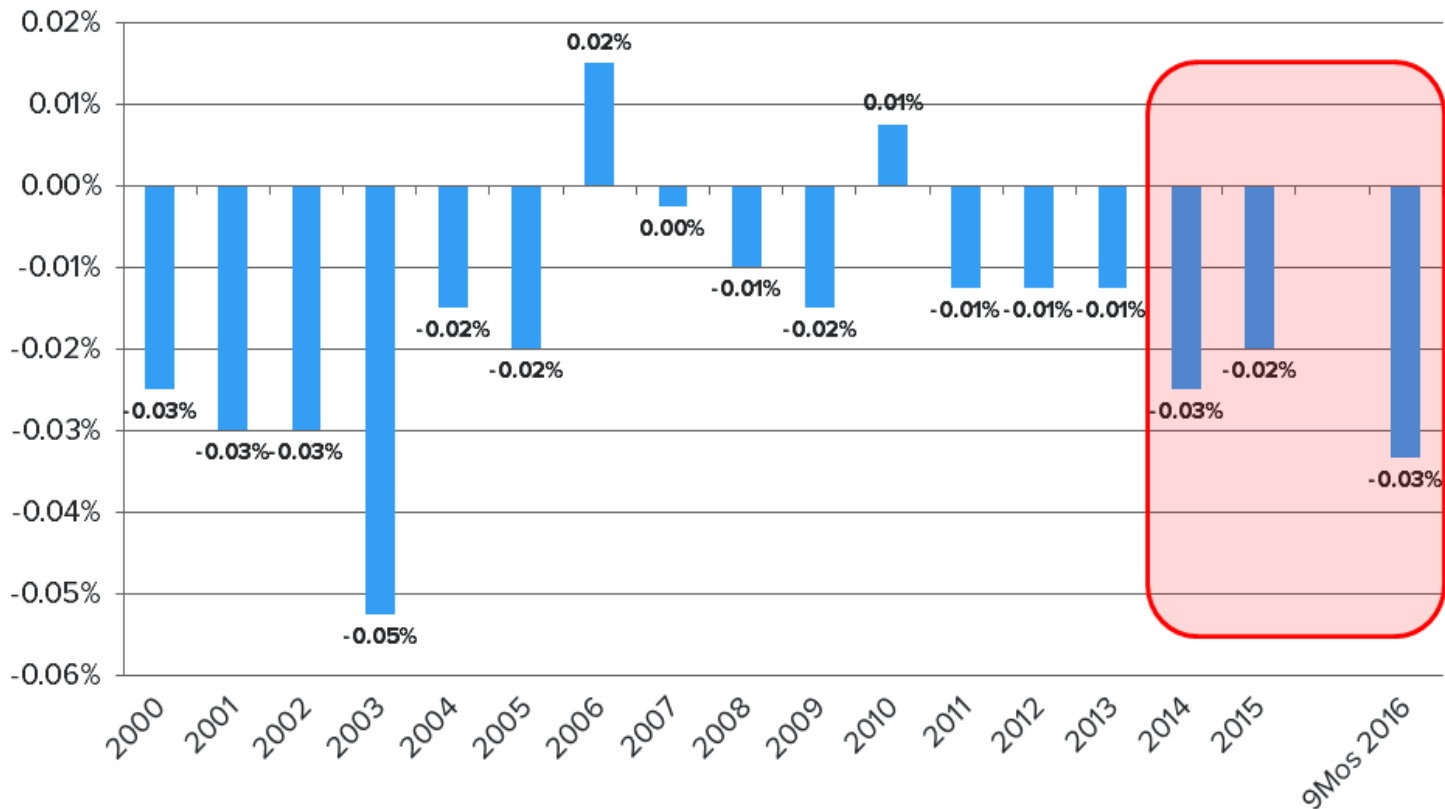
109

The outlook for 2017 is slightly better, but then it deteriorates again in 2018.

Bear in mind, this is only the outlook for the “reported” discount rate.

THE DISCOUNT RATE → DON'T DISCOUNT THE RISK

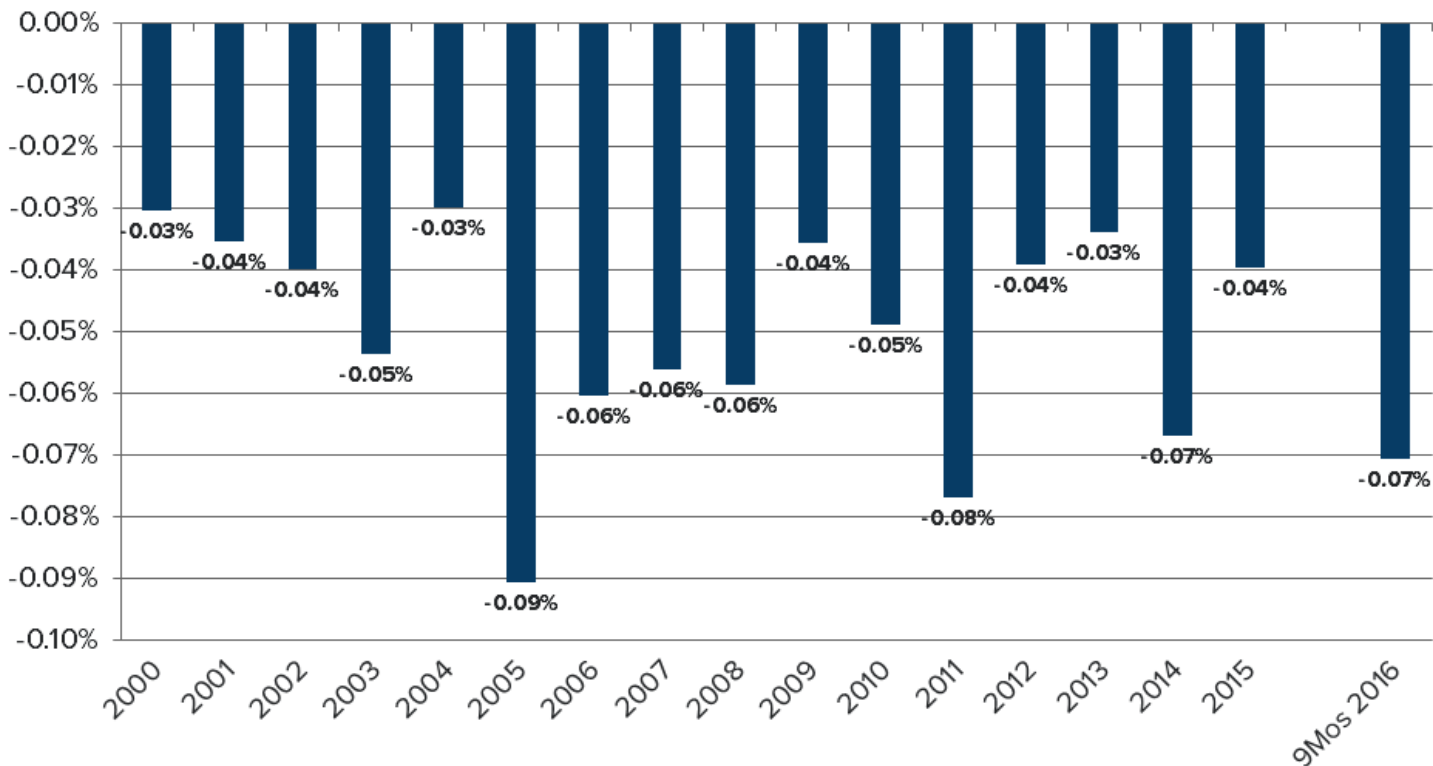
American Express Annual Reported Discount Rate - Y/Y % Change



As a reminder, this is the trend in the reported number.

THE DISCOUNT RATE → DON'T DISCOUNT THE RISK

American Express Annual Calculated Discount Rate - Y/Y % Change



And this is the trend in the calculated number.

Source: SEC Filings

© Hedgeye Risk Management

THE DISCOUNT RATE → EU RISK

Master Card EEA Interchange Fee	2014	2016	Net Change	2014	2016	Net Change
Payment Type	Debit Card	Debit Card	bps	Credit Card	Credit Card	bps
Contactless	1.14%	0.20%	-94.0	1.14%	0.30%	-84.0
MasterPass Wallet	N/A	0.20%	N/A	N/A	0.30%	N/A
Chip	1.14%	0.20%	-94.0	1.14%	0.30%	-84.0
Enhanced Electronic	1.29%	0.20%	-109.0	1.29%	0.30%	-99.0
Merchant UCAF	1.29%	0.20%	-109.0	1.29%	0.30%	-99.0
Full UCAF	1.49%	0.20%	-129.0	1.49%	0.30%	-119.0
Base	1.64%	0.20%	-144.0	1.64%	0.30%	-134.0

In July 2013, the European Commission (the "Commission") proposed legislation in two parts, covering a wide range of topics across the payments industry. The first part was a proposed EU-wide regulation on interchange fees (the "Interchange Fee Regulation"); the second consisted of revisions to the PSD (the "PSD2").

The Interchange Fee Regulation was formally adopted in April 2015. The substantive terms as adopted include the following:

- Price caps** — Interchange fees on consumer card transactions in the EU are capped as of **December 2015**, generally at 20 basis points for debit and prepaid cards and 30 basis points for credit and charge cards, with the possibility of lower caps in some instances. Although we do not have interchange fees and "three-party" networks such as American Express are exempt from the application of the caps, the regulation provides that "three-party" networks should be treated as "four-party" networks (such as Visa and MasterCard, which have interchange fees) when they license third-party providers to issue cards and/or acquire merchants or when they issue cards with a cobrand partner or through an agent. This means, for example, the caps will apply to elements of the financial arrangements agreed to between us and each of our GNS partners in the EU, which may undermine our ability to attract and retain GNS partners. While the discount rates we agree to with merchants are not capped, the interchange caps have exerted, and will likely continue to exert, downward pressures on merchant fees across the industry, including our discount rates. The Interchange Fee Regulation excludes commercial card transactions from the scope of the caps.
- Card acceptance terms** — "Anti-steering" and honor-all-cards rules across all card networks, including non-discrimination and honor-all-cards provisions in our card acceptance agreements, are prohibited with some exceptions. Removal of these provisions creates significant risk of customer confusion and Card Member dissatisfaction, which would result in harm to the American Express brand. The prohibition on "anti-steering rules" took effect immediately upon effectiveness of the regulation; the prohibition on honor-all-cards **rules takes effect in June 2016**.
- Network licensing** — In December 2015, the geographic scope of network licenses within the EU, including those we agree to with our GNS partners, was amended to cover the entire EU. This allows GNS partners to actively pursue their American Express business throughout the EU, including countries where we or other GNS partners are present, and may undermine the value of licenses granted to some GNS partners to date, which have been subject to varying levels of exclusivity to incentivize development of the American Express business in relation to a particular country.
- Separation of network processing** — **From June 2016**, card networks will be required to separate their network processing functions (in which transactions between different issuers and acquirers are processed for authorization, clearing and settlement). This provision does not generally apply to "three-party" payment networks, such as American Express, but may be deemed applicable, for example, where a different GNS issuer and acquirer is involved in a transaction, which represent a very small percentage of transactions on our network.
- Co-badging of cards** — **From June 2016**, a single card may bear the brand of multiple networks and be used to process transactions on any of those networks. Merchants may install automatic mechanisms in point-of-sale equipment to prioritize selection of a particular network, subject to override by the cardholder. These provisions may harm the American Express brand insofar as GNS issuing partners will be able to offer multiple networks on a single card and merchants may program their point-of-sale equipment to prioritize selection of another network on such cards.

- American Express, 2015 10-K

In December 2015 the European Parliament capped the interchange fees (the amount that the card issuing bank deducts from the amount that it pays the acquiring (merchant's) bank) to 0.3% on Credit Card transactions and 0.2% on Debit Card transactions.

THE DISCOUNT RATE → EU RISK

European Interchange Regulation Risk

2014 Amex European Volume (\$Bn)	108
2014 Amex Total Volume (\$Bn)	1,023
European Share	10.5%
2015 Amex Commercial Volume - US (\$Bn)	372
2015 Amex Consumer Volume - US (\$Bn)	345
2015 Amex Total Volume - US (\$Bn)	721.8
2015 Amex US: Share of Consumer	48%
Assumption for EU Consumer Volume	48%
EU Consumer Volume Estimate / Total Amex Volume	5.1%
Pricing Risk (84 bps)	-0.84%
Pricing Risk (134 bps)	-1.34%
Current Stated Discount Rate	2.45%
Wtd Pricing Risk @ 84 bps	2.40%
Wtd Pricing Risk @ 134 bps	2.38%
Downside @ 84 bps	-0.04%
Downside @ 134 bps	-0.07%
Risk to Current Net DR @ 84 bps	-4%
Risk to Current Net DR @ 134 bps	-7%

Source: Company Documents, Hedgeye Estimates

This is our estimate of what the EU's rulesets could mean for Amex over time.

THE DISCOUNT RATE → AUSTRALIA RISK

Interchange Fees

- The RBA reduced the weighted-average interchange fee benchmark for **Debit** cards to 8 cents per transaction, while applying a 15 cent ceiling as the maximum interchange fee.
- This ruling maintained the weighted-average benchmark of 0.5%, while applying a 0.8% ceiling as the maximum interchange fee for **Credit** cards
- **Contrary to the European Economic Area interchange fee regulations, this benchmark does apply to Commercial credit cards.**

Competitive Neutrality

- Traditionally, American Express had been able to avoid interchange fee regulation because of its closed loop system, where it is the issuer and acquirer of credit card transactions. This is soon to change under new RBA regulation targeting companion card systems.
- **Interchange payments to issuers in the American Express companion card system will be subject to equivalent regulation as applies to the MasterCard and Visa credit card systems.**
- As a precautionary measure to prevent the circumvention of debit and credit card interchange standards there will now be limits on any scheme payments to issuers that are not captured with the interchange benchmarks

Meanwhile, the company is also facing risk/pressure in Australia, which accounts for around 4-5% of volume.

THE DISCOUNT RATE → DON'T DISCOUNT THE RISK

Figure 5.1

Expenses Incurred by Mutual Fund Investors Have Declined Substantially Since 2000

Basis points, 2000–2015

	Equity funds	Hybrid funds	Bond funds
2000	99	89	76
2001	99	89	75
2002	100	89	74
2003	100	90	75
2004	95	85	72
2005	91	81	69
2006	88	78	67
2007	86	77	64
2008	83	77	61
2009	87	84	64
2010	83	82	63
2011	79	80	62
2012	77	79	61
2013	74	80	61
2014	70	78	57
2015	68	77	54

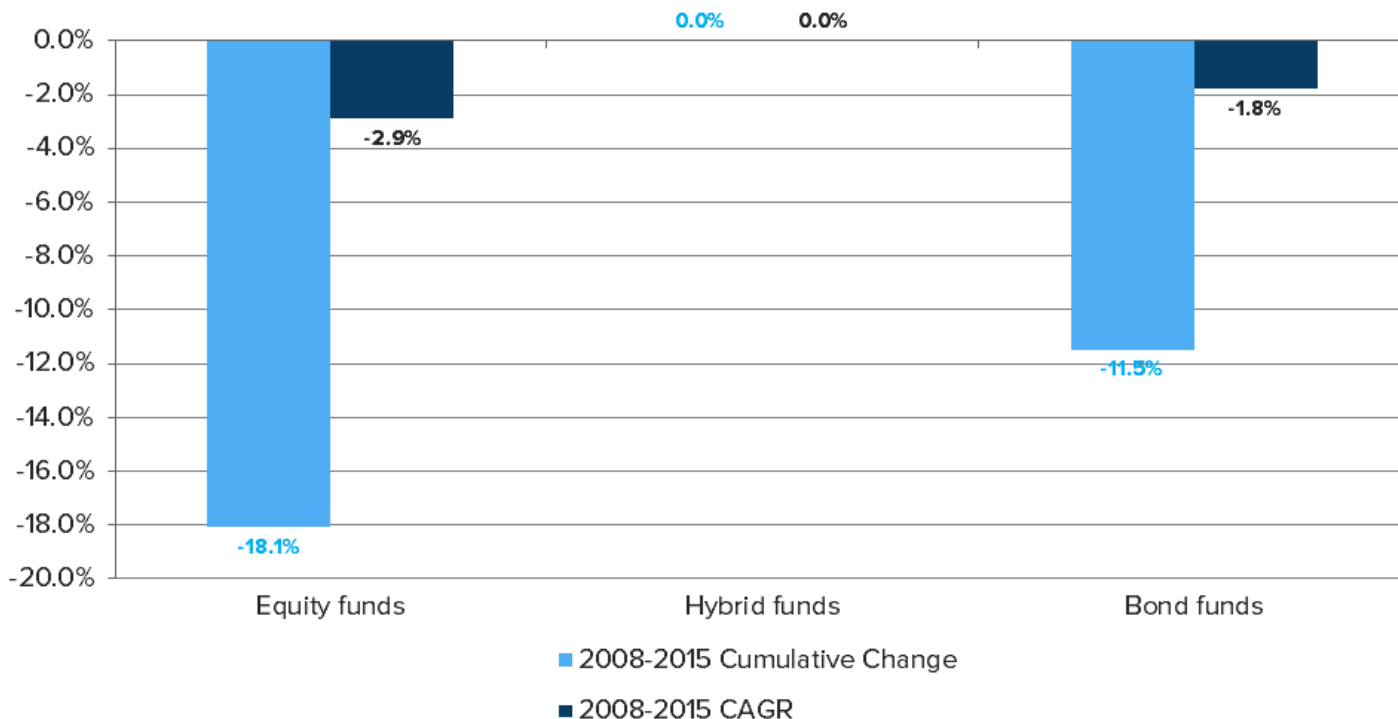
Note: Expense ratios are measured as asset-weighted averages. Data exclude mutual funds available as investment choices in variable annuities and mutual funds that invest primarily in other mutual funds.

Sources: Investment Company Institute and Lipper

A parallel pricing pressure story from elsewhere in Financial Services.

THE DISCOUNT RATE → DON'T DISCOUNT THE RISK

Mutual Fund Expense Ratio Headwinds (2008-2015)



The pricing pressures at Amex eclipse those of the asset mgmt industry.

Source: Investment Company Institute and Lipper

© Hedgeye Risk Management



*“I had to sit down, because it
sounded way too good to be
true”*

3.1 COMPETITION ↑

COMPETITION RISING

Bloomberg Markets Tech Portfolio Politics Opinion Businessweek

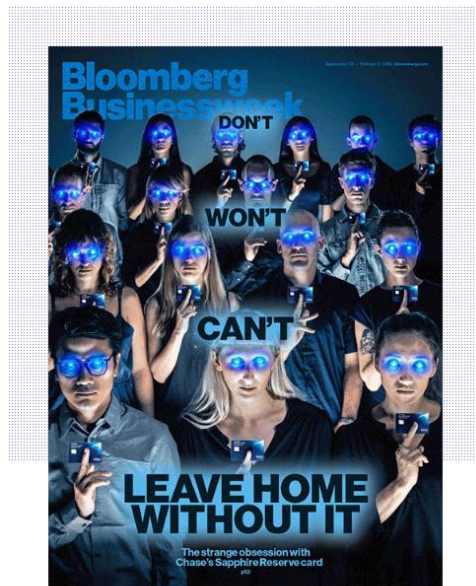
COVER STORY

How Chase Made the Perfect High for Credit Card Junkies

The \$450-a-year Sapphire Reserve card has points-and-miles-obsessed millennials fired up.

September 22, 2016

by Sam Goldstein
@samgoldstein



Featured in Bloomberg Businessweek, Sept. 26-Oct. 2, 2016.

Ned Lindsey, Chase's managing director of customer fulfillment, runs the Ohio plant and a sister facility in Texas. On Aug. 24, Lindsey noticed something strange—card requests were coming in at an extremely high rate, all for the Reserve. “We were seeing demand that was eight- to tenfold more than what we expected,” he says. Lindsey, it seems, doesn’t read credit card blogs. Since July, a fever had been building on social media among points-and-miles obsessives aware that Chase was preparing a premium card—one that would sit above its already-popular Sapphire Preferred, and offer rewards to match. Almost a month before Chase introduced Reserve, the community discovered the card’s perks through some leaked information: a sign-up bonus of 100,000 points, triple points on travel and dining, airport lounge memberships, and credits that offset a \$450 annual fee, among other goodies. Of course, like its Sapphire Preferred brethren, the card would have a weighty metal core that creates what is known in the trade as “plunk factor.” Plasticheads got the vapors. “When I first heard the details,” wrote Brian Kelly, aka The Points Guy, probably the most influential card blogger, “I had to sit down, because it sounded way too good to be true.” The Sapphire Reserve, wrote another, Ben Schlappig, is “beyond a no-brainer, possibly the most compelling card we’ve ever seen.” On Reddit, a user shared that Chase had accidentally published a Reserve application link, and thousands of applications poured in before the page was deactivated. By the official launch date of Aug. 23, anticipation had built to the point that the Chase site was bumrushed by a horde of deal-seekers.

The high end card market is being disrupted by old guard firms like JPMorgan.

COMPETITION RISING

The Sapphire deal is actually pretty sweet.

Tripling down on bonuses

	American Express Platinum	Chase Sapphire Reserve	Citi Prestige
Annual fee	\$450	\$450	\$450
Annual travel credit	\$200	\$300	\$250
Points bonus	None	3x on travel and dining	3x on travel, 2x on dining
Sign-up bonus	40,000 points (after \$3,000 in purchases in the first three months)	100,000 points (after \$4,000 in purchases in the first three months)	40,000 points (after \$4,000 in purchases in the first three months)

This credit card is so popular that Chase ran out of them

By **Brooke Niemeyer**, [Credit.com](#)

Published: Sept 8, 2016 9:17 a.m. ET



The majority of the handcrafted Chase Sapphire Reserve cards went to millennials

A few weeks ago, the Chase Sapphire Reserve credit card (and its lucrative sign-on bonus) debuted and it looks like consumers took notice, as the bank reportedly ran out of the cards due to high demand.

Chase **JPM, +2.02%** spokesperson Lauren Francis said that, for now, customers will receive a plastic version of the card and the “handcrafted embedded metal cards will be on [their] way for customers to use as soon as they are available.”

Francis said “tens of thousands of applications” for the card were approved in the first two days following its release, with the majority of the cards going to millennials, which she said “significantly exceeded our strongest expectations.”

“Tens of thousands of applications in the first two days.”

COMPETITION RISING

How Many Amex Platinum Card Members Are There?

by [MileCards.com](#) on Wed February 10, 2016 • [No Comment](#)

Ever wonder how many people hold Amex's top of the line cards, [The Platinum Card](#) and invitation-only [Centurion Card](#)?

Surprisingly, it's easy to get a decent read on it, because every Platinum Card and Centurion Card member gets a complimentary subscription to [Departures Magazine](#) from American Express, and non-members can't subscribe to the magazine.

Since Departures is a magazine that accepts advertising which is based on circulation figures, it has to publish audited circulation counts on a regular basis.

These circulation numbers are roughly equivalent to the number of Platinum and Centurion card members in the United States, save for a handful of industry subscriptions.

As of early last year, the circulation figures say there are 1.3 million Platinum and Centurion Card [members](#).

MARKET SERVED	TOTAL QUALIFIED	PERCENT OF TOTAL
American Express Individual Platinum and Centurion members	939,896	70.8
American Express Small Business Platinum and Centurion members	386,886	29.2
TOTAL QUALIFIED CIRCULATION	1,326,782	100.0

- 71% of them are via personal accounts
- 29% are via small business accounts

- 2010: 1.03 million
- 2011: 1.08 million
- 2012: 1.16 million
- 2013: 1.24 million
- 2014: 1.29 million
- 2015: 1.31 million (first half of the year, other figures are year-end)

2. QUALIFIED CIRCULATION BY ISSUES FOR PERIOD

2015 Issue	Total Qualified
January/February	1,301,002
March/April	1,311,564
May/June	1,326,782

Does the Platinum Card stand a chance?

COMPETITION RISING

2. QUALIFIED CIRCULATION BY ISSUES FOR PERIOD

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January/February	1,301,002
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- 2014: 1.29 million
- 2015: 1.31 million (first half of the year, other figures are year-end)

that was supposed to last 10 to 12 months. (The company declined to say how many Preferred or Reserve cards it's issued.) To continue to sate the appetite for the Sapphire Reserve, Chase had to switch to standard plastic cards as placeholders. The bank says it's now sent out as many plastic cards as metal—two years' worth of cards, gone in less than a month.

Francis said "tens of thousands of applications" for the card were approved in the first two days following its release, with the majority of the cards going to millennials, which she said "significantly exceeded our strongest expectations."

2. QUALIFIED CIRCULATION BY ISSUES FOR PERIOD

2016 Issue	Total Qualified
January/February	1,370,197
March/April	1,379,777
May/June	1,411,450

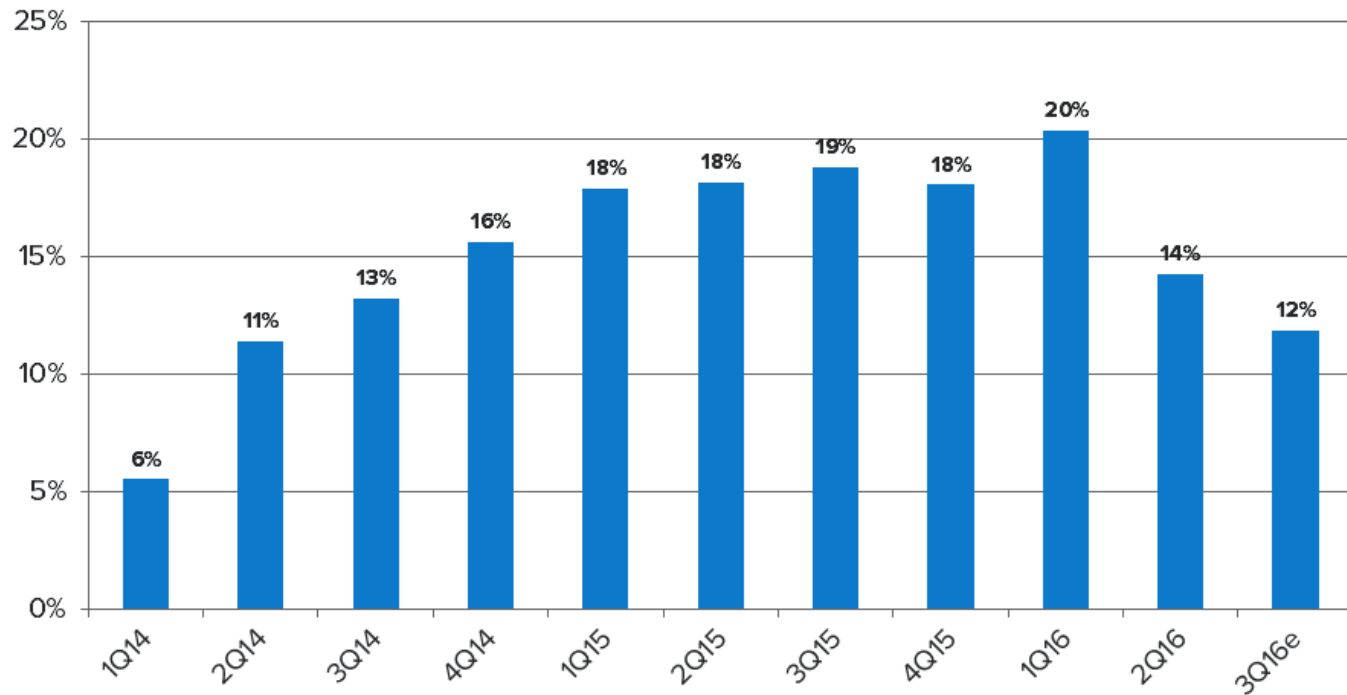
	Platinum/Black Card Holders	Growth	% Growth	BCIF Cards	Growth	% Growth
2010	1.03			71.6		
2011	1.08	50,000	4.9%	76.7	5,100,000	7.1%
2012	1.16	80,000	7.4%	80.8	4,100,000	5.3%
2013	1.24	80,000	6.9%	85.1	4,300,000	5.3%
2014	1.29	50,000	4.0%	89.6	4,500,000	5.3%
1H15*	1.31	40,000	3.1%	91.0	2,800,000	3.1%
Jan/Feb 2015	1,301,002			89.7		
Mar/Apr 2015	1,311,564					
May/Jun 2015	1,326,782			91.0		
Jan/Feb 2016	1,370,197	69,195	5.3%	95.1	5	6.0%
Mar/Apr 2016	1,379,777	68,213	5.2%			
May/Jun 2016	1,411,450	84,668	6.4%	87.5	(4)	-3.8%

* We doubled the rate of growth from YE2014 to 1H15 to estimate 2015's growth rate.
Source: Departures Magazine Circulation Data; SEC Filings

A look at growth in the ultra-high end.

COMPETITION RISING

Capital One US Card Purchase Volume Growth Y/Y % Chg



Source: SEC Filings

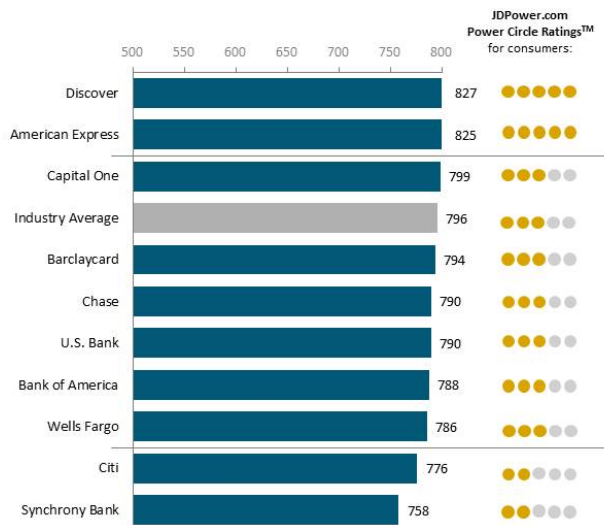
© Hedgeye Risk Management

Even mid-tier players like Capital One are putting Amex to shame on the growth front. This is because they've stepped up their competitive game dramatically.

COMPETITION RISING

J.D. Power 2016 U.S. Credit Card Satisfaction StudySM

Customer Satisfaction Index Ranking (Based on a 1,000-point scale)



Source: J.D. Power 2016 U.S. Credit Card Satisfaction StudySM

Charts and graphs extracted from this press release for use by the media must be accompanied by a statement identifying J.D. Power as the publisher and the study from which it originated as the source. Rankings are based on numerical scores, and not necessarily on statistical significance. No advertising or other promotional use can be made of the information in this release or J.D. Power survey results without the express prior written consent of J.D. Power.

J.D. Power 2013 U.S. Credit Card Satisfaction StudySM

Customer Satisfaction Index Ranking (Based on a 1,000-point scale)



Source: J.D. Power 2013 U.S. Credit Card Satisfaction StudySM

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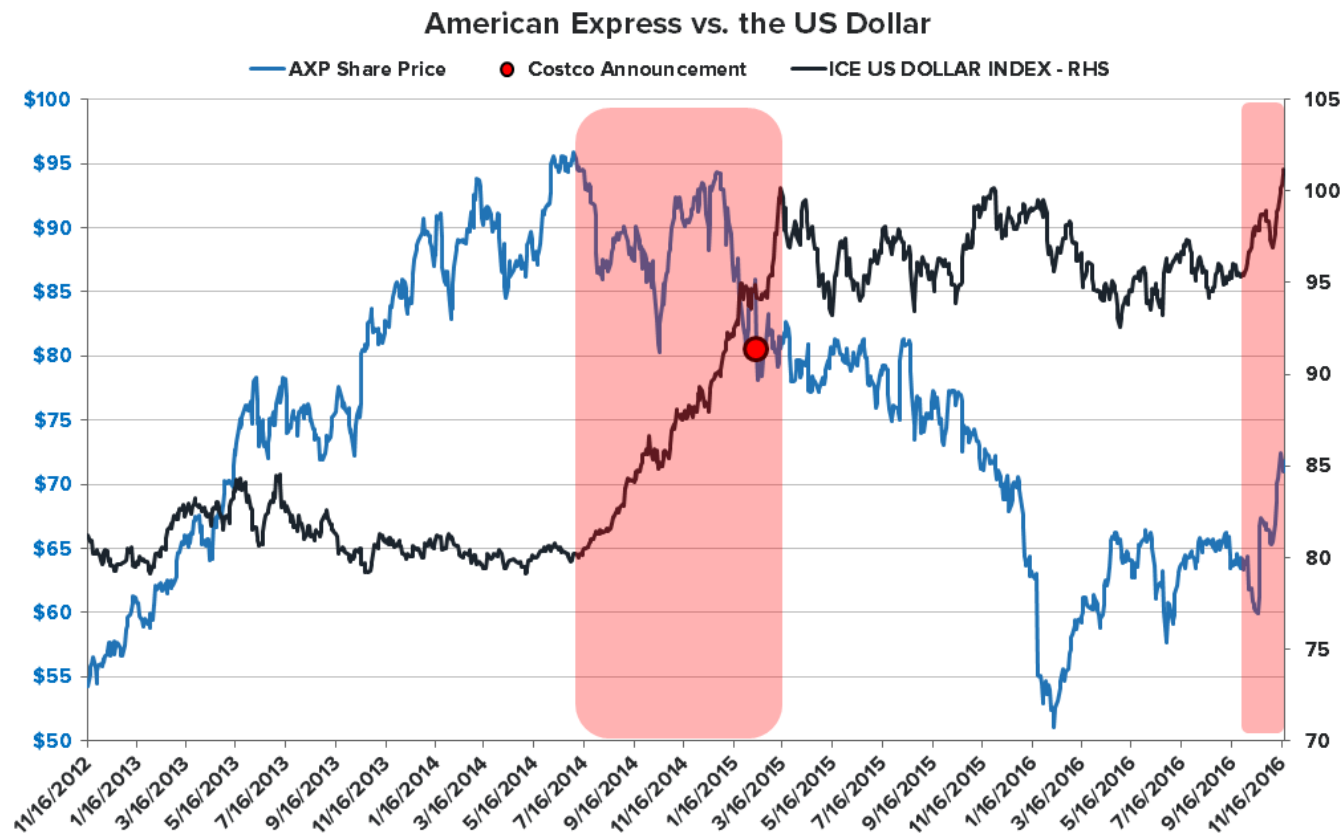
Amex is no longer the undisputed king of the mountain.



3.2 DOLLAR ↑



FX PRESSURES RE-ENGAGED



Source: Factset, Company Documents

© Hedgeye Risk Management

A look at how AXP shares performed the last time the dollar went on a significant run.

FX PRESSURES RE-ENGAGED



Annex 2

Regional Billed Business – Reported & FX-Adjusted*

% Increase/(decrease) vs. prior year

	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16
EMEA									
Reported	7%	1%	(9%)	(9%)	(5%)	(4%)	3%	3%	2%
FX-Adjusted	7%	9%	6%	7%	7%	5%	8%	6%	7%
JAPA									
Reported	16%	7%	6%	4%	(2%)	5%	8%	12%	22%
FX-Adjusted	16%	14%	15%	16%	13%	14%	13%	13%	16%
LACC									
Reported	1%	(7%)	(14%)	(18%)	(24%)	(19%)	(14%)	(9%)	(0%)
FX-Adjusted	8%	3%	(4%)	(5%)	(5%)	0%	5%	6%	7%
Total Intl.									
Reported	9%	1%	(3%)	(5%)	(8%)	(3%)	2%	5%	10%
FX-Adjusted	11%	9%	8%	8%	7%	8%	9%	10%	11%

*See slide 2 for an explanation of FX-adjusted information.

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2015 10-K

Adverse currency fluctuations and foreign exchange controls could decrease earnings we receive from our international operations and impact our capital.

During 2015, approximately 24 percent of our total revenues net of interest expense were generated from activities outside the United States.

We are exposed to foreign exchange risk from our international operations, and accordingly the revenue we generate outside the United States is subject to unpredictable fluctuations if the values of other currencies change relative to the U.S. dollar, which could have a material adverse effect on our results of operations.

For the year ended December 31, 2015, foreign currency movements relative to the U.S. dollar negatively impacted our net revenues of \$32.8 billion by approximately \$1.3 billion as the U.S. dollar strengthened against many currencies over the course of the year.

The dollar is once again rising, and is higher by 4% vs the 1Q16 average level. By comparison, 1Q15 was higher by ~18% vs 1Q14. A 4% Y/Y increase would shave roughly 1% off total reported top line growth.

In 2015, +16% dollar strength impacted top line growth by 4%.

For a company trying to grow top line in the low-to-mid single digits, a mid-single digit currency headwind matters.

It's also worth noting that 1Q17 will be lapping a leap year.

FX PRESSURES RE-ENGAGED

FOREIGN SALES

AXP vs S&P 500 Financials Sector

	Foreign Sales (USD)	Total Sales (USD)	% Foreign Sales
AXP	8,194	32,818	25%
Median			14%
Average			20%
Total	244,057	1,314,253	19%

		Foreign Sales (USD)	Total Sales (USD)	% Foreign Sales
1	AFL-US	14,738	20,872	71%
2	XL-US	4,844	10,669	61%
3	WLTW-US	2,219	3,829	58%
4	MMC-US	6,617	12,893	51%
5	IVZ-US	2,501	3,643	49%
6	AON-US	5,619	11,682	48%
7	C-US	35,057	76,354	46%
8	GS-US	14,618	33,820	43%
9	STT-US	4,428	10,629	43%
10	MCO-US	1,476	3,485	42%
11	ICE-US	1,367	3,338	41%
12	AMG-US	994	2,485	40%
13	CB-US	7,595	15,715	40%
14	SPGI-US	2,111	5,313	40%
15	BEN-US	2,554	6,618	39%
16	PRU-US	20,968	48,630	37%
17	BK-US	5,413	15,194	36%
18	BLK-US	3,899	11,401	34%
19	LM-US	793	2,661	30%
20	NDAQ-US	995	2,090	29%
21	NTRS-US	1,358	4,703	29%
22	MS-US	10,075	35,155	29%
23	MET-US	19,202	69,470	28%
24	AIG-US	15,961	57,591	27%
25	AJG-US	1,351	5,392	25%
26	AXP-US	8,194	32,818	25%
27	JPM-US	22,280	96,600	24%
28	BRK.B-US	8,249	210,821	19%
29	LUK-US	1,539	10,886	14%
30	AIZ-US	1,408	8,047	14%

FOREIGN SALES

AXP vs S&P 500 Financials Sector

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Median			14%
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		Foreign Sales (USD)	Total Sales (USD)	% Foreign Sales
31	BAC-US	10,848	82,507	13%
32	AMP-US	1,095	12,170	9%
33	UNM-US	751	10,731	7%
34	TRV-US	1,688	24,121	6%
35	COF-US	1,252	23,413	5%
36	BBT-US	-	9,800	0%
37	CFG-US	-	4,824	0%
38	CINF-US	-	4,480	0%
39	CMA-US	-	2,739	0%
40	DFS-US	-	8,739	0%
41	ETFC-US	-	1,428	0%
42	FITB-US	-	6,587	0%
43	HBAN-US	-	3,022	0%
44	HIG-US	-	18,377	0%
45	KEY-US	-	4,256	0%
46	LNC-US	-	13,900	0%
47	L-US	-	13,415	0%
48	MTB-US	-	4,668	0%
49	NAVI-US	-	2,561	0%
50	PBCT-US	-	1,285	0%
51	PGR-US	-	20,564	0%
52	PNC-US	-	15,225	0%
53	RF-US	-	5,378	0%
54	STI-US	-	8,174	0%
55	SYF-US	-	9,747	0%
56	TMK-US	-	4,005	0%
57	USB-US	-	20,306	0%
58	WFC-US	-	86,057	0%
59	ZION-US	-	2,229	0%

Source: Factset

Among the 59 S&P 500 Financial companies, American Express has the 26th largest share of international revenue.

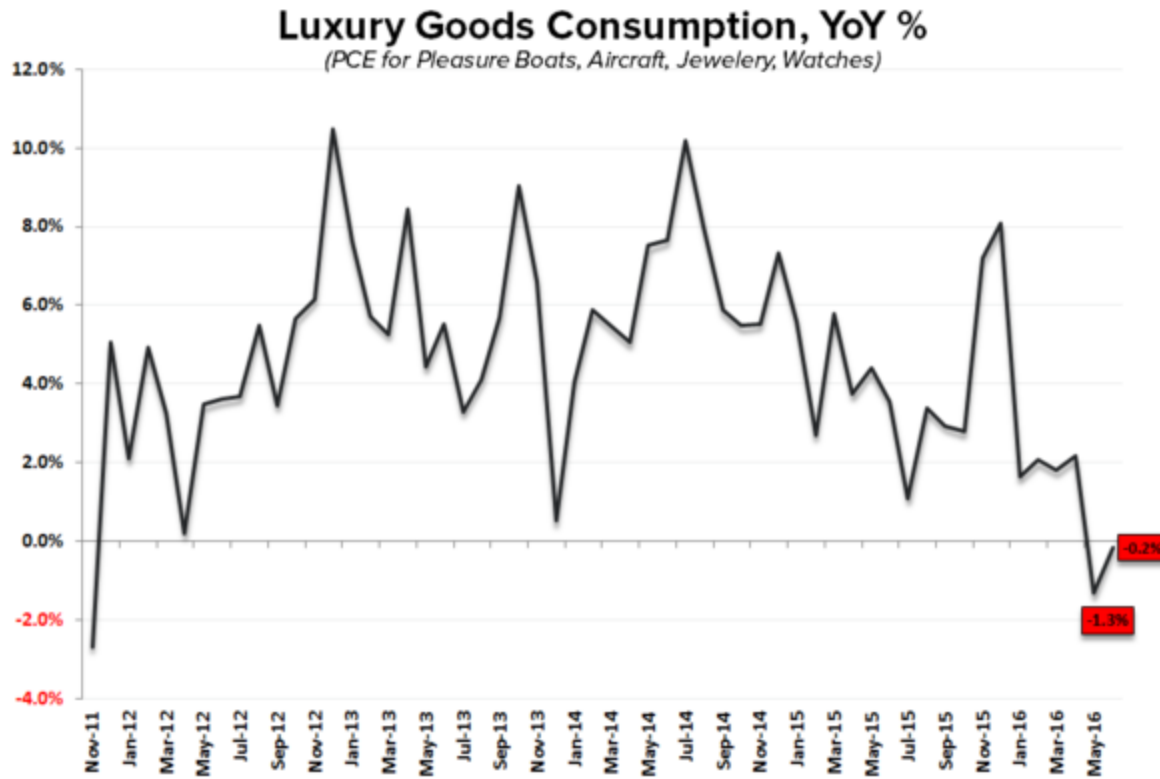
Relative to all 500 companies in the S&P 500, American Express is mid-pack in terms of its exposure to international revenue at #260.



3.5 RICH PEOPLE ARE SPENDING LESS

SHORTING THE RICH

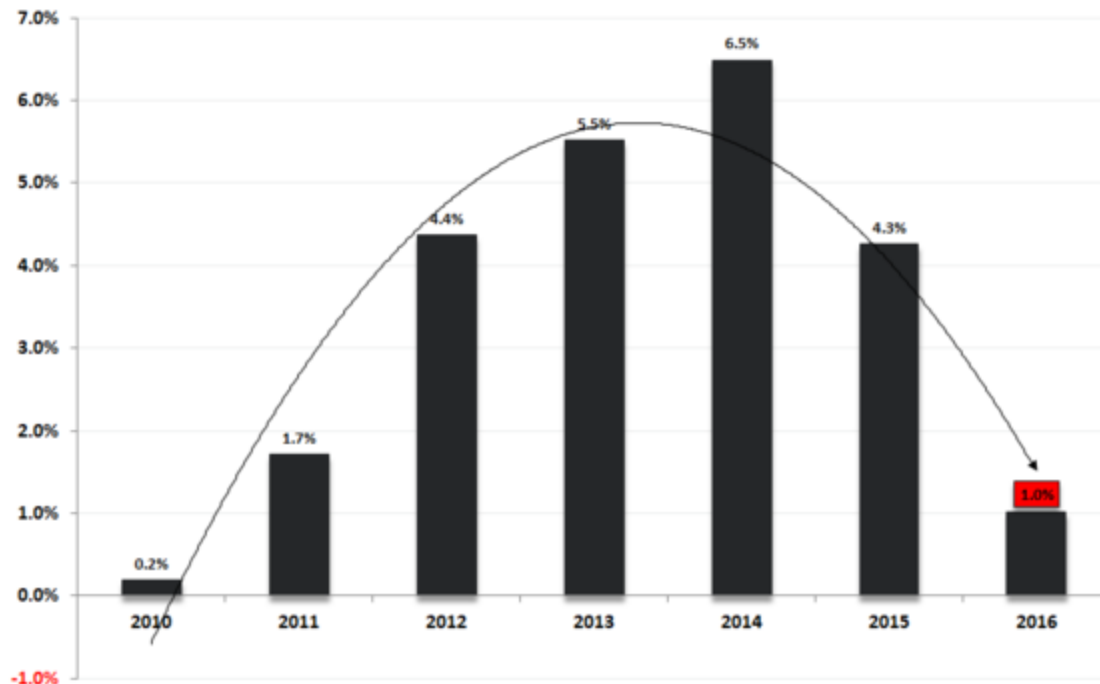
Luxury Goods Consumption is in decline.



Source: Bloomberg, BEA, HEDGEYE

SHORTING THE RICH

Luxury Goods Consumption, YoY %
(PCE for Pleasure Boats, Aircraft, Jewellery, Watches)



Source: Bloomberg, BEA, HEDGEYE

Thus far, 2016 is showing an incredible slowdown in the luxury market.



3.3 INSIDERS ↓



INSIDER BEHAVIOR – AMERICAN EXPRESS (AXP)

American Express saw significant insider selling in the 2003-2007 period and again in 2013 and 2014, both of which were followed by sharp declines in the stock. There continues to be insider selling at the company with only two insider buys since 2011.



INSIDER BEHAVIOR – AMERICAN EXPRESS (AXP)

A more detailed look.

HEDGEYE INSIDER SELLING SUMMARY TABLE				
COMPANY: American Express Company				
Sale Date	Reporting Person	Title	Transaction Value (\$)	Number of Shares
11/14/2016	GUPTA ASHWINKUMAR HARBANSAL	Pres, Crdt Risk/Gbl Info Mgt	\$646,711	(8,930)
11/14/2016	GUPTA ASHWINKUMAR HARBANSAL	Pres, Crdt Risk/Gbl Info Mgt	\$9,908,217	(137,100)
11/11/2016	SOBBOTT SUSAN	Pres., Gbl Commercial Pymnts	\$1,351,654	(19,186)
10/21/2016	GUPTA ASHWINKUMAR HARBANSAL	Pres, Crdt Risk/Gbl Info Mgt	\$9,459,481	(140,808)
05/25/2016	SOBBOTT SUSAN	Pres., Gbl Commercial Pymnts	\$961,671	(14,682)
05/24/2016	ONEILL MICHAEL J (AMERICAN/	EVP, Corp Affairs & Comm	\$3,357,266	(51,690)
05/19/2016	CHENAULT KENNETH IRVINE	Chairman & CEO; Director	\$52,561,344	(838,968)
04/22/2016	ZUKAUCKAS LINDA K	EVP & Corporate Comptroller	\$168,306	(2,547)
11/20/2015	GUPTA ASHWINKUMAR HARBANSAL	Pres-Risk/Info Mgmt & AXP CRO	\$7,471,528	(103,084)
11/11/2015	BUCKMINSTER DOUGLAS E	Pres, Global Consumer Services	\$3,376,233	(46,345)
07/30/2015	SQUERI STEPHEN J	Vice Chairman	\$1,520,000	(20,000)
07/30/2015	SQUERI STEPHEN J	Vice Chairman	\$15,160,024	(199,474)
05/27/2015	SQUERI STEPHEN J	Group Pres., Global Corp Serv	\$34,553,040	(431,913)
05/26/2015	SAMPLE NEAL	President, Enterprise Growth	\$348,555	(4,317)
05/18/2015	CHENAULT KENNETH IRVINE	Chairman & CEO; Director	\$55,634,750	(695,000)
05/18/2015	CHENAULT KENNETH IRVINE	Chairman & CEO; Director	\$5,942,940	(74,000)
04/30/2015	WILLIAMS ANRE D	Pres. Global Merchant Services	\$2,684,733	(34,606)
03/02/2015	ZUKAUCKAS LINDA K	EVP & Corporate Comptroller	\$326,360	(4,000)
02/26/2015	SILVERMAN JOSHUA G	President Consumer Prod & Serv	\$458,382	(5,530)
02/26/2015	SILVERMAN JOSHUA G	President Consumer Prod & Serv	\$2,531,378	(30,539)
08/28/2014	BUSH JAMES PETER	EVP, World Service	\$877,530	(9,807)
08/28/2014	BUSH JAMES PETER	EVP, World Service	\$6,867,306	(77,005)
08/28/2014	SOBBOTT SUSAN	President Global Corp Payments	\$3,731,229	(41,844)
08/06/2014	Estate Of Edward P Gilligan		\$1,019,357	(11,820)
08/06/2014	Estate Of Edward P Gilligan		\$29,780,568	(345,322)
08/05/2014	COX L KEVIN	Chief Human Resources Officer	\$438,247	(5,053)
08/05/2014	COX L KEVIN	Chief Human Resources Officer	\$4,982,378	(57,447)
05/29/2014	HAYES JOHN D	EVP, Advertising	\$3,579,397	(39,255)
03/06/2014	BUSH JAMES PETER	EVP, World Service	\$639,360	(6,852)
03/06/2014	BUSH JAMES PETER	EVP, World Service	\$6,358,890	(68,148)
03/03/2014	BUCKMINSTER DOUGLAS E	Pres, Int'l Consumer & SBS	\$3,582,400	(40,000)
02/28/2014	SCHICK THOMAS A	EVP-Corp. Affairs	\$1,927,253	(21,160)
02/28/2014	SCHICK THOMAS A	EVP-Corp. Affairs	\$19,058,738	(208,840)
02/26/2014	CHENAULT KENNETH IRVINE	Chief Executive Officer; Director	\$3,514,743	(39,328)
02/26/2014	CHENAULT KENNETH IRVINE	Chief Executive Officer; Director	\$4,538,273	(50,280)
02/26/2014	CHENAULT KENNETH IRVINE	Chief Executive Officer; Director	\$59,768,700	(666,615)
02/06/2014	Estate Of Edward P Gilligan		\$4,074,811	(47,720)
02/06/2014	SCHULMAN DANIEL H	Group Pres, Enterprise Growth	\$6,600,103	(77,466)
02/04/2014	COX L KEVIN	Chief Human Resources Officer	\$2,166,556	(25,820)
02/04/2014	COX L KEVIN	Chief Human Resources Officer	\$9,614,408	(114,580)
01/22/2014	HAYES JOHN D	EVP, Advertising	\$1,710,725	(18,824)
01/22/2014	HAYES JOHN D	EVP, Advertising	\$12,772,820	(140,546)
01/21/2014	WILLIAMS ANRE D	Pres. Global Merchant Services	\$5,313,580	(58,935)
12/05/2013	JORDAN VERNON E JR		\$3,222,263	(38,183)
12/05/2013	JORDAN VERNON E JR		\$740,045	(8,760)
12/03/2013	GUPTA ASHWINKUMAR HARBANSAL	Pres-Risk/Info Mgmt & AXP CRO	\$8,847,925	(102,500)
Total Insider Selling Over Last Month			\$11,906,582	(165,216)
Total Insider Selling Over Last Year:			\$78,414,650	(1,213,911)
Total Insider Selling Over Last 2 Years:			\$208,422,573	(2,862,719)
Total Insider Selling Over Last 3 Years:			\$413,950,178	(5,184,839)



Source: Factset

INSIDER BEHAVIOR – AMERICAN EXPRESS (AXP)

\$413mn in sales in the last 3 years.

American Express Form-4 Filer Open Market Insider Sales - Last 3 Years

CHENAULT KENNETH IRVINE	Chairman & CEO; Director	\$181,960,750
SQUERI STEPHEN J	Vice Chairman	\$51,233,064
GUPTA ASHWINKUMAR HARBANSLAL	Pres, Crdt Risk/Glbl Info Mgt	\$36,133,862
Estate Of Edward P Gilligan**		\$34,874,736
SCHICK THOMAS A	EVP-Corp. Affairs	\$20,985,991
HAYES JOHN D	EVP, Advertising	\$18,062,942
COX L KEVIN	Chief Human Resources Officer	\$17,201,589
BUSH JAMES PETER	EVP, World Service	\$14,743,086
WILLIAMS ANRE D	Pres. Global Merchant Services	\$7,998,313
BUCKMINSTER DOUGLAS E	Pres, Global Consumer Services	\$6,958,633
SCHULMAN DANIEL H	Group Pres, Enterprise Growth	\$6,600,103
SOBBOTT SUSAN	Pres., Glbl Commercial Pymnts	\$6,044,554
JORDAN VERNON E JR		\$3,962,308
ONEILL MICHAEL J /AMERICAN/	EVP, Corp Affairs & Comm	\$3,357,266
SILVERMAN JOSHUA G	President Consumer Prod & Serv	\$2,989,760
ZUKAUCKAS LINDA K	EVP & Corporate Comptroller	\$494,666
SAMPLE NEAL	President, Enterprise Growth	\$348,555
Total		\$413,950,178
Total - ex Ed Gilligan		\$379,075,442

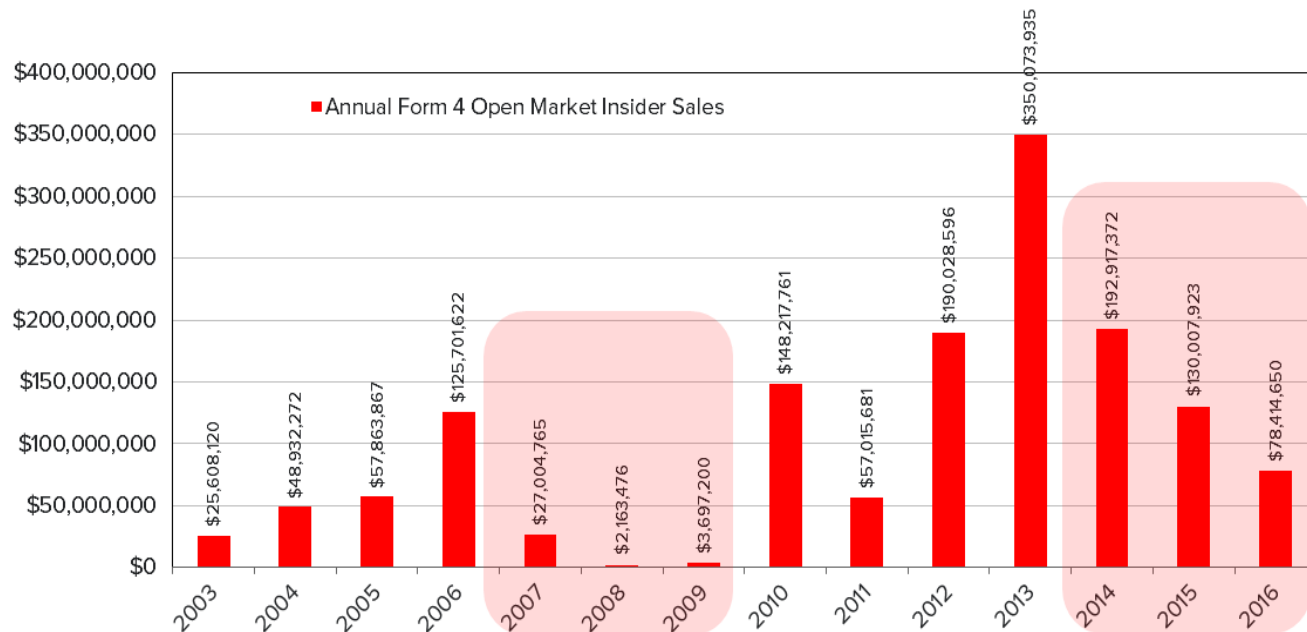
** Ed Gilligan passed away in early 2015 and obviously we intend no disrespect nor signaling value from the sales from his estate.

Source: Factset

INSIDER BEHAVIOR – AMERICAN EXPRESS (AXP)

Here's how that compares over time.

Amex Insiders Sell Less When Conditions Are Deteriorating



Source: Factset, SEC Filings

© Hedgeye Risk Management

INSIDER BEHAVIOR – AMERICAN EXPRESS (AXP)

HEDGEYE INSIDER SELLING SUMMARY TABLE

COMPANY: American Express Company

Sale Date	Reporting Person	Title	Transaction Value (\$)	Number of Shares
01/26/2016	WILLIAMS RONALD A	Director	\$1,001,400	18,040
05/20/2015	WILLIAMS RONALD A	Director	\$1,100,113	13,585
02/26/2015	CAMPBELL JEFFREY C	EVP, Chief Financial Officer	\$2,080,250	25,000
Total Insider Selling Over Last Month			\$0	-
Total Insider Selling Over Last Year:			\$1,001,400	18,040
Total Insider Selling Over Last 2 Years:			\$4,181,763	56,625
Total Insider Selling Over Last 3 Years:			\$4,181,763	56,625

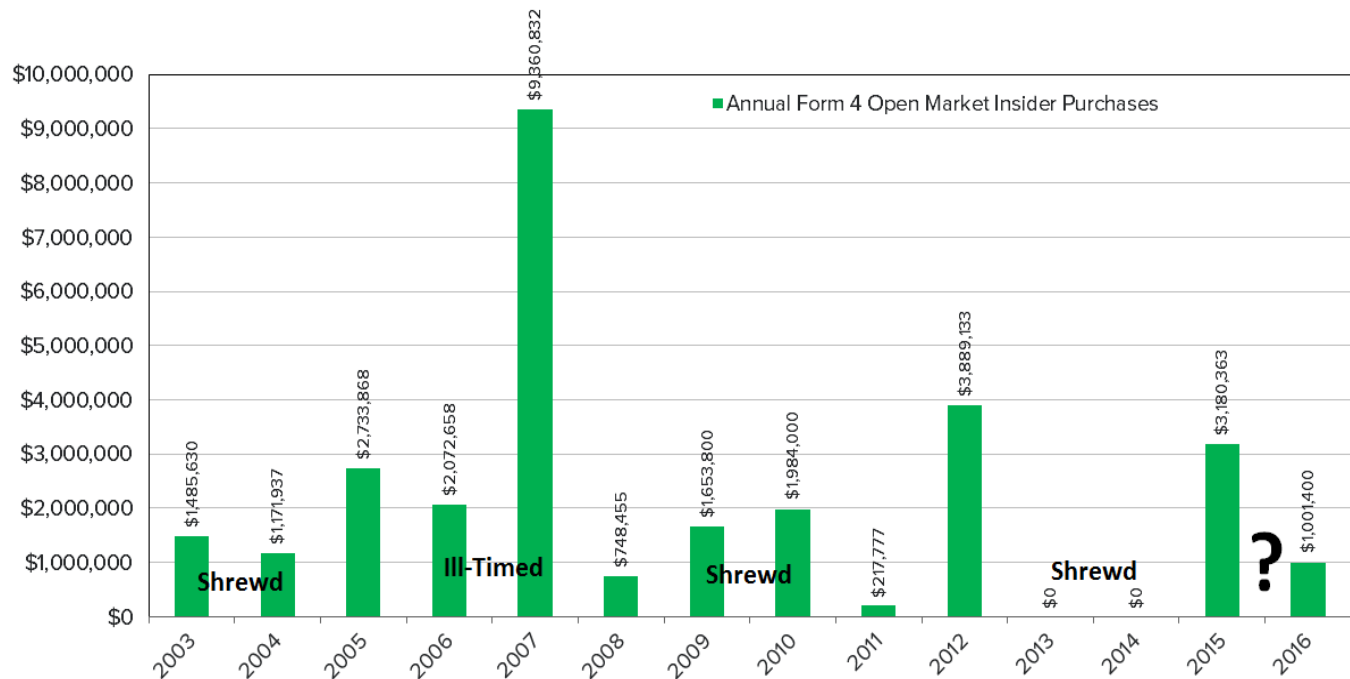


Source: Factset

Insider buyers have been few and far between – just 2 in the last six years.

INSIDER BEHAVIOR – AMERICAN EXPRESS (AXP)

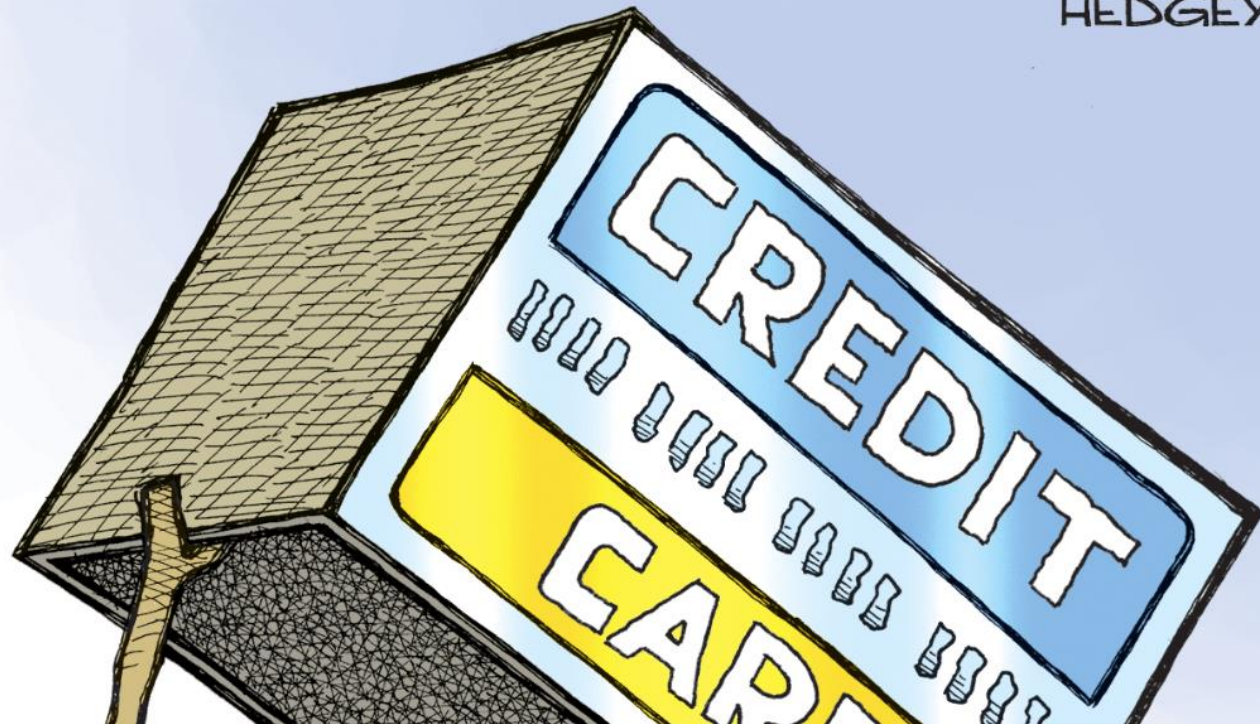
Purchase Trends Appear to Have Less Signaling Value Historically



Source: Factset, SEC Filings

© Hedgeye Risk Management

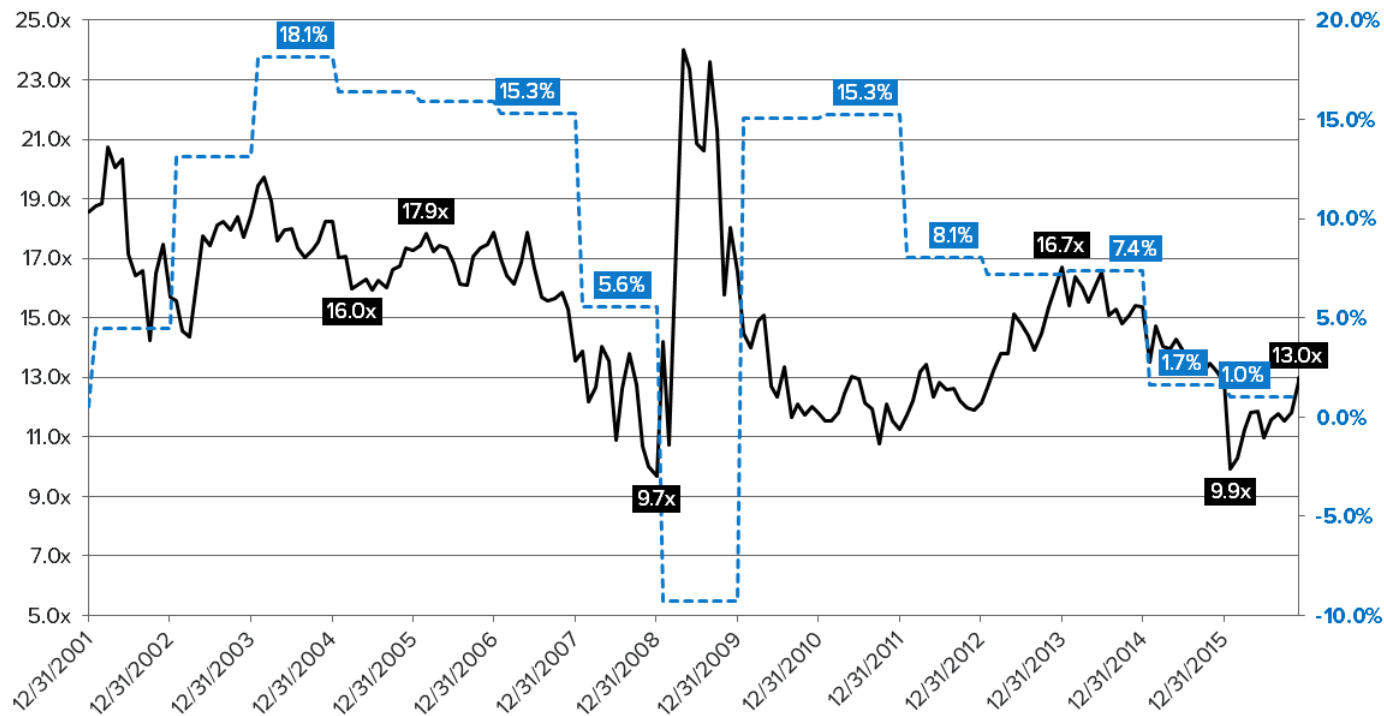
With a mostly good track record, this doesn't bode terribly well.



3.4 VALUATION & OUTLOOK

VALUATION

AXP MULTIPLE - NTM PE Vs. Global Volume Growth Rate



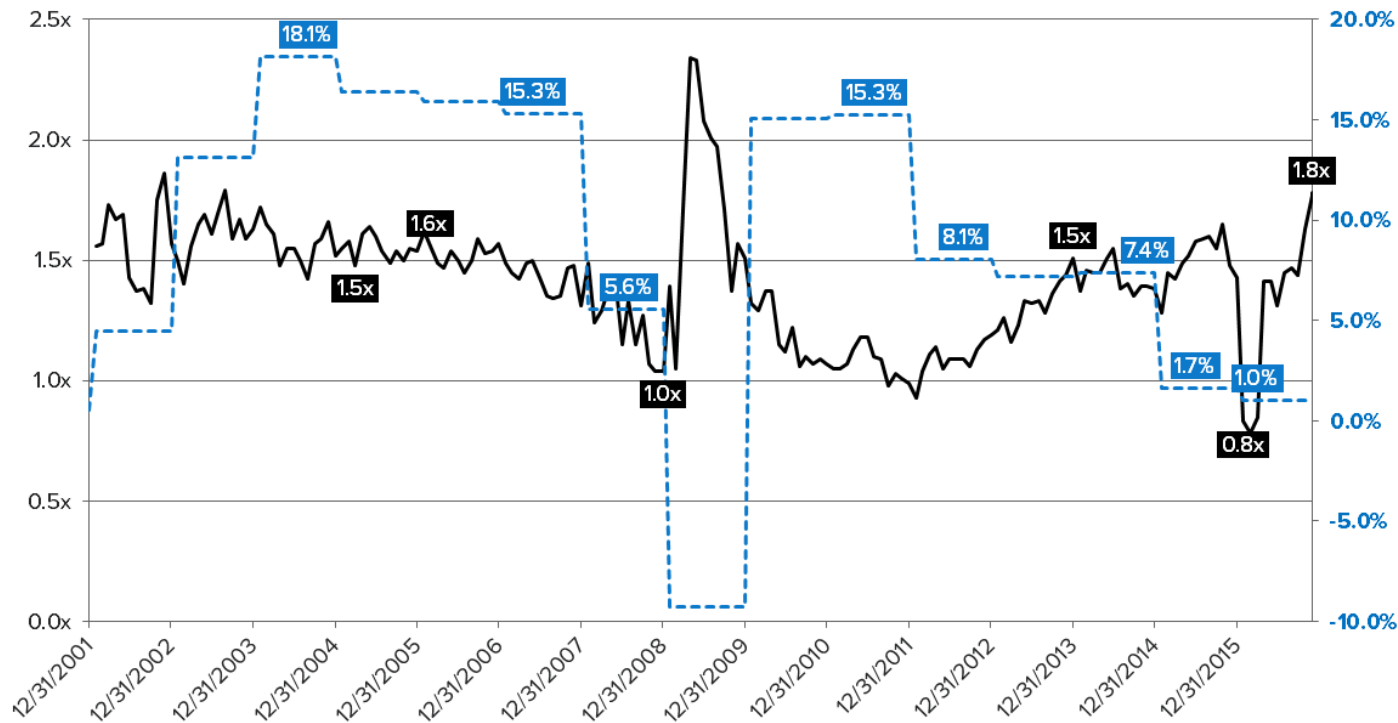
Source: Factset

© Hedgeye Risk Management

13x isn't cheap.

VALUATION

AXP MULTIPLE - NTM PEG Vs. Global Volume Growth Rate



Especially when growth is taken into account.

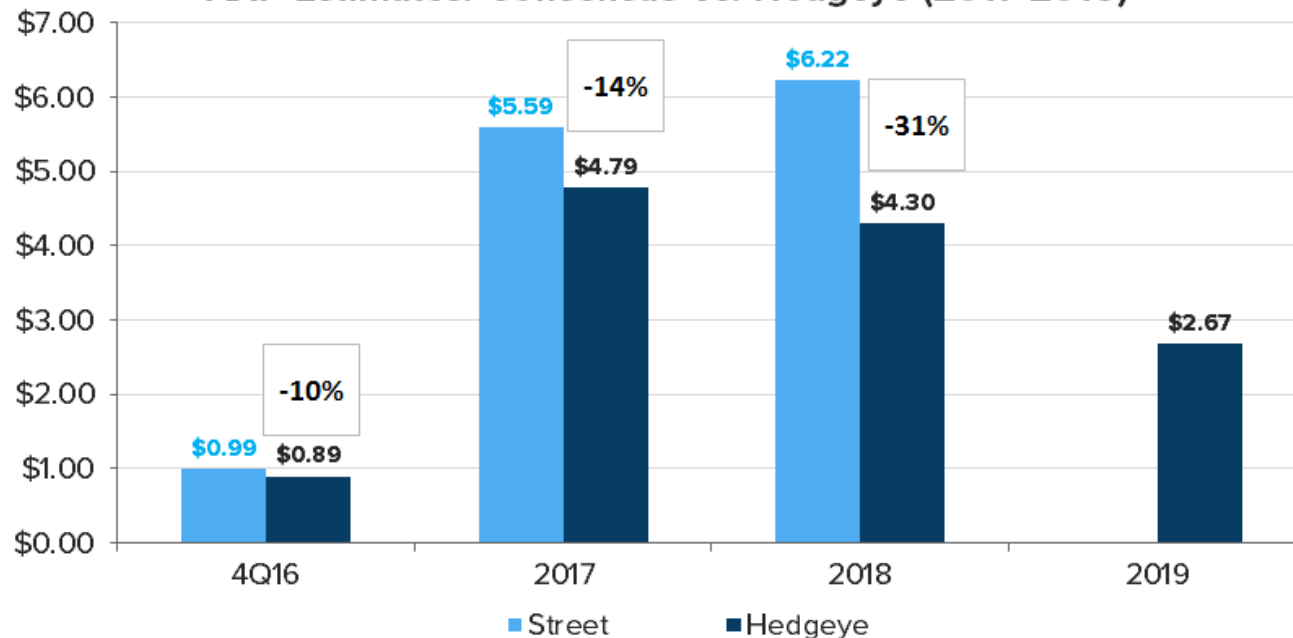
Source: Factset

© Hedgeye Risk Management

ESTIMATES

Our numbers vs the Street.

AXP Estimates: Consensus Vs. Hedgeye (2017-2018)



Source: Factset, Hedgeye Calculations

© Hedgeye Risk Management

OTHER HEADWINDS

American Express Co. (AXP)

Q3 2016 Earnings Call



Corrected Transcript
19-Oct-2016

We believe that the fourth quarter provides an opportunity to bring together and leverage the combined impact from all of these initiatives to best position the company for growth in 2017 and many years beyond. As a result, we now anticipate that marketing and promotion expenses during Q4 will be significantly higher sequentially; and that for the full year, M&P will be more than 10% above 2015 levels.

American Express Co. (AXP)

Q3 2016 Earnings Call



Corrected Transcript
19-Oct-2016

The reported rewards expense declined 11% versus the prior year, much more than the 3% decline in reported billings I mentioned earlier. We first noted this variance in Q2, as the billings from cobrand products that formally drove rewards expense come off the network and are partially replaced with new volumes that are more likely to earn cashback rewards, which are recorded as contra-discount revenue.

Excluding volumes and rewards from the Costco cobrand in the prior year and including the cost of rewards on cashback products, the growth in adjusted rewards was relatively in line with the growth in adjusted proprietary billings this quarter.

Looking forward, however, and consistent with our Investor Day expectations, we would expect this trend to change; and for rewards, including cashback, to grow faster than billings as we continue to enhance our product value propositions overtime beginning in the fourth quarter due to the recent enhancements to our U.S. Platinum products.

More headwinds in 4Q.

HERE'S THE GAMEPLAN



Scenario Assumptions



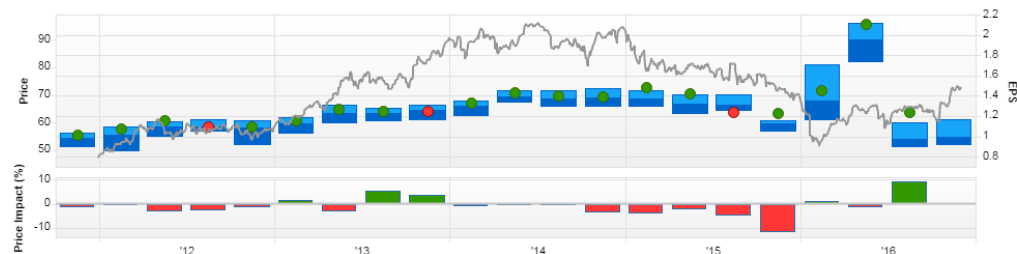
	Stronger Revenue Growth
BB Growth	8-10%
Loan Growth	9-11%
Calculated Discount Rate Erosion	4-6 bps/yr
Reported Discount Rate	2-3 bps/yr
Other	2-3 bps/yr
Revenue Growth	6%
Rewards Expense Growth	11-12%
Write-Off Rate Increase	15-25 bps/yr
M&P Growth	2-4%
Opex Growth	1-2%
Payout Ratio	85%
EPS Growth	10-12%

165

Everyone has a plan ...
- Mike Tyson

EARNINGS SURPRISE HISTORY

American Express Company (AXP) \$72.53 Next Rpt Date: 19 Jan '17 Key Statistics FactSet Estimates



The EPS majority basis is EPS - Non GAAP | U.S. Dollar

Period	Event Date	After Event	Mean	Surp (%)	Num of Est	Low	High	Guid (Low)	Guid (High)	Price Imp (%)
Dec '16E	-	-	0.99	-	26	0.92	1.16	-	-	-
Sep '16	20 Oct '16	1.24	0.97	27.9	28	0.90	1.13	-	-	9.0
Jun '16	21 Jul '16	2.10	1.95	7.5	22	1.74	2.11	-	-	-1.6
Mar '16	21 Apr '16	1.45	1.35	7.4	30	1.17	1.71	-	-	0.9
Dec '15	22 Jan '16	1.23	1.12	9.6	30	1.05	1.15	-	-	-12.1
Sep '15	22 Oct '15	1.24	1.31	-5.3	30	1.26	1.41	-	-	-5.2
Jun '15	23 Jul '15	1.42	1.32	7.5	30	1.23	1.41	-	-	-2.5
Mar '15	17 Apr '15	1.48	1.36	8.5	29	1.29	1.45	-	-	-4.4
Dec '14	22 Jan '15	1.39	1.38	0.5	28	1.30	1.47	-	-	-3.8
Sep '14	16 Oct '14	1.40	1.37	2.4	25	1.30	1.45	-	-	-0.9
Jun '14	30 Jul '14	1.43	1.39	3.1	23	1.34	1.45	-	-	-0.9
Mar '14	17 Apr '14	1.33	1.30	2.5	26	1.21	1.34	-	-	-1.4
Dec '13	17 Jan '14	1.25	1.25	-0.3	26	1.16	1.31	-	-	3.6
Sep '13	17 Oct '13	1.25	1.22	2.3	26	1.15	1.28	-	-	5.1
Jun '13	18 Jul '13	1.27	1.22	4.0	26	1.13	1.31	-	-	-3.6
Mar '13	18 Apr '13	1.15	1.12	2.3	24	1.03	1.18	-	-	1.4
Dec '12	18 Jan '13	1.09	1.08	0.5	23	0.92	1.15	-	-	-1.6
Sep '12	18 Oct '12	1.09	1.09	-0.1	26	1.05	1.16	-	-	-3.0
Jun '12	19 Jul '12	1.15	1.10	4.8	23	1.00	1.14	-	-	-3.5
Mar '12	19 Apr '12	1.07	1.01	6.2	23	0.86	1.09	-	-	-0.8
Dec '11	20 Jan '12	1.01	0.98	2.9	23	0.90	1.03	-	-	-1.8

The company usually beats numbers and the stock usually sells off.

DOJ ANTI-TRUST CASE: OVERVIEW & POTENTIAL IMPACT

Case Overview:

The Justice Department brought an anti-trust case against American Express alleging that the provisions in its merchant agreements that prevent merchants from asking customers if they have another card that they can use (as an attempt to avoid paying the higher processing fee of AmEX cards) violates anti-trust laws, because it prohibits merchants from using various tactics to avoid the fees associated with AmEx products.

Potential Impact of Ruling:

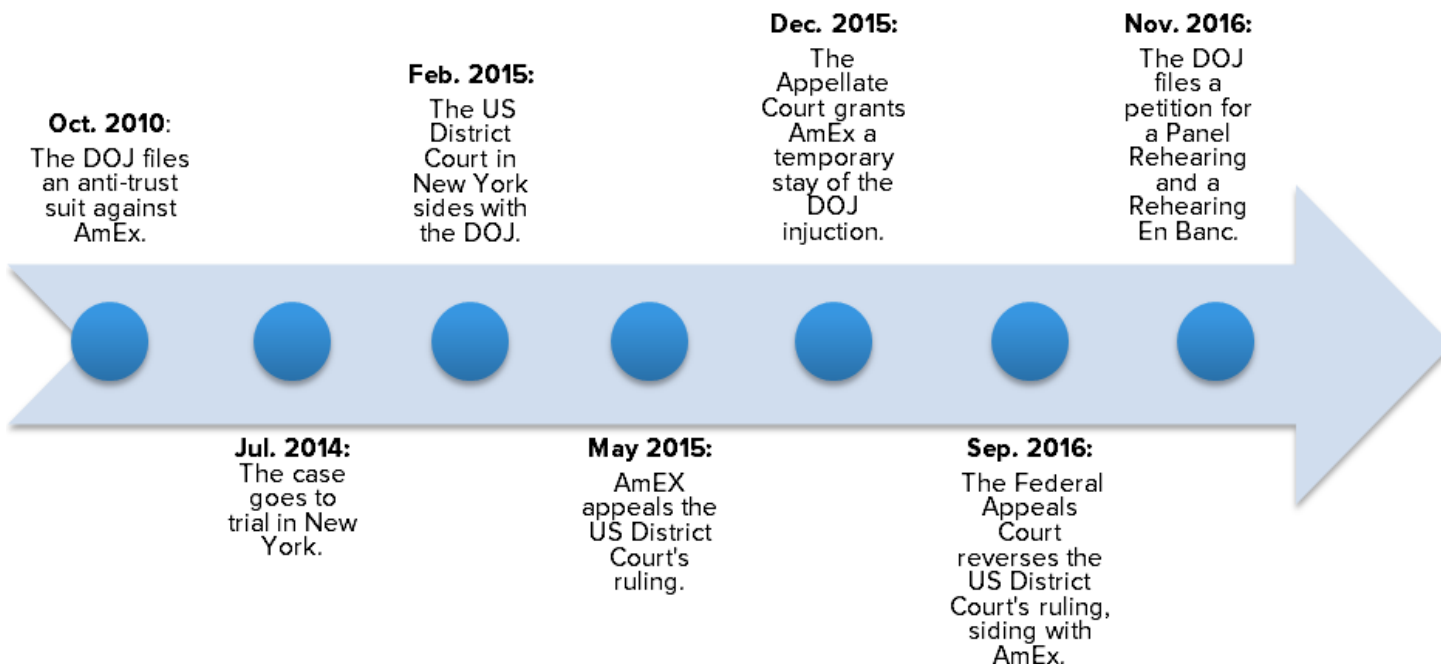
“An adverse outcome in these proceedings against us (including an adverse final judgment following appeal in the DOJ and state action) could have a material adverse effect on our business and results of operations...Even if we were not required to change our merchant agreements, changes in Visa’s and MasterCard’s policies or practices as a result of legal proceedings, lawsuit settlements or regulatory actions could result in changes to our business practices and materially and adversely impact our profitability”.

- American Express 2015 10K Filing.

This case presents a major risk to AmEx’s financial health because of the impact that an adverse ruling could have on the way that the company conducts business.

DEPARTMENT OF JUSTICE ANTI-TRUST CASE

Timeline of DOJ case v. American Express



While the Federal Appeals Court ruled in favor of AmEx in September, the DOJ recently filed a petition for a rehearing of the arguments in the case.

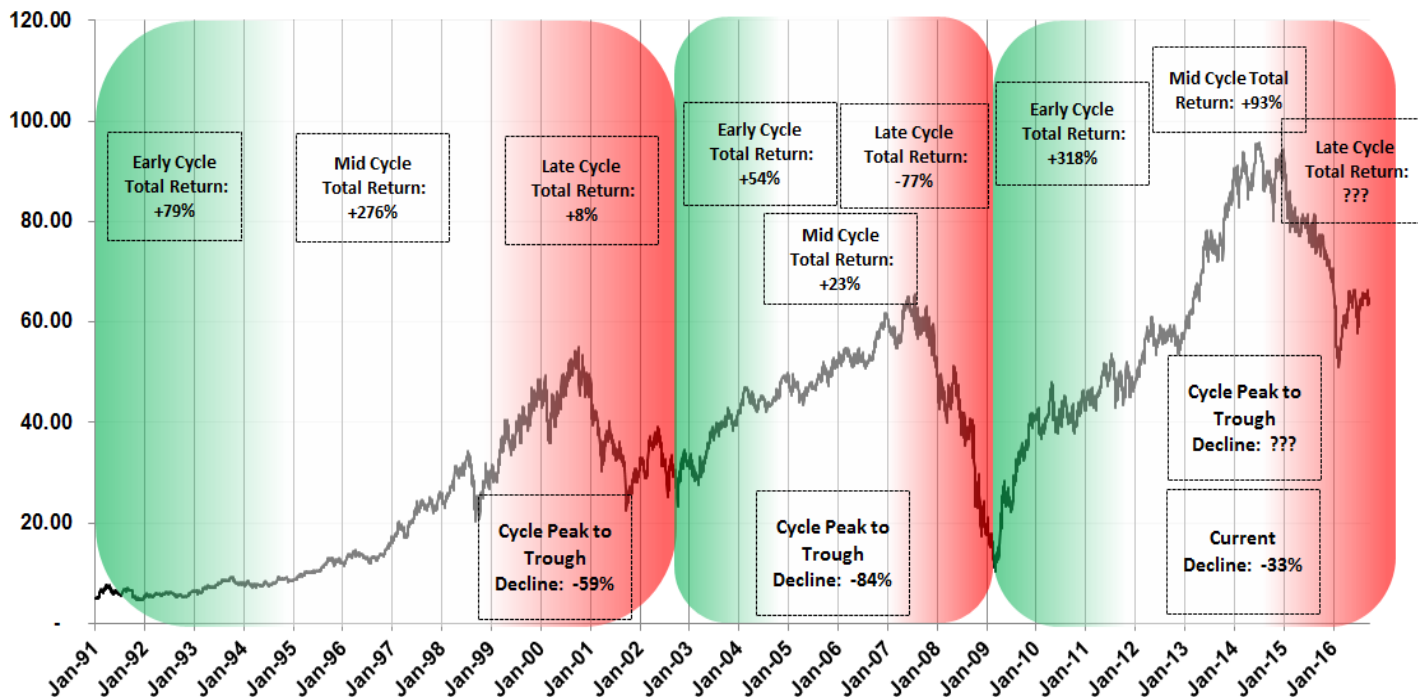


4. THE CREDIT CYCLE



CYCLE PERFORMANCE – AMERICAN EXPRESS (AXP)

AMERICAN EXPRESS (AXP) STOCK PRICE (1991-PRESENT)



DATA SOURCE:FACTSET

©2016 HEDGEYE RISK MANAGEMENT

American Express offers an interesting case study in credit card cycle performance. **In the last two cycles the stock has seen peak-to-trough declines of -59% and -84%,** respectively, while generating total return of +8% and -77% in the “late cycle” (final third) portion of the last two cycles. Currently the stock has declined by -33% from its mid-2014 peak in the mid-\$90s.

One thing to note is that in the early 1990s, American Express was a more diversified Financial Services company.

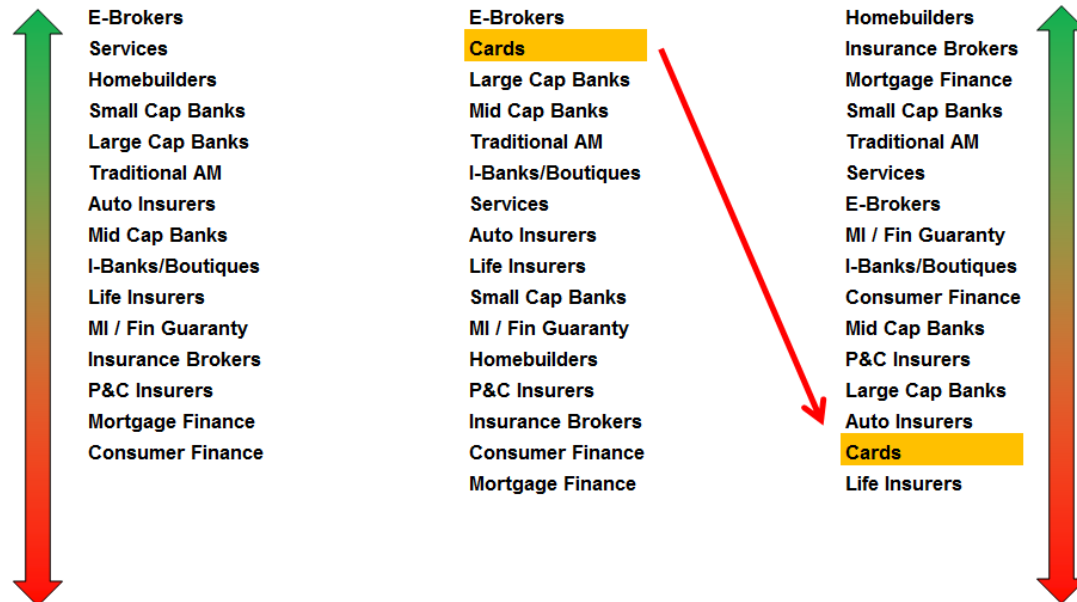
CYCLE PERFORMANCE STUDIES – FINS SUBSECTORS

Hedgeye Financials Sub-Sector Performance Across the Market Cycle (1991-2002)

Early Cycle
(Jan 91 -
Dec 94)

Mid Cycle
(Dec 94 -
Nov 98)

Late Cycle
(Nov 98 -
Oct 02)



Source: Hedgeye, Factset

We were curious whether certain subsectors of Financials were consistent underperformers / outperformers based on different points in the cycle.

This is the output of the first of three cycles that we evaluated. It covers the 1991-2002 period. We divided the Early / Mid / Late cycle bins evenly and compared performance. Cards were one of the best mid-cycle performers and one of the worst late-cycle. Note, there was no early cycle performance to evaluate due a lack of companies.

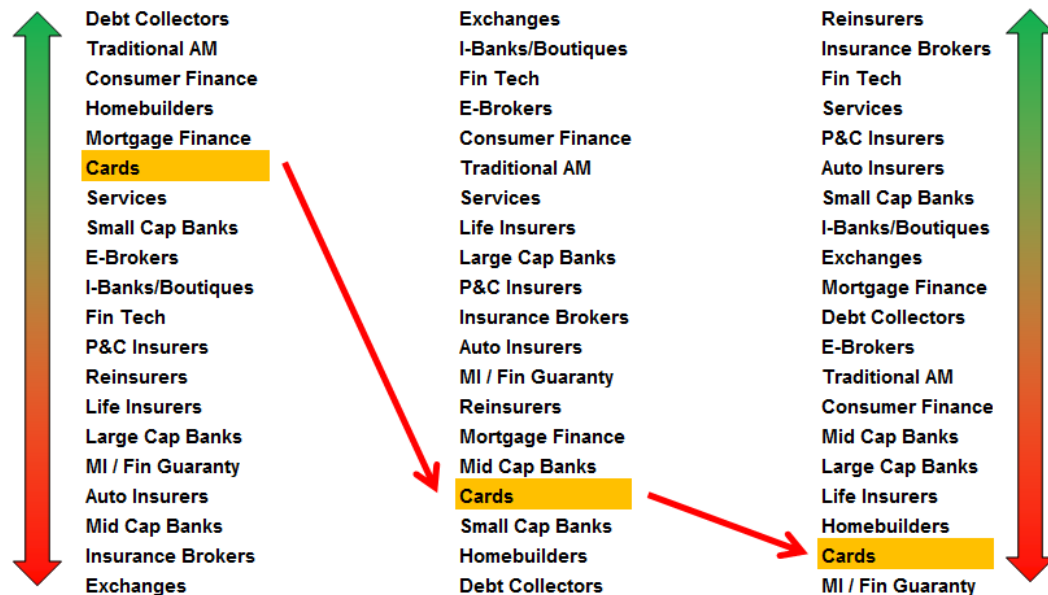
CYCLE PERFORMANCE STUDIES – FINS SUBSECTORS

Hedgeye Financials Sub-Sector Performance Across the Market Cycle (2003-2009)

Early Cycle
(Nov 02 - Dec 04)

Mid Cycle
(Dec 04 - Jan 07)

Late Cycle
(Jan 07 - Feb 09)

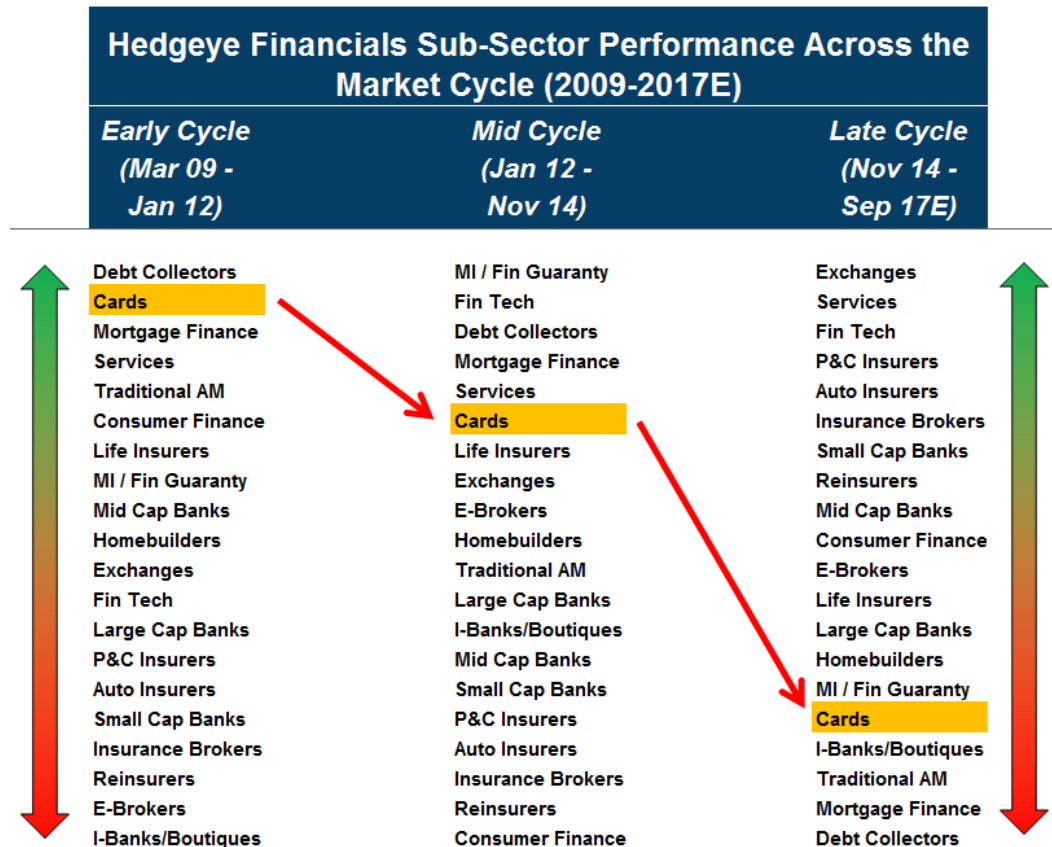


Source: Hedgeye, Factset

This is the output of the second of three cycles that we evaluated. It covers the 2003-2009 period. Cards were one of the better early-cycle performers, but performed poorly mid-cycle and were the second worst overall subsector late cycle.

It's interesting to note that cards were the second worst overall performer in both the previous cycle and this cycle.

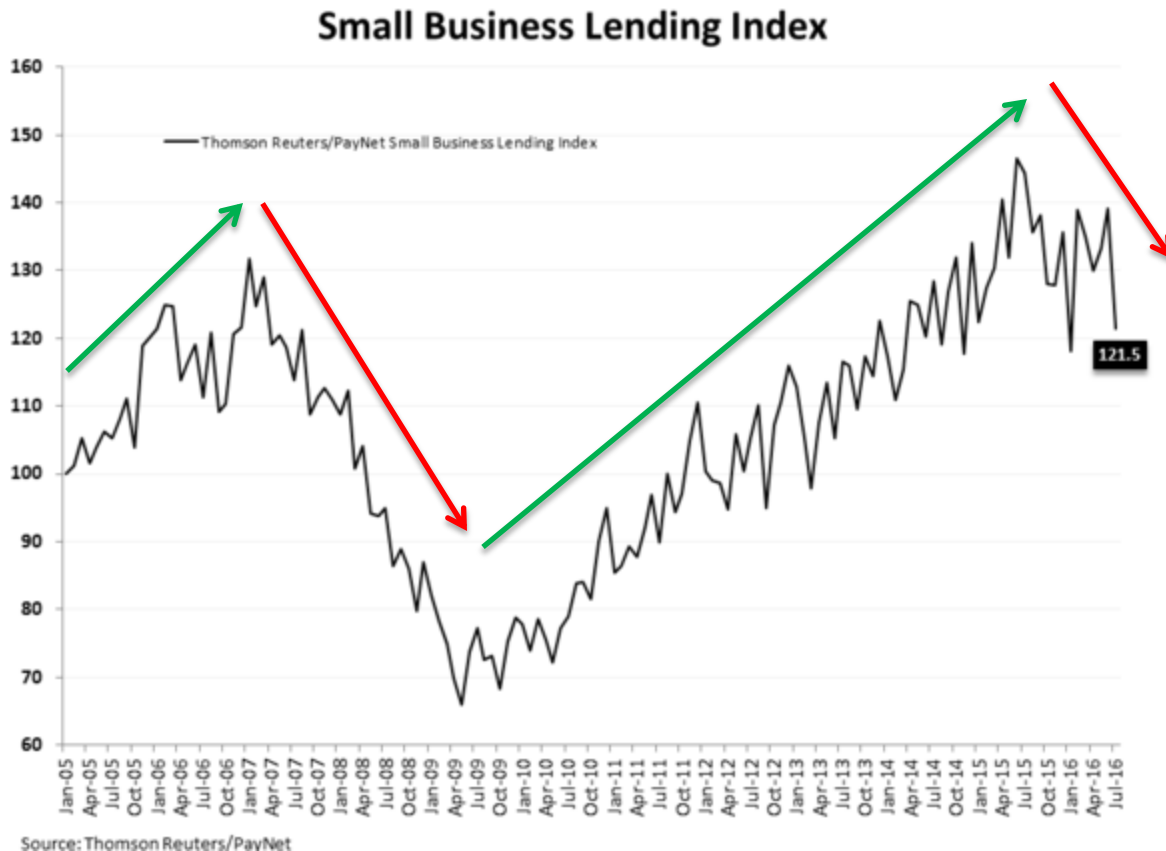
CYCLE PERFORMANCE STUDIES – FINS SUBSECTORS



Source: Hedgeye, Factset

In this final assessment, we've taken some creative liberty. Namely, we've assumed that the cycle lasts one more year. This was a necessary assumption in order to divide the cycle into even thirds and analyze performance. For reference, the 1990s cycle lasted 9 years, the 2000s cycle lasted 6 years, and our assumption is that this cycle lasts 8 years. Interestingly, cards were the second best performing sector early cycle, top-third mid-cycle and thus far are bottom quartile late cycle.

SMALL BUSINESS CANARIES – LOAN VOLUMES

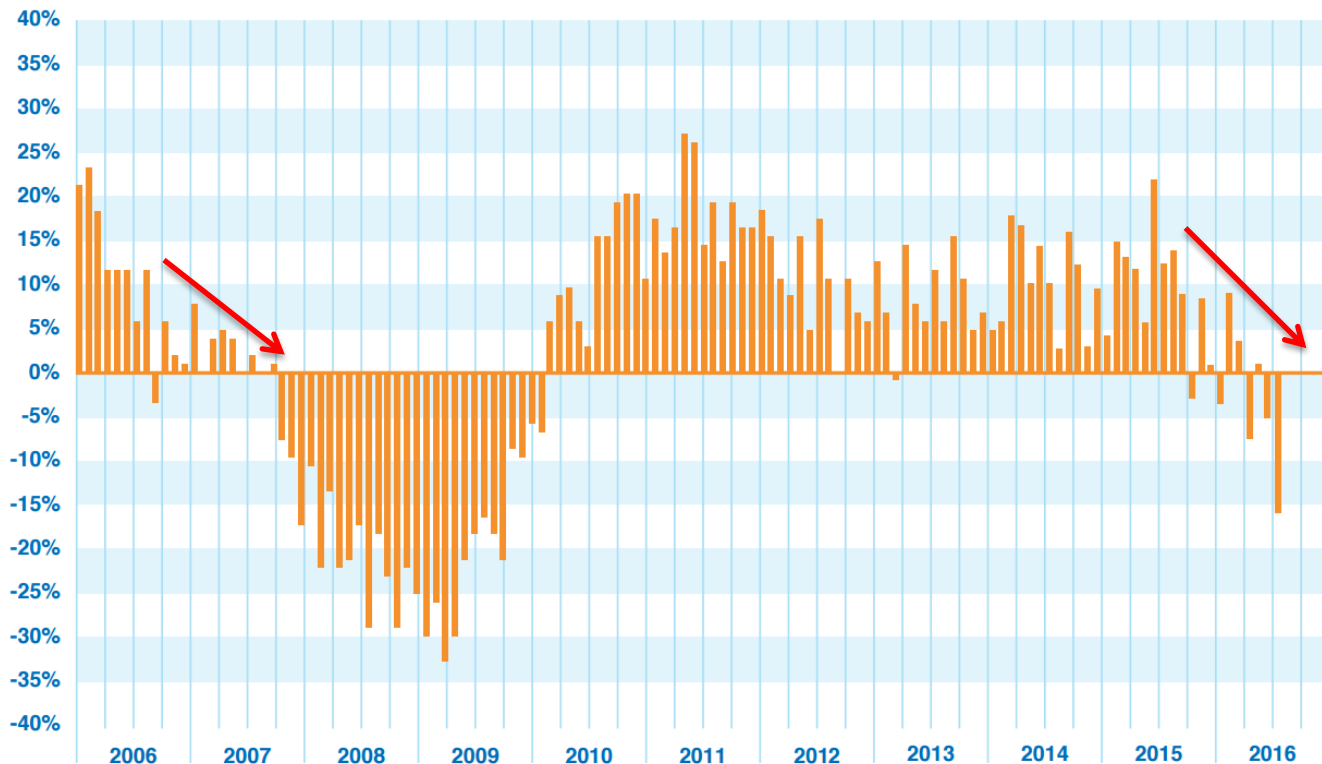


Small Business lending volumes dropped -12.7% MoM in July according to the latest Thomson Reuters/Paynet Small Business Lending Index. At an index reading of 121.5, this represents the slowest pace of small business lending activity in almost two years outside of the peak growth/deflationary angst print in January.

Looking back, lending peaked in Jan, 2007 in the last cycle and declined ~15% by the end of 2007. This cycle, lending peaked in June, 2015 and is now down ~17%.

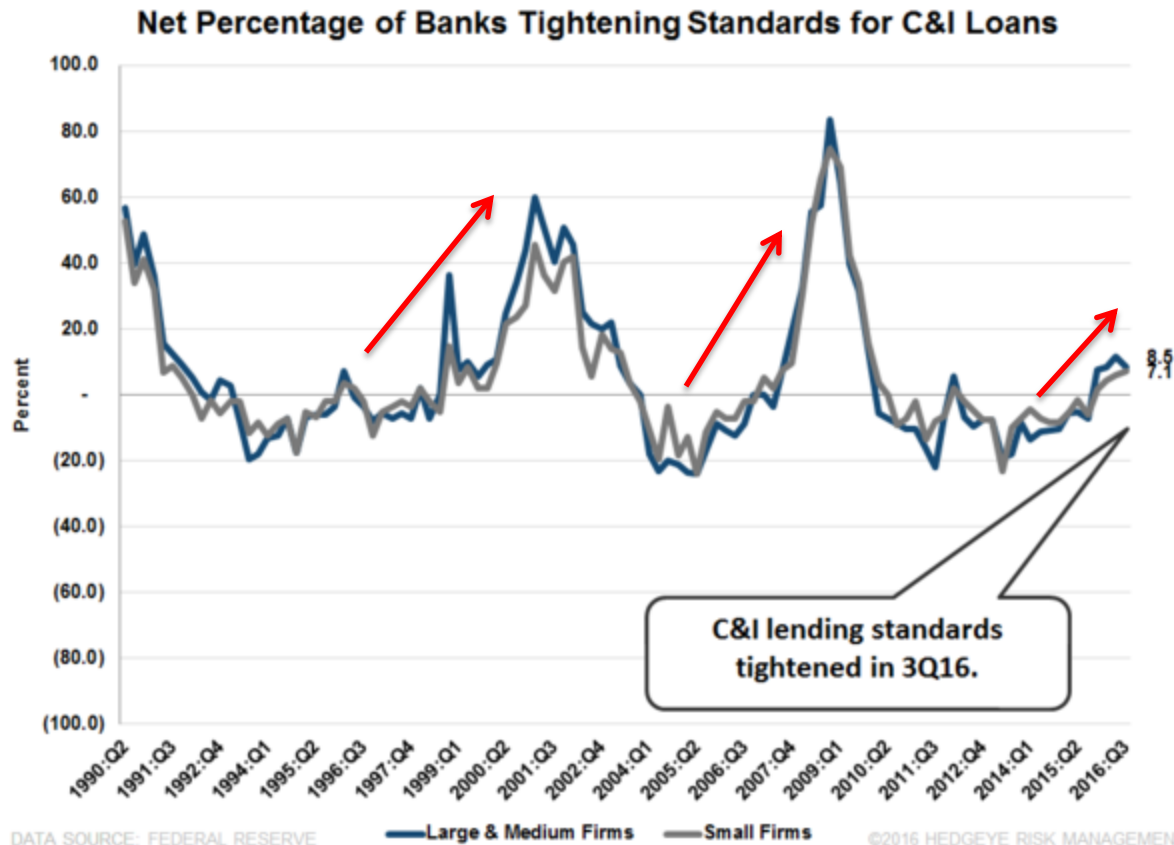
SMALL BUSINESS CANARIES – LOAN VOLUMES

Thomson Reuters/PayNet SBLI Year-Over-Year Change
(January 2006 - July 2016)



The Y/Y change taking place in small business lending originations is also striking. Three of the last four monthly prints have been negative Y/Y and the most recent print is down over 15%. The last time the index looked like this was December, 2007.

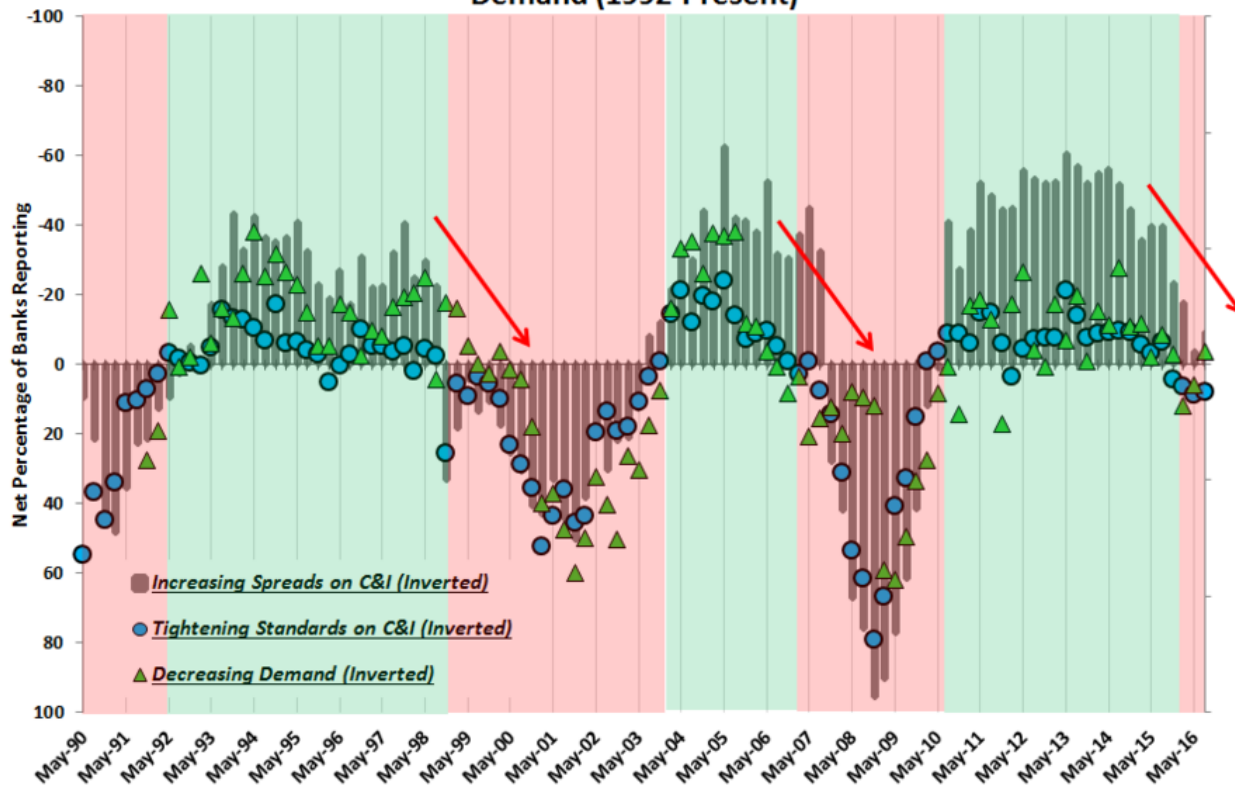
LARGE & MID-SIZE CANARIES – C&I LOANS



A net percentage of banks tightened C&I lending standards for the fourth quarter in a row in the most recent Fed Senior Loan Officer Survey (Early August). 9% of banks tightened C&I standards for large and medium firms (7% for small firms). While the net percentages are still fairly low, it's the trend inflection that matters.

LARGE & MID-SIZE CANARIES – C&I LOANS

Senior Loan Officer Survey Measures of C&I Spreads, Standards and Demand (1992-Present)

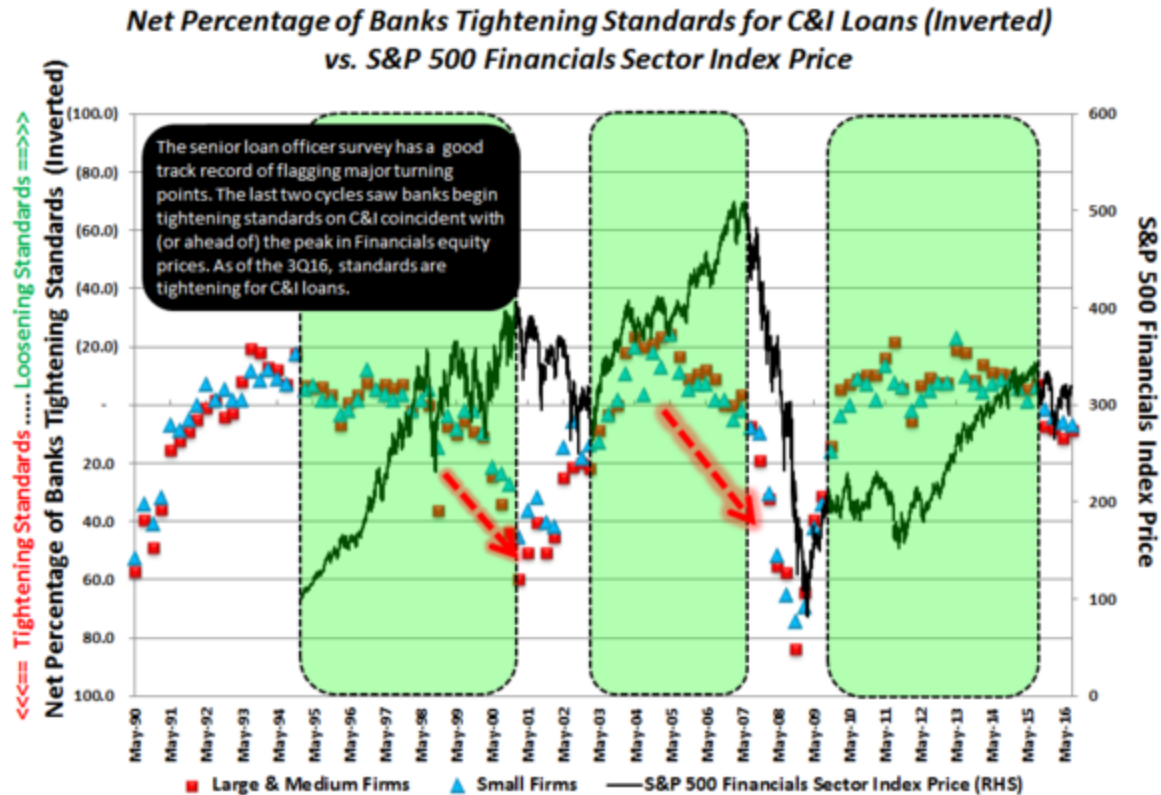


Source: Federal Reserve Senior Loan Officer Survey

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Historically, when C&I standards have begun to tighten it has coincided with a general tightening in credit conditions.

LARGE & MID-SIZE CANARIES – CRE LOANS

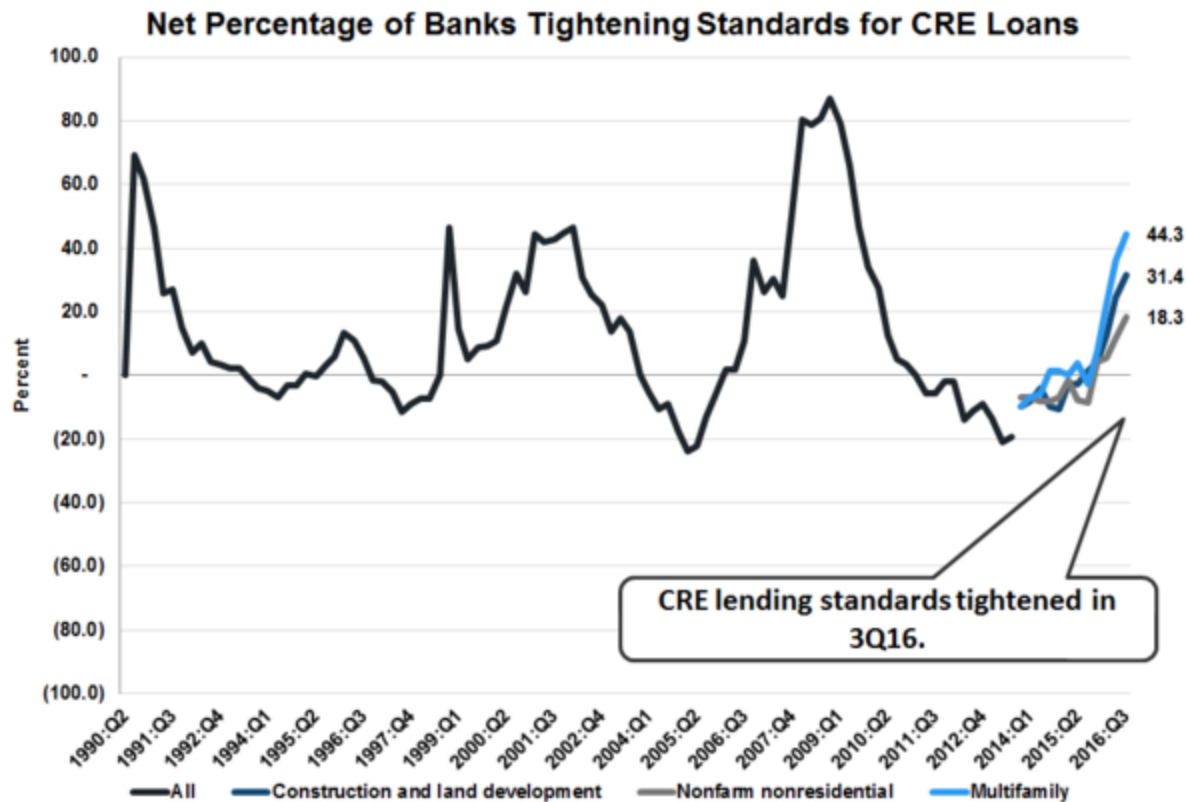


Source: Federal Reserve Senior Loan Officer Survey

HEDGEYE
RISK MANAGEMENT

The persistent negative responses in the C&I and CRE lending categories appears to be signaling an inflection point in the credit cycle. The chart to the left shows historical C&I lending standards (LHS) vs the S&P 500 Financials Index (RHS). C&I lending standards have historically begun tightening coincident with or ahead of peaks in Financial equity prices.

LARGE & MID-SIZE CANARIES – CRE LOANS

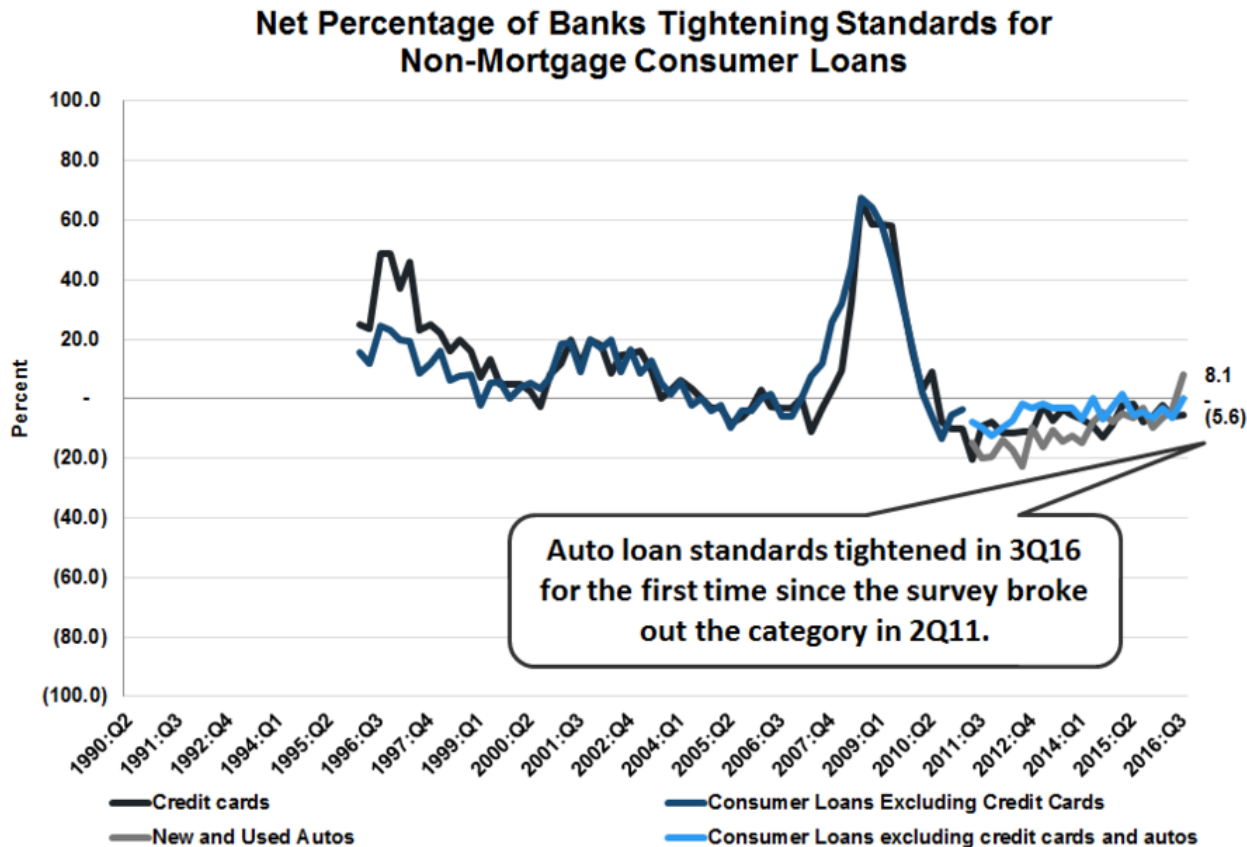


DATA SOURCE: FEDERAL RESERVE

©2016 HEDGEYE RISK MANAGEMENT

Commercial real estate (CRE) lending saw continued tightening this quarter across all three subcategories: Construction & Development (C&D), Nonfarm Nonresidential, and Multifamily. This marks the fifth quarter in which standards have tightened on C&D loans and the fourth quarter in which Nonfarm Nonresidential loans have seen standards tighten. The MF category reached a new high at 44.3% of banks tightening this quarter.

CONSUMER CANARIES – NON-MORTGAGE CONSUMER



DATA SOURCE: FEDERAL RESERVE

©2016 HEDGEYE RISK MANAGEMENT

Consumer loan standards are also trending towards tightening. Auto loans are the most conspicuous example, where lending standards are now tightening, but credit card and other consumer loans (ex card and ex auto) are also trending towards the zero-bound.

SHOCK ABSORBERS?

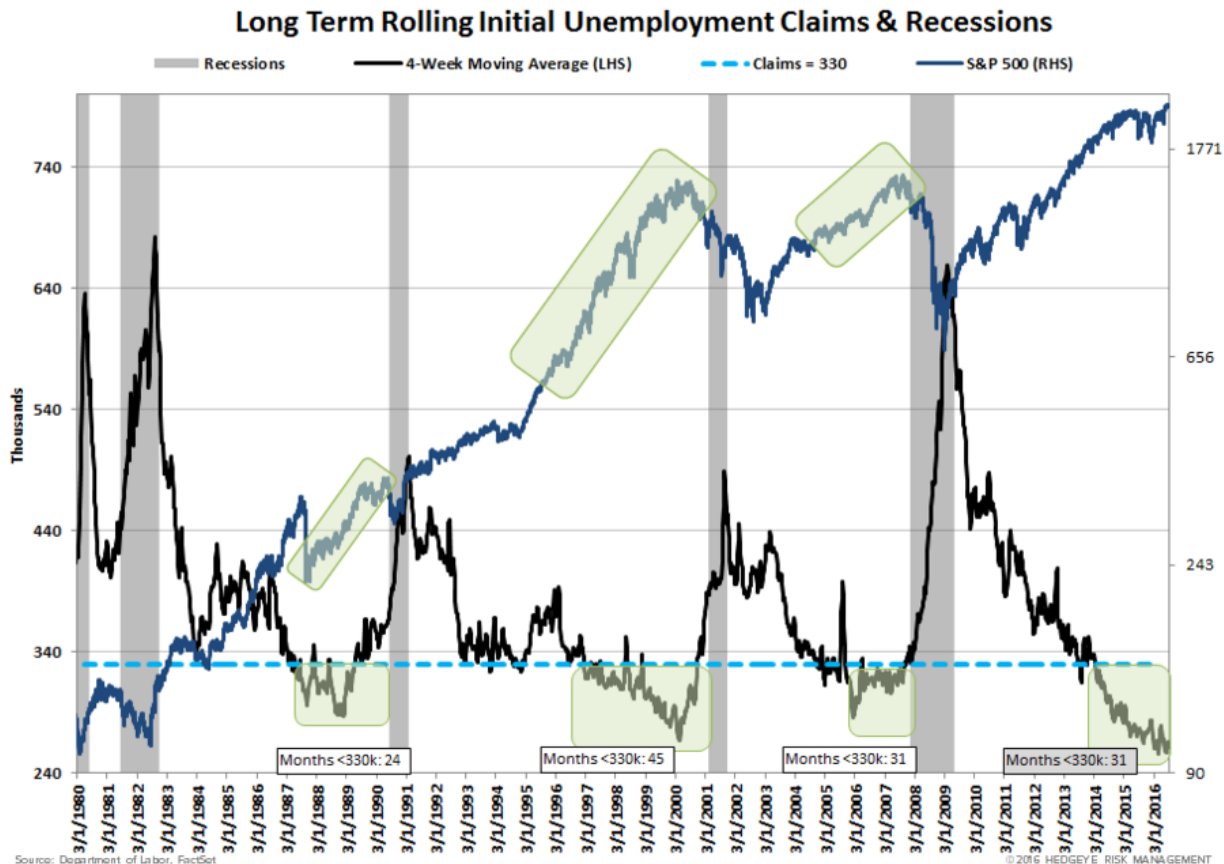
The Fed's Policy Cushion

Economic Cycle						
Economic Cycle Peak	Cycle Trough	Recession Duration (Mo.)	Subsequent Expansion (Mo.)	Fed Funds Peak Level	Fed Funds Trough Level	Policy Cushion
Dec-69	Nov-70	11	36	9.2	3.7	-5.5
Nov-73	Mar-75	16	58	12.9	5.2	-7.7
Jan-80	Jul-80	6	12	17.6	9.0	-8.6
Jul-81	Nov-82	16	92	19.1	8.5	-10.6
Jul-90	Mar-91	8	120	9.9	2.9	-6.9
Mar-01	Nov-01	8	73	6.5	1.0	-5.6
Dec-07	Jun-09	18	79	5.3	0.1	-5.2
Average			65	12.5	5.1	-7.5
Current			79	0.30		
UPSIDE / DOWNSIDE vs Historical Ave						
UPSIDE / DOWNSIDE vs Historical MAX/MIN				Current Policy Cushion =		
						-0.3

Source: NBER, BEA, BLOOMBERG, CENSUS BUREAU, NAR, Robert Shiller, HEDG

One of the challenges as we move into this next cyclical downturn will be the Fed's ability to stimulate. In the last 7 cycles, the Fed has eased rates by an average of 750 bps. In the last two cycles, it has cut rates by 560 and 520 bps. The current policy cushion, meanwhile, is less than 50 bps.

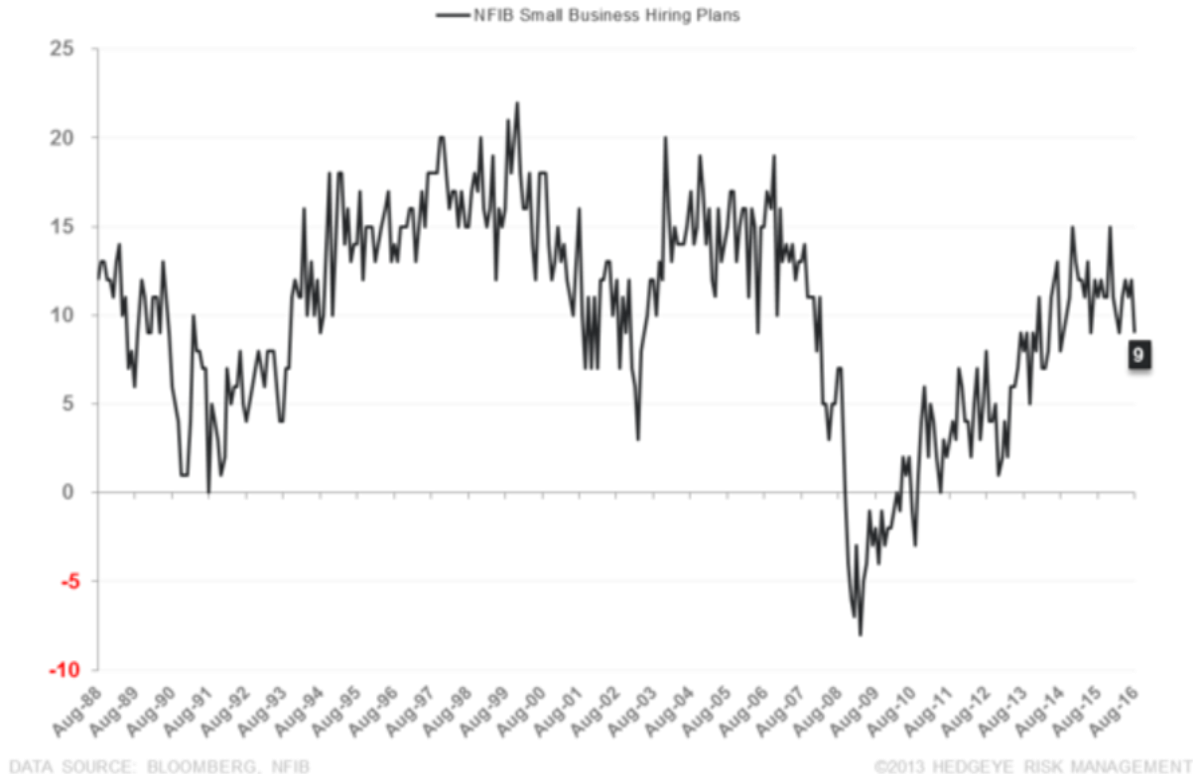
LABOR IS LONG IN THE TOOTH



The last three cycles have seen initial jobless claims fall below 330k and remain below that level for 24 months, 45 months and 31 months, respectively. That works out to an average of 33 months. The current cycle is now entering its 32nd month below 330k indicating that we've eclipsed the late 1980s expansion and the 2000s expansion and we're now ~12 months away from tying the 1990s expansion in duration.

LABOR IS LONG IN THE TOOTH

NFIB SMALL BUSINESS HIRING PLANS



Meanwhile, small business hiring plans appear to be slowing.

Bear in mind, **Small Businesses represent ~99% of total U.S. Employer firms, ~50% of total Private Sector Employment and ~60% of net private sector hiring** on a monthly basis.

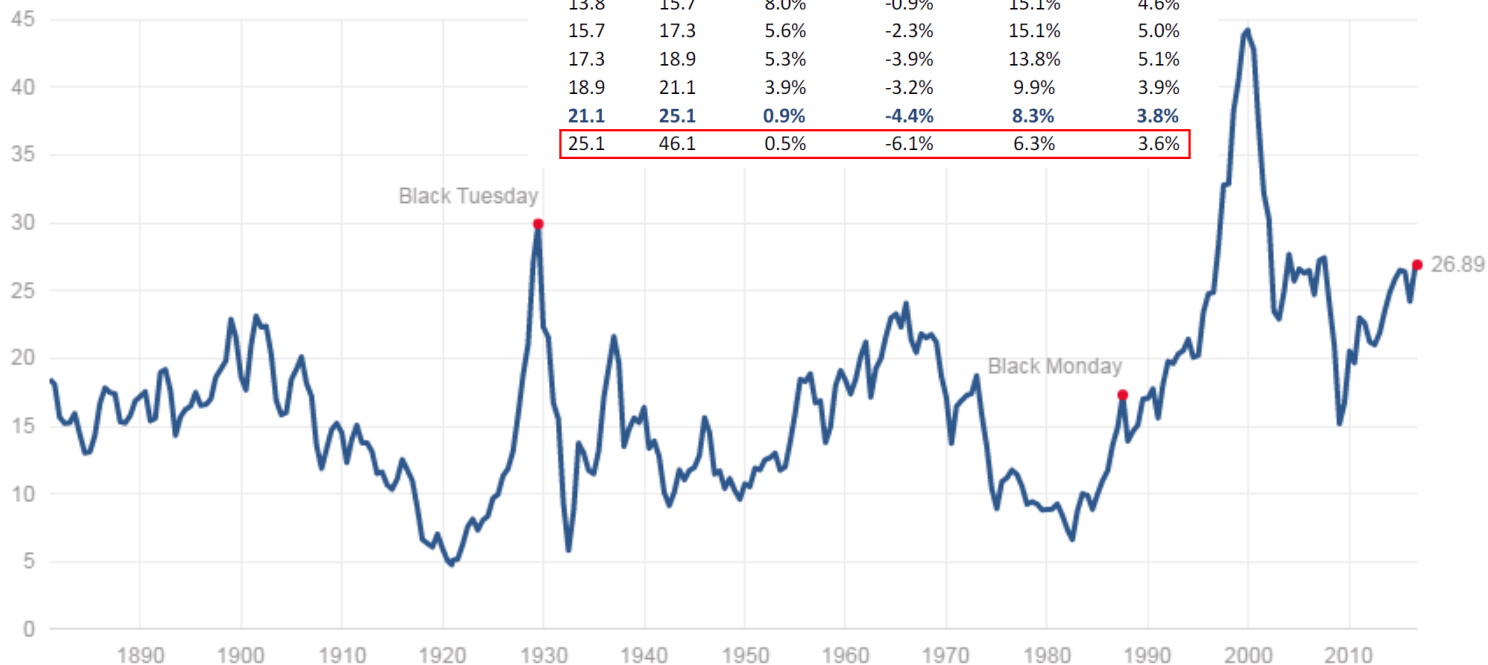
The trend in small business hiring, confidence and investment spending remains critical to aggregate trends in employment and economic activity. In short, it still matters.

MEANWHILE, THE MARKET'S VALUATION IS STRETCHED

Results For S&P 500 From Different Starting Shiller P/Es 1926-2012

Starting P/E		Avg. Real	Worst Real	Best Real	Standard
<u>Low</u>	<u>High</u>	<u>10 Yr Return</u>	<u>10 Yr Return</u>	<u>10 Yr Return</u>	<u>Deviation</u>
5.2	9.6	10.3%	4.8%	17.5%	2.5%
9.6	10.8	10.4%	3.8%	17.0%	3.5%
10.8	11.9	10.4%	2.8%	15.1%	3.3%
11.9	13.8	9.1%	1.2%	14.3%	3.8%
13.8	15.7	8.0%	-0.9%	15.1%	4.6%
15.7	17.3	5.6%	-2.3%	15.1%	5.0%
17.3	18.9	5.3%	-3.9%	13.8%	5.1%
18.9	21.1	3.9%	-3.2%	9.9%	3.9%
21.1	25.1	0.9%	-4.4%	8.3%	3.8%
25.1	46.1	0.5%	-6.1%	6.3%	3.6%

Shiller PE Ratio



It's worth mentioning that on a CAPE Ratio (Shiller P/E) basis, the market is at 26.9x and is trading above valuation levels seen 95% of the time over the last 135 years.

AQR has analyzed the prospective market returns in the decade following various levels of CAPE valuation and has found that when the market is in the 10th decile, as it is today, the expected forward real return is just 0.5% per year for the next decade.

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