BLACKHAWK NETWORK

Q1 2016 Earnings Report

April 27, 2016
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Forward Looking Statements

This presentation may contain certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are indicated by words or phrases such as "guidance," "believes," "expects," "anticipates," "estimates," "plans," "continuing," "ongoing," and similar words or phrases and the negative of such words and phrases. Forward-looking statements are based on our current plans and expectations and involve risks and uncertainties which are, in many instances, beyond our control, and which could cause actual results to differ materially from those included in or contemplated or implied by the forward-looking statements. Such risks and uncertainties include the following: our ability to generate adequate taxable income to enable us to fully utilize the cash tax benefits referred to in this release, changes in applicable tax law that preclude us from fully utilizing the cash tax benefits referred to in this release, our ability to grow adjusted operating revenues and adjusted net income as anticipated, our ability to grow at historic rates or at all, the consequences should we lose one or more of our top distribution partners or fail to attract new distribution partners to our network or if the financial performance of our distribution partners' businesses decline, our reliance on our content providers, the demand for their products and our exclusivity arrangements with them, our reliance on relationships with card issuing banks, the consequences to our future growth if our distribution partners fail to actively and effectively promote our products and services, the ability of our distribution partners to implement EMV compliance within their expected timeline and lift the measures they may have taken prior to such compliance to limit or control their exposure to liability for fraud losses; changes in consumer behavior away from our distribution partners and our products resulting from limits or controls implemented by our distribution partners during our distribution partners' transition to EMV compliance; the requirement that we comply with applicable laws and regulations, including increasingly stringent money-laundering rules and regulations, and other risks and uncertainties described in our reports and filings with the Securities and Exchange Commission (the "SEC"), including the risks and uncertainties set forth in Item 1A under the heading Risk Factors in our Annual Report on Form 10-K for the year ended January 2, 2016, our Quarterly Report on Form 10-Q for the fiscal quarter ended on March 26, 2016 which is expected to be filed prior to or on May 5, 2016, and other subsequent periodic reports we have filed with the Securities and Exchange Commission. We undertake no obligation to update forward-looking statements to reflect developments or information obtained after the date hereof and disclaim any obligation to do so other than as may be required by law.

Adjusted Operating Revenues Definition Change – Now Excludes Pass-through Marketing Revenues

- **<u>Background</u>**: Blackhawk, or its master distributors in certain countries (e.g., Japan), coordinate marketing programs and promotions delivered to consumers through the distribution partner network, that are funded in whole or in part by its content partners; these pass-through marketing funds are required under U.S. GAAP to be recorded as "*Marketing revenue*" with the offsetting expenses recorded in "*Sales and marketing expenses*"
- **<u>Change</u>**: Starting 2016, A*djusted operating revenues or "AOR"* will exclude marketing pass-through revenues; historical periods have been revised for comparability and posted to the Company's investor relations website (ir.blackhawknetwork.com). In addition, we will use the new AOR as opposed to "Pro-forma adjusted operating revenues" to measure expenses as a percent of revenue.
- Full year 2016 marketing revenues projected in the range of $90 - $100 million

($ in millions)	Q1'16	Q1'15	Growth	FY15	FY14	Growth
AOR (Previous Definition)	$198	$164	21%	$934	$683	37%
Less: Marketing Revenues	(13)	(14)		(105)	(65)	
AOR (Revised)	$185	$150	23%	$829	$618	34%

Adoption of Accounting Standards Update 2016-09 Cash Tax Benefit from Deductible Stock-based Compensation Expense

- **Background**: ASU 2016-09 changes the accounting treatment of certain aspects of incentive stock plans; most significantly certain realized tax benefits that previously were treated as increases in paid-in-capital are now treated as a reduction in GAAP tax expense and in our reconciliation of Adjusted Net Income as a component of "*Reduction in cash taxes payable from amortization of acquisition intangibles, utilization of acquired NOLs and deductible stock-based compensation*"
- **Change:** We early adopted ASU 2016-09 during the first quarter of 2016; historical periods have been revised and posted to Company's investor relations website. Adoption is mandatory for all companies for fiscal years beginning on of after December 15, 2016
- See the Company's Form 10-Q for the first quarter of 2016 for additional details. The following table shows the amounts of the reduction in cash taxes payable for 2014 and 2015 and the estimated 2016 amount

$ in millions except per share data	Q1'16	Q1'15	2015	2014
PREVIOUS: Reduction in cash taxes payable from amortization of acquisition intangibles & utilization of acquired NOLs	$4	$3	$12	$5
Add: Reduction in cash taxes payable from deductible stock-based compensation	**6**	**5**	**13**	**4**
REVISED: Reduction in cash taxes payable from amortization of acquisition intangibles, utilization of acquired NOLs and deductible stock-based compensation	$10	$ 8	$25	$9

Key Financial Metrics (non-GAAP)

Q1'16 vs Q1'15

($ in millions except EPS)	Guidance*	Q1'16	Q1'15	% Change
Adjusted Operating Revenues (AOR)	$177 - $189	$185	$150	23%
Adjusted EBITDA	$26 - $27	$29	$27	7%
Adjusted Net Income before Reduction in Cash Taxes Payable	$7 - $8	$10	$10	2%
Adjusted EPS before Reduction in Cash Taxes Payable	$0.13 - $0.14	$0.17	$0.17	0%
Adjusted Net Income	$24 - $25	$26	$24	8%
Adjusted Diluted EPS	$0.41 - $0.43	$0.46	$0.44	5%

- AOR excludes marketing revenues; finished quarter toward high end of guidance range
- Adjusted EBITDA growth lower than AOR growth due to EMV impact
- Adjusted Net Income exceeded guidance range due to strong performance in Incentives and International segments

* Q1'16 guidance provided on February 23, 2016 is revised in table above to exclude "pass-through" marketing revenues and to include deductible stock-based compensation expense (ASU 2016-09 adoption)

Q1 2016 Highlights

U.S. Retail – EMV impact greater than expected; certain distribution partners implemented additional restrictions to reduce chargebacks from fraudulent credit card purchases of gift cards

Incentives – AOR grew 72% with organic AOR growth of 18%; Achievers was EBITDA positive and ahead of plan; Incentives component of the Giftcards.com acquisition is also exceeding expectations

International – AOR grew 33%; Germany, AsiaPac and newly acquired Didix drove overall International to exceed expectations

Digital Channels – TDV across all digital, online and mobile distribution channels $184 million, up 140% year-over-year; organic growth 50%; represents approximately 8% of total gift card TDV

Segment Financial Metrics (non-GAAP)

Q1'16 vs. Q1'15

($ in millions)	US Retail	Int'l Retail	Incentives	Corporate & Unallocated	Total
TDV 2016	$1,938	$733	$502		$3,173
TDV 2015	$1,964	$645	$502		$3,111
% Increase	-1%	14%	-		2%
AOR 2016	$103	$21	$61		$185
AOR 2015	$99	$15	$36		$150
% Increase	4%	33%	72%		23%
Adjusted EBITDA 2016	$46	$4	$14	$ (35)	$29
Adjusted EBITDA 2015	$44	$3	$7	$ (27)	$27
% Increase	2%	39%	104%	28%	7%

- US Retail: excluding *estimated* Q1'16 EMV impact, TDV was +3%, AOR +10% and adjusted EBITDA +14%
- International retail organic growth driven by Germany and Japan; FX impact on AOR approximately $1M
- Incentives AOR and adjusted EBITDA growth due to the addition of Achievers and Giftcards.com B2B business and favorable program fees related to a contract amendment
- Unallocated expense growth related to higher information-security, compliance and acquisition support expenses

U.S. Retail — EMV Update

U.S. Retail

- **Some non-EMV-compliant distribution partners have taken increasingly restrictive measures to limit chargebacks related to fraudulent credit card transactions**
  - *Established limits on credit card purchases of gift cards*
  - *Move to cash or debit only for purchases of certain gift cards*
  - *Removal of high denomination open loop products*
- **Some partners are experiencing delays in hitting EMV compliance dates**
  - *Based on most recent partner provided information, we estimate partners representing approximately 95% of open gift card TDV will be EMV compliant by end of September 2016*
- **Revised full year estimates of EMV impact are $51 million on Adjusted Operating Revenues and $44 million on Adjusted EBITDA**
  - *Our previous estimate was based on measures DPs had taken and plans communicated at that time coupled with the sales impact we had observed at the time*
  - *Our current estimate takes into account the additional measures taken by DPs and allows for some slip in DP EMV compliance dates and a ramp period in sales*
  - *Estimated total impact reduces 2016 growth in AOR by 6% and in Adjusted EBITDA by 23%*
  - *We believe negative impact of our partner's EMV transition is substantially limited to 2016*

2016 Business Outlook

U.S. Retail – Rolling out new category cards and cash-back products; restocking and marketing all products post-EMV; on-going strong digital growth

Incentives – Achievers employee engagement solution gaining momentum through enterprise account cross-selling; consumer incentives boosted by extrameasures acquisition in Q2; international expansion; boosted by the Incentives component of giftcards.com

International – New distribution partner opportunities in Germany; expanding open loop gift product offering in Europe; higher margin content growth from Didix acquisition; Asia-Pac driven by new content, continued momentum in Japan and new growth in Korea

Digital Channels – Continued rollout of new “DDPs”; integrating all eCommerce onto feature-rich giftcards.com platform; integrating and expanding NimbleCommerce capabilities for offers and egift services

Q2'16 Financial Guidance

($ in millions except EPS)	Q2'16 Guidance	Q2'15 Actual	% Change
Adjusted Operating Revenues	$172 to $190	$167	3% to 14%
Adjusted EBITDA	$14 to $18	$31	-55% to -42%
Adjusted Net Income before Reduction in Cash Taxes Payable	$(2) to $2	$12	-117% to -83%
Adjusted Diluted EPS before Reduction in Cash Taxes Payable	$(0.03) to $0.03	$0.21	-114% to -86%
Adjusted Net Income	$12 to $15	$24	-50% to -38%
Adjusted Diluted EPS	$0.21 to $0.26	$0.43	-51% to -40%

Adjusting for estimated EMV impact on AOR ($16M) and EBITDA ($14M), pro-forma growth rates would be:

	AOR	Adj EBITDA	Adj Net Income	Adj EPS
Excluding EMV	12% to 23%	-8% to 3%	-13% to -1%	-16% to -3%

2016 Annual Financial Guidance

($ in millions except EPS)	2016 Guidance	2015	% Change
Adjusted Operating Revenues (excl Mktg)	$932 to $1,002	$829	12% to 21%
Adjusted EBITDA	$196 to $216	$194	1% to 11%
Adjusted Net Income before Reduction in Cash Taxes Payable	$82 to $93	$90	-9% to 3%
Adjusted Diluted EPS before Reduction in Cash Taxes Payable	$1.40 to $1.59	$1.59	-12% to 0%
Adjusted Net Income	$142 to $154	$145	-2% to 6%
Adjusted Diluted EPS	$2.44 to $2.63	$2.57	-5% to 2%

Adjusting for estimated EMV impact on AOR ($51M) and EBITDA ($44M), pro-forma growth rates would be:

	AOR	Adj EBITDA	Adj Net Income	Adj EPS
Excluding EMV	19% to 27%	24% to 34%	18% to 25%	14% to 21%

Cash Flow and Debt

- **2016 Free Cash Flow projection, including settlement timing and cash tax benefits, in the range of $110M to $125M**
  - *Lowering 2016 Capex projection from $64 million to $54 million*
- **Total debt to EBITDA ratio at end of Q1 2016: 2.65x**
  - *Current (as of April 21, 2016) debt outstanding $600M excluding L/Cs*
  - *Total bank facility $826M ($426M Term + Revolver)*
  - *EBITDA leverage covenant on secured bank facility at 3.5x reducing to 3.25x by the end of 2016*
- **Plan to raise tranche of unsecured debt to pay down some bank term debt and use for additional acquisitions**
- **No plan for dividend or share repurchase**
- **Robust ongoing acquisition opportunities**

Free Cash Flow – Expanded Disclosure

($ in millions except EPS)	FY'15 Actual	FY'14 Actual
Earnings Release View	$ 72	$ 51
Add: Settlement timing benefit	41	57
Adjusted Free Cash Flow	**$113**	**$108**
Adjusted EBITDA	$194	$145
Less: CapEx	(53)	(40)
Less: Interest Expense	(12)	(5)
Less: Cash Taxes Paid	(14)	(29)
Less: Noncash PPA Adjustment	(7)	-
Add (subtract): Changes in W/C	(36)	(20)
Add: Settlement timing benefit	41	57
Adjusted Free Cash Flow	**$113**	**$108**
Adjusted Net Income	**$145**	**$101**
ANI to FCF Conversion Ratio	**78%**	**107%**

Revenue Ratios – Q1'16 vs Q1'15

	Q1'16	Q1'15	Change	FY Est*
Prepaid and Processing Revenues (PPR) % of TDV	9.9%	9.0%	11%	9.8%
Partner Distribution Expense (PDE) % of PPR	54.6%	55.7%	-2%	57.1%
Adjusted Operating Revenues (AOR) % of TDV	5.8%	4.8%	21%	5.5%

- PPR % of TDV higher due to lower open loop mix (EMV impact) within US Retail and higher proportion of Incentives including the addition of Achievers and Giftcards.com
- Lower partner distribution expense ratio due to higher proportion of Incentives (lower PDE)
- Adjusted operating revenues ratio improved due to higher proportion of incentives

Notes:

- PPR is total revenues excluding marketing revenues and product sales
- AOR is total revenues less partner distribution expenses and marketing revenues
- See reconciliation of GAAP revenues to AOR in Appendix

* *Current point estimate of full year ratios*

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Expense Ratios – Q1'16 vs Q1'15

	Q1'16	Q1'15	Change	FY Est*	2015 Actual
Processing & Services % of AOR	38.8%	42.0%	-3.2%	35.4%	35.5%
Sales & Marketing, Net % of AOR	20.1%	18.5%	+1.6%	18.4%	17.8%
General & Administrative % of AOR	11.1%	10.9%	+0.2%	9.1%	9.7%
Total as % of AOR	70.0%	71.4%	-1.4%	62.9%	63.0%

- Processing & Services declined due to acquisition expense leverage and Achievers
- Sales & Marketing higher due to higher ratio of marketing spend by Achievers
- G&A higher % due to EMV impact on AOR growth

- Note: Expenses exclude stock compensation expenses

** Current point estimate of full year expenses and AOR*

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Product Sales and Margin – Q1'16 vs Q1'15

($ in millions)	**Q1'16**	**Q1'15**	**% Change**	**FY Est***
Product Sales	$38	$26	45%	$223
Costs of Products Sold	36	25	43%	206
Product Gross Profit	$2	$1	67%	$17
Product Gross Margin	6%	5%		8%

- Q1 Product Sales comprised of Cardpool (66% of total) and Achievers (23% of total)
- Margin increase driven by the addition of Achievers

** Current point estimate of full year growth rate and margin*

Appendix

Q1’15 to Q1’16 Walks

Reconciliation of GAAP to Non-GAAP Measures

Adjusted EBITDA Walk – Q1'15 to Q1'16

($ in millions)	Existing	Acquisitions	Total
Q1 2015 Adjusted EBITDA	**$27**	**$ -**	**$27**
AOR – estimated EMV impact	(6)	-	(6)
AOR - other	17	24	41
OPEX – estimated EMV impact	1	-	1
OPEX – other	(15)	(19)	(34)
FX rate impact	-	-	-
Q1 2016 Adjusted EBITDA	**$24**	**$5**	**$29**
% increase YOY	-13%	n/a	7%

- Acquisitions : Achievers, Didix, Giftcards.com, Nimble

Q1’16 Adjusted EBITDA Walk to Adjusted Net Income

($ in millions)	Existing	Acquisitions	Total
Q1 2016 Adjusted EBITDA	**$24**	**$5**	**$29**
Depreciation	(9)	(1)	(10)
Interest, net	(2)	(2)	(4)
Adjusted income before taxes	13	2	15
Income taxes	(5)	(1)	(6)
Adjusted Net Income before reduction in cash taxes payable	8	1	9
Add: Reduction in cash taxes payable	15	2	17
Q1 2016 Adjusted Net Income	**$23**	**$3**	**$26**

- Acquisitions : Achievers, Didix, Giftcards.com, Nimble

Adjusted EPS Bridge – Q1'16 vs. Q1'15

	Total	Cash Tax Benefits*	Total Excl CTB
Q1 2015 Adjusted Diluted EPS	**$0.44**	**$0.27**	**$0.17**
Growth from existing business	0.04	-	0.04
Impact of EMV	(0.06)	-	(0.06)
Growth from acquisitions	0.08	0.02	0.06
Less: Depreciation increase in 1st year	(0.01)	-	(0.01)
Less: Interest increase 1st year	(0.02)	-	(0.02)
Net increase from acquisitions	0.05	0.02	0.03
Reduction (increase) in cash taxes payable – NOLs	(0.01)	(0.01)	-
Reduction in cash taxes payable - Stock Compensation	0.01	0.01	-
Share count dilution	(0.01)	-	(0.01)
Q1 2016 Adjusted Diluted EPS	**$0.46**	**$0.29**	**$0.17**

- Acquisitions : Achievers, Didix, Giftcards.com, Nimble

* Cash Tax Benefits = Reduction in Cash Taxes Payable

GAAP Revenues to AOR Reconciliation

($ in millions)	Q1'16	Q1'15	% Change
Total Operating Revenues	$366	$320	15%
Less: Partner Distribution Expense	(172)	(155)	11%
Less: Marketing Revenue	(13)	(15)	-9%
Add: Revenue Adjust from Purchase Accounting	4	-	-
Adjusted Operating Revenues	$185	$150	23%

GAAP Net Income to Adjusted EBITDA Reconciliation

($ in millions)	Q1'16	Q1'15	% Change
Net Income	$(3)	$5	-173%
Interest income and other income / expense, net	(1)	1	-151%
Interest expense	4	3	47%
Tax expense (benefit)	(3)	3	-224%
Depreciation and amortization	21	14	36%
EBITDA	18	26	-32%
Employee stock-based compensation	8	5	60%
Revenue adjustment from purchase accounting, net	3	-	n/a
Change in fair value of contingent consideration	-	(4)	n/a
Adjusted EBITDA	$29	$27	7%

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GAAP Pre-tax Income to Adjusted Net Income Reconciliation

($ in millions)	Q1'16	Q1'15	% Change
Income before income tax expense	$(7)	$7	-191%
Employee stock-based compensation	8	5	60%
Revenue adjustment from purchase accounting, net	3	-	n/a
Change in fair value of contingent consideration	-	(4)	n/a
Amortization of intangibles	11	7	58%
Adjusted income before income tax expense	15	15	2%
Income tax expense (benefit)	(3)	3	-224%
Tax expense on adjustments	9	3	199%
Spin-Off, NOL and stock comp tax benefits	(17)	(15)	12%
Adjusted tax expense (benefit)	(11)	(9)	20%
Adjusted net income	$26	$24	8%

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Q & A