AIMIA INC.

THIRD QUARTER 2016

RESULTS CONFERENCE CALL

NOVEMBER 9, 2016

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FINAL TRANSCRIPT

Aimia Inc.

Third Quarter Results 2016 Conference Call

Event Date/Time: November 9, 2016 — 8:30 a.m. E.T.

Length: 55 minutes

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PRESENTATION

Operator

Good morning. My name is Chris, and I will be your conference Operator today. At this time, I would like to welcome everyone to the Aimia Inc. Third Quarter Results 2016 Conference Call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press *, then the number 1 on your telephone keypad. If you would like to withdraw your question, press the # key. Please limit yourselves to two questions and then requeue for any additional questions. Thank you.

Ms. Karen Keyes, Head of Investor Relations, you may begin your conference.

Karen Keyes — Senior Vice President, Investor Relations, Aimia Inc.

Thank you very much, Chris. Good morning to all of you attending on the phone and the webcast this morning. With me on the call today are Rupert Duchesne, Aimia's Group Chief Executive; David Johnston, Group Chief Operating Officer; Tor Lønnum, Chief Financial Officer; and Steve Leonard, Vice President and Corporate Controller.

Before we get underway, I'd like to remind everyone to review our forward-looking statements and the cautions and risk factors pertaining to the statements. For those of you following along with us on the webcast today, you should see these on the screen in front of you

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now. For those of you accessing the presentation, which can be downloaded on the website, these can be found on Page 3 of the Q3 Highlights presentation.

I'd also like to point out the presentation refers to a number of non-GAAP metrics to help you better understand the results of the business. The definitions of these metrics and the reconciliation of these to their most comparable GAAP metric can be found on Pages 4 and 5.

And with that, I'll hand over to Rupert.

Rupert Duchesne — Group Chief Executive, Aimia Inc.

Thank you, Karen, and good morning to everyone. I suspect that many of you are a little short of sleep after the election process from last night, but I look forward to sharing what I think has been a good quarter with you.

A strong September supported 3 percent growth on a constant currency basis in our coalition gross billings, with Aeroplan up 4 percent and Nectar up 2 percent. Overall, gross billings were stable on a constant currency basis, partly reflecting the impact of disposals and transitions in the GLS business.

Reported top-line gross billings fell 4 percent, primarily due to the weakening of the pound sterling against the Canadian dollar. Adjusted EBITDA rose in the latest quarter with Americas Coalitions providing the strongest bump, up 27 percent. The result is that adjusted EBITDA margin was 10.8 percent in the quarter.

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Free cash flow of 87 million rose from a year earlier with a benefit of a $50 million tax refund, lower cost of rewards, and decreases in both operating and capital spending. Those improvements were partially countered by the impact of lower gross billings and some working capital movements. So overall, the quarter came out delivering the progress that we intended.

Fewer shares outstanding combined with sustained free cash flow generation over the trailing 12 months meant growth also in free cash flow per share and underpinned our ability to sustain a meaningful dividend payout, which, of course, we've talked about previously.

Operationally, we saw the strongest performance in the Americas Coalitions division, where our Aeroplan financial card performer portfolio is performing well and where increased capacity at Air Canada is supporting both top-line growth and the availability of seats for member redemptions.

The weaker British pound drove the lower gross billings for the International Coalitions division, masking constant currency growth in both our Shopper Insights business and Nectar. The highlights for Nectar was an increase of more than 15 percent in point issuance at Sainsbury’s that ramped up bonusing as we indicated in Q2 would happen in the second half of the year.

We continued to evolve our client mix in our Global Loyalty Solutions business as we've discussed before. The biggest factor in the drop in gross billings through year is the wind down of a UK client rewards program where we continue to see new wins.

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We are today reaffirming our 2016 guidance, which was based on known factors in the fourth quarter that will see lower gross billings and adjusted EBITDA margin but strong free cash flow. Let me just remind you of the factors that help you understand why that will be the case.

So starting with gross billings. Aeroplan accumulation is always seasonally strong in the fourth quarter. The post-interchange push on financial card acquisition at TD last year will be a hard comparative, but we still expect to see Aeroplan gross billings grow overall.

At Nectar, issuance at Sainsbury's will land higher, as its marketing campaigns are more weighted towards the holiday period this year. The unusually high level of fourth quarter activity we saw from other Nectar partners last year won't repeat, so we expect overall modest growth. However, it will not be enough to offset the impact of currency as the major factor that will drive the reported numbers lower.

Outside our Coalitions, we will also see the impact of the disposals announced earlier in the year, which will drive a $12 million decrease in Q4 and the continued transition out of rewards fulfillment contract with the UK rewards contract in the GLS business expected to have a $9 million impact.

Now, at the adjusted EBITDA level, we expect a lower margin than last year, mainly the result of a lower Club Premier distribution.

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Finally, we expect to see a reversal of working capital and lower capital spending benefitting free cash flow for the full year, and Tor is going to talk to the free cash flow drivers in more details in a few minutes.

And David will first look a little deeper at our divisional performance. David.

David Johnston — Group Chief Operating Officer, Aimia Inc.

Thank you, Rupert. As you've seen, Aeroplan really drove the quarter for the Americas Coalitions, delivering 4 percent growth in gross billings. Aeroplan growth has been led by an increase in financial cards along with growth from Air Canada as it brings on new aircraft.

TD has been the big driver in the financial cards portfolio with strong acquisitions and lower attrition combining for growth in our active card base and higher purchase volumes in the quarter. As we noted last quarter, card growth continues to track significantly higher than the level we were achieving prior to 2013 when we signed the deal with TD.

The Aeroplan program transformation and the renewed relationships with our financial card partners since 2013 have ensured that Aeroplan continues to attract members who are frequent spenders, but not necessarily frequent flyers. Those members drive around 80 percent of our financial card gross billings.

Gross billings from Air Canada saw the strongest quarterly growth for some time, with the benefit of increased capacity and in the absence of the kind of changes to the accumulation grid

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that we've seen in recent years. This quarter, gross billings were up 8 percent, taking the year-to-date total to $182 million.

Increased capacity also had positive impact on the seats available for redemption and, as a consequence, our payments to Air Canada. Recall that since we transformed the Aeroplan program, we've generated consistent increase our annual payments to Air Canada over the 2013 level, mainly through the introduction of market fares.

This year, we're working closely with Air Canada to supports its competitive and operational objectives as new capacity comes online. At the end of September, our payments to Air Canada were tracking to almost $135 million higher than the full year 2013 at the end of September, despite lower market fares.

In the quarter, members benefitted from more available seats and more flights to more destinations. Air rewards were up 6 percent and total rewards climbed 5 percent, but we benefitted from a lower cost of rewards in the third quarter due to mix.

Lower unit cost this quarter benefitted from shifts in product mix, especially related to Star Alliance flights, along with one-offs, relates to billings adjustments. We expect unit cost to move back towards the level we've seen in previous quarters in 2017.

We talked last quarter about our base of long-term contracts and now an update on that front. Aeroplan has extended its existing agreement with American Express, and it will now run for

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another two years to the end of 2018, providing additional flexibility to focus on a renewal with Air Canada.

Building off the momentum of our Toyota partnership, we've also secured a five-year exclusive agreement, which transforms our partnership with Avis Budget Group and includes the Avis, Budget, and Payless brands. That is set to launch in the first half of 2017. This redefines the car rental category for Aeroplan and will add value for our members.

The agreement includes data and marketing integration, helping Avis with analytics, targeting, offer design, and optimizing value delivery for Aeroplan members and non-Aeroplan members. Ultimately, the partnership will help accelerate growth for Avis and improve Aeroplan's return for the category.

Avis has a 30-year history of working with Aimia. In addition to the Aeroplan partnership, Avis is also a client of our Global Loyalty Solutions business in both the United States and nine European markets.

As we've said earlier, we saw growth in Nectar and Shopper Insights in the quarter. Nectar issuance up 2 percent, reflecting strong campaign activity at Sainsbury's with the launch of Collect for Christmas campaign in the third quarter. That offset the expected issuance decline at British Gas.

The impact of the weaker pound, though, weighed on the division, driving the 12 percent drop in International Coalitions.

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The next slide is really an update of what we showed you last quarter, and it's just a reminder that of the three large Sainsbury's campaigns we expected in the second half, one was launched in the third and the other two will be in the fourth quarter. The Double Up campaign launched this week. We expect these campaigns to drive strong issuance from Sainsbury's in the fourth quarter with Nectar point issuance expected to be up modestly compared to last year.

With respect to Global Loyalty Solutions, we've talked about the drop in gross billings as we transform our client base, including the impact from the UK reward client. We continued implementation with Nordstrom in the third quarter. Some of you may have had a chance to join the rewards program in Nordstrom's new Toronto stores, and if you haven't, we'd certainly encourage you to do so.

You may also have seen the new contract win we announced after quarter-end with Musgraves in Ireland for its Super Value program which is a great example of the kind of client we're targeting.

This program is underpinned by our Aimia Loyalty Platform, which creates a recurring revenue base and is wrapped around with end-to-end strategy and support.

And with that, Tor will take you deeper into the financials.

Tor Lonnum — Chief Financial Officer, Aimia Inc.

Thanks, David. So we have covered gross billings already, and so I'll turn now to adjusted EBITDA. Adjusted EBITDA was 61 million, up over 30 percent compared to last year. Divisional

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adjusted EBITDA rose in two of our three divisions as well as in corporate with Americas Coalitions up $50 million due to higher billings, low unit cost, and further progress in reducing operating expenses.

As you can see clearly on the next slide, operating cost reduction is coming through in all the divisions. OpEx declined around 12 million in last year, split between efficiency gains in the Americas where we continue to get the benefit of prior year actions and lower advertising and promotions and international, where the divestiture of Cardlytics UK and the wind down in Italy are reducing cost.

These reductions are despite the 3 million of increased costs with the transition of our IT services under our outsourcing contract with HPE.

Cost and operating discipline remains a priority as we aim to better align expenses to top-line developments. This should see OpEx intensity decrease further in 2017.

The benefit of lower operating costs flow through to cash, as did the 50 million tax refund received in the quarter and a 30 million reduction in cost of rewards. These items meant that free cash flow ended at 87 million despite lower gross billings and a 54 million increase in working capital being used in the business and something that I'll come back to in a moment.

Capital spending was also lower in the quarter, and we will end the year closer to the lower end of guidance for the full year. The most significant CapEx spend continues to be for

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increased one-to-one marketing capabilities in the Aeroplan program and a significant refresh of our ISS product.

In the third quarter of this year, we saw working capital outflow of 31 million. As you can see in this slide, working capital does not have a strong quarterly pattern. In general, it is impacted by the timing of customer payments in the loyalty services businesses, promotional campaigns in our coalition, and payments to our redemption partners.

The one thing that does tend to be true is the working capital outflows through the first three quarters tend to unwind in the fourth with inflows due to seasonal bonusing at Nectar and underlying Aeroplan card spend during the December holidays. We expect that reversal to be true again this year.

Changing gears for a moment, I want to update you on Club Premier, of which we own around 49 percent in partnership with Aeromexico. This remains a valuable investment for Aimia. Distributions we get from Club Premier are expected to be around $18 million this year after an extraordinary distribution in 2015.

We often get questions about what's happening in the underlying business at Club Premier, so I thought it might be worth spending a few minutes here to update on how the business has evolved in the last few years.

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In 2015, Club Premier renewed its commercial agreement with Aeromexico through to 2030. And earlier this year, it renewed and extended its financial card agreements with its financial card partners adding Santander alongside AMEX.

With the signing of the extended airline commercial agreement and renewed financial card partnerships, Club Premier is well placed to focus on growth. The number of members enrolled in the program since our initial investment in 2010 has grown from 2.5 million to 4.6 million at the end of September.

Adjusted EBITDA margin is more than 25 percent, with 2016 adjusted EBITDA, at 40 million on a year-to-date basis, tracking above last year.

I said last quarter that as the new CFO I wanted to spend some time looking at our overall approach to the balance sheet. Let me take a few minutes to update on some of our thinking so far.

This quarter is primarily focused on the capital structures, but as we look at further disposals and go through the year-end, I'll obviously continue to look at the asset base.

So turning to the financing position. Available cash was more than 150 million at the end of the quarter as we come into the most cash generative quarter of the year. As expected, that puts us in a position where we'll have ample cash available for the repayment of the January 27 debt maturity.

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An optimal capital structure for Aimia does include leverage. But in the context of our peers, our covenants and our desire to maintain a solid credit rating, it is our view that we would be better served by reducing our debts.

As a result, we have announced that we are prepaying the 200 million Series 3 senior secured notes maturing in January 2017. Early redemption in December should result in a net interest savings. This will reduce the outstanding debt to 450 million, reducing the leverage ratio, on a basis excluding cash, to less than 2 times.

So let me speak for a minute about why that is our intention. From a liquidity point of view, we have no need to maintain a higher debt level. We have generated 200 million or more of free cash flow annually for four of the last five years. With the benefit of the tax refund, we will clearly be above that level this year.

This is a business that can sustain a level of interest payments. The 40 million of interest on our bonds, dividends of around 140 million a year, as well as capital expenditure at or below our current levels are well covered by our operating cash flow. We also have access to a 300 million line of credit that is largely undrawn.

It is difficult for the external market to get certainty around long-term contract renewals. And this has driven volatility in our cost of capital around key renewals.

Debt holders tend to have a long-term perspective and having a prudent approach with a level of debt in the mix continues to make sense. Our view on the appropriate longer term capital

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structure is that it should continue to take into consideration the benefits a blended use of debt and equity can bring with a cost of debt that has run around 5 to 6 percent compared to a cost of equity that runs closer to 10 percent.

The long-term subordinated nature of the preferred shares also make them an attractive source of capital, and it is our current intention to maintain those as a part of the capital structure.

There were two considerations when we looked at the right level of leverage. Maintaining a solid financial risk profile is an important consideration for the rating agencies and helping us raise debt at attractive rates. It also sends the strong signal to our clients.

Looking at our covenants and the criteria for maintaining a solid financial risk profile would typically restrict us to a band between 1.5 to 3 times on a metric of debt to adjusted EBITDA excluding cash.

The broader Canadian peer group is also typically less levered than Aimia, sitting around 1.5 to 2.5 times adjusted EBITDA and using debt in combination with equity as debt enterprise values of around one-quarter to one-third.

With the increase in political and economic uncertainty we have observed in the last year and don't expect to subside in the short term, we believe in a path that makes it easier to maintain our credit rating and protect us from unforeseen externalities as has been our approach historically.

These have been factors guiding us to the lower end of the range of the medium term as if feels more prudent at this juncture.

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At current levels of adjusted EBITDA, optimizing the medium-term capital structure would, therefore, mean a total debt in the range of 400 million to 500 million and a leverage of between 20 and 25 percent on a debt-to-enterprise value basis. We will continue to look at optimization of the capital structure as the profitability of the business evolves, but this feels like the right level in the current context.

We have no plans for major acquisitions beyond optimal debt levels, current uses of cash for dividends, and debt servicing, as well as any CapEx and OpEx investments that generate an acceptable return. We will look to maximize shareholder returns as we have done in the past with buybacks and dividend increases.

We have a strong track record in this regard having bought back over 600 million of shares between 2010 and 2015 as well as paying dividends of 758 million since 2010.

So, to conclude my section, our cash generation allows us to more than cover our interest and investments, but having debt in the mix tends to lower our cost of capital and permits us to take a longer term perspective.

The repayment of the 2017 debt maturity with available cash means we expect to be aligned with our targeted medium-term leverage level of 400 million to 500 million on the balance sheet by December 31st.

We're making progress on costs as well as capital spending and operating discipline. These items continue to be a priority for me, as does insuring all our investments going forward generate

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an acceptable return. We are focusing our attention on the assets we believe are capable of delivering that kind of return.

We know what the good return and a strong brand can look like, and we have attractive positions to build on.

We also continue to be on a journey to simplify the business on our disclosure, in order for investors to better understand our progress. And as the focus and profitability of the business improves, we will continue to look at options to optimize the capital structure.

And with that, let me hand it back to you, Rupert.

Rupert Duchesne

So thanks, Tor. We expect the simplification of the cost reduction we are driving in the business and the additional cost measures we took as we saw a weaker pound in the Nectar shift earlier this year, combined with lower capital spending to deliver adjusted EBITDA and free cash flow in line with our previous guidance.

We expect Aeroplan growth to help us deliver our top line, an improving margin benefitting from operational efficiencies, and free cash flow in the region of 190 million to 210 million.

Now as we look to 2017, we'd like to share what we're seeing out there in the environment and our expectation for the drivers of our business.

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The US has clearly chosen a path today that will increase currency volatility generally. And in the UK, the pound continues to be volatile. The economic impact of Brexit on consumer spending remains unclear, but there are currently higher inflation expectations and combined with a lower GDP growth.

The Canadian economic environment looks benign but frankly not exciting. These factors suggest modest growth across our main coalitions with reported numbers still weighed upon by the pound sterling.

Delivery against our 2016 guidance of around 9.5 percent in terms of adjusted EBITDA margin and our continued focus on cost savings should be a stepping stone toward double-digit margins. CapEx will also be coming down.

Since slimming down and focusing remains the right strategy, we see the possibility of further disposals of non-core investments and assets, which could obviously result in restructuring charges or have an impact on key metrics. And we continue to focus and improve our efficiency.

We will still be cycling the UK rewards contract in the GLS business in the first quarter of 2017. And remember the disposals we completed this year represented around $25 million of gross billings in the first half of 2016, which we'll also have to cycle. You should see that impact on gross billings mainly in the first two quarters, but these exits will be a positive contributor to adjusted EBITDA next year.

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We will, of course, provide more detailed guidance for 2017 next quarter as we have done historically. Our plan for 2017 will follow the same principles we've implemented in 2016; a simpler, more focused business with growth coming from investments made in the core.

So to sum up, we knew that this would be a challenging year but with a stronger second half notwithstanding the currency effect to our top-line. And we've seen that come in the third quarter, and we're very focused on delivering operationally in the fourth as well as putting in place the right financing structure and operational priorities to take us into 2017.

So with that, Operator, we'll take questions.

Q&A

Operator

At this time, I would like to remind everyone, in order to ask a question press *, then the number 1 on your telephone keypad. Also as a reminder, please limit yourself to two questions and requeue for any additional questions.

Your first question comes from the line of Kenric Tyghe of Raymond James. Your line is open.

Kenric Tyghe — Raymond James

Thank you. Good morning, and congrats on the quarter. Just with respect to Aeroplan and the mileage redemption costs, David flagged there was a positive mix impact, but in your

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presentation, you also referenced some non-recurring items in those redemption costs. Could you provide a little colour around what those non-recurring items were in the mileage redemption costs? And whether those were Q3 specific or whether there may be some carry into your Q4 mileage redemption costs in the Aeroplan program?

Rupert Duchesne

Look, I think travel patterns, particularly on Star Alliance redemptions were a little unusual in this quarter and gave you some of those one times. I mean, people are not travelling with the predictability that they have done historically. So whilst this was helpful in Q3 and could indeed be helpful at times in the future, I don't think you should be baking in that lower cost of rewards on a longer term basis. I think it really is a symptom of, frankly, very unusual travel patterns I think as a result of many of the things that are going on in the global travel and tourism market. So don't count it at going future, but it was primarily an unusual pattern in Star Alliance rewards.

Kenric Tyghe

Great. Thank you. And then if I could just switch gears to the American Express extension, Rupert. Intrigued by it being a one-year extension through 2018. I wonder if you could provide a little colour as to sort of why a one-year extension. And then perhaps to follow on there, what is it going to take to get the American Express relationship working again? Another weak quarter on an easy comp, but clearly there is a very strong relationship there in the context of a renewal and on a

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renewal of the extension. Actually if you could just sort of speak to the dynamic, the relationship, the extension, and a little colour around all of the above. Thank you.

Rupert Duchesne

Sure. I'm going to ask David to do that, as he was part of that process.

David Johnston

Look, I think to an extent the answer is in the question. Part of the way to encourage better growth from the relationship is to give both parties a little bit of an extension in the contract. So we think that that one-year extension, which takes us to the end of 2018, will enable the commercial teams of both parties to build better growth plans. And that's really why we did it. And by extending to the end of 2018, it also means that we have a bit more time to focus on the renewal with Air Canada as well.

Karen Keyes

Operator?

Operator

Your next question comes from the line of Brian Morrison of TD Securities.

Brian Morrison — TD Securities

Good morning. I understand the typical seasonality with respect to working capital and how it impacts the fourth quarter free cash flow, but the reversal as Tor outlined within guidance, it's larger than typical in Q4. So I'm hoping you might be able to walk through the major

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components. Not the high-level seasonality, but specifically talk about a bridge; the degree of reversal of receivables and payables from Q3. And also should there be a lower burn earn component or a cost per mile than typical in Q4?

Tor Lønnum

Yeah. So if we start with the last part, that's going back to what Rupert talked about earlier. That would not be true. So in principle, when we're talking about working capital it's really, as you said yourself, about the seasonal pattern. And the best example is clearly around Sainsbury's where you typically have the earnings in Nectar, and then clearly that will sort of continue to contribute positively on the cash flow side in Q4, whereas typically you'll get a reversal again in Q1. And that's really, as I said before, why we alluded to, to a certain extent, a seasonal pattern related to Q4. But again, as I said, I mean obviously it's related to large customer contracts or payments to our partners, and that will impact the working capital pattern.

Brian Morrison

But there is a catch-up from Q3 as well, correct?

Tor Lønnum

Yes.

Brian Morrison

Okay. Second question, can you just talk about—it looks like you're doing a very good job with respect to cost-cutting efficiencies. You highlight the $20 million cost savings in 2017. Are there

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any offsetting items to this number, or should this be a straight flow through to free cash flow in full?

Tor Lønnum

That's a very good question. There's no doubt that we will see the 20 million coming into the 2017 numbers, but as you know, there is quite a few factors that will continue to impact the cost numbers. I think most importantly is that we'll look at how cost is impacting our—or how it's developing compared to the top-line.

So obviously, it's a question about being able to look at cost from a nominal perspective, but also being able to look at it from a margin perspective. And I think we need to equally focus on both. Keep in mind also that if there are disposals that that will have an impact on what OpEx looks like. But going back to your question about the 20 million, the simple answer is yes.

Brian Morrison

Thank you kindly.

Operator

Your next question comes from the line of Martin Landry of GMP Securities. Your line is open.

Martin Landry — GMP Securities

Good morning.

Rupert Duchesne

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Good morning.

Martin Landry

The first question is on Aeroplan program, the TD partner. Looks like that partnership is going extremely well for you guys, especially during the quarter. Would you be able to give us a little bit more colour on what's driving that good performance? Is it a higher number of cards? Or is it an increased spend? And if it is a higher number of cards, can you give us some metrics on fluctuation in the number of cards? That'd be greatly appreciated.

David Johnston

Look, I mean overall I would say that the performance in the quarter is driven by what we've been talking about all year, which is a strong underlying promotional calendar with TD.

As we said, Aeroplan was up 4 percent in the quarter, and that was driven by financial cards also up 4 percent. And that really that's what's driven the growth. But beyond that we don't tend to get into too many partner-specific numbers, but as I've said it's consistent with what we've been doing to drive the business all year.

Rupert Duchesne

Yeah. Look, I think I'd just add something there that we said a number of times, and this sort of goes straight to what you're asking us now that it takes a time to ramp up in terms of spend levels on new cards issued. And we had very successful campaigns by TD that targeted and achieved exactly the right kind of cardholder base.

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So we're starting to see the benefit of that as it flows through a number of quarters later, and it's actually both higher active cards as well as increased purchase volume, so it's good on both counts.

Martin Landry

Okay. That's helpful.

Tor Lønnum

So if we make comments, all three of us, I think again I'll just highlight Slide number 14 in the deck, and keep in mind that that was introduced already last quarter and sort of speaks to what Rupert just said. It's really about the number of active members in the portfolio.

Martin Landry

Okay. And my second question's on Club Premier. It's obviously doing extremely well. Can you update us on potential plans down the road to monetize that asset?

Rupert Duchesne

Look, I think it is premature to talk about that. Some pretty fundamental changes have occurred in Club Premier over the last little while.

Firstly we renegotiated the CPSA with the airline and that now stretches out to 2030. Fairly straightforward negotiation I might point out, given some of the comments we've had around other negotiations.

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And we also have introduced what is becoming a remarkably successful credit card deal with Santander, as well as some significant progress with American Express in Club Premier.

So if you look back over the last couple of years at Aeroplan and you take out the interchange hiccup, to put it politely, it does take a while to build up the base with new card partners, et cetera. So whilst some kind of liquidity event is certainly possible, it will not be in the short to medium term because we really want to build the asset into a roaring success before we contemplate that.

But the reason we've given you more disclosure on PLM, as Tor said, is because we think it is a very important asset. It's doing really well. And it's gone through some really material transformations that make it essentially a younger, bubblier version of Aeroplan. And I think that's very reflective of the situation in the Mexican market right now.

Operator

Your next question comes from Adam Shine of National Bank Financial. Your line is open.

Adam Shine — National Bank Financial

Hi. Thanks a lot. Good morning. I want to go back to questions asked by Kenric and Brian; maybe just starting with Kenric. With respect to the lower cost of mile, obviously it's been alluded to that clearly Star Alliance mix and billings, but as we think about 2017 EBITDA, obviously there's an item here that makes for a comp issue. So unless my calculation's wrong, the lower cost per mile

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versus trend, maybe with a 13 million, $14 million benefit, would that be a sort of 50-50 split? Or more of a skew to mix? Because obviously the billing would be a onetime item.

And then if I can just flip over to Brian's question as it alluded to cost cutting initiatives. I don't want to put words into anyone's mouth and I don't want to get into a whole discussion on Air Canada per se, but assuming that there is some potential margin pressures associated with an Air Canada renewal down the road, can we assume that some of what you're alluding to in terms of OpEx will result in an acceleration in cost-cutting efforts over the next couple of years?

Tor Lønnum

No, I'll—in terms of the first question related to the lower cost of miles, there is, in terms of the one-off item, we're talking about a few million dollars. So that's not really—it's not really something that will have a significant impact in terms of the comp next year, going back to your question. It's, as Rupert said, a question about mix and primarily driven by Star Alliance.

But it also means, and you will have seen this from previous seasonal patterns, that we do expect slightly cost of redemptions in Q4 and probably also in Q1.

Adam Shine

Okay. Thank you for that.

Tor Lønnum

And then you want to add to that, Rupert?

Rupert Duchesne

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Yeah. I would also say that there's another sort of—there's a longer-term factor that we'll talk about more when we get to our guidance in February, but Air Canada's adding a lot a capacity on new international routes, and clearly Aeroplan plays a particularly important part of helping create demand for that. And it also makes a materially higher number of Classic seats available, particularly when the global travel industry is facing both declining yields and tough demand on markets like the Atlantic. So there is an over-allocation of Classic seats right now. And that's very difficult to forecast in terms of what that might look like through 2017 from where we sit today, but that does affect that cost of rewards.

So I think on this one, you sort of need to be a little patient as we see what happens over the next two or three months, before we release our Q4 and the 2017 guidance. And I just go back to what I say is that we have not seen volatility in travel patterns like this for the very longest time. But I think one can assume that people still have the money to spend, that things will settle down, and that by the time we get into the new year we should have a little bit of a clearer view on this.

Tor Lønnum

And then just to follow up on the question about cost cutting, I think for now what we have said around the 20 million is what we'll stick to. And then in terms of additional opportunities, I think that's something that we'll want to get back to early next year.

Adam Shine

Okay. Thank you.

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Operator

Your next question comes from the line of Tim Casey of BMO. Your line is open.

Tim Casey — BMO Capital Markets

Yeah. Thanks. Rupert, could you give us an update on Cardlytics. It's one of the assets that I think some investors expect to be monetized. And obviously there's been a lot of change on the FinTech side. I'm just wondering how we should think about that.

And then, Tor, with regard to your comments about capital structure, you briefly mentioned that dividend increases and buybacks are still a consideration, but should we expect those items to be fairly muted over the next few years given your changing the debt level that you want to carry and, as you've mentioned throughout the presentation, there is some uncertainty in

sort of near term on some of these items? Thanks

Rupert Duchesne

Okay. So let me talk a little bit about Cardlytics, and there are really two different perspectives on this. First of all, as we've said in the last quarter when we monetized—we would increase the investment in Cardlytics, our investment in the UK Cardlytics business, by selling that back to Cardlytics, we took a strategic view that this part of FinTech was not something we corporately wanted to be part of.

That notwithstanding, Cardlytics themselves, I think, are extremely well positioned in the middle of the FinTech revolution, and particularly with respect to helping banks get closer to their

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customers, whatever the channel, and most of the channels are becoming digital and mobile, and Cardlytics is designed in and around that. So we consider it still a very good investment. It is growing well. But I really feel that it is still some time away from being ready for liquidity event. But at the point that it is, clearly we would like to see monetization of that at a time that makes sense for them and for the Company.

So I would say not right now, but in the foreseeable future, and it is not core as an investment to our overall business strategy.

And, Tor, you want to talk about the …

Tor Lønnum

Yeah.

Rupert Duchesne

The other side of that question.

Tor Lønnum

Yeah. Tim, in terms of the capital structure, as you alluded to, I mean we are taking a slightly more conservative approach to the debt level on the balance sheet. At the same time, I also tried to make it very clear that we want to utilize debt as a part of our balance sheet to optimize the capital structure and maximize shareholder return. So it is an important part of our mix.

Now going on to your question about buybacks and dividends, I think right now, it's not something that we are contemplating. I think it's fair to say that we will have the same discussion

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about dividends in Q1 as we'll have every year. And from our perspective, in particular the dividend, there is an important feature of our stock, and obviously something that we feel it's really important for us to sustain and protect.

And in terms of looking at the dividend, as we have said a couple times when we have met with you at the Q1 and Q2 as well, it's really important not to be blind looking at the dividend yield in terms of the share right now, but rather focus on the fact that we're distributing somewhat above 60 percent of our free cash flow. And that's really the consideration in terms of dividend distribution.

Tim Casey

Do you have a target range in terms of free cash flow payout ratios that you can share with us?

Tor Lønnum

We haven't disclosed anything else that—when you look at sort of the past, we've been around that 60 percent threshold. I think that's one of the things that we'll want to address when we talk about dividend for next year.

Tim Casey

Thank you.

Operator

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And again, if you would like to ask a question, press *, then the number 1 on your telephone keypad.

The next question comes from Drew McReynolds of RBC. Your line is open.

Drew McReynolds — RBC Capital Markets

Yeah. Thanks very much. Just one clarification, then one follow-up. First on the clarification, Tor, you briefly, I think, in your comments talked about PLM distributions. Can you just remind us the amount of distributions that you are expecting for 2016? And can you give us any sense of what to expect for 2017?

And then secondly, Rupert, last quarter you just alluded to the appropriateness of the 11 percent breakage rate at Aeroplan. Just wondering your updated thoughts there, and kind of more specifically when would you, if you would, change the rate, would that all kind of transpire? Thank you.

Tor Lønnum

So in terms of the clarification question, approximately $18 million in terms of—has been received, and we expect that to be around the same level next year. It is impacted to a certain extent by currency, and that is something that we'll have to look at I think once the markets have settled. But for now at least, approximately $18 million.

Rupert Duchesne

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So let me handle the breakage question. So clearly, when we made the program changes in 2013, we needed a pretty fundamental re-estimation of breakage, which is why saw the fall from 18 to 11 to reflect both the increased availability as well changing in some of the rules. Now this is an area where we actually have a lot of experience over a lot of years with Aeroplan. It's a long-term estimate at this point and we're still relatively early into those changes. We're very comfortable with that 11 percent number.

Clearly it tends to be the inverse of the burn-earn ratio over time, but that only applies over a very long time cycle. So short answer is we're very comfortable with 11; very unlikely to be lower than 11; could possibly be, over the long term, a little higher, but no change for now.

Drew McReynolds

Thank you.

Operator

Your next question comes from Neil Linsdell of Industrial Alliance Securities. Your line is open.

Neil Linsdell — Industrial Alliance Securities

Yeah. Good morning, guys.

Rupert Duchesne

Good morning.

Neil Linsdell

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Just not to go into the larger renegotiation with Air Canada, but is there any kind of resets or changes to the program that we're going to see before the 2020 deadline? I thought there was something coming up at the end of this year.

Rupert Duchesne

No, Neil, not that I'm aware of. I think the current economics are pretty much set through the contract, and, as you'll remember—you've been in and around this for quite a while—there are very minor adjustments every three years related to some external factors, but there really is nothing going on unless and until we have a new deal on the table. So I think you can regard the next 3.5 years as up to the renewal in 2020 as pretty much status quo in terms of the underlying economics. And clearly if we negotiate early, then elements of that could change, but basically there's nothing between now and then other than a potential renewal.

Neil Linsdell

Okay. Good. And now the Global Loyalty Solutions, could you just give a rehash; don't go into a lot all the time on—you are looking at global platforms. Can you talk about the kind of like the regional exposure now and where you envision that going as you're growing that side of the business, and how we could look at that profitability. Do you have a 5- or 10-year time line on the growth of that? And when profitability really becomes more significant?

Rupert Duchesne

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Yeah. Look. That's a really good question. David oversees that business with Shailesh Baidwan, so let me ask him to respond to that. But great question.

David Johnston

So to answer that, I think there's three parts to the answer. First, just to kind of restate what the transition, the strategic transition of that business is. The heritage of that business was primarily in rewards fulfillment, which is obviously often a relatively low-margin business. And some of the clients had some bespoke IT solutions, which weren't great from a cost point of view.

We're in the process of transitioning the business to a what we call platform-led business with wrap-around services. So each of the new clients that we talk about, and we tend to talk about at least one new client every quarter, will be running on one of our standard loyalty or campaign platforms and an atypical assignment now is where we stand up the platform for the client and then are supporting them in addition with strategy and other wrap-around services. So that’s the strategy.

The core focus of the business remains Asia-Pac and North America. Those were the biggest components of the business historically, and they’re also where we see strongest market growth. And you’ve heard us announce new clients in Asia, like Optus, and new clients in North American like Nordstrom.

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We do, of course, have the sales team looking at other markets, but we'll take some opportunities as they come along, like Musgrave in Ireland, but our primary focus is on Asia-Pac and North America.

And with respect to profitability, I think what we've said historically is we take a medium term—we're looking to the medium term for when that business will start to show profitability in our externally disclosed results, and you probably would like me to be more precise than medium term, but at this point, we don't want to do that.

Neil Linsdell

Okay. Fair enough. Thanks.

Operator

There are no further questions. At this time, I would like to return the call to Mr. Rupert Duchesne for closing remarks.

Rupert Duchesne

Great. Thank you. Look, I think all I need to say here is that I feel we've had a really good quarter. I think that's reflected in the number of the comments we've have back already from analyst investors. Reconfirming our guidance for the full year I think is important as well, and just want to emphasize does not include the tax refunds. Nobody asked about that, but I want to be really clear that guidance did not assume that.

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As we head into 2017, I think we are a demonstrably slimmer, more efficient business, focused on leveraging our core asset and getting out of things that don't reflect that strategy.

So whilst I think we are in genuinely uncertain economic times at the moment, and I know we say that every quarter, but I know that many of my colleagues in leadership positions across the country are saying exactly the same thing, I'm looking forward to 2017 as building very well on what we've achieved this year.

So clearly we've got six weeks of the quarter left to go from a trading point of view, and we'll see where that leads us. But I look forward to speaking to you again in February and giving you a much clearer view of what we expect to see for the year to come.

But right now, I think we're feeling that we're very much heading in the right direction. So thank you very much for your time this morning, and I'm sure you'll all be drinking lots of coffee to stay awake for the rest of the day.

Thanks very much.

Operator

This concludes today's conference call. You may now disconnect.

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