**AIMIA INC.**

**SECOND QUARTER 2017**

**RESULTS CONFERENCE CALL**

**AUGUST 10, 2017**

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# FINAL TRANSCRIPT

## Aimia Inc.

## Second Quarter Results

## Event Date/Time: August 10, 2017 – 8:30 a.m. E.T.

## Length: 58 minutes

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## PRESENTATION

### Operator

Good morning. My name is Denise and I'll be your conference Operator today. At this time, I'd like to welcome everyone to the Aimia Inc. Second Quarter Results 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'd like to ask a question during this time, simply press star, then the number one on your telephone keypad. If you'd like to withdraw your question, press the pound key. Analysts, please limit yourself to two questions only, and rejoin the queue for any follow-up questions.

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

**Karen Keyes** – Head of Investor Relations, Aimia Inc.

Thank you very much, Denise. Good morning to all of you attending, on the phone and the webcast this morning. With me on the call today are David Johnston, our Chief Executive, Tor Lønnum, our Chief Financial Officer, and Steve Leonard, our Vice President and Corporate Controller. Also, joining us for the first time is Mark Grafton, who we have announced today will become CFO on Tor's departure in early September.

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 on the webcast, you should see these on the screen in front of you now. For those of you accessing the presentation downloaded from the website, these can be found on Page 3 of the Q2 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 to their most comparable GAAP metrics can be found on Pages 4 and 5. We have also included a full income statement,

which can be found on Page 6, and a reconciliation of our return on invested capital metric, which can be found on Page 7.

Our reported Q2 numbers, shown here on Slide 8, include results for the U.S. channel and Employee Loyalty business. The sale of that business closed on May 1. Today we'll be focusing our commentary on the core business excluding those results. I'd remind you, that was also the basis on which we issued our 2017 guidance earlier this year.

As you know, the events which have transpired since last quarter have elicited a lot of Shareholder questions, and as a result, we've provided more detail about the Aeroplan business over the last six weeks of the quarter and into July than we normally do, or may do going forward, considering the current extraordinary situation.

With that, I'll hand you over to David and Tor to take you through comments and answer questions.

**David Johnston –** Group Chief Executive, Aimia Inc.

Thanks, Karen, and thank you everyone for joining us this morning. Following on from the news in May, this has clearly been a very challenging period at Aimia. The first thing I'd like to do today is to thank all of our employees for their focus and resilience over the past three months, and for delivering what I regard to be a solid set of results for the quarter.

I also want to acknowledge that while it's been a challenging quarter for the Company and its employees, it has also clearly been very difficult for our Investors, and we don't take the drop in our share price, of its impact upon you, lightly.

Turning to the quarter. On a core basis, excluding the Customer and Employee Loyalty and Enhancement Services disposals, we delivered gross billings of $509 million; broadly stable on a constant currency basis, with growth in our core Coalitions, and a decline in the Global Loyalty Solutions business.

Adjusted EBITDA margin was up 180 basis points to more than 12 percent from 10.3 percent, benefiting from lower share-based compensation.

Free cash flow was $54 million despite a higher interest in financing cost, as a result of the early redemption of the 2018 bonds in the quarter.

Operationally, our daily tracking of Aeroplan member behaviour showed a short period of more elevated redemptions in May, but we've seen no material changes since. That extends beyond the metrics we reported for the period and into July. Member activity and accumulation has remained positive, with Aeroplan accumulation in the quarter ending up 1 percent.

We continue to focus on maximizing the value of the business and delivering on our guidance for 2017, which we are maintaining today. But, we recognize that this will not address the erosion in market value following the Air Canada announcement and the significant impact for our Shareholders. Again, we don't take this lightly; quite the opposite.

Change in the markets' long-term outlook will require us to make more progress, and as a result, Management is very focused on what we need to do, which I would group into these three areas.

First, heightened attention around preserving the strong cash and liquidity position of the Company. The actions we've already taken to strengthen the balance sheet and preserve cash are being supplemented by our announcement that we will suspend common dividends for the foreseeable future, to give us more financial flexibility in the coming years.

Second area of focus is the ongoing business simplification and acceleration of cost reduction plans. We've provided more colour on the restructuring plans that will streamline our operating model. We'll deliver $70 million of annualized cost savings by 2019, which will help counter the potential for increased redemptions or changes in Aeroplan economics post 2020, and we'll start to see savings in the fourth quarter of this year.

Most importantly, the Executive Team and Board are intensely focused on the identification, negotiation, and execution of new long-term strategic and commercial partnerships. These will lie at the heart of Aeroplan and our future redemption offering. Let me address some of this in a bit more detail, turning to Slide 14.

We've reduced our leverage to around two times over the last year, and have $0.5 billion in cash investments on the balance sheet at the end of June. However, we recognize the need to preserve even more flexibility. As I noted, the Board has elected not to pay dividends to common Shareholders for the foreseeable future. That decision is notwithstanding the current constraints around the declaration of payment of dividends under the CBCA rules.

With the $90 million we previously expected to pay out the common dividends this year, along with our $300 million Aeroplan redemption reserve, we're building added liquidity to fund potential change in accumulation or increase in redemptions over the 2018 to 2020 period. But to be clear, and Tor will come back to this in his remarks, we don't expect to see redemption increases that would absorb anywhere near these kinds of funds, based on what we've seen so far in 2017.

That flexibility we're building will also be helpful given discussions with Sainsbury's ahead of 2019, as well as ahead of our 2019 and 2020 financing maturities.

Stronger cash balances will make it possible to reduce our leverage in 2019, or 2020 if that seems more prudent or practical than rolling our financing at either of those points. We may also consider further asset sales as we continue to simplify the business.

Increased operating cash generation will also add to our cash balances. Even before the Air Canada announcement, we knew we needed to be leaner beyond 2020 to be able to absorb the increasing cost of rewards in the Aeroplan program, and possible changes as we negotiated major partner contracts across our Coalitions.

Since May, we've accelerated our cost savings. Strategic reviews of our business structure completed over the last few months will see us further streamline the business into two operating units. Our Coalitions, including Aeroplan, Nectar, and I2C are being brought together with the corporate functions that support them. The rest of the business will operate as a Marketing Services business, which will include our platform business currently managed under Global Loyalty Solutions. This will result in a significant reduction in corporate costs and division overhead.

Vince Timpano will take on the leadership of the Coalitions business, while Shailesh Baidwan will lead the expanded Marketing Services business. These changes will also result in a smaller Executive Committee, which reduces it to five members, including myself and Mark Grafton, who as you've heard has been appointed CFO, in effect from September. Along with the changes that we made to the Board in June, these will represent a meaningful reduction to the cost of running the business at a senior level.

Finance, IT, and Comms are all areas that will be slimmed down and substantively integrated into the new divisions as part of our reorganization, thereby reducing costs and simplifying operations. We've also put a halt to our efforts to establish the Nectar Coalition model in new markets, in the context of a more challenging global macro environment, and with that, have wound down the Global Business Development function.

In total, around 10 percent of our current workforce positions will have been eliminated over the course of 2017. This is in addition to the cost savings we have already realized through 2016, and the divestitures we have already completed this year and last. These changes will be the main vehicle for the $70 million of cost savings, which we expect to be delivered by 2019. These savings will ramp in 2017, with initial OpEx savings from the fourth quarter.

Improving the profit trajectory of the Global Loyalty Solutions business to meet our own ROIC expectations is also key. We'll continue to leverage strategic partners and be more selective in our product investments. This ultimately will bring more speed to market while lowering delivery and IT cost.

Capital expenditures are also coming down. We expect these to be between $45 million and $50 million in 2017, and they'll reduce further in 2018.

A portion of our Loyalty platform investment has ramped down, or is now being expensed, and the current phase of our ISS investment program will be nearing completion as we exit 2018. Our ongoing spend will be concentrated within the Coalitions business on new travel platforms and personalization.

Let me turn to Aeroplan now. Before I talk further about our plans, let me quickly remind you what's unique about the asset we have. Today, we have five million active members, with the average member having been in the program for over 10 years. At the core of that membership base is an engaged and mass affluent financial cardholder who accumulates miles to travel.

If we were to exclude frequent flyers, that base would still represent around 9 percent of Canadian credit card purchase volumes. In fact, only a quarter of the future redemption liability is associated with frequent flyers. Our cards remain the most competitive in the premium travel reward card market today, and we're seeing good signs that members understand that.

Financial cards drove over two-thirds of Aeroplan's gross billings in Q2, and our one month active financial card base was up 5 percent on the same quarter last year. At the end of June, spend levels remained consistent with pre-announcement levels. That was through both CIBC and TD, as well as across new and tenured members. Card acquisitions were only slightly below the seasonal trends we had expected in Q2, given the phasing of TD's spring campaign this year. We also saw fewer people leaving the card than the same quarter last year.

Our priority with our financial card partners at the moment is monitoring member behaviour, particularly after successful redemptions, ensuring our members reengage and stay engaged. Leveraging the robust data analytics capabilities that we have enables us to target our members with specific campaigns and relevant offers, thereby building engagement with the program.

The Marriott campaign that some of you may have seen in the second quarter drove strong results, and is a good example of the kind of activity that we have underway. Of course, our scheduled partner campaigns, as well as our normal marketing and PR channels are also reinforcing broader, reassuring messages about the future of the program.

Let me turn now to where we want to take Aeroplan in the future, and we understand this is the most important question we need to resolve, and we understand that you'd love to hear more details. Let me tell you what I can at this stage. The evolution of the program will start with the core of what we offer to members today, and the way members define value, which is broader than just value per mile. Our partnerships with two of the largest retail banks in Canada will continue to provide significant value, and help keep financial cardholders in the program well past 2020.

In choosing a card, members will always evaluate availability, value, and flexibility, and evaluate where and how Aeroplan will take them compared to other programs. They'll also consider where their earn will be fastest. At its core, our members accumulate to travel, and while our members want the option to fly to further planned destinations, the reality is that the four categories shown on the chart represent the routes flown most often, which is a mix of domestic, transporter, and international destinations.

Our current offering is competitive on all fronts. For another three years, members continue to have access to Air Canada capacity, with both our sales and Air Canada focused on a great customer experience for our joint customers. We're also engaged in active discussions with alternative partners to shape our future redemption offering. You should expect a reinvented program which will continue to be multi-airline. It will continue to be competitive, and continue to fulfill our commitments to our banking partners.

We operate an important and profitable card portfolio for the banks on the strength of a program which keeps them competitive on value against their peers, who compete for that same client base. We'll continue to look at ways to address the flexibility, simplicity, and availability needs of members, and will continue to keep

that front and centre as we look at what are the right changes to make. That competitiveness will be important to keep members engaged and accumulating.

That won't be everything. We've seen changes in the program before, and have a history of improving our program based on member needs, around flexibility, availability, convenience, and velocity of earnings. Innovations like the introduction of MSFR and tiered benefits are just examples of meaningful drivers of higher net promoter scores since 2014.

Based on our insight into how travellers plan their trips, we're expanding the travel proposition available to our members, enabled by investments in a new platform. This will deliver a more end-to-end leisure traveller experience, with easier access to a broader selection of hotels, tours, and experiential activities, in addition to flight rewards. Some of that is in market already. We added a hundred experiential rewards in June alone. Phase I of enhanced car rental was added in July, with more user-friendly searches, reduced restrictions, free cancellation, and one-way rentals. In the first week of the new car rental program, we saw a 40 percent increase in conversion of redemptions.

Our $200 billion outstanding mile liability represents purchasing power with new partners in an industry where volume, loyalty, and an understanding of the leisure traveller matters. We look forward to providing an update on the progress of our discussions with due course.

With that, let's come back to the detail around the quarter, as it's important to understand that we're focusing on the long-term in a context where the underlying business has continued to perform. Now let me hand you over to Tor to take you through the Q2 results, including some of the detail around redemptions.

**Tor Lønnum –** Chief Financial Officer, Aimia Inc.

Thank you very much, David. Let me take you to Slide 24. Total gross billings were down around 2 percent on a core basis for the quarter, mainly due to a gross to net impact in America's Coalitions, and divestitures which moderated a 3 percent increase in Loyalty unit's gross billings.

Gross billings were up 3 percent for the quarter at the Aeroplan, where the growth and the active card base increased Air Canada issuance on the back of higher capacity, and our Marriott hotel conversion campaign being the main contributors.

International Coalitions' gross billings were down on a reported basis, but up on a constant currency basis, with Loyalty unit gross billings up 4 percent.

Strong Sainsbury's bonusing campaigns were the main contributor, despite what continues to be a challenging environment in the U.K., with macro uncertainty driving low growth, and the exit of Homebase, offsetting some of the Sainsbury's increase.

Global Loyalty Solutions was down, mainly as a result of the divestiture of the New Zealand business which was completed in May.

Moving on to Slide 25. Adjusted EBITDA on a reported basis included restructuring costs and an onerous contract provision related to stranded costs following the exit of our U.S. channel and Employee Loyalty business. Excluding those, the core business contributed $62 million, representing a margin of around 12 percent.

As you can see on the chart, we have some lumpiness of IT and marketing expense in the quarter, but lower share-based compensation and an increased Aeroplan contribution were the main positive factors there.

Moving on to free cash flow, the elements of which are covered in the next few slides. We converted more than 85 percent of Adjusted EBITDA into cash in the quarter, with some increase in redemptions and higher interest expense related to the early redemption of the 2018 bonds. The latter was partly offset by lower CAPEX.

Working capital was positive in the quarter too, driven by a sales tax payment delayed into Q3 due to the timing of the Canada Day holiday this year. Our reported number includes $4.3 million of severance payments. On a year-to-date basis excluding severance, we have now delivered $38 million of free cash flow.

Let's skip a few slides now to Slide 34. We know that many of you are interested in better understanding how redemption is trending, so let me share some additional disclosure to help take you through what we saw in the quarter.

The increase in miles redeemed in the weeks post the Air Canada non-renewal announcement was between 3 percent and 6 percent. It was really composed of an increase in mid-May as the media covered the Air Canada non-renewal announcement. It has since moderated. Overall, miles redeemed in the second quarter of 2017 were up 2 percent. Just to put this into context, it compares to a 4 percent increase in Q1 this year, and a 5 percent increase in the second quarter last year.

Looking at member behaviour, the number of rewards issued has increased modestly, with members redeeming more miles per reward and, as you might expect, some increases in non-air rewards from members with lower balances.

Since May, the cumulative increase in expense is immaterial in the context of an $800 million annual redemption expense last year, with the total increase since May being less than $9 million above last year. A lower unit cost reflected a shift in the mix of rewards.

Taking you to Slide 36 now. As we try and think through what could happen over the next few years, it is important to remember that, on average, Aeroplan members redeem once every two years. With the daily tracking, we have significant insight into redemption behaviour, allowing us to better adjust for any changes we see. This provides us some basis for considering what redemption trends could look like as we go out over the next few years. We know that there are natural limits to the number of flights that will be booked in a year.

On the supply side, the best value fixed-price fares are already well-utilized and often booked well in advanced, especially in business class. Market fare seats are more available but there are still limits to Air Canada's available capacity. There are only so many flights per day to sold-out destinations like Florida and Vancouver.

On the demand side, vacation time and disposable income constrain how many trips our members will want to book in a year, especially for those who already redeem regularly. Taking your whole family to Europe will use up a significant miles balance and may require you to be more flexible on timing, or require you to use more miles if you want to travel in July and August, something our members have told us they want.

Individuals with lower mileage balances will be more constrained to fewer options. This tends to favour non-air redemptions, which can significantly reduce the cost for us. Using lower miles balances will often result in a remaining small balance of miles after a redemption, requiring members to rebuild balances before they can redeem again. While the past can never predict the future, we have never seen an end-year double-digit increase in redemption expense in a single year when faced with changes in prior periods.

Taking a realistic view of the potential for elevated redemptions is important in concluding that our balance sheet puts us in a strong position to cover the cash requirements we could phase into.

Let’s jump to Slide 41 now. At the end of June, as we entered into the second half of the year on our two most cash-generative quarters, we had cash and investments of around $570 million. Most of this is held as reserves against our Coalition programs. With an increase in the next reserve during the quarter we have significant coverage of the liability in that program, as well as $300 million against the Aeroplan redemption liability. We also have long-term investments of around $195 million, all significant assets, being our investments in PLM and Cardlytics, the latter of which we would intend to exit in any potential liquidity amount.

With the exit of the Channel and Employee Loyalty business, our working capital needs have come down somewhat. The main exceptional cash item in the second half will be restructuring. We have already incurred

expense of $8 million and expect between $15 million and $20 million more in 2017. The savings we will achieve will of course strengthen our cash generation, with savings expected to increase to $70 million, annually, by 2019.

We drew down $200 million on our revolver in May. We still have $90 million undrawn under that facility. Importantly, the drawdown on the facility has shifted our financing maturity to 2020. It will result in an incremental $10 million of interest expense on financing cost, which was not included in our guidance for the year, but it will reduce our effective interest rate through 2020.

Finally, as David has already covered, we do not expect to be paying dividends. The suspension of the preferred share dividend was outside of the Company's control, as we were legally required to do so under the CBCA rules. Those preferred dividends will continue to accrue. The decision to suspend the common dividend for the foreseeable future, however, irrespective of where we might land on the CBCA test over the next few years is a conscious one, allowing us to retain more of the cash being generated. That too will add to the cash balances at year-end.

With that, let me hand you back to David to cover guidance and conclude our comments today.

**David Johnston –** Group Chief Executive, Aimia Inc.

Thanks, Tor. We're maintaining guidance for the year. The phasing of gross billings will continue to be driven by the shape of bonusing campaigns and seasonality, with the second half always driving the bulk of gross billings with Aeroplan and Nectar, notwithstanding that we'll have tough comps in Nectar in the third and fourth quarter this year. These seasonal patterns will drive significant cash inflow in the second half of the year. We expect to deliver around $180 million in the coming months.

Current trends would suggest Aeroplan redemption expense will remain modestly elevated, and we've built that into our outlook. Countering that will be the early benefit of the actions we've taken on cost and CAPEX.

That leaves free cash flow guidance at more than $220 million this year before Air Canada to the additional interest expense, financing costs incurred, and restructuring cash cost that Tor spoke to.

Adjusted EBITDA will continue to be underpinned by cost savings and changes in redemption mix, and above 12 percent, excluding the impact of restructuring expense in the provision reported this quarter.

To wrap up, we had a solid financial performance in the quarter, and we're seeing Aeroplan members take a measured reaction to our May news, with no material change in redemption levels, and accumulation up. Actions to cut cost and preserve cash put us in a stronger position. Having said that, we know what we have to do. Progress on Aeroplan travel partnerships, which supplement our long-term bank partnerships, which underpin value, availability, and flexibility to members and returns to Shareholders, is what we need to solve for.

At this point, I'd like to thank Tor for everything that he has brought to Aimia. Tor, you will be missed, and we wish you well as you return to Denmark with your family. Thank you for all of your support.

I'm, however, delighted to have Mark Grafton coming on board as CFO. I've worked with Mark for some time. Many of you will get to know Mark more over the coming months, and we'll see the breadth and depth of his knowledge about our business and his strong operational and commercial finance focus. He'll be a key player in helping us deliver our priorities to the business, and we look forward to being able to share more with you in due course.

With that, we'll hand it over for questions.

## Q & A

**Operator**

At this time, I'd like to remind everyone, in order to ask a question, please press star, then the number one on your telephone keypad. As a reminder for analysts, please limit yourself to two questions only and rejoin the queue for any follow-up questions.

Your first question comes from Brian Morrison from TD Securities. Your line is open.

**Brian Morrison** – Analyst, TD Securities

Hi, good morning. Some positives in the quarter there, David, but I'm just wondering if you might be able to share the internal goalposts, or is there a sense of urgency with respect to bringing the new reward offering to market, just so that members are reassured about the value proposition as, say, credit card fees get renewed, and the velocity of the miles is only 30 months?

**David Johnston –** Group Chief Executive, Aimia Inc.

Yes, Brian, there's clearly a huge sense of urgency. I'm glad you asked it, because it gives me the opportunity just to reinforce the point that we're trying to make today, which is while we see members take a measured approach to the news and we see relatively stable trends in redemption and accumulation up, that in no way is indicating to us or the Management team that we can take time to solve the challenge. We have a huge sense of urgency to secure the new strategic partnerships that I talked about as one of our three priorities, alongside taking further cost out of the business and protecting cash and liquidity.

So, sense of urgency is quite the buzzword around here.

**Brian Morrison** – Analyst, TD Securities

Sorry, the question was internal goalposts. Do you have a timing range?

**David Johnston –** Group Chief Executive, Aimia Inc.

I mean, as you said in the question, there are internal goalposts, but I don't think it would make sense at this point to declare externally where we see those.

**Brian Morrison** – Analyst, TD Securities

Okay.

**David Johnston –** Group Chief Executive, Aimia Inc.

Clearly, they're tied—we're in conversations with a number of potential partners at this point, and clearly, they're tied to their commercial objectives as well as ours.

**Brian Morrison** – Analyst, TD Securities

Okay, thank you. Second question, just wondering if you might be able to provide some colour on the decline in April redemptions, and more importantly, post the May jump, I'm just curious, have you used any levers to mitigate redemptions? I noticed that there were some mileage requirement changes for fees and surcharges, and it appeared like the frequency for one stop was just more available than direct. Were there any levers pulled?

**David Johnston –** Group Chief Executive, Aimia Inc.

Not beyond the sort of normal day-to-day management of the program, no. I mean, obviously, we're always making some adjustments to the program, some adjustments to the offering both on the redemption and accumulation side as we work through the year. But no, we've not pulled significant levers within the quarter to manage redemption. We're obviously watching it very, very closely, but no, nothing beyond the normal operation of the business.

**Brian Morrison** – Analyst, TD Securities

That's helpful. Thank you.

**Operator**

Your next question comes from the line of Drew McReynolds with RBC Capital. Please go ahead.

**Drew McReynolds** – Analyst, RBC Capital Markets

Thanks very much, good morning. Two questions. First, can you provide an update in terms of any kind of high level conversations or recent conversations you had with financial partners post Air Canada's decision? Just want to get a sense of their commitment, just outside of contractual commitments in writing?

Then secondly, can you just remind us—I think David, in your opening remarks you talked about Sainsbury renewal in 2019. Just remind us, kind of the timeframe for Sainsbury's, as well as American Express in Aeroplan? Thank you.

**David Johnston –** Group Chief Executive, Aimia Inc.

Sure. On the banking partner question, first, I think it's fair to say that our partners obviously have similar questions to you as Investors. We've clearly been meeting with our partners very frequently since May. We are working hard with them to understand the patterns of member behaviour and redemption, and we continue to work with them to execute the joint campaigns that we have in place.

Those relationships continue, but clearly, they've—as you want to hear what the future is in terms of redemption offerings post 2020, clearly that is a question that our banking and other partners have, that is one that we're working on with great urgency.

On your second question, the Sainsbury's contract runs to March 2019. We are in discussions at this point on 2019 and post 2019. As I've said before, I'm not going to negotiate in public so I'm not… You'll forgive me if I'm not going to give you any colour on those discussions. What I would say is that, clearly, the U.K. is a tough macro environment at this point as the impact of Brexit really begins to hit inflation and household expenditure. It's a tough macro environment, and it's a tough environment for the grocery industry. Discussions take place in that context. Beyond that, I wouldn't offer any further colour.

On your final point, on American Express, that contract runs to 2018, and I guess, all I can really say is we'll give you a further update on those discussions as and when appropriate.

**Drew McReynolds** – Analyst, RBC Capital Markets

Okay, David, and just, I know—just a quick follow-up here, just around Nectar. The increase in reserve that was contractually required in the quarter, can you just quickly comment on that one?

**David Johnston –** Group Chief Executive, Aimia Inc.

Yes. Tor, could you answer that, please?

**Tor Lønnum –** Chief Financial Officer, Aimia Inc.

Yes, Hi, Drew. The reason for the increased cash that is being held behind the reserve is basically because there is, as you said, a contractual commitment, and it's the result of the downgrade from S&P.

**Drew McReynolds** – Analyst, RBC Capital Markets

Thank you.

**Operator**

Your next question comes from the line of Adam Shine of National Bank Financial. Please go ahead.

**Adam Shine** – Analyst, National Bank Financial

Thanks a lot. Just with respect to the—I guess the contract outsourcing, does that go back to the HP mandate that was signed a few years ago, and is that ultimately then terminated with this particular charge, or is there something else at play here?

**Tor Lønnum –** Chief Financial Officer, Aimia Inc.

Yes, so—hi, Adam. You're absolutely right. The onerous contract provision is related to the HP contract that was entered into a few years ago. That contract consists of both fixed and variable charges. The variable charges have been reduced to zero for the businesses we have exited, but the fixed part is a commitment that

we could not get out of, and was related to the U.S. business that we have. Unfortunately, we were not able to transfer the rights and obligations under that contract to the buyer, and that's why we have taken that charge.

**Adam Shine** – Analyst, National Bank Financial

Okay, so effectively—and I appreciate the colour, Tor—effectively, there's still some costs related to the fixed side of the equation going forward, or am I misreading you that the contract is…?

**Tor Lønnum –** Chief Financial Officer, Aimia Inc.

Yes.

**Adam Shine** – Analyst, National Bank Financial

Okay, perfect, okay. Then…

**Tor Lønnum –** Chief Financial Officer, Aimia Inc.

On the remainder of the business—that that continues as… Business as usual.

**Adam Shine** – Analyst, National Bank Financial

Thank you. Maybe just as a 1B part to the equation, do we continue to see some of the anticipated savings as a result of that effort?

**Tor Lønnum –** Chief Financial Officer, Aimia Inc.

Yes, we continue to see savings, and as David alluded to in terms of the cost savings going forward, for sure, IT will be one of the areas where we will continue to see cost savings going forward.

**Adam Shine** – Analyst, National Bank Financial

Okay, and then my second question just relates to some of the sale proceeds, or maybe lack thereof, amidst some of the divestitures that closed in Q2. I would have thought we would've seen a little bit of intake in terms

of receipt on your part, but I guess ultimately a lot of the cash and/or working capital related adjustments on closing ultimately accrued to the buyers. Is that the best way to read it?

**Tor Lønnum –** Chief Financial Officer, Aimia Inc.

Yes, no, it's a good question. For sure, I understand the question. I'd just start by saying that—keep in mind that this was a loss-making business, so in terms of expecting a lot of proceeds, that would be to expect too much. What was really important for us is that we were able to divest the business without any significant liabilities that you alluded to, and you will have seen that working capital requirements have come down.

Then I'd highlight, again, the fact that this meant that we reduced the number of FTEs by more than 500, and we also reduced the operating expenses by more than $120 million a year. This was really about being able to simplify the business and have the margin. That's basically what you see in this quarter, too, when you look at the Adjusted EBITDA margin coming up to 12 percent.

**Adam Shine** – Analyst, National Bank Financial

Okay, great. Thank you very much, Tor.

**Operator**

Your next question comes from Adam Mitchell with Polar Asset Management. Your line is open.

**Adam Mitchell** – Analyst, Polar Asset Management

I just wanted to clarify, the Aeroplan redemption reserve account, the $300 million that's held, are you able to use that cash if need be to retire the credit facility, or other debt in the capital structure?

**Tor Lønnum –** Chief Financial Officer, Aimia Inc.

Yes—hi, Adam, it's a good question. Basically, as you know, the $300 million redemption reserve is something that was set up to cover for the redemption liability. Now, as a part of our agreement with the banking

syndicates on the revolver, we are obliged to hold $250 million of that reserve in cash, or to be able to replenish if we need to draw down. Basically, there is $50 million of free cash available, and then the $250 million of liquidity is obviously available, but then it would need to be restated.

**Adam Mitchell** – Analyst, Polar Asset Management

Right. I guess this scenario, if you're able to retire the credit facility and extinguish it, the contractual obligation to hold that collateral is no longer there and you have three—unencumbered use of $300 million, if the credit facility were to go away?

**Tor Lønnum –** Chief Financial Officer, Aimia Inc.

Yes. No, you're absolutely right.

**Adam Mitchell** – Analyst, Polar Asset Management

Okay, thank you.

**Operator**

Your next question comes from Anthony Zicha with Scotiabank. Your line is open.

**Anthony Zicha** – Analyst, Scotiabank

Good morning. David, I have two questions. First, we saw that Air Canada and Star Alliance is a strategic redemption partners in 2020. How will Aeroplan differentiate itself when compared to Air Miles?

**David Johnston –** Group Chief Executive, Aimia Inc.

Well, the first thing I'd say is that both Air Canada and ourselves have said that Aeroplan members will have the—or Aeroplan will have the opportunity to buy seats on Air Canada after 2020. I wouldn't take it as a given,

that Air Canada seats couldn't be part of that program. More broadly, here's how I think about Aeroplan post 2020.

First of all, the top line will be supported by a strong brand, long-standing member engagement, and good support from retail and other partners, and credit card partners which, remember, run through to 2024. We're making good progress on—you know, what I've talked about as one of our major priorities, in terms of establishing new strategic and commercial partnerships, and these will be on both accumulation and the redemption side.

Redemption will continue to be multi-airline, and as I've said, that could include Air Canada as a portion of the offering. Remember also that our members have significant purchasing power which is very attractive to other potential partners, because we can drive significant volume of leisure traveller into other partners.

Outside flight rewards, we've been on this journey for some time; we're already invested to broaden our travel offering, which means that some of these changes can happen well ahead of 2020. Members are beginning to see those changes now.

All up, I think we have a strong brand, a great heritage with our members, strong partners, and we've been investing—we're investing already to build a program that, beyond 2020, continues to be a very strong value proposition within the market. I understand that the market will be keen to hear more detail on the travel redemption partnership component of that, and we're clearly working hard to do that.

I've given you my answer much more broadly than just Air Miles because I actually think about the competitive environment much more broadly than that. Remember, Air Miles is a bit of a different program and Air Miles is really a retail coalition. Aeroplan is more of a frequent spender program with premium cardholders.

**Anthony Zicha** – Analyst, Scotiabank

Okay. My second question is, how confident are you that in 2020, your financial partners would not experience a significant decline in the branded Aeroplan credit card usage when Air Canada launches their own loyalty program and branded financial credit cards? Thank you.

**David Johnston –** Group Chief Executive, Aimia Inc.

Yes, well, look, I'd start my answer there by referring back to something in the script, which is that even without frequent flyers, this portfolio represents something like 9 percent of the Canadian credit card market. This is still a very strong portfolio. I'm confident that we will continue to see accumulation and redemption before and after 2020, because of the strength of the assets that I've already talked about.

Specifically, to Air Canada, I mean, I don't know what their program is going to be based on. It seems clear from their public announcement, they're going to be much more focused on a much smaller segment than us, which is frequent flyer, but I wouldn't speculate on their value proposition until we've seen more about it.

**Anthony Zicha** – Analyst, Scotiabank

Okay. Well, thank you, David.

**Operator**

Your next question comes from Stephanie Price with CIBC. Your line is open.

**Stephanie Price** – Analyst, CIBC

Just wanted to focus on the quarter for a second. Can you talk about any one-time items in the free cash flow this quarter?

**Tor Lønnum –** Chief Financial Officer, Aimia Inc.

Yes, hi, Stephanie. I can do that. You're right, there are a few one-offs in the free cash flow. I'd just start by saying that, keep in mind the free cash flow was boosted by the fact that, obviously, you have your earnings, but also the fact that CAPEX came down with slightly less than $10 million.

But as you will have seen, there was a working capital movement in the quarter as well, and the most notable movement in working capital was actually related to a tax payment that normally would have happened in Q2, but due to the Canada Day holiday, it ended up in Q3. That's the most notable one-off in free cash flow in the quarter.

As I talked about in the script, we do have severance in the quarter, the same way we had severance in the first half. That would be sort of the significant one-off. Keep in mind that, when you look at sort of the comparison between EBITDA and free cash flow, the onerous provision related to the IT contract that we just described does not have an impact on cash flow this quarter, but will have a cash flow impact going forward.

**Stephanie Price** – Analyst, CIBC

Okay.

**Tor Lønnum –** Chief Financial Officer, Aimia Inc.

It's also the–we also have the impact of the financing this quarter which I talked about in the script, and it's really related to extending the maturity to 2020.

**Stephanie Price** – Analyst, CIBC

Thanks, and how large was that tax payment?

**Tor Lønnum –** Chief Financial Officer, Aimia Inc.

We haven't disclosed the number, but you can assume that it's around $10 million.

**Stephanie Price** – Analyst, CIBC

Okay, great, thank you. Then, just looking forward post 2020, can you talk about your thoughts on EBITDA? Do you think this $70 million in cost savings by 2019 is going to offset the expected impact from the end of the Air Canada contract?

**Tor Lønnum –** Chief Financial Officer, Aimia Inc.

Yes, thank you, it's a very good question. I mean, as we have said—and as we talked about in the May quarter announcement, if you do the math on the basis of the information that we gave you, you could get to a $200 million impact on Adjusted EBITDA. As you mentioned, the impact here of the–the cost savings will be $70 million annually from 2019 and onwards. That basically means that you will have margin improvement and cash savings prior to the non-renewal in July 2020 with Air Canada.

Keep in mind that we are also looking at significant reductions in CAPEX, and as I mentioned already, you saw that CAPEX has been coming down this year, and we took down the guidance for the full year even further. All up, you should expect that the cost savings and the CAPEX savings will be able to cushion quite a bit of the potential impact of gross margin related to the Air Canada contract.

**Stephanie Price** – Analyst, CIBC

Okay, thank you very much.

**Operator**

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

**Tim Casey** – Analyst, BMO Capital Markets

Thanks. Could you talk a little bit about what remedies your financial card partners have, if and when you enter a new flight rewards partnership, because presumably they sign this contract obviously knowing the Air

Canada contract could—would expire in 2020. But, that's kind of the partnership they bought. I'm just wondering, could you talk about what options they have?

Secondly, with respect to divestitures, could you give us an update on Premier? At one point, it's a couple years ago, but there was contemplation of a potential IPO there. Where does that stand, and any update on Cardlytics would be helpful? Thank you.

**David Johnston –** Group Chief Executive, Aimia Inc.

Yes, sure, I'll take the first part of that question and I'll ask then Tor to talk to Club Premier.

I mean, it's difficult to give too much, obviously, commercial detail, about the contracts that we have with our banking partners. What I would say is that, first of all, with those contracts running to 2024 as your question implies, both parties had to consider when those contracts were signed, a scenario where the Air Canada contract was not renewed. That was anticipated by the terms of the contract, and I'm very comfortable that those relationships will continue through to 2024.

Beyond that, it's not really appropriate to talk about individual contract terms. Where I would focus, though, and I talked about this somewhat earlier, is we're clearly working very closely with our banking partners, both to understand current member behaviour and trends, to continue to execute the marketing and promotional campaigns that we have in place, and to keep them abreast of the work that we're doing against our three priorities: to take cost out of the business, to protect cash on the balance sheet, and to bring new redemptions up post 2020 partners on board.

Tor, on Club Premier?

**Tor Lønnum –** Chief Financial Officer, Aimia Inc.

Yes, so I can—generally, on divestitures, I'd go back to David's point from earlier and basically say that, obviously, we are very focused on preserving cash and bolstering the balance sheet. We will be focusing on meeting the ROIC target and make sure that we create Shareholder value going forward.

In terms of the stake in Cardlytics, we have clearly sort of said that that's a non-core stake and we would be willing to sell that stake.

In terms of progress on any liquidity event, I can't really make any comments on that. But as I said, it is something that we consider to be non-core, something that we would like to be able to sell. It's probably nothing imminent around Cardlytics.

When it comes to PLM, it's slightly different because PLM is clearly a Coalition program, and as David talked about, it's very similar to Aeroplan in the sense of being a travel coalition program. From that perspective, it is a very interesting stake for us. In terms of a potential liquidity event, as you asked, whether it's a listing or similar, there is nothing imminent around that stake.

**Tim Casey** – Analyst, BMO Capital Markets

Thank you.

**Operator**

Again, to ask a question, please press star, one on your telephone keypad.

Your next question comes from Drew McReynolds with RBC Capital Market. Your line is open.

**Drew McReynolds** – Analyst, RBC Capital Markets

Yes, thanks. Tor, just following up on the last question, in terms of the liquidity events or potential liquidity events around Cardlytics and PLM, is it safe to assume that those are required to divest those stakes—just trying to get a sense of how liquid these stakes are.

**Tor Lønnum –** Chief Financial Officer, Aimia Inc.

Yes, it's fair to say that it's not necessarily required, but as you can imagine, I mean, both of them are minority stakes, right, which basically means that—in any shape or form, Aimia won't be in the driver's seat.

**Drew McReynolds** – Analyst, RBC Capital Markets

Okay. On the $70 million in cost savings run rate by 2019, can you just help us understand exactly where all of this shows up in the numbers, in terms of corporate, at the segmented margin level. Clearly, you're revamping disclosure, I believe, for next year. Just wondering how to kind of model all of this in, and more importantly, how to track it all.

**Tor Lønnum –** Chief Financial Officer, Aimia Inc.

Yes, so Drew, on that, I—it's important to kind of start by saying, and you highlighted that yourself, that from Q4 and onwards, clearly the reporting related to the two divisions will be the way that you will be able to track and see disclosure going forward. As David talked about in his script, a very significant part of that $70 million in savings will basically come from collapsing the corporate structure into the two divisions. As he mentioned, you do have some regional overhead as well, so that will be a part of the savings going forward.

Now clearly, with a business like ours, you know that FTEs is an important part of the cost base, so that means that FTEs will be a significant driver of the cost savings. Our plan will be to give you updates on progress on cost savings going forward, so you will be able to see how it flows into the numbers on an ongoing basis.

**Drew McReynolds** – Analyst, RBC Capital Markets

Okay, thanks, Tor, for that. Maybe one final one if I can squeeze it in, haven't chatted about it for a while. But with everything that's happening at Aeroplan, when you revamp the program, you had an 11 percent assumed breakage rate in that program. Just wondering, as the auditors come in and look at what could or

potentially couldn't happen at Aeroplan as we get to 2020, what happens to this assumed 11 percent breakage rate? Thank you.

**Tor Lønnum –** Chief Financial Officer, Aimia Inc.

Yes, it's a good—very understandable question. I'd basically just start by saying, if you look at the burn/earn which you find in the deck, right, you see that that's down 84 percent.

It's safe to say, and I think we mentioned this on one of our previous calls, that we try to take a long-term view when it comes to breakage. The 11 percent that we're using at this point in time is something that we feel very comfortable with. It's also fair to say that—and David has made this point already, when you look at redemption behaviour, that's not only the data that we have from May until now, but also redemption behaviour from previous events in the Company's history. There is nothing that suggests that there should be any change to the breakage rate.

**Operator**

There are no further questions queued up at this time. I turn the call back over to David Johnston for closing remarks.

**David Johnston –** Group Chief Executive, Aimia Inc.

Okay, thank you. To wrap up, we had a solid financial performance in the quarter and we're seeing Aeroplan members taking a measured reaction to our May news, with no material change in redemption levels, and accumulation up.

That said, as a Management team, we have to move with a great sense of urgency against three priorities: taking cost out of the business, protecting cash and a strong balance sheet, and working hard to bring alternative redemption partners on board and doing all of that while continuing to deliver strong execution and solid financial performance.

Thanks very much for your time today, and we look forward to talking to you again soon.

**Operator**

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