AIMIA INC.
SECOND QUARTER 2015
RESULTS CONFERENCE CALL
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FINAL TRANSCRIPT

Aimia Inc.

Second Quarter 2015 Results

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PRESENTATION

Operator

Good morning. My name is John and I will be your conference operator today. At this time, I would like to welcome everyone to Aimia's 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 would like to ask a question during that time, simply press star, then the number one on your telephone keypad. If you'd like to withdraw that question, press the pound key. Thank you.

Karen Keyes, Senior Vice President of Investor Relations, you may begin your conference.

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

Thank you very much, John. Good morning to all of you on the phone and attending via webcast this morning. On the call with us today we have Rupert Duchesne, Aimia's Group Chief Executive; David Johnston, Group Chief Operating Officer; and Dave Adams, EVP and Chief Financial Officer.

Just before we get underway, I'd like to remind everyone to review our forward-looking statements and the cautions and risk factors pertaining to these statements, which can be found on Page 3 of our results presentation, which is available on our website.

I'd also like to point out that this presentation refers to a number of non-GAAP metrics to help you better understand the results of the business, and these are explained on Page 4 of the presentation.

In today's presentation, we're going to give you more thoughts on the business from a strategic, operational and financial perspective. Rupert will start us off with a strategic overview,

and then we'll hand over to David Johnston to provide a bit more of an explanation on how we'll run our business and report our results starting in 2016, and then Dave Adams will review our financial results and guidance for the rest of the year. We'll turn over to questions for the rest of the time, as we normally do, and just to avoid any confusion, we'll refer to David Johnston as David and Dave Adams as Dave throughout the remarks and the Q&A.

With that, I'll hand over to Rupert.

Rupert Duchesne – Group Chief Executive, Aimia Inc.

Thanks, Karen. Good morning everyone. We've made some strong progress in the first half of the year on our quest to make business personal between our clients and their customers. Aeroplan Distinction is one result of that effort. There, and across all of our coalitions, we focused on the members' experience and value proposition to foster deeper engagement. The early success of our global platforms is another significant point of progress. Clients are hungry for the ability to get a single view of the customer and the ability to influence them across the entire customer journey in an individualized way, and our platforms make that a reality. In these and many other ways, we're meeting the needs of our clients and prospects who have expressed loud and clear, in a world of fragmented customer retention, they want to work with a company that can help them find the hidden insights in the mountains of data available to them and ways to differentiate themselves from their own competition.

Along with the progress we've marked operationally, we've also had a strong start to the year financially. Today, we reported our highest Adjusted EBITDA margin in six quarters. The strategic changes we've been making to our flagship coalitions as we invest for our continued success and growth, combined with disciplined approaches to finding global efficiencies, have

protected our margins, even as the economy and other factors weighed on our top line. The macroeconomic context continues, frankly, to be a bit of an unknown. As you all read in the Canadian and the global media, there's a fair amount of debate about how these economies are doing. Our customers have echoed this uncertainty, causing us to temper our expectations of consumer spending in Canada in the second half of the year.

That variable, combined with an adjustment for a new outsourcing agreement in our proprietary business, as well, has led us to revise our guidance of gross billings that you'll have read about in this morning's release. Of course, Dave will take you through our current view on the guidance in more detail a little bit later on.

One thing that we've taken off the table, in terms of concern, is Interchange. I said in the first quarter that we'd accounted for the effects of the changes to Interchange in our guidance for the year. Negotiations with our banking partners are now successively concluded in a way that protects the value proposition of our program for our members, which was a critical point for us from the beginning, while at the same time staying within the impact we expected when we provided our 2015 guidance.

I'd like to take just a few minutes to reflect on our progress against our strategy and, in doing so, give you a bit of context for another notable piece of news today, the reshaping of how we will run the business starting next year.

Our core focus over the last few years has been on three things:

First, we strengthened our flagship coalitions with the launch of Aeroplan Distinction and the 10-year card partnership, the extension of Sainsbury's as our anchor Nectar partner and

that program's evolution, the resigning of HSBC as the anchor to our Air Miles Middle East program, and at the same time Club Premier has demonstrated ongoing success and Think Big continues to show great potential.

Second, we've made significant progress in the last year in expanding our capabilities in analytics and deepening our offering to clients in both our coalition and the proprietary businesses. Our ISS business is working to both codify and replicate the success it's had to date with other grocery and drugstore clients around the world. We recently renewed contracts with one of our longstanding grocery customers, extending what we do with them into CPG commercialization. This is an exciting opportunity to the show the company what we can do to strengthen its supplier relationships. By way of example, in our i2c joint venture with Sainsbury's, 180 consumer packaged goods companies licensed the self-serve tool with more than 2,000 users across those organizations.

Thirdly, we've been investing in and transforming our proprietary business away from a commoditized reward-fulfillment-driven business towards higher margin businesses based on a value-added strategy underpinned by global platforms. Avis, which launched its enhanced loyalty program powered by the Aimia loyalty platform, as we announced today, is a perfect example of the kind of client we envisioned for this sophisticated offering. Using ALP, Avis can now identify the best customers and offer them preferential and personalized rewards based on their individual wants and needs. It allows the company to integrate in-store, online and social interactions together in a single view and react in real time to customer behaviours, creating a meaningful competitive differentiator for Avis.

The launch of ALP, along with the Aimia communications platform, has widened our offering, allowing us to bring an even more responsive solution to our client, and for our own future coalitions. We're seeing real sales momentum for both ALP and Smart Button, which is our platform for medium-sized clients.

Flynas, a leading low-cost savvy airline serving the Middle East, Europe and Asia, launched its Smart Button powered frequent flier program in May, calling out in its press release that nasmiles, as it's called, is a strategic part of its overall expansion plan.

The most recently announced Smart Button client, Telus, now has a robust customer-centric platform that is feature-rich and easily integrates into the telecom company's own operating systems. Telus' own marketing team can manage the program in-house and conduct real-time customer-level analysis. With the access Telus has to meaningful consumer data insight, they can effectively segment and engage with its customers with increased relevancy and payback.

The sales to Avis, Flynas and Telus are of course just examples of the scale and diversity of clients we're attracting with the suite of platforms we've built in the past couple of years.

The focus we've placed on investing in future success through advancing our flagship coalitions, building our analytics muscle and transforming our proprietary business has brought us to a bit of a turning point for the Company.

Soon after we made our global acquisitions, we decided to organize ourselves geographically, to ensure the best level of cross-pollination between the businesses, to optimize our integration efforts and to build cohesion across our now global footprint. This has delivered

diversification and good returns in its first phase. Now with that success and the progress achieved in the ensuing, we've emerged as a unified company, and having scaled our offering with new platforms that respond to the sophisticated needs of clients globally, we've taken a good hard look at how best to position the business for this next phase of growth in a way that simplifies how we manage our ourselves.

The next natural step is to reshape how we organize ourselves to allow for even deeper focus on our businesses and the markets that we serve. We are confident that creating these three core business divisions, Americas Coalitions, International Coalitions and Global Loyalty Solutions, will drive both growth and efficiency.

Before I hand over to David, I want to emphasize that this evolution will be done with the same capital discipline that's delivered a total of $200 million back to shareholders through buybacks, as well as annual dividend increases in each of the past five years.

David.

David Johnston – Group Chief Operating Officer, Aimia Inc.

Okay, thanks, Rupert, and good morning everyone. I'm going to do two things today. Firstly, I'd like to give you more detail on the new structure that we've announced; and, secondly, I'll give you my perspective on the operational highlights for the quarter, before handing over to Dave.

As Rupert has said, we're shifting to a line of business structure in 2016. I see the objectives of this change as threefold. Firstly, it allows our commercial teams to sharpen their focus to win new business in the specific markets in which they operate; secondly, it allows us to

sharpen our delivery model in both standing up new customers and in product development; and, thirdly, it allows us to simplify our cost base.

So, starting from January 2016, we'll operate and report our financial results across three operating divisions.

Global Loyalty Solutions will be headed by Shailesh Baidwan. This division will bring together the proprietary, strategy and solutions businesses, which are based on our Aimia Loyalty, Aimia Campaign and Smart Button platforms. We've seen real sales momentum across our regions from companies that want to control their own programs but need our expertise and platforms to execute, and with about 75 clients now on our global platforms, we can accelerate growth and drive higher margin through a singular approach to sales and delivery under Shailesh.

Americas Coalitions will be headed by Vince Timpano. We need to focus on innovation and investment in our core Aeroplan coalition. Aeroplan 2.0 was the first stage in the transformation of that program and is delivering strong results. We'll continue to invest deep in member engagement and stay ahead in a competitive market. Vince will be leading this, as well as building the scalability to manage any future coalitions in the Americas, as and when we're in a position to launch them, as well as managing our non-platform-based work for customers there.

International Coalitions will be headed by Jan-Pieter Lips. Our Nectar and Middle East activities will continue to sit under J.P., and he'll also continue to manage the reboot of our Nectar Italia program. Like Vince, J.P. will be focused on building a scalable cost base that can accommodate future growth in our coalitions. Shopper Insights to Communications will also

report through J.P. and remain focused on the business development and innovation that drove a doubling of its client base in 2014.

We'll continue to closely manage our investments, like Cardlytics and PLM, to build value in those businesses. Any eventual monetization of our investments could obviously help us fund the growth of the business and return cash to shareholders over the long term. We'll also review our assets and market presence, both to identify what businesses continue to be the best fit and are a good use of capital, as well as where we might to fill gaps with tuck-in acquisitions that deliver profitable growth.

Simplifying our cost base, as we evolve this new structure, will mean removing some of the duplication that exists between the regions and reduce the number of legacy platforms that we support. It will also increase our ability to deliver market-leading global products sufficiently and, as we scale our business, leverage the work we've already done to contain and avoid costs, including the global outsourcing agreement with HP which we announced in May. As a consequence, we expect to realize approximately $20 million of annualized operating expense savings from 2016, and we'll communicate further about the initiatives to deliver this in coming quarters.

Having talked about how we'll organize for 2016, let me return now to the operational and commercial highlights in the business today, starting with Aeroplan.

In 2012, we launched an ambitious plan to reshape Aeroplan for long-term growth, putting customer engagement at the heart of the program's success. We wanted to evolve the program so that our most valuable members deepened their relationship with Aeroplan, by creating a significantly enhanced offering that would drive sustainable value over the longer

term. In the six quarters since we've introduced our new financial card partnerships and launched Distinction, we've given you a fair amount of data to demonstrate the progress we're marking. We said that by this quarter we'd have a better sense of where we are, particularly with respect to the financial card portfolio and the overall engagement with the program. So, what do we know today?

Comparing where we are today with when we launched Distinction, we've reshaped the mix of our card portfolio, increasing the proportion of higher spending cardholders, such as Visa Infinite and Privilege cardholders; we've reversed the multi-year trend of stagnant card base and turned around a longstanding spend decline that has been observed; we've increased gross billings from financial cards by 18 percent over the last two years; and purchase volume, which represents the total donor spend on TD and CIBC co-branded credit cards, is up 4.2 percent in the first six months of 2015, versus the same period in 2013, and up 1.2 percent from 2014.

Growth in purchase volume is a key metric we follow as a good indicator of the performance of our credit card portfolio and has the added benefit of being a comparable metric to what the credit card industry reports. For us, it's an important indicator of how the base business from TD and CIBC is doing, before taking into account yield and promotional activity. While similar data is not available for AMEX, we're developing a proxy that will be comparable in coming quarters. So, it's our intention to continue to share this data point with you going forward, to provide insight and consistency, but obviously in a way that's not commercially sensitive.

Purchase volume breaks down into its factors, number of active cards and average spend per card. The number of active cards is then in turn influenced by new card acquisitions and attrition rates—and I'll talk a bit about each of these.

First, new card acquisition: TD and AMEX signed up an extraordinary number of new cards in 2014, with the program launch. While we certainly didn't expect that to continue in 2015, we've seen softness in acquisition rates for TD and CIBC from late last summer, due to a lack of promotional activity while Interchange reform was negotiated, and this continued into the first half of this year. Spending on promotional activity across the industry in the first half of 2015 was less than a fifth of the spending in the first half of 2014. Furthermore, compared to the transformative year of 2014, we've been disappointed in the acquisition rate by AMEX so far this year, although we continue to see strong transfers for membership rewards. However, we do expect that all of our partners will ramp up spending on acquisition in the latter half of 2015, and into 2016.

We now have a clearer view on attrition, the second factor in total active cards. For TD, attrition came from three places: lost during the conveyance between CIBC and TD, because of uncertainty; newly acquired cardholders who were just chasing the bonus miles; and an elevated level of attrition following the conveyance process, which has since stabilized. AMEX also saw higher than expected levels of attrition. As with others in the industry, AMEX marketed aggressively early last year to take advantage of the disruption in the market, but as we now see, many of those new AMEX cardholders were already Aeroplan co-branded credit card holders and took advantage of the AMEX promotional miles, but then did not ramp up their spending on the card in a permanent way, and, indeed, at least half of them did not renew.

The bottom line here, as we cut through all of the noise of the last year, is that our one-month active financial cardholder base grew 7 percent from the end of 2013, a long way from the stagnant card portfolio we'd been experiencing before, which is exactly what we'd hoped for from the new card partnerships.

The other component in purchase volume is average spend per card, and we've seen some very good growth numbers here. Among the group of conveyed cardholders—that's people that were already familiar with Aeroplan and already using a co-branded card in 2013—average spend for TD has climbed more than 8 percent in the second quarter of 2015, compared with the second quarter of 2013, while the comparable rise for CIBC was around 8 percent. Looking at the new cards, average spend rose almost 25 percent for TD and 42 percent for CIBC as cardholders consolidated their spending on the new card and ramped up.

These are very strong growth numbers, and while we're not intending to provide this level of granularity in the future, it's critical evidence to us that the program is working. The growth reverses the trend we were experiencing prior to 2013. A couple of factors have gone into that, some of the lower spend, less valuable cardholders dropped after they took advantage of the promotional miles and new card fee waivers. We've also shifted towards more premium cardholders in our portfolio.

When we compare against our card base at the end of 2013, today's mix has certainly changed. We have a new group of TD cardholders who spend less than those from our mature and stable legacy base, but nonetheless are valuable contributors. TD continues to make positive strides in attracting higher quality cardholders, which, coupled with attrition of lower

quality spenders and a continued improvement mix, are contributing to that increase in the spend per card overall.

That spend growth would have been even stronger if not for the impact of the Canadian economy. It's become clear, as we've come through the first six months of this year, that the 3 to 4 percent market growth in household spending that we had expected when we forecast 2015 just isn't materializing.

So, to bring those elements together to get purchase volume in the first six months of 2015, we've had lower than normal but improving new card acquisition, higher attrition and higher average spend per card, which, together, have brought us to the 4.2 percent growth in 2015 year-to-date purchase volume over 2013, and 1.2 percent growth over 2014. Now that we're able to see more clearly through the noise of the last two years, we're seeing good momentum and are confident that purchase volume will improve from here, to provide stronger growth in the future.

Looking now at the other major element of our program improvement, the launch of the tiered Distinction program, when we launched Distinction we set out to drive engagement and satisfaction, by encouraging Aeroplan members to actively earn more miles and making more of their total purchases eligible for miles, primarily by consolidating their spending on one of our partner's cards. The short answer here is that the program is working as we've designed. Member satisfaction, as measured by net promoter score, is rising, meaning customers are increasingly satisfied with and are willing to recommend Aeroplan.

The number of members in each Distinction tier is growing in double digits. This is a reflection of the value members are seeing in the program. Lower earning members are

acquiring financial cards to help them reach Distinction status, while higher earning members are further consolidating their card spend in order to migrate up to the highest Distinction tiers.

Membership in our highest tier, dDiamond, climbed 12 percent in the second quarter, compared to a year ago, and perhaps contrary to what some would expect, almost two-thirds of this group earned that status through the use of their financial cards, not because they're business execs always on the road.

Finally, the continued year-over-year increase in rewards issued demonstrates that members recognize the value in our market-leading flight reward product. Members earned 16 percent more flights in the first half of 2015, compared with the first half of 2013, and their rewards were up 1.4 percent over the same quarter last year; and the continued success of Market Fare Flight Rewards is because members are willingly paying a little more in order to access more convenient times and direct flights offered with our improved flight reward product, particularly on non-stop Air Canada flights.

So, I hope that gives you a better sense of the success we've had since we launched the new card partnerships and engagement approach in 2013. Of course, we're not done. We're actively working to make sure each of our 5 million members understands the value of the Aeroplan program and how to make the program work harder for them. For our financial cardholders, we have a much greater granularity and richness of data that will help us and our partners capture an increased share of wallet, and we expect that our partners, with Interchange now also behind them, will be able to put more energy towards new card acquisition.

With the benefit of a bit of time to get through the noise of the exceptional year in 2014, what we see clearly is that the critical metrics, the spend per card, the purchase volumes, are heading in the right direction, and we expect our portfolios to grow at market rates with the type of cards they are, given the strength and value of the reward product.

Turning now to the Nectar coalition in the UK, the top line performance in the quarter was in line with our expectations. As we've spoken about over the last few quarters, the change in issuance for Sainsbury's, which came into effect in April, has increased the volatility of points issuance, with points now more tied to the various promotions that Sainsbury's undertakes each month. As a result, it'll take a few more quarters to see a more normalized base for accumulation and burn earn, but we remain optimistic that the aggregate points issued was on track and very much in line with our expectations.

Over the last few years, we've been making important investments to ensure Nectar remains relevant to collectors. As Rupert mentioned, we'll be making changes to Nectar in the coming months to make it simpler and more personalized for customers. We'll focus primarily on digital channels, including mobile, creating an always-on personalized offer stream for each collector. Improved relevancy and ease of access will drive better opt-in rates, higher email open rates, and increase web traffic, resulting in improved customer engagement and greater returns for our partners.

Last month, we introduced a new coalition email that consolidates partner offers and ranks them by relevance for each collector. In the first week, over 7 million customers received over £250 million worth of points offers. By week three, over 50 percent, or 3.5 million of the emails contained unique offer combinations, creating a truly personalized experience of Nectar

for those customers, and our goal is to extend this type of email to an additional 3 million collectors by the middle of next year.

I'll comment now US coalitions. While we build our existing coalitions, we continue to explore a number of great opportunities in new markets, including the US. In light of the competitive program launch earlier this year in the US, we're seeing real interest in the coalition model. Obviously, we're capitalizing on that market interest and continue to be in conversations with potential partners, which are progressing well, but we're not going to say anything more on that today, given that that's obviously pretty commercially sensitive.

In conclusion, across the business, we see great opportunities for growth and the changes we are making will focus ourselves and delivery model, as well as simplify our cost base. As we've been working through these changes, we've looked at all of the various parts of our business, whether in London or Mumbai, Sydney or Toronto, and in thinking of about how to make the great parts even better, I was struck again and again at both the progress we've made in the last few years and how many meaningful opportunities remain. Over the next few quarters, as we implement these changes, I look forward to sharing more on how this shift is coming to life.

With that, I'm going to hand you over to Dave.

David Adams – Executive Vice President and Chief Financial Officer, Aimia Inc.

Thanks, David, and good morning everyone. Overall, we were pleased with the strengthening we saw in underlying Adjusted EBITDA in the quarter and the improvements in business operations in the region. Let me now focus on what we delivered from the quarter

from a financial point of view and where that leaves our guidance for the year. So, let's turn to the actual numbers.

Gross billings were $605 million, a decline of around 8 percent, or $53 million on a constant currency basis, with around $11 million of that due to a new outsourcing agreement for the fulfillment of gift cards which resulted in a net revenue accounting treatment. The rest was due to factors we highlighted last quarter which led to lower loyalty unit gross billings across all regions, as well as a reduction in activity in our proprietary loyalty business.

Underlying Adjusted EBITDA, excluding the card migration reversal, was the real highlight in the quarter at $62 million, up $3 million, or by 5 percent, which represents a margin of 10.2 percent, the highest margin we've reported in six quarters; and free cash flow before dividends paid was a solid $59 million.

Let me now walk you through the overall movements in our coalition and proprietary loyalty businesses to help you understand the moving parts at the gross billings level.

The $30 million decrease in gross billings from loyalty units was the result of changes in our coalition businesses, tough comps and changes in the economic and regulatory environment. Two-thirds came from our European coalitions: $15 million was the result of Groupe Auchan exiting the program at Nectar Italia, while $11 million was in the UK where the introduction of Sainsbury's new accumulation structure, in the context of a highly competitive grocery sector, and regulatory restrictions on British gas, were contributing factors. These variances were partially offset by a favourable currency impact of $5 million. Aeroplan represented the other third of the decrease, with gross billings down by 3 percent in the quarter. Gross billings with our financial card partners were down by 4 percent and lower gross

billings in non-air were partially offset by Air Canada, where base miles issuance was up and currency had a positive impact.

Looking at the proprietary loyalty business, we've taken some important decisions about how we operate which will improve margin over the long term. It's important to see the $10 million decline in gross billings in the context of conscious decisions we've taken to shift to a next-generation loyalty business built on products and platforms which are capable of delivering profitable growth, in the way our ISS business already does today. This transformation particularly affected two of our businesses this quarter.

In Canada, a good pipeline is resulting in wins, such as the one we've recently announced with Telus, but the incremental billings will not be enough to offset the impact from the exit of two contracts which we've been cycling since the fourth quarter of 2014. This has resulted in a decrease of around $13 million and will have a further impact of $19 million in the second half of the year.

In the US and Asia-Pacific, the favourable impact of foreign currency and some reward volume increases were offset by the impact of the net revenue treatment of our gift card outsourcing agreement, which reduced billings by $11 million. This was the main factor accounting for a 5 percent drop in gross billings in the region.

The notable exception was EMEA. Strong performance in proprietary loyalty was due to a short-term boost from a rewards fulfilment contract with a major UK bank that will ramp down over the course of this year. This, combined with a strong ISS performance on the back of new business wins last year, meant we saw an 18 percent increase on a constant currency basis.

Year to date, ISS gross billings, including the attributed revenue from i2C, amounted to $48 million.

Let's move on to Adjusted EBITDA. Excluding the card migration provision, consolidated Adjusted EBITDA increased by $3 million, with all regions outside Canada showing improved results over the prior period. Operating expenses were lower in EMEA and the US and Asia-Pacific, boosting Adjusted EBITDA. This was partially driven by timing, as we expect increased marketing expenses in Nectar UK in the second half.

Global product development costs included in the EMEA results were around $4 million in the quarter, taking the year-to-date total to just under $8 million. The full-year expense for global product development will be in the region of $20 million.

The i2c and Club Premier distributions we received in the quarter also made a positive contribution of $10 million. The Club Premier business is performing very well, following the extension and renewal of the CPSA with Aeromexico, and we expect to receive the second half distribution similar to the one we received this quarter.

Adjusted EBITDA margin in Canada was in line with the 17 percent delivered last quarter, driven by an 18 percent margin at Aeroplan, and we expect a similar margin in Canada for the rest of the year. Lower advertising and marketing expense took operational expenses down, and lower promotional miles issued on new cards improved Adjusted EBITDA at Aeroplan by $11 million, compared to last year. These items were partially were offset by an increase in redemption cost per mile, primarily as a result of the weaker Canadian dollar, which increased the cost of Star Alliance Rewards.

Finally, turning to the factors to keep in mind as you look at free cash flow, the deal we signed to transform Aeroplan brought with it a number of unknowns we've now clarified and it will shape free cash flow going forward. Our negotiations with the banks subsequent to Interchange reform are now complete and have allowed us to protect most of the yield increase agreed as part of our 2013 deal, as well as giving us more flexibility to broadly maintain the competitiveness of the value proposition for members, and the originally estimated level of migration between our financial card partners did not happen, allowing us to reverse the bulk of the $50 million provision that we'd taken.

As David has taken you through, member engagement with the program is strong and we're seeing that in the continued increase in miles redeemed this quarter. Miles redeemed are up by 4 percent, as members continue to redeem for reward options that are more available and more convenient. Burn earn for the quarter, excluding promotional miles, was 86 percent. As accumulation in redemption growth starts to align to a more normalized pattern, cash flows are also broadly in line, giving us confidence around our free cash flow projections for the year.

This solid progress on redemptions has meant we continue to maintain a new level of purchasing with Air Canada and remain the airline's largest customer. Air rewards booked on Air Canada are up by 5 percent. Despite a mix shift towards Classic from Market Fare Flight Rewards in the quarter, the value of our ticket purchases from Air Canada in the second quarter was up by around 3 percent, compared to last year, when we had already seen a significant increase over the 2013 base. On a year-to-date basis, our purchasing is tracking above the 2014 level.

Free cash flow for the quarter before dividends paid was $59 million. Excluding the one-off benefit of $83 million relating to the income tax refund in Canada in 2014, this represents an

$11 million decrease over last year. Roughly half resulted from lower cash flow from operations and half was due to higher capital expenditures. On a year-to-date basis, our free cash flow, excluding the one-off, was $36 million above last year's level, which puts it well in line with our expectations for the full year.

As you are aware, operating requirements in our international operations, covenants in place against debt and reserves that are held or restricted against our coalition program, mean that we consider only a certain portion of our cash and investments to be truly available cash. This balance stood at $95 million at the end of June, with share repurchases since the end of June taking us to $86 million.

We successively defended our 2008 tax reassessment by the Canadian and Quebec tax authorities. The successful outcome means that we expect a return of a $21 million deposit from the provincial authority. It also meant that immediately subsequent to the end of the quarter we were able to cancel the outstanding letter of credit issued to the Canadian Revenue Agency in the amount of $41 million, reducing the balance of the letters of credit outstanding on our line of credit to $13 million.

We've continued to have an outstanding track record of returns to shareholders through economic cycles and through the investment in and transformation of our business. The dividend has been a fundamental part of this, as we've increased it for five consecutive years, delivering a dividend yield which continues to be towards the top of the consumer discretionary sector at around 5.7 percent.

Since last November, we have been drawing down the liquidity we've built up and as of last week, we have repurchased 14.4 million shares, representing almost $200 million of surplus cash returned to shareholders through share buybacks.

Our longer term capital allocation strategy needs to strike the right balance between reinvesting in organic growth and small tuck-in acquisitions, rebuilding our financial flexibility in light of debt maturities and macroeconomic uncertainty, and returning cash to our shareholders. Within this context and with the NCIB still in place, we will continue to buy back shares as we generate surplus cash. The return of our $21 million deposit from the Quebec tax authorities will add to the cash available for buybacks in the third quarter.

Despite pressure at the top line, we are confident in our ability to deliver an underlying Adjusted EBITDA margin of approximately 9 percent for the year with support from a strong margin performance in both Canada and the EMEA, as we focus on controlling costs while investing to deliver longer term growth. However, we are revising our gross billings guidance range to between $2.46 billion and $2.51 billion, to take account of two factors: a $50 million adjustment for the full-year impact of the outsourcing agreement for gift cards fulfilment, which resulted in a net revenue accounting treatment. This change has no effect on Adjusted EBITDA or free cash flow; and secondly, a more challenging economic environment in Canada and the impact of slower card acquisitions by our financial card partners in the first half of this year.

We are reaffirming our guidance on Adjusted EBITDA margin and free cash flow today, as we do not see a dilutive impact of the top line on these metrics, given we continue to lever the business model. Capital expenditures are also expected to fall within our guidance.

As we said last quarter, our free cash flow guidance includes the migration costs associated with our HP outsourcing contract, the increased capital expenditure to support our global product development, higher PLM distributions, and the $21 million tax deposit refund. We expect to fully realize the benefit of the $20 million in annualized savings from the change in the business structure in 2016, and expect a modest restructuring charge relating to this in 2015. We will provide more clarity on that with our third quarter results, as our plans get refined. Notwithstanding the fact that 2015 contains $40 million of non-recurring tax refunds which increase cash flow, we expect to report higher 2016 free cash flow, absent any further macroeconomic deterioration.

With that, I'll hand you back to Rupert for questions.

Rupert Duchesne – Group Chief Executive, Aimia Inc.

Okay, Dave, thank you. So, let's go to the questions on the phone.

Q & A

Operator

At this time, if you would like to ask a question, please press star, then the number one on your telephone keypad.

Our first question comes from the line of Drew McReynolds from RBC.

Drew McReynolds – Analyst, RBC Capital Markets

Just a couple for me this morning. Just with respect to Nectar Italia, Dave, I'm just wondering if you can just provide us an update there; and then when we look at Nectar UK this quarter, with the change in accumulation formula, just for modeling purposes, as we look out the next couple quarters, is this kind of the year-over-year performance we should expect; and then I just have one follow-up?

David Adams – Executive Vice President and Chief Financial Officer, Aimia Inc.

I'd ask David Johnston to comment on sort of the state of our negotiations with Nectar Italia, but I'd go into—when you're looking at your modeling, Drew, of Nectar UK, I think you're going to end up seeing greater volatility going forward because they're moving to a bonusing model, so I think it's going to take a little while, I think, before we're able to comment on the patterns, but, again, I'd sort of turn this over to David to respond.

David Johnston – Group Chief Operating Officer, Aimia Inc.

Yes, on Nectar, Italia, discussions continue in the market, we're active with a number of potential partners, but you should expect it to continue to cycle the drop in gross billings from the previous anchor partner, at least until early next year. At this point, even if we sign a new partner this year, it won't be operational until the end of 2016, just because of the IT ramp-up, et cetera, that that would take, but conversations continue.

Drew McReynolds – Analyst, RBC Capital Markets

I appreciate that, David, and I have a very quick follow-up here. Just in terms of your free cash flow outlook, and I know you don't want to provide guidance, but higher year-over-year next year. I'm just wondering if you can talk to any CAPEX efficiencies that we're going to

see, just given all the reorganization and some of the other IT projects that are underway. Thanks.

David Johnston – Group Chief Operating Officer, Aimia Inc.

Yes, we've just indicated at this point in time that it's going to be higher. I would say that our outsourcing agreement with HP is going to help somewhat, but I would expect that at this point in time we're really at a high point for CAPEX and we should see lower CAPEX going forward, as we complete some of the development activities that we currently have in place.

Rupert Duchesne – Group Chief Executive, Aimia Inc.

But just to be quite clear, that's not what's driving the improvement in free cash flow. That comes from our operations, not from lower expenditures.

Operator

Our next question comes from the line of Perry Caicco from CIBC World Markets.

Perry Caicco – Analyst, CIBC World Markets

Thank you. I wonder if you could just walk through the free cash flow guidance once again, the various components. I know you mentioned the tax refund. In the past, I think you've mentioned a working capital gain, as well.

David Adams – Executive Vice President and Chief Financial Officer

Yes, Perry, for this year, we've got $40 million in non-recurring that are coming through. We're not going to get the benefit of that in 2016, but, based on our current plans for the

businesses and the visibility that we've got, we're calling for free cash flow in 2016 that will be higher than this year, in 2015.

Perry Caicco – Analyst, CIBC World Markets

Including the non-recurring?

David Adams – Executive Vice President and Chief Financial Officer, Aimia Inc.

Yes, including the non-recurring, to be clear.

Rupert Duchesne – Group Chief Executive, Aimia Inc.

So, let's make it really clear here. The range we've guided to for this year is 220 to 240, including all of that non-recurring. Next year, we're saying it'll be higher than that without the non-recurring. So, the absolute number will be higher than 220 to 240 next year.

Perry Caicco – Analyst, CIBC World Markets

Okay. Then, just in terms of the change in structure, could you just go over again what precipitated that, you know, why you're going to change the way you report your numbers and how we'll be able to sort of compare the businesses against how they've been doing in the past?

Rupert Duchesne – Group Chief Executive, Aimia Inc.

Well, sure. I'm going to just make one introductory comment and then I'm going to ask David to go back into the rationale. I mean, clearly, we'll provide comparisons with the way we currently do it, so that you do have the opportunity to fully understand exactly what was going on before relative to what is going on with the new disclosure, so that's now obvious and an

absolute, but let me pass it over to David and he'll talk a little bit more again about the rationale for the focus and the decision.

David Johnston – Group Chief Operating Officer, Aimia Inc.

The essence of this, really, is simplifying and focusing particularly in the area of sales and standing up new clients. What we're doing here is allowing the proprietary sales teams to focus purely on the proprietary model and, similarly, the coalition teams focus on nothing put selling coalitions, and that's quite important, because what we found, as the businesses have grown, is that it's quite tough within a region to try and sell coalition and proprietary analytics side by side, not least because they often have somewhat different technology and somewhat different pricing models. So, this really enables our commercial teams to dedicate their focus on exactly the market and the technologies that they're selling, but still benefiting from shared back office in areas like finance, HR and legal.

We think it'll sharpen us on the commercial side of the business and, because it'll also enable us to take out some duplication both across regions and between the regions and the commercial centres, that's where we get the $20 million of savings from.

Perry Caicco – Analyst, CIBC World Markets

Okay. Thank you.

Operator

Our next question comes from the line of Anthony Zicha from Scotiabank.

Anthony Zicha – Analyst, Scotiabank

Hi, good morning. Rupert, could you give us a bit more colour with reference to Aeroplan, to the burn rate? What kind of trends could we anticipate during an economic decline and could we also anticipate increased promotional activity?

Rupert Duchesne – Group Chief Executive, Aimia Inc.

Yes. So, historically—as Dave said in his remarks, it's 86 percent this quarter. Historically, we've actually seen relatively little impact from economic factors in this. If you go back to our disclosure, right through the previous recession, through to 2007 or '08, you'll actually see that it doesn't vary that much, so I don't think that's a particular factor.

Quite aside from that, with the Aeroplan program, you are going to see really enhanced promotional activity in the coming six months and into 2016. You'll see that substantially from all three of card partners, and you'll see it come from ourselves, as well, with a more focused marketing program around member engagement. The reason that we're doing that is not really, frankly, related to the recession. It's because while we have all been working through Interchange, since August of last year, we really have cut back on that kind of marketing because of the uncertainty in the marketplace. So, you're seeing a substitution of that, but all of that activity is already built into the guidance that we gave you, so you shouldn't be concerned that it's going to erode the guidance that we have already given you, and nor does it affect the indication on free cash flow that we've given you for 2016.

Anthony Zicha – Analyst, Scotiabank

Okay, that's super. Second question: In light of your guidance and the weakening Canadian economy, do you anticipate to be as active in your NCIB?

David Adams – Executive Vice President and Chief Financial Officer, Aimia Inc.

Well, we've been very active, Tony. As you know, we bought back $200 million worth of stock, so we don't have—and as I indicated in my remarks, our truly free and available cash is not at the levels that it was before we commenced the share buyback activity; however, I also did indicate that when we do receive the Quebec refund that we intend to be using those funds to continue to repurchase stock.

Rupert Duchesne – Group Chief Executive, Aimia Inc.

Yes, Tony, your question also gives me an opportunity to talk a little bit about the economic outlook. When we did our plan for the year, we expected, as I think most people in the consumer businesses did, growth of 3 to 4 percent. The current forecast is for 2—or, in fact, less than 2—and the forecasts for 2016, both in Canada and the majority of the other markets in which we operate, are in that 1 to 2 percent region. So, there clearly is a significant global slowdown in consumer spending and that's what's giving us the caution on the gross billings for the rest of the year. The half of that $100 million, as I said, the $50 million is just an adjustment from gross to net and have no impact on the business.

Operator

Our next question comes from the line of Tim Casey from BMO.

Tim Casey – Analyst, BMO Capital Markets

Thanks. A couple from me, just one a housekeeping issue. Your guidance on EBITDA for this year, does that exclude the provision or is that including the reversal of the provision you took?

David Adams – Executive Vice President and Chief Financial Officer, Aimia Inc.

It excludes it.

Tim Casey – Analyst, BMO Capital Markets

Okay, perfect.

David Adams – Executive Vice President and Chief Financial Officer, Aimia Inc.

Yes, we wanted to strip it out.

Tim Casey – Analyst, BMO Capital Markets

Gotcha. Just looking back at Aeroplan, is it not a concern that activations are so closely tied to promotional activity by you and your partners? It seems to suggest that the competitive offers in the marketplace are not capturing share on their own and that you've got to drive it with promo. Can you help me resolve that issue?

Rupert Duchesne – Group Chief Executive, Aimia Inc.

Yes, and that's actually a really good question. I'm going to start off by saying I don't think that's true. Clearly through last year, we saw an extraordinary number of cardholders acquired, and clearly the incentive was pay no fee and get 15,000, 20,000, 25,000 free miles. In post analysis, we've been able to identify that a very significant portion of those were already Aeroplan credit card holders. They just took a card from another supplier, another partner to get the free miles. The reason we said in our remarks that we're now thinking we're getting to the new normal is because we feel that the vast majority of that activity has passed.

So, if you really go back to the basics here, many of you, both you the analysts, as well as a number of our significant investors, ask us for the metrics that we could use for the long term to really get inside what was going on with the card base, and so we took actually a very hardnosed statistic, which is the one-month actives on the credit base, to do the sort of the before and after comparison. So, if you take 2013, which is before all of this, and now six quarters later, we're up 7 percent in one-month actives. That is materially higher than the market has grown during that period, and, furthermore, it is a very hard measure. If we were to include the less active—some people have their card in a sock drawer—the figure would be much higher than that, but we've focused on a metric that we think is the most accurate figure we can give you on a consistent and ongoing basis with respect to the people who are really engaged, and a 7 percent increase during that period, we think is really good, and on top of that, the total purchase volume is the other metric we're using and that is up really materially, as well. So, that is what we focus on.

I've talked about promotional activity increasing in the second half of the year. We will see more card acquisitions through that, but nothing like at the level we saw during 2014, and obviously nothing like the costs that we saw during 2014. So, we feel that as a business now, almost all of this has washed through the system and that we are now able to report to you on a fairly consistent view of the business going forward.

Tim Casey – Analyst, BMO Capital Markets

Thank you.

Operator

Our next question comes from the line of Rob Peters from Credit Suisse.

Rob Peters – Analyst, Credit Suisse

Hi, thank you for taking my question. I was just wondering, you know, when we think about Aeroplan Canada and, more importantly, at Air Canada, we saw billings up 2 percent in the quarter. They've been up stronger in recent results due to the addition of capacity added there. How should we kind of think about that growth as we begin to lap those capacity adds?

David Adams – Executive Vice President and Chief Financial Officer, Aimia Inc.

Well, as Air Canada brings on additional capacity, I think you're going to—I believe you're going to see increases in promotional activity coming from them, if history is a good predictor of the future. They're bringing on quite a bit of additional capacity and, particularly, if those aircraft do arrive on schedule, and with the weakening Canadian economy, there'll be a need to fill the seats. So, again, historically, particularly in the last recession when demand softened off, we saw a material increase (inaudible) activity and promotions to be able to drive redemptions.

The other benefit of that, actually, going forward, is that we tend in those periods of time to get over-allocated Classic seats for redemption, as well. So, you not only have the benefit on accumulation coming through with increased promotional activity to drive demand, but also the incremental Classic seat allocation, which actually helps on redemptions and also on cost per mile redeemed.

Rob Peters – Analyst, Credit Suisse

Perfect, thank you, and then maybe touching on promotions, I know when we looked at last year there was promotions and a lot of the time those were being funded by yourselves. How should we think about—you mentioned increased promotional activity in the back half of the year—how should we think about who's going to be funding those and kind of how that will impact the overall miles billed?

Rupert Duchesne – Group Chief Executive, Aimia Inc.

It's fairly straightforward for the two main—American Express fund those promotions primarily entirely themselves. TD, as we've said a number of times in the past, when the cards from inside the TD network and family, we provide the majority of the bonus activity there. When they come from the outside market and who have been net new customers for TD, they pay for the acquisition incentives. Given how many people we got last year from inside the TD family, our expectation is that the majority of new card acquisition will come from outside, but, clearly, that's an assumption, not a fact at this point.

Operator

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

Brian Morrison – Analyst, TD Securities

Good morning. We've run through a lot of numbers, so I apologize in advance if there's some repetition in this question, but, Dave, on the 9 percent consolidated margin guidance, you've highlighted quite clearly in your commentary that you're off to a very strong start in the first half of '15. If I input the margin performance for the second half last year, it implies that there's some margin deterioration versus last year, the back half of this year, to get to that 9

percent. So, are we being conservative as you are moving costs down, or can you walk through the drivers to reconcile this?

David Adams – Executive Vice President and Chief Financial Officer, Aimia Inc.

Well, again, hard to give a lot more detail without actually giving more guidance than we've given, but there are a couple of—I would say that it really comes down to a couple of things. You have increased product development costs; that's going to happen in the UK in the second half of the year. You've got increased marketing costs in the UK that's going to occur with the Nectar relaunch, so those are going to have a negative impact. You also have an effect of the Canadian dollar deterioration, which has continued to slide since the end of June on our Star Alliance Rewards. So, there's a few of those that are going in the other direction, but then we are—there's other compensations that go in the other direction with respect to product mix shift.

Brian Morrison – Analyst, TD Securities

So, the point is you do expect some margin deterioration in the second half then?

David Adams – Executive Vice President and Chief Financial Officer, Aimia Inc.

No, I'm just saying there are some elements that are going to be negative, but clearly, it's only going to—what will really determine what our margin will be going forward, absent our cost-reduction activities, is the product mix.

Brian Morrison – Analyst, TD Securities

Okay. The second question is I have is on—I want to go back to free cash flow. So, Rupert, you have mentioned that 2015 is the base to grow from. Is the $20 million in cost savings from the simplified structure, is that incremental to your previous commentary, when we look at 2016?

Then, further on free cash flow, Dave, when you look at the bridge from Adjusted EBITDA to free cash flow for the six months, I think typical seasonality, you have Adjusted EBITDA well ahead of free cash flow. You have equivalent numbers in guidance for the rest of the year. What's driving the major outperformance in free cash flow the second half? Is it simply the deferred revenues at Aeroplan and the tax credits that we're getting, or what other drivers are in that free cash flow?

David Adams – Executive Vice President and Chief Financial Officer, Aimia Inc.

Well, you know we always have—there is a seasonality pattern to our free cash flow generation, so they're always significantly relatively negative in the first half of the year, followed by strong free cash generation in the second half. If you go back over many years, we have that pattern. So, a great deal of it is just our traditional seasonality.

Rupert Duchesne – Group Chief Executive, Aimia Inc.

Yes, we did not—our guidance did not include the $20 million incremental.

David Adams – Executive Vice President and Chief Financial Officer, Aimia Inc.

Of cost savings.

Rupert Duchesne – Group Chief Executive, Aimia Inc.

Of cost savings.

David Adams – Executive Vice President and Chief Financial Officer, Aimia Inc.

But that's into 2016.

Rupert Duchesne – Group Chief Executive, Aimia Inc.

That's 2016, it's not this year.

Operator

This concludes the Q&A portion of the call. I turn the call back over to Rupert for closing remarks.

Rupert Duchesne – Group Chief Executive, Aimia Inc.

Okay, thank you. One other thing that I think is worth is mentioning, and given that Dave has finished the remarks, I'll jump straight into it. Our ongoing search for a new CFO is proceeding as planned. I just wanted to reassure you that Dave will be back with great excitement for the third quarter results in November. That's something a number of people have asked us.

So overall, in concluding, I think we've actually had a very good start to the year if you look at the fundamentals in terms of where we were 18 months ago. Clearly, there have been some challenges in terms of fully getting to the bottom of exactly where the card base ends, but as I've said, the underlying specifics now are actually very strong and encouraging for growth.

We have talked quite extensively on this call about the intended changes to the way we run the business, very much with a focus on margin and margin improvement, and investing in

the businesses which have that opportunity for margin growth. Clearly, that will start in January; we're working very hard right now to put all of that in place, but I think that is going to allow us to simplify the business, to focus it in the areas where growth is available, and then to invest on a very selective basis in those growth opportunities.

So, as we've said, we're confident about both our profitability and our cash flow for the remainder of the year being on guidance, and we're looking forward to improved results in that regard in a material fashion as we go into 2016.

So, I look forward to speaking to a number of you one-on-one over the next few weeks, and speak to everybody again in November. Thank you.

Operator

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