AIMIA INC.

FIRST QUARTER 2016

RESULTS CONFERENCE CALL

MAY 13, 2016

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FINAL TRANSCRIPT

Aimia Inc.

First Quarter Results 2016 Conference Call

Event Date/Time: May 13, 2016 — 8:30 a.m. E.T.

Length: 53 minutes

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David Johnston
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Adam Shine
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Drew McReynolds
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Stephanie Price
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PRESENTATION

Operator

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

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

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

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

Thank you very much, Jessa. Good morning to all of you attending on the phone and the webcast this morning.

With me on the call today are Rupert Duchesne, Aimia's Group Chief Executive; David Johnston, Group's Chief Operating Officer; Tor Lønnum, Chief Financial Officer; and Steve Leonard, Vice President and Corporate Controller.

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

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. These can found on Page 4.

And finally, I'd like to draw your attention to the new disclosure around the Company's divisional structure, which took effect from January 1st. Prior-year comparatives can be found on Page 33 of today's presentation, and more detail can be found in the presentation we issued on April 19th, which can be found on our website.

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

Rupert Duchesne — Group Chief Executive, Aimia Inc.

Thank you, Karen, and good morning, everyone, and of course in particular welcome to Tor, who joined us as CFO last week and who we'll all get to know in the coming months.

2015 was a year in which we simplified and focused the Company to invest in our core businesses for growth. We're pleased with how that effort, including our reorganization, has set us up for 2016 and supported a solid first quarter across our divisions.

We met our expectations across all of our businesses, and we're encouraged by many achievements, of which I'll highlight just a few: the performance of the financial card portfolio at

Aeroplan; the new clients in Global Loyalty Solutions; and our new ISS win with Aeon Retail, which is a core subsidiary of Aeon and Japan's largest retailer group, announced today.

Our new structure is intended to simplify and improve the efficiency of the business, drive collaboration and focus, and improve our financial results.

We'll spend the next 20 minutes or so taking you through an update on progress in these areas, leaving a good amount of time for questions afterwards.

The known transitions in the business from a year ago were the main factors in a dropping gross billings of 3.7 percent. The Nectar Italia wind down explains 10 million of the decrease. Nectar UK represented another 15 million resulting from the strategic change by Sainsbury's to shift from base to bonus points, and the regulatory change facing British Gas that push them to reshape their offering as well.

The impact of a previously noted contract loss in Americas Coalitions explains most of the remaining decrease. We expect this drop will be counterbalanced by growth in the second half of the year.

A favourable Aeroplan redemption mix benefitted our adjusted EBITDA margin in the quarter, which was stable at 8.8 percent, excluding severance costs. Now typically, free cash flow is negative in the first quarter as we fund higher redemptions from the fourth quarter, and this seasonal effect held in this first quarter.

Excluding severance payments, the current first quarter cash flow was an outflow of $12 million. This was $3 million better than last year when you exclude the one-time impact of the $20.4 million tax refund we received in the year-earlier period.

Receiving the Club Premier distribution in the first quarter versus the second also benefitted both adjusted EBITDA and free cash flow.

Results in the latest quarter reflect the flow-through savings of $37 million in reduced operating expenses, which we achieved by the end of last year. We're tracking well on our cost-reduction program in identifying a further 20 million in savings beginning in 2017, as well as in our process to dispose of the noncore assets.

So let me hand over to David now, who will provide you with an update on the operations.

David Johnston — Chief Operating Officer, Aimia Inc.

I'm going to start with the Americas Coalitions division and focus first on Aeroplan. Member comprehension continues to be a priority for the Aeroplan team.

For example, in the first quarter we put a stake in the ground on value, launching a mass-media campaign to support our “Get any Seat. Fly for less.” claim. Last week we also launched our MythBusters campaign aimed at setting the record straight on topics such as seat availability.

Our broader goal-setter campaign launched last summer has now has now seen hundreds of thousands of our members tell us what they're saving for, allowing us to provide them with evermore relevant communications on how to achieve their personal plan.

At the same time, we're strengthening our unique offering to our financial partners, testing improved card acquisition and churn models based on data and analytics.

Adding more sectors in which Aeroplan members could earn miles provides better value to both members and partners of the coalition. One example of that is the Toyota partnership we announced last quarter.

Toyota's target demographic aligns very well with Aeroplan's member base, and we've seen good uptake, which contributed to a strong quarter from the retail segment.

As announced earlier this week, we've also added a home furnishing segment with The Brick, and continue to work to expand our sector reach, enhancing what we offer our members and our partners while continuing to underpin growth.

Financially, the good results at Aeroplan, where gross billings were flat to the year-earlier period, were masked by the rest of the Americas Coalitions business where gross billings were 3 percent lower as we cycled declines from previously noted loss contracts and lower rewards fulfilment volumes in the Canadian rewards business.

The division’s adjusted EBITDA margin at 14.4 percent, excluding severance, was slightly below last year. Higher gross margin due to lower cost redemptions was offset by higher operating expenses as we implement our IT outsourcing agreement with HPE.

Gross billings from financial cards were stable in the first quarter. We've seen growth in the credit card purchase volume driven by modest growth in both the active card base and average card spend.

The reduction in price per mile that resulted from interchange offset some of this growth. Remember that we'll be cycling the impact of interchange reform for one more quarter.

Our partners delivered stronger-than-expected new card acquisition in the quarter, including an increased portion of higher-value cards, which compensated for softer than anticipated aggregate spend performance.

Cardholder basket size was smaller in the first quarter, though transaction frequency increased, so we'll be watching to see if those movements are part of longer-term trends in shopping behaviour, or a reaction to a fragile economy.

American Express Membership Rewards conversion grew in the first quarter of 2016, reinforcing the value that Aeroplan brings to American Express cardholders. The AMEX co-brand portfolio remains challenging, and we continue to work with American Express to reach an acceptable level of performance.

What is clear is that three years into our financial card partnerships our key metrics have stabilized, and we remain significantly better positioned in the market than we were in 2013.

Aeroplan growth will be supported by the return to growth in financial cards in 2016 as a result of a higher active card base. The level of that growth will be driven in part by the performance of the Canadian economy.

The economy has dampened travel, and together with changes to Air Canada's Altitude program, we saw a decline in gross billings with air partners in the quarter. We're monitoring the changing demand for air travel, as we've seen members shift to domestic travel from both US and European flights, given the low Canadian dollar.

I want to focus for a minute now on redemptions. Our member-driven agenda is focused on creating redemption experiences that drive member satisfaction and concurrently improve our profitability. We've made a concerted effort to make both the rewards and the redemption process better for our members. And let me give you just two examples.

With our new app, members can redeem on their phone. And as of late March, members can also book a flight entirely cash-free, using miles to pay for surcharges, taxes, and fees. Members redeemed 3.6 percent fewer miles in the first quarter, which reflects both a slimmer economy and a high US dollar.

When the economy slows, we typically expect a few reactions on the flight redemption side. Some travel is postponed. Other travellers decide to pay cash for discounted fares, conserving their Aeroplan miles for times when fares are higher. Leisure travellers will substitute more expensive destinations for cheaper ones, staying more often within Canada.

Overall, Aeroplan's flight redemptions, success rates, satisfaction levels among tier members, and overall net promoter scores are at all-time highs, a reflection of the meaningful achievements over the last year.

Turning now to the International Coalitions division. Nectar is on a path to fundamentally transform the member experience and increase member engagement through a digital-first strategy, and the early signs are encouraging.

The Nectar app has been downloaded about 1.7 million times, and members who are using the app are engaged for longer, have higher opt-in rates to offers, earn more points, and redeem more profitably. All of these provide better value to members and to our partners.

And while it will take another, I'd say, six to nine months to determine the new normals, there are also early signs that the changes to the program are increasing our member reach, with 1 in 7 of those downloading the new app being new to the program.

You will have seen that since last quarter we acquired full ownership of Air Miles Middle East through the purchase of HSBC Bank Middle East's stake in the business. We get greater flexibility in how we manage the program and introduce innovation, alongside a renewed partner commitment and a financial profile, which frankly differs little to what we had previously expected.

The base payments are broadly aligned with the dividends we previously expected to make to HSBC.

In April, Air Miles Middle East was the first coalition program to transition onto the Aimia Loyalty Platform and our broader suite of products. This provided the base from which we can grow and evolve the program digitally. Air Miles Middle East followed the lead of Aeroplan and Nectar with a new app launched at the end of April.

We're delighted to announce our latest client of ISS, Aeon Retail, for which we will provide a full range of data and analytic services. Gross billings from this new client contributed to the International Coalitions result in the quarter, and partly offset the expected gross billings declines at British Gas, Sainsbury's, and Nectar Italia. Gross billings for the division were down 8 percent.

As you think about the rest of the year, you'll recall that Nectar Italia accumulations significantly declined after the first quarter of 2015 and Sainsbury's transformation began in April 2015, although we did benefit this year from the fact that Easter fell in Q1.

Nectar points redeemed were down 15 percent in the quarter as lower accumulation through last year reduced member's point balances. We're also seeing some shift to more considered redemptions with our ability to target offers on the app.

Even with the lower gross billings and higher marketing spend, adjusted EBITDA margin was in line with last year at more than 10 percent.

Our Global Loyalty Solutions business represented around 10 percent of the gross billings in the quarter. As we've told you previously, our business plan is to deliver platform-based loyalty solutions to clients in order to build a recurring revenue stream over the next few years. And with scale and operational discipline, to drive profitable growth and improving returns on invested capital.

Gross billings result was positive in the quarter relative to the trajectory we'd expect over the full year as we cycle out of the lower margin rewards fulfillment services.

While still small overall, brands looking for more sophisticated marketing capability will drive growth in this area.

We're seeing increased traction with our third client implementation going live and a fourth scheduled later this year on ALP and related platforms. Each new client and vertical helps us demonstrate the value we can bring to new prospects in the pipeline and to build sales momentum.

New costs incurred in the quarter to support these implementations were in line with our expectations, and adjusted EBITDA was negative 2.8 million in the quarter.

We made significant operational progress over the course of the last two years, with a 37 million reduction in operating costs last year. In the quarter, we bore expected costs to transition in relation to the transition to our HPE outsourcing agreement. The deal will provide real efficiency and cost-avoidance benefits over the long term, as well as improved agility and security to meet our clients' needs.

The transition costs of $10 million are more heavily weighted to the first half of the year, and we incurred 4 million in the quarter. We also had $2.1 million of severance costs in the quarter. Overall, operating costs were stable on a constant currency basis.

We're progressing in our plan to take a further $20 million of costs out of the business from the beginning of 2017 through areas such as procurement and real estate. As an example, as a result of our lower headcount we're consolidating our Toronto offices in mid-June, saving about $2 million a year.

One of the benefits of moving to a new divisional structure was to give us the ability to more clearly align cost and performance in the business. And we remain mindful of the need to maintain that alignment to protect our margin in the event that we see pressures on the top line, should we experience unforeseen events.

We closely reviewed our capital spending plans to ensure we're directing our resources to the areas with the highest payoff. Investing in our core products is the focus of capital spending this year, which we continue to expect will be between 75 million and $85 million for the full year.

More than 40 percent of the $19.5 million in the first quarter was spent in the Americas Coalitions, as we continue to invest in Aeroplan one-to-one personalization capabilities, program engagement and security.

Beyond Aeroplan, we'll continue ongoing investment in platforms that drive recurring revenue, with the most significant this year being a refresh of our ISS product.

Rupert?

Rupert Duchesne

Our balance sheet remains solid with 140 million of surplus cash at the end of the quarter. We drew down our cash on hand to fund year-end redemptions and share buybacks in January and February.

We have renewed our normal course issuer bid for another year, but as we said, our plan is to accumulate sufficient cash to give us the flexibility of repaying the $200 million bond maturing in January 2017, if we so choose.

Our capital allocation strategy continues to be a balance between reinvesting our free cash flow in building Aimia and return to shareholders. Given our expectations for the performance of the business in 2016 and beyond, we are again increasing our quarterly dividend this year by 5 percent to $0.20 per quarter. This is the sixth consecutive year of annual dividend increase, and on our free cash flow guidance represents a payout ratio of over 60 percent.

We entered 2016 with a leaner cost base and a continued discipline on costs, and we remain focused on investing in our core businesses with a view to generating strong return.

The results from the first quarter are in line with what we expect to see, and thus support the guidance that we provided in February.

And with that, I'm going to hand over to the Operator to take your questions.

Q&A

Operator

If you would like to ask a question, please press *, 1 on your telephone keypad. Please limit your time on the call to two questions. If you have additional questions, please reenter the queue.

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

Kenric Tyghe — Raymond James

Thank you and good morning. Rupert, you maintained your full year guidance despite the billings miss in the quarter. Is your confidence largely a function of the solid underlying performance within the Aeroplan business? I noted the average spend tracked higher; acquisition ticked higher; AMEX normalizing. Is that sort of a key driver here of that confidence? Or is there something else behind it as well, seasonality wise, we should be thinking about?

Rupert Duchesne

Look, I mean, you just said the right word, seasonality. The quarter, as far as we're concerned, was exactly what we expected. And pretty much all of the items you identified were expected and known quantities.

I mean the seasonality of the business is pretty clear from historic patterns. There are one-offs, which we have talked about and you've just listed. So it's very much what we expected to see.

And I will remind you that we've said that we expect the second half of next year to this year to be the time where things improve and normalize, given some of the comps we have from the first half of last year.

So that's what underpinning our overall confidence in the guidance that we've given.

Kenric Tyghe

Great. Thank you. And then just switching quickly, if I could to Nectar UK, how much of the performance in the quarter reflected deflation and sort of the continued deflationary challenge in UK grocery versus the bonus mile dynamic? I'm just trying to sort of break it apart and better understand the moving parts within that number.

David Johnston

Look, deflationary pressures are also a dynamic in the UK and will be, I think, for some time. Sainsbury's have said publicly that they don't see the market getting out of the deflationary stage at least, I think, till the middle of 2016. So for sure that will be a dynamic.

The other thing that suppressed Nectar gross billings in the quarter, which we talked about earlier, were the British Gas. I think in the last quarter we said British Gas would be about 30 million lower overall this year. And we saw, I think, about 10 million of that in the first quarter, as well as Q1 is the last quarter where we were lapping the old Sainsbury's issuance structure. Because it was in April they went to the new structure. We had some benefit from Easter being in the first quarter. But those are the sort of key dynamics that I think about as you look at Q1.

Kenric Tyghe

Thank you.

Operator

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

Adam Shine — National Bank

Thanks a lot. Rupert, what's the current life of a mile at Aeroplan? It used to be 30 months. I'm not sure if you've updated us on that. And obviously I speak to that in the context of we're heading past the, what is it, 27-, 28-month mark in the context of the new program at least with TD. Obviously we go beyond that in terms of accumulation efforts. But just as we look out to redemption activity potentially back half of this year, maybe into early 2017, particularly given your explanation of some of the weakness we saw out of the gates early in Q1? And then maybe a second question. PLM dividend was a nice surprise in the period. It certainly helped mitigate what otherwise would have been a greater miss to Street expectations. But is this dividend more timing? Or are we likely to see a greater dividend from PLM this year than expected? Thanks.

Rupert Duchesne

Okay. So I'll—we'll do that in reverse order. The PLM dividend, it is purely a timing issue, as I said in my remarks. So that's very straightforward.

Yeah. You asked—you raise a very interesting question around redemption patterns and how that relates to breakage; how it relates to the life of a mile. And it is 30 month overall. Now clearly, that varies within customer segment. But one of the very interesting things is despite all of the significant changes we've made in the program, the life of a mile hasn't materially changed. That will reflect different characteristics by groups.

Obviously, those people who are very heavily engaged in the program have much shorter lives in miles, and that's exactly what you'd expect. But also there are lower accumulators who have very much longer, and those two elements have remained in balance, notwithstanding the very heavy bonusing activity we saw during the launch of the revised program, particularly with TD.

Adam Shine

Anything we should think about this term in terms of timing of bonusing activity by your financial partners?

Rupert Duchesne

No. I mean as you heard from David, we've had very successful card acquisition behaviour in the first quarter. And I think from a financial cards perspective you'll see pretty—so steady activity just through the course of the year. But as you know, not a great deal of activity happens over the summer in financial cards, and there's usually a significantly heavy concentration in the fall.

But I certainly don't want to give you any indications right now of when that will be because that would be an unwelcome signal to some of our competitors as to when our partners intend to promote card usage.

Operator

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

Drew McReynolds — RBC Capital Markets

Thanks very much. Just maybe, Dave or Rupert, just expanding on Nectar in the UK, I think we're all just kind of struggling with all the moving parts. When you get through the kind of revamp of the accumulation formula when British Gas falls out or falls off on year-over-year basis, I mean what are we looking at in terms of kind of steady-state gross billings and margins? Can you help us out with that one?

David Johnston

Well, again, what we said at the last quarter from a growth point of view is that we will see growth in the second half. We expect to see growth in the second half of this year. We will still be lapping the British Gas numbers through a full year. The impact of that will be a little bit less in the third quarter and a little bit higher in the fourth.

But overall, we're sort of at a phase now where we're learning with Sainsbury's on exactly how bonusing works; when it's best used; when it's driving the best return; and I think it'll be the use of bonusing in the second half of the year that'll drive growth in the program.

From a margin point of view, I mean we've not—Steve, do you want to?

Steve Leonard — Vice President and Controller, Aimia Inc.

Yeah. No. The margins themselves will still hold relatively similar to what we've seen historically. So that's what we see.

Drew McReynolds

Okay. Okay. No. Thanks for that. And just, Rupert, you commented on just the balance sheet, the free cash flow priorities. You've got the buyback and dividend in place. I think when you look out into 2018/'19 just with some of your kind of refinancing requirements and the elephant in the room, obviously, with the Air Canada renewal as an overhang, just wondering if you approach kind of the lighter years here before 2020 in a more conservative way with respect to capital management? And then also to what extent do you somewhat lean on potential crystallization opportunities around PLM and Cardlytics, which in a good scenario could obviously generate a source of funds? Thanks.

Rupert Duchesne

Yeah. Look, I think you've pointed in the direction. We feel that we have a significant asset base that is currently undervalued and/or not even really well understood. So the out-years we remained very confident about quite aside from our free cash flow generation. So I'll go back to the comment about dividend increase.

We increased our dividend this year essentially looking at the underlying free cash flow performance of the business and the trend from '15 to '16 where we're seeing underlying growth. And over the three years of our business plan of '16, '17, '18, we expect to see that growth continue.

And that's what underpinned our dividend increase because we feel that we should be thinking here for the long term as to what is an appropriate dividend to pay out, given the free cash flow growth in the Company as opposed to necessarily the yield, et cetera.

So I think what we're signalling here pretty clearly is that we will continue to run a conservative balance sheet as we have, frankly, since the inception of the Company. We will continue to treat the dividend as a reflection of the underlying free cash flow growth. And we remain very confident that we have plenty of flexibility, both from the operating free cash flow and from our asset portfolio with respect to future debenture maturities.

Drew McReynolds

And if I could just have one follow-up there, Rupert, just on the crystallization or potential of crystallization, your investment in Aeromexico; I understand it's a liquidity event. You have the potential to take control of that asset if you exercise that option. At this point, are you leaning towards using that investment as a source of funds just to kind of de-risk liquidity and the balance sheet as you get into negotiations with Air Canada?

Rupert Duchesne

Well, look, I think we have the luxury of not actually having to address that right now. We've just—last year we extended the CPSA with the airline to 2030, giving us a lot of runway. Secondly, we are just in the market with the new credit card relationships, which are very important to the long-term value of the asset. And so we're quite some time away from the point where a public market event would crystallize that value.

We've always said that we would like to consolidate those numbers in with Aimia overall because they're very attractive. And yes, we've got a very good dividend, but I think, as you saw, the underlying economics—and that was reported in our numbers—you'd find it very appealing.

So I think the—I've given the long answer, and the short answer is we're just not at the point yet where we either want to or need to make that decision about the use of our asset that we have in the PLM investment.

Operator

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

Stephanie Price — CIBC

Good morning.

Steve Leonard

Good morning.

Stephanie Price

You mentioned the $20 million tax credit that you saw in Q1 '15. Are you expecting that again this year in a future quarter? Or was that a onetime event?

Rupert Duchesne

Yeah. I'll—Steve Leonard is here with us; I'll get him to address that.

Steve Leonard

Yeah. That was just a refund that we got related to prior—recoupment of prior tax. It's a onetime event. We're not expecting to get that going forward.

Stephanie Price

Okay. Thank you. And then in terms of the Aimia Loyalty Platform, I know that it's a relatively small percentage of revenue right now, but can you talk a bit about the pipeline there and the third new client that you just signed?

David Johnston

Sure. We've got a very strong pipeline for that product. And actually, we have a—we now have a broader suite of loyalty products, but the quality of the products and how they integrate and the wraparound services that we provide are how we're winning in the marketplace.

I'd love to be able to give you more sort of client by client, but what we find is that some of our clients are very happy for us to disclose their name and talk about what we're doing; others regard it as commercially sensitive to them. So I'm not going to get into individual names.

What I'll say is we've got some real acceleration and momentum as we're able to reference some clients in the marketplace. But it is a long sales cycle. This is an enterprise, or relatively large implementation for our clients. So it's a relatively long sales cycle.

We are, however, delighted also this year to being—as I said in the script, to put the Air Miles Middle East program on to ALP. And that both helps us in improving the efficiency of the program, as well as providing another great reference on the quality of the technology.

Operator

Your next question comes from the line of Anthony Zicha from Scotiabank. Please go ahead.

Anthony Zicha — Scotiabank

Hi. Good morning. With reference to Aeroplan, could we get some more colour on in terms of the redemptions front? David mentioned that consumers seem to be deferring travel because of the weakness in the Canadian dollar. Are consumers staying closer to home? And does this have, I guess, a positive impact on cash flow? And also, could you provide some more colour on the fact that the frequent flyers are choosing more Tango fares and less international. Is this also tied to domestic travel?

David Johnston

So I'll answer the redemption question first. Redemptions are usually a bit stronger in Q1, but tend to be affected at times when we see a softer economy and a stronger US dollar. And so as a result, we're seeing that the low Canadian dollar reducing leisure travel outside of Canada, both in trans-border and Europe destinations and a slight increase in domestic travel as Canadians are obviously staying at home and spending at home in Canadian dollars.

So those are the trends impacting redemptions.

Rupert Duchesne

Yeah. And on the earn, I think not you personally, but we generally need to understand that there are really two sources of mile purchase by Air Canada. And there are obviously the frequent flyers who are the heavy accumulators, and then there's the occasional flyers.

I would suggest very strongly that the behaviour of the frequent flyers, which is primarily business travel, that really hasn't changed, and so frequent flyers are not accumulating less.

What you're seeing in terms of the Tango fares, the Tango fares are aimed primarily leisure travel. And that is where the mix of miles awarded for various kinds of travel between different elements of the network has decreased a little bit.

So I just wanted to be really clear that—not to mix up how frequent flyers accumulate versus how leisure travels accumulate. And it really is on the leisure traveller we saw the Tango effect.

Anthony Zicha

Okay. And my second question refers to Nectar UK. So is there any impact tied to the potential Brexit? And how important is technology playing in terms of overcoming Nectar's challenges?

David Johnston

So we see no impacts from Brexit this year, and no real impact for the International Coalitions overall. And no real impact on the Nectar program.

And obviously, there may be a little more economic uncertainty if Brexit happens, but we see no impact on our 2016 performance. And Sainsbury's themselves, obviously the largest partner, have also said publicly that they are—they take a neutral position on Brexit, which would indicate that they see the same.

Obviously the vote's on June 23rd, and so by the time that we are reporting our second quarter the result will be known, and things should be much more clear.

On your second question, we've talked quite a bit about this and we'll continue to do, but you're absolutely right. Technology is a fundamental part of how we're modernizing the Nectar program and setting it for growth. We're really happy with the results of the app so far, 1.7 million downloads.

But not just the level of downloads, but the level and depth of engagement that we're getting from customers. And the fact that we're actually adding new customers who are coming to us via the app says to me that we're really on the right track with that program.

Rupert Duchesne

Yeah. I'll just make a little comment on—and to close that answer around currency. Clearly, if there were a Brexit then one might expect a weakening of the British pound. That certainly seems what the currency guys are assuming.

As you know, that might erode on a relative basis our gross billings and a little bit more modestly on the adjusted EBITDA. But also we do quite a lot of development work in the UK, and that would actually have the reciprocal effect of reducing our cost of technology development.

So as David said, from an operating point of view we don't really expect much impact one way or the other. And from a currency perspective, I wouldn't say that we're sort of naturally hedged. Certainly it's not as much of problem as you might assume it would be were there to be a significant decline of the pound Sterling.

Operator

If there are any additional questions at this time, please press *, followed by number 1 on your telephone keypad.

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

Brian Morrison — TD Securities

Good morning. Just a confirmation and follow up of a couple questions, if I can. So in terms of the credit card portfolio, I just wanted to see if I could get confirmation here. It looks like we've turned the corner on the card accumulation. As we lap interchange reform we're going to see sustainable growth in gross billings here, and that's going to drive free cash flow in the second half of the year. One, I want to confirm that that's correct? And then part B, is this what's giving you such comfort to raise the dividend here? Your free cash flow derivation, both Europe and Canada, looks like it's going to be second-half driven. The yield is already fairly healthy. So maybe just walk me through the Board process there. Is it just simply that they have a tremendous amount of confidence in the outlook?

David Johnston

So, Brian, it's David. I'll take the first part of that question. And broadly the way you characterized the performance is correct. What we're seeing with key partners in the financial card space is this. Purchase volume continues to show year-over-year growth, primarily driven by TD's performance, which was pretty much in line with the market. CIBC purchase volume was above expectations, and both TD and CIBC delivered stronger-than-expected new card acquisition in the quarter. And that also, as I think I said, had an increased proportion of higher-valued cards.

And so yes, we see good performance on the card portfolio, and we expect that through the balance of the year.

Rupert Duchesne

Yeah. And, Brian, I'll just reiterate what I said earlier in the way that we look at this we strip out the onetime items from the free cash flow. And we look very carefully at what the sort of multiyear pattern is on free cash flow growth, and thereby determine whether it's appropriate to distribute more of that cash to investors through a dividend increase.

And clearly, we have a mix of investors. We have investors who'd love us to buy back stock. We bought back a lot of stock last year, as you'll remember. And we have other investors who really appreciate the dividend. And that's how we determine where we're at.

Now the sort of the underlying element here as well is clearly the stock in our view remains materially undervalued, given our free cash flow profile, as well as the asset base we have. And so yes, the yield is high at this time, but we're trying to look over a longer cycle as to what an appropriate yield should be, given the underlying performance of business, notwithstanding the recent volatility in the share price.

Brian Morrison

Okay. On a different note—one further question—so good news with respect to expanding the coalition with Toyota and The Brick online here. It seems like a new—or a refocus, really, on expanding the coalition offering. What verticals do you feel you have the best opportunity in potentially in the near term? Or that you need to address?

Rupert Duchesne

Brian, I think we're probably going to say little there because that really does get into competitively sensitive territory. But I will say that when you look at the asset base we now have in terms of not only the membership of the program, but the really detailed data we have and we share and we work with at our partners, it is very clear that that level of granularity in the data is immensely useful to potential partners who want to increase their share in the premium consumer sector in Canada.

And that is why, for example, Toyota found it very interesting because we have—obviously Toyota has a very broad spread of brands and positioning runway across the market. So it really is—you're right to notice this sort of increased focus on expanding the coalition. And that is driven by the quality of the data that we now have and the analytics tools that we have developed to query and develop marketing programs from it.

And frankly, the early news from Toyota has been exceptionally successful. Toyota is thrilled, as are we. So we've got a very good proof of concept here of using this new quality of data and analytics to drive performance in sectors that historically we haven't had a good argument to support their being part of Aeroplan. We now do.

Operator

Your next question comes from the line of Robert Peters from Credit Suisse. Please go ahead.

Robert Peters — Credit Suisse

Hi. Thanks very much. Maybe just looking at Nectar UK, when we look at the last couple quarters there's been a little, at least from my observation, there's been a bit of an FX tailwind helping out the top line there. I was just wondering how we should think about the trends on an organic basis? And in terms of lapping the change in bonusing at Sainsbury's, what else do you need to see to drive a more meaningful top-line growth from the business there?

David Johnston

I'll let Steve comment on the FX first, and then I'll answer the operational question.

Steve Leonard

Yeah. I mean we do give you the information by segment and overall on a constant currency, so you do get to see the underlying performance of the business. And going forward, as we said, there's some challenges with British Gas and the lapping this year of the change in the accumulation for the better part of the—for the first quarter. So those things are working against us.

And going forward, we're expecting to see the level of decrease go down over the rest of the year to a more stable level.

David Johnston

And operationally, I mean I think of growth in, let's say, three ways, and we've talked about them already. But first, we're materially improving the member experience. And as I said, we're starting to see that impact levels of member engagement and even bringing new members to the program, so we're very encouraged by that. And we're going to continue on that journey.

Secondly, we still have real opportunity to see growth from our existing partners in miles issuance. We've up to this quarter still been lapping old levels of Sainsbury's issuance. And as we get into quarter two, three, four, we'll be lapping the new program; it'll be easier to read how issuance sits. And we're obviously working with our partners on the use of bonus miles and where and how to use bonus miles.

Albeit, as we've said before, the move from a base-led program to a more bonus-led program does drive a little bit more volatility from quarter to quarter.

We have got a headwind, a little bit of a headwind in that, which I've mentioned already, which is food price deflation in the UK. Retail in the UK, food retail in particular, is still a deflationary environment, and we don't expect that to correct at the very least till the second half of this year, and it may be a bit later.

The third source of growth I've talked about is adding new partners to the program. We've got a good history with partners like eBay, British Gas, and others being added to the program. It's a huge focus for the management team this year and into next. And while I can't talk about who or what is in the pipeline, we've got a strong pipeline.

And again, sort of as we've alluded to with Aeroplan, the digital transformation that we're making on the program and the level of data that we're now able to generate from the program means that we've got a bit of a stronger proposition as we talk to new potential partners than we did before because we've got much richer data assets than we did before.

Those are sources of growth that I see for Nectar.

Robert Peters

Perfect. Thank you very much. And maybe, Rupert, I think if we look back to last year and the first quarter we saw there was a lot of kind of economic uncertainty that had kind of an impact over the back half of the year. Just wondering, looking to kind of what you've seen in the economic trends in the first quarter, are those in line with your expectations and kind of your forecast for the year?

Rupert Duchesne

Well, look, I think Dave has talked earlier about the British economy and Brexit et cetera, so I will—I'll restrict my comments to Canada, and clearly it's a significant engine of the business. We have seen choppiness, and I think you'll remember from the previous two quarters, both November and February, we talked about the choppiness of card-spend behaviour in Canada from the second half—basically from August of last year as Canada went through some really bumpy times with the federal election, et cetera.

And we made our guidance for 2016 on the basis of that being effectively carrying on through some of this year. And that's exactly what we've seen. Now if you speak to the economists or you read the various reports around the economy, it does suggest that that choppiness is still very much there.

But as we have said, our guidance was based on the current level of choppiness. Obviously if it gets worse then we might have some top-line pressures, but frankly from what we see now and from the card-spend statistics that we see, we feel comfortable about what we have said about the Canadian business.

And one of the very encouraging things—and this is very much what we intended when we did the card renewal—was to have a great customer proposition and to make rewards easier to achieve, and that we knew that that would drive cardholder growth and acquisition. And we've seen the acquisition, as we said earlier, stabilize and actually a very attractive net rates going into 2016, and that will drive the future growth of the business, even if the Canadian economy is choppy.

So one of the key statistics we look at internally is what is the net card acquisition rate? Or what is the quality of those cardholders? And as David said, that's very good. That takes a while to ramp up, but that's what gives us underlying encouragement about the prospects for growth. And we're very confident that Aeroplan will grow this year.

Robert Peters

Perfect. Thank you very much. If I could maybe just follow up briefly to your comment on the cardholder or the net cardholder acquisition rate; you provided that active cardholder growth in the past. Are you able to provide that again for us this quarter?

Karen Keyes

Rob, I think we've given you sort of a trend line; we haven't really given you numbers for a while. And we were giving you that to try and give you an idea of the trends. I'm not going to promise we're going to give you that going forward.

David Johnston

It's the trends that we'll be talking about going forward. It's a little sensitive.

Operator

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

Adam Shine

Thanks a lot. Just one more for you, Rupert; any update on the noncore assets? I know obviously you've engaged advisors; you've mentioned probably for maybe two or three quarters now that the process evolves, but I'm not going to press you on what assets are being targeted here, but maybe the scope of the assets; the level of market interest; expressions of interest; and the potential of timing? Is this also obviously skewing into more of an H2 event? Or should we naturally maybe even assume some spillover of some assets sales into 2017? Thanks.

Rupert Duchesne

Unfortunately, I really can't comment, but the process is going well. I must emphasize, it genuinely is going well. But we can't comment on either scope or timing. From the scope point of view it sort of gives the game away, and we've got to be very careful about it because of the competitive nature of the situation.

And from a timing point of view, we really can't comment on that because when asset sales become certain you have various accounting obligations, and we're not at that point yet that we want to do that.

So all I will say is, yes, the process is started, and not only has started, it's well-advanced. But we can't really say anything more on that till we actually have a conclusion.

Operator

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

Drew McReynolds

Thanks very much. Adam beat me to the punch but, Rupert, one last one. Maybe just, if you can, give an update on new potential greenfield coalition programs and specifically just if there's been any progress from your perspective on the US market on that front? Thank you.

David Johnston

Yeah. I'll answer that one. What we'd say at this point is that there'll be no impact in 2016 from a US coalition. So even if we were to sign this year, we're now past the point where you could feasibly launch in 2016. So I wouldn't expect anything on the US coalition front in this year.

Drew McReynolds

Thank you.

Operator

There are no further questions at this time. I turn the call back over to the presenters.

Rupert Duchesne

Thank you. What I'd like to do just before I close—and I have a few sort of closing remarks—is to give Tor, our new CFO, a chance to share some initial thoughts.

As I said, he's been on the ground for 10 days, so he's very new, but obviously he's a quick study. And I thought it would be very helpful for you all to hear his voice and hear his initial thoughts. So, Tor, please go ahead.

Tor Lønnum — Chief Financial Officer, Aimia Inc.

Thank you very much, Rupert, and good morning, everyone. As many of you will know, I worked for a couple of large-listed Nordic insurance companies before joining Aimia last week, and as Rupert said, not a lot of experience yet. But today I would just like to share some very initial observations.

To me, Aimia is a company with a strong base in its Canadian home market with a fantastic recognition in the Aeroplan brand. In addition, the Company has attractive positions in other markets.

It has a strong management team with deep knowledge and insight into the loyalty industry. In my mind it's going to be important to simplify the business and our disclosure going forward in order for investors to better understand what is going on. The Company has started that journey, and we will continue on that path.

There are several initiatives started to create a more cost-efficient business, but it makes sense for me to emphasize and strengthen that area.

And finally, the dividend level is healthy and is supported by the consistent cash generation of the business. Coming from another company with a high capital distribution it is something that I feel is extremely important for a value stock like ours.

Karen and I will be on the road to meet as many of you as possible. I'll look forward to those meetings. I'll want to understand your problems, questions, and concerns in order to cater for an open and frank dialogue with our shareholders.

Thank you very much. And back to you, Rupert.

Rupert Duchesne

Thank you, Tor. So look, I'll just close with a few comments reiterating what I said earlier. We came into this year with a much more focused and disciplined approach.

We came in with a significantly lower cost base, and we'll continue to pursue that. We are investing in our core businesses, which our work last year demonstrated had appropriate returns on capital.

We will dispose of assets that we consider noncore. And we believe that the business going forward has a good trajectory in terms of generating improved free cash flow.

And notwithstanding some of the comments that were asked and made around the fragility of some of the economies in which we operate, we feel comfortable with where we are. The quarter was as we expected, and we look forward to talking to you over the coming quarters.

Any of you who are listening in to the Annual General Meeting in a while will hear some of that repeated again, but it I think it bears repeating.

So look forward to talking to you then, and obviously meeting a number of you on the road over the next month or so.

Thank you very much.

Operator

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

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