AIMIA INC.

SECOND QUARTER 2016

RESULTS CONFERENCE CALL

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FINAL TRANSCRIPT

Aimia Inc.

Second Quarter Results 2016 Conference Call

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PRESENTATION

Operator

Good morning. My name is Carol, and I will be your conference Operator today. At this time, I would like to welcome everyone to the Aimia Second 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 at that time, simply press *, then the number 1 on your telephone keypad. If you would like to withdraw your question, please press the # key.

I would now like to turn the call over to Karen Keyes, Senior Vice President of Investor Relations.

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

Thank you, Carol. 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's Chief Executive; David Johnston, Group Chief Operating Officer; Tor Lønnum, Chief Financial Officer; and Steve Leonard, Vice President and Corporate Controller.

Before we get underway, I'd like to remind everyone to review our forward-looking statements and the cautions and risk factors pertaining to 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, which can be found on Page 4.

And finally, I'd just like to highlight that we'll be using a slide deck that has a few new slides aimed at addressing some of the questions around long-term metrics we use to manage the business that investors have asked us about. We'd welcome your feedback on these slides.

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

Rupert Duchesne — Group Chief Executive, Aimia Inc.

Thank you, Karen, and good morning, everyone. Over the last couple of quarters we've emphasized our work to simplify and focus the business in order to deliver growth and shareholder value.

The work we've done in cutting costs, refocusing our capital spending, and streamlining to focus on our core businesses is showing results, although it was not a strong quarter, with a 7 percent decline in gross billings. And that declined stemmed primarily from lower points issuance in Nectar for this quarter.

Free cash flow was down due to lower gross billings. Free cash flow per share was $0.26 in the quarter, or $0.81 on a trailing 12-month basis.

In line with our May dividend increase, we declared a quarterly dividend of $0.20 to common shareholders. The dividend continues to be a fundamental part of our commitment to delivering returns to shareholders.

We supported a strong payout ratio and free cash flow yield by our ability to consistently generate strong free cash flow of around $200 million or more in four of the last five years.

Our current outlook and reduced share count due to our completed share buyback program would see full year free cash flow per share increase in 2016.

Looking at gross billings by division on Slide 8, we saw the strongest performance in the Americas Coalitions while gross billings is stable. But two other divisions drove the decline in gross billings.

Let me pull out a few operational highlights here. At Aeroplan, we saw a return to growth in the financial card base, and retail also continued to be up, supporting our expectation of full year growth for this business despite some weakness in travel and travel-related credit card spend.

In Global Loyalty Solutions, we've been transitioning towards higher-margin platform-based solutions, with that portion of the business now representing close to 15 percent of GLS billings.

One example is the work that we announced yesterday with department store retailer Nordstrom, which has 329 stores in the US and a Canadian expansion underway and annual net sales exceeding $14 billion.

Nordstrom's expanded program, available to all its customers, is underpinned by the Aimia loyalty platform. New sign ups to the rewards program are going very well, with 1.7 million new members since May.

International Coalitions was slower in the quarter, due to the phasing of bonusing campaigns towards the end of the year, along with the changes to British Gas, which we've described previously. We are aligned with Sainsbury's on where we will see the full year ending up, however, and David's going to provide you more details on that a little later.

But let me talk a few minutes now about some of the actions we've taken to simplify the business. Today we announced the sale of our Enhancement Services business to Sigma Capital for $15 million. We also completed the transfer of the Cardlytics UK business back to Cardlytics at the end of June, and we continue to evaluate and consider further disposals of noncore investments and assets.

At the same time, through our reorganization that took effect in the beginning of the year, with fewer employees, in fact a 20 percent dropped from the end of 2014 to the end of 2015, as well as a smaller executive committee, we've simplified the management of the business.

Having already achieved some benefits in 2015, we remain on track for the additional 20 million of previously announced cost savings from the beginning of 2017.

Finally, we've also suspended our efforts to develop a US coalition. The competitive market factors affecting the key partner segment of grocery and more general economic conditions led management and the Board to conclude it was the right time to pause. We will continue to look for growth opportunities and markets for new coalition businesses, but only with appropriate time horizons to acceptable returns.

I should be clear, though, that we still consider the US an important market for us. We will continue to build out our GLS and our ISS businesses, and some of that work gives us a base for a potential coalition in the future, if and as conditions improve.

As we look forward for the remainder of the year and into 2017, we continue to monitor the economic context in our established markets. One of the most significant events in the quarter outside of our business was the UK's vote on Brexit.

The resulting pound Sterling weakness will impact our International Coalitions gross billings in the second half, and is the largest single driver behind our adjustment to gross billings guidance for the year, with the pound moving from the 1.9 to $2 range when we last spoke to you through 1.85 in the second quarter to its range today of closer to 1.70. Our current forecast assumes that it will stay closer to those levels through the second half of the year.

Overall in the UK, confidence remains fragile, evidenced by last week's move to cut both growth forecasts and interest rates, although grocery spend is somewhat less likely to be affected than other times of consumer spending.

We have not currently assumed any weakening of consumer spend in our outlook for 2016, but we do remain mindful of what impact we might see in 2017.

Currency is also affecting our Americas Coalition business. In addition to affecting the top line in our non-Aeroplan business, volatility in the US-Canadian dollar rate is affecting Aeroplan travel patterns.

The weaker Canadian dollar is reducing travel demand for US-dollar denominated destinations. This impacts our redemption mix and tends to result in lower gross billings, both with Air Canada and on financial cards, as cardholders spend less on travel and discretionary spend connected to travel.

Economic commentators are forecasting improving consumer spend in the second half, but given the pattern of downward revisions to economic forecasts in the last couple of years and wider global economic uncertainty post-Brexit, we have not built a boost to card spend from household consumption in Canada trends into our forecast.

So where does that leave us for the year? We now expect full year gross billings for International Coalitions to be down at least 10 percent on a reported basis from a year earlier as a result of the weaker pound Sterling, leading us to now expect consolidated gross billings between 2.3 billion and $2.35 billion.

Around half of the revision to our top-line guidance is currency, mainly due to the drop in the pound.

The disposal of Cardlytics UK and Enhancement Services in Canada will mainly impact gross billings, together with accounting for a further $25 million of that adjustment. We also are taking into account softer travel and travel-related spend at Aeroplan, and while we expect second half growth at Sainsbury's, full year Nectar gross billings will end a little bit below what we had originally expected.

Other factors behind the year-on-year decline were already accounted for in our previous guidance. These include the $30 million regulatory-related reduction of British Gas and the $12 million decline from the wind down of Nectar Italia and the wind down of a single client in our GLS business.

The pressure on gross billings from our UK business when the pound falls is counter balanced by a reduction in operating expenses and capital expenditures that are incurred in London, including some our global product development work.

Finally, it's worth remembering that with the shift of some Sainbury's campaigns to late in the year, the timing of accumulation payments will also shift to later in the year or the beginning of 2017, which is what leads us to a narrowing of the free cash flow range for 2016.

The simplification and cost reductions we are driving in the business, the additional cost measures we've taken as we have seen a weaker pound and the Nectar shift, and lower capital spending should allow us to offset any impact on adjusted EBITDA and free cash flow.

Overall, we expect adjusted EBITDA margin of around 9.5 percent, and expect to end the year in the range of 190 million to $210 million on free cash flow.

So with that summary, let me hand you over to Tor, who will take you deeper into the financials.

Tor Lønnum — Chief Financial Officer, Aimia Inc.

Thanks, Rupert, and good morning, everyone. The second quarter came in $45 million, or 7 percent lower than last year at 561 million. The key driver was International Coalitions, where we saw a 44 million decline, primarily driven by lower points issuance at Sainsbury's. Issuance fell 33 percent.

Sainsbury's is accounting for over 70 percent of the decline in Nectar points issued, partly due to bonus activity shifting to later in the year, as well as changes to the program accumulation in the early days of the quarter. We expect higher levels of bonusing in the second half ahead of the important Christmas trading period.

The positive element in the quarter was the Americas turning to growth with a small overall increase of $2 million, primarily driven by Aeroplan financial cards performance. And David will comment to this in a moment.

The decline at GLS was $4 million, or 7 percent. The wind-down of a UK contract last year was the major contributor to top-line pressure on the division, despite some new business with existing new clients.

I wanted to come back to something I said last quarter. There is always more to do on costs and operating discipline. And these items will continue to be a priority for me.

You'll see in the slides the introduction of a waterfall chart detailing progress on operating expenses that we expect to cover every quarter. We will also aim to cover the underlying drivers of operating expenses quarterly.

In Q2, we're cycling last year's one-off of 46 million related to the reduction in the migration provision we took when we did the deal with CIBC. We have addressed it accordingly in the slide so you can see the clean numbers.

After adjusting for that, operating expenses overall were down 3 million, or 1 percent, primarily driven by efficiency gains in Americas, where we saw a greater than 10 percent reduction in year-to-date contact centre operating costs, but also a small positive in International Coalitions. However, the latter was primarily driven by the wind-down in Italy.

Elsewhere we held costs steady, with some benefit from share-based comp offsetting the timing of professional fees and severance costs in the quarter.

We also absorbed the costs related to our ongoing investment in the transition of our IT services under our outsourcing contract with HPE. Around 3 million of transition costs are included in the Q2 numbers. Going forward, the ambition will be to adjust expenses more closely to expected medium-term top-line developments.

Adjusted EBITDA was 7 million, or 12 percent lower than last year at 55 million. In the Americas, we saw an increase of 7 million, or 13 percent, primarily from higher gross billings and improved Aeroplan gross margins resulting mostly from lower unit costs.

International Coalitions decreased by 9 million, due mainly to lower gross billings. The decrease of 4 million in corporate services was a result of the higher PLM distribution last year.

CapEx and cost of rewards are trending lower for the year, with the latter due to lower Nectar redemptions. However, the significant drop in Q2 gross billings in International Coalitions meant that free cash flow for the quarter, excluding 5 million of severance payments, was 17 percent below last year at 49 million.

The PLM distribution we normally get in Q2 was also received a quarter early, i.e. in Q1 this year.

Quarter to quarter, gross billings and free cash flow are impacted by the timing of promotional campaigns and events; however, there are observed seasonal patterns, which you can see on this slide.

Typically, free cash flow is negative in the first quarter, as this is when we see outflows to fund high redemptions. On average, 45 percent of Nectar points redeemed are in the fourth quarter, and approximately 30 percent of Aeroplan miles redeemed are booked in the first quarter.

Payments to fund these redemptions occur predominantly between December and March. January is also a slower month for spend on our Aeroplan financial cards.

Cash flow builds through the second and third quarter. The fourth quarter typically has the strongest cash inflow, due to bonusing at Nectar and underlying Aeroplan card spend during the December holiday period.

Our CapEx is also trending down. CapEx was 9 million lower than the same quarter last year and 5 million lower than in Q1 this year. The 31 percent decrease in Americas Coalitions CapEx versus last year is mainly attributable to prior-year contact centre and real estate transformation initiatives, with expenditures on furniture and fittings in the prior year as we merged offices.

As you will note from previous disclosure, the Americas represents the most significant element of our CapEx at 42 percent in the quarter and supports the transformation of our platforms to provide features, such as increased one-to-one personalization.

In 2016 we're also investing in a significant refresh of our ISS product. Given the current trend of spend and some foreign exchange benefit, we expect full year CapEx to land in a range between 70 million and 80 million, down from the 75 million to 85 million we had guided to previously.

And finally, let me speak to our balance sheet. At the end of the quarter, available cash was at approximately the same level as Q1, around 100 million to 130 million. We are introducing a range to cater for the normal-patterns fluctuations in working capital as we see through the year.

The current level of available cash continues to build our capacity for possible debt repayment, if we choose to do so, and our covenants continue to be well-covered and protect our investment-grade rating.

As I said at the Q1 call, I have been spending some time looking at the balance sheet we need for the future and intend to address overall approach to the balance sheet in Q3, which will naturally include our plans around the January 2017 maturity.

As I look at this and other investments we have made, I will also be very focused going forward on the return metrics by which we're able demonstrate solid returns to shareholders over the longer term and allow you to track it directly.

And with that, I'll hand it over to you, David.

David Johnston — Group Chief Operating Officer, Aimia Inc.

Thanks, Tor. Let me take you through some of the underlying KPIs in each of the businesses.

Gross billings for Aeroplan, which contributes the lion's share of our Americas Coalitions results, rose $5 million in the quarter, with miles issued up 4 percent. The real story was in our financial cards, where gross billings climbed $7 million, or 3 percent, with TD in particular rising 12 percent on strong new card acquisitions. Miles issued on financial cards rose 7 percent.

These results, combined with a strong performance from retail, in particular our new partner, Toyota, offset some softness in travel and discretionary spend connected to travel along with declines in other businesses within the Americas Coalitions division.

We continue to forecast growth in Aeroplan gross billings for the full year, driven by a stronger active cardholder base.

Our average one-month active cardholder base at the end of June was up 4 percent from year-end, owing to both strong card acquisitions and lower attrition. And you can see here the longer-term impact on the active card base jumping to a compound annual growth rate of 3 percent since the new card deal versus the historic rate of 1 percent pre-deal.

One contributor to people's use of their financial cards is Aeroplan member satisfaction, and that's also been improving. Program enhancements are driving positive member satisfaction.

The important launches this year of the new mobile app, brand campaign, our empirically proven claim of Get any seat. Fly for less., along with the introduction of cash-free redemptions have all contributed to increasing member satisfaction.

With the introduction of cash-free redemptions, we effectively removed a customer pain point while continue to deliver the best overall reward value in the market.

Our Aeroplan unit cost is trending down, contributing positively to gross margin and adjusted EBITDA in the quarter.

Higher Aeroplan redemption expenses were driven by a 5 percent increase in miles redeemed in the quarter. Put together, the higher miles issued and higher miles redeemed nicely illustrate the increasing engagement in the program.

Our burn/earn ratio is seasonal, highest in the first quarter when members typically redeem more and accumulate less, and lower in the later quarters of the year when accumulation grows.

In Q2, burn/earn of 84 percent is in line with the 83 percent of a year earlier. The ratio trends to be the inverse of breakage rate over the longer term.

Our core coalitions provide an important base for growth, and Aeroplan's second quarter illustrates the ways in which growth will come. Adding new partners to the coalition can be an important element of growth. Toyota, which joined Aeroplan this year, drove strong growth in retail in the second quarter. We'll continue to focus on expanding our partner base across verticals.

We're also focused on growth from our most significant partners. TD, for example, continued to market to new potential cardholders within their existing retail base and delivered good growth. Opportunities also exist to grow with other partners, of course.

Our portfolio of long-term contracts at Aeroplan provides a significant base of gross billings certainty, with such partners accounting for about 44 percent of consolidated gross billings in 2015. TD, CIBC, and Air Canada each have at least three years to run, and about a quarter of Aimia's consolidated gross billings and half of Aeroplan gross billings are from TD and CIBC with contracts that run to 2023.

Our history of contract renewals demonstrates a solid pattern of maintaining and strengthening these relationships.

Looking at results for our International Coalitions business, you'll see the impact of reduced points issuance at Nectar stemming not just from Sainsbury's, but also at British Gas with regulatory changes contributing to the decline to Nectar. This will continue to impact us through the rest of the year.

On Slide 26, we've illustrated how the issuance of points in Sainsbury's this year is weighted to the second half. Grocery price deflation in the UK that has weighed on Nectar for a couple of years also continues; however, the most significant factor in the year-over-year drop in the second quarter was Sainsbury's delay of some campaigns towards the end of 2016, where similar campaigns such as a 10 times accrual push occurred in the first half in 2015. And remember, there was some extraordinary bonusing in Q2 during the program—or Q2 2015 during the program change last year.

We expect to see major campaigns and additional personalized communication running through the next two quarters, meaning the second half will obviously be stronger than the first. That will close most of the gap against last year that exist at the half-year mark. The expected decline of 3 percent of points issuance versus 2015 reflects both grocery pricing and the implementation of the new accumulation strategy last year.

As with Aeroplan, member satisfaction has increased with the relaunch of Nectar's digital-first, and product changes will improve margins over time.

Finally, turning to our Global Loyalty Solutions business. We continue to evolve this business out of low-margin commoditized offerings towards higher-margin business with scale clients.

We gained business from new and existing customers in both the United States and Asia, and are particularly proud to announce our engagement with leading US retailer, Nordstrom.

Overall, the transition to a new mix of clients weighted towards product-based solutions with recurring revenues is going well.

For example, by the end of 2016 we expect revenue associated with Smart Button to be 4 times the size of the revenue base that we acquired in 2013. And we continue to broaden our work with existing clients, as well as having a strong pipeline for that platform.

We are, though, cycling through the wind-down of a UK contract last year, which represented gross billings of $4 million in Q2 2015 and around $20 million for the whole year.

And with that, let me hand you over to Rupert.

Rupert Duchesne

Thank you, David. Look, to sum up, we knew this was going to be a challenging year. The results this quarter were driven mostly by Nectar for all of the reasons that you've heard, and so it wasn't a great quarter. But we're looking forward to a stronger second half, and notwithstanding the currency effects on the top line.

Our strategy at Aeroplan is delivering good results at the midpoint of the year, and the investments that we and our partners have made are really starting to show traction. As consumer confidence improves and the trends in travel turn, we'll see the full effect of our accomplishments in that business through the coming year.

All up, we're very aware of the fragility of the global economy to the various political and economic variables at play, and the work we've done to adapt to such forces thus far has insulated our profitability and free cash flow, as it should. And if we're required to take further action on costs, we of course will. We're quite focused right now on delivering.

And so when we take a look at where we are half way through the year, we're quite comfortable with where we're headed for 2016, which is reflected in our revised guidance and beyond with our simplified and focused business.

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

Q&A

Operator

And as a reminder, if you would like to ask a question, please press *, followed by the number 1, on your telephone keypad.

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

Kenric Tyghe — Raymond James

Thank you. Good morning.

Rupert Duchesne

Good morning.

Kenric Tyghe

If I could just dive straight in on the Sainsbury's discussion here and the bonus and bonus phasing. Certainly initially with the switch to bonusing it would seem to be something that would be driven around key seasonal events and seem to have some lumpiness in it, but not necessarily phased or weighted towards the end of the year. That seems to be something of a shift or a changing of the goal posts as the year has moved. And I'm just curious, the commentary with respect to the points issuance being some 3 percent below '15 year on year, is that—what's the level of confidence around that number with it being weighted towards the end of the year? And is that going to be driven off the three campaigns that are currently scheduled? Will those three campaigns get you there? Or will there need to be something beyond those three campaigns that is not yet sort of on the card, so to speak?

And if you could just generally speak to your sort of confidence around how this landscape appears to have shifted through the year, and perhaps why it appears to have shifted through the year in terms of the Sainsbury's dynamic?

Rupert Duchesne

Yeah. Look, I'm going to ask David to answer that because he's right there. And then I'll top off if there's anything else to add. But we actually see this as a high-class problem. It's a phasing issue; it's not a health issue.

But let me ask David to dive into the detail on that for you.

David Johnston

Yeah. I think, Kenric, you talk about shifting goal posts. So what hasn't shifted is what we've been saying since the change to a more bonus-led campaign is that points issuance will be more volatile, and therefore somewhat more difficult to predict, certainly from the outside.

What we're seeing here, as we said, first of all that the change in issuance happened in April last year. At around the time of the change in issuance there was a massive bonusing campaign in order to effectively solidify the new scheme. And we're lapping that right now, which is one of the things that makes quarter two look a little bit weak.

If you think about this from Sainsbury's point of view, the reason they wanted to move to a more bonus-led structure is that they can use the points to support various promotions and seasons in their business. And really what you're seeing in the shift in phasing is that the majority of those campaigns now weight into the second half of the year.

So this is—it's really a question of one of our partners choosing when to get the best return on investment in the points. And I would expect to see quite a lot of campaigns in the autumn period and then run up to Christmas, and you understand the seasonality of the grocery business and why that would make sense.

As I said, the other—there's another underlying variable here, which is that food pricing remains a deflationary environment in the UK, so that is, frankly, a bit of an unwelcome pressure on the overall level of issuance through the year.

That factor compared with—obviously you're right to say that with the weighting of campaigns into the second half of the year makes it a little bit—gives it a bit of a higher-risk profile. So the combination of that and the level of inflation is why we've taken a view on the 3 percent reduction through the year.

Rupert Duchesne

Kenric, the only other thing I'd add is this isn't sort of we're hoping for campaigns to happen in the second half of the year. We have meticulously planned with Sainsbury's exactly which campaigns we're going to have and when, which gives us the confidence on the full year numbers.

And so this is as a result of incredibly detailed joint planning work for the remainder of the year, learning from what happened last year and how effective the campaigns were at what particular point in order to absolutely maximize the bang for the buck with the consumer in the critical trading periods for Sainsbury's.

So there's a lot of science behind this. And the base, plus bonusing is working. It's, as David said, it's just less predictable from the outside in, but rather understandable on a full year basis.

Kenric Tyghe

Thanks, Rupert. And then if I could just switch gears back to Canada quickly. What are the dynamics at play between the disparate performances of the CIBC and TD products, given that both are premium card products, but TD puts up a double-digit comp in the quarter and CIBC anything but? I'm struggling to reconcile quite why we're seeing such disparate performances from two premium segment-focused Visa products.

David Johnston

Yeah. I mean what I'd say is what TD have done a particularly good job at in the quarter is card acquisition. Card acquisition at TD has been particularly strong. And I see that as a reflection of things that we've talked about in previous quarters in terms of the alignment we have with TD on marketing and the level of focus that both ourselves and TD have put on the marketing of the card portfolio.

So I think TD are particularly successful because of the success in card acquisition. Card spend at TD and CIBC is actually broadly stable. So I think, really, the story is about the success of TD in acquisition, which you would expect, given the nature of the relationships.

Operator

And your next question comes from Brian Morrison from TD Securities. Your line is open.

Brian Morrison — TD Securities

Good morning. Rupert, if I can just follow up on the Sainsbury's question. How far in advance do you see the campaigns or the lack thereof? The reason I ask is the bonus issuance is only a year old, but I want to know what the track record of campaigns being delivered upon are both recently and historically? Because you mentioned the detailed planning, but I think most are going to be caught surprised here by the issuance decline without it being telegraphed last quarter.

Rupert Duchesne

This is a difficult one to answer because not because the answer isn't clear, but we are not going to be telegraphing to Sainsbury's competitors when Sainsbury's is going to have campaigns. Yes, it is concerning to investors; we totally understand that.

But to say Q2 is going to be lower in terms of bonus issuance is a signal that Sainsbury's would be furious with us for giving to the market because their competitors listen to what we say about Nectar. So we are slightly—and obviously importantly beholden to them about just how much we can say about the timing and the magnitude of promotions. And it would be competitively foolish for us to be any different.

So what we have said from the beginning of the year is that this will be lumpy. We've said that we expect it to be roughly what it was for the previous year, and it will be within a couple of percentage points. But we're not going to be more specific on the timing of this because it would just be damaging to their business and by implication to our business.

Brian Morrison

Okay. Thank you. And then a follow-up question here, and perhaps it's for Tor. I just looked at Page 23 of the handout you gave that illustrated the trend at Aeroplan of the burn/earn moving towards the inverse of breakage with the trend moving towards 89 percent in the graph. I would have thought this would have been a prolonged process. Can you just detail the horizon you see this unfolding?

Tor Lønnum

The—I think there's a couple of things that I'd like to highlight. Number one is—and Karen alluded to that as a part of the introduction—it's really important to say that the reason for introducing the slide is not because anything has changed. It's just to sort of provide additional information that has been requested by various investors.

Now in terms of the pattern that you're alluding to, as far as I've got sort of in terms of looking in to the various parts of the balance sheet, I'd say that this is an area where I've been able to sort of look into it in quite a bit of detail. And I feel relatively confident that this is—the long-term assumptions that we're making here is holding very well.

Rupert Duchesne

And I'd just remind you that when we introduced the changes in the Aeroplan program in early 2014, we did say it would take approximately three years for stuff to stabilize. And that is what you're seeing.

From what we see now, the 11 percent is really solid. If anything, it might be slightly too conservative, but it is the right place. And slightly conservative, I mean it might be slightly too low, but frankly we're going to keep it where it is. And over the next year as things finish sort of stabilizing with the new business model, we'll continue to look at it carefully.

But we're very happy with where it is right now and the earn/burn trend that underpins the long-term forecast on breakage.

Tor Lønnum

So that was, in my words, very solid.

Rupert Duschesne

Yeah. We're just getting used to the difference between Scandinavian and Canadian English here.

Operator

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

Stephanie Price — CIBC

Good morning.

Rupert Duchesne

Good morning.

Stephanie Price

I was wondering if you could talk about additional cost efficiencies? You mentioned it a couple of times in your prepared remarks. What else can you do here?

David Johnston

I think, again, we've talked about this a little bit in previous quarters. Last year we restructured from regions to divisions and took quite some headcount out of the business. This year, as we've said, our primary focus is more on property and procurement, so we're rationalizing our property footprint, both in Canada and elsewhere.

We've already done that in Toronto. We've got plans in place in a number of locations. So pretty material property savings, and we're also working hard on procurement particularly in the IT space, but not just in the IT space.

And I will also say that while headcount savings aren't a major focus of how we're taking costs out this year, you will—you have seen and I think Rupert talked about it in his remarks—an overall reduction in headcount through the year.

Rupert Duchesne

The other thing I think I've said for a number of quarters in a row is with the disposals that we're undertaking we are obviously taking the costs associated directly with those businesses out, but we're also taking out related costs.

And until those businesses are gone, it's a little hard exactly to quantify those, but these are businesses that do require technology support and other related supports. So as those businesses transition out, we expect to find some additional savings related to them. And as we've said, they are businesses that don't fit our new more focused strategy, and they don't have the margin or the growth profile that we expect from our existing core businesses.

Stephanie Price

Okay. And then can you give us a few more details on the Nordstrom partnership, and how you're thinking about the GLS business at this point?

David Johnston

Sorry. I didn't hear the second half of that question.

Rupert Duchesne

How you're thinking about the GLS business.

David Johnston

Right. Okay. So Nordstrom, first of all, a marquee client, and from our point of view, significant both from what it represents of itself, but also significant for what it indicates to the market from our point of view from a business development point of view.

So with Nordstrom, we've helped them relaunch their program. It runs on the Aimia loyalty platform across their total base. As you heard in the remarks, they're recruiting new members into that program. There were 1.7 million members in to date, and with Nordstrom we have very ambitious targets for what the number will grow to.

So it's a great example of what we call platform and wraparound services with a revenue model that's anchored in a recurring revenue stream going forward. So we're very proud of that, but also obviously what that does is it really helps our credentials deck as we go around the market.

Nordstrom is the first major retail client to sit on our Aimia loyalty platform. When we're talking to the next client, obviously that really improves our sales credential because we've got that use case; we've got that reference case there.

And more broadly, I think that it's a further demonstration of what we've been talking about for a while and what we're doing in trying—in reshaping the GLS business. The business was historically anchored in low margin primarily rewards fulfilment business. We're working hard to shift the mix out of that low-margin primarily rewards business into higher-margin recurring revenue platform and wraparound services.

And quarter on quarter I won't go back and list all the names, but pretty much every quarter we've been able to tell you about a new marquee brand name that demonstrate that blue chip companies like what we're offering, which gives us optimism in the growth and ultimately the positive returns from that business.

Operator

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

Anthony Zicha — Scotiabank

Good morning. David, could you give us a bit of an idea relating to Aeroplan's 4.9 increase in redemptions? Specifically, how much of that increase would be related to the air reward redemption whereby consumers would be using their miles to pay for taxes and fees? And could this trend accelerate over time?

David Johnston

Well, some of that increase is due to people using miles for taxes and fees, and we see that as a key part of building the value proposition of the program, and as we talked about, removing sort of pain points that are there as consumers look at the program.

And cashless redemption, which is another factor, is also—has been up in Q2 and was another positive development for the program. I'm not sure we really break out within the 4.9 the contribution of each of those individual drivers.

Anthony Zicha

Okay. What was the main driver behind the margin, the 20 percent margin increase during the quarter? Was it more of a mix of non-air versus air? And would this event have played a factor?

Rupert Duchesne

It really was a mix issue within air, Anthony, as opposed to air/non-air. We saw a heavier mix towards classic, which as you'll remember has a slightly higher margin to us, so that is the primary causative factor there.

Operator

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

Drew McReynolds — RBC

Thanks very much. Maybe, Rupert or David, just high level when you look at the dynamics in the US in terms of putting that on pause and then obviously Italy shutting down and then some growth headwinds in the grocery sector from Nectar UK, the theme here looks as if that coalition model that's based around grocery is certainly not as maybe promising as it was before. Is that an incorrect statement? Can you maybe just provide additional context around the growth outlook for particularly Nectar UK once the dust settles, but also the potential to create more loyalty programs out there around the grocery sector?

David Johnston

Yeah. Look, it's a fair question, but I wouldn't make the correlation. So let me take the sort of three things you talked about in turn because I think the drivers are a little bit different. UK, a large market, a large and primarily fragmented grocery market. We always said that you needed grocery to launch, and at this point the sort of competitive dynamics in the US have sort of impeded our progress on getting a grocer, and therefore we've at least for now suspended our efforts.

We still think there's an opportunity in the US, but the dynamics in grocery at this point mean that we didn't see clear line of sight to returns at this point, so we pulled back. I think those factors are, frankly, quite specific to the UK, and I'd love to go into more detail here, but I can't, frankly, more specific to the dynamic as some of the individual major players within the US market. So I think it's very much about factors within that market.

The Italy situation was different. Italy suffered greatly from the recession in 2008-2009. The hypermarket market was even more impacted by the recession in Italy, and the south of Italy was even more impacted. And our grocery partner skewed towards hypermarkets and skewed towards the south of Italy. So there was a triple-whammy on macros in that market, which in the end just unfortunately meant that the program wasn't really sustainable.

I think those are two very different things, and we've talked really about the UK environment, which I see very differently. We still have clear growth plans for growth in the UK. What we're dealing with this quarter and through the rest of this year is a phasing issue, not a health issue. And we're investing to make Nectar a more digital program, and we're quite happy with some of the metrics we've seen, both from a consumer point of view and even from a redemption margin point of view through those developments.

So I understand why you might—it's tempting to make the correlation. I don't see that correlation there. And if I look at our longer-term business pipeline, we've got—we're talking to grocers in other markets right now about potential developments in the future, so the grocery sector is still very switched on to loyalty.

Rupert Duchesne

Yeah. And let me just add two other comments. Remember, there was quite extraordinary growth in Nectar for a couple of years up until just very recently when the UK economy got difficult. And the primary sort of stasis element here was the regulatory change with British Gas that cost—that took $30 million worth of gross billings off, not because the partner didn't love the program, and in fact the partner has done their very best to reinvent the program within the rules, but simply because of a regulatory change. So I don't think that says anything about the health. I think the health of the business in the UK is determined by the engagement of consumers for our big partners like Sainsbury's and BP, and they are very happy with where we are.

The second point I'd make is to do loyalty in the way that we do it in a best-practice sense in the UK with Nectar requires a full digital mobile solution that is deeply integrated with the grocer's technology platforms and point of sale. European grocers, and frankly in a number of other jurisdictions around the world who developed these technologies, these point-of-sale technologies more recently, are well-ahead of the state of the art in the US.

And what we have found essentially with digital Nectar is that that is what consumers want, but if you can't support that with the technology both from the loyalty company, which we obviously have through the ALP and through what we do with Nectar, you need the grocery partner to have the same capabilities. And they are not as advanced as they might be. So that's a really important consideration here.

In some other countries in the world who sort of put in their point-of-sale systems much more recently, they actually have these capabilities. So it could be that in the years to come we find that there are opportunities elsewhere in the world where some of the more traditional markets, because of technology gap, just aren't quite ready.

Drew McReynolds

Yeah. That's very good colour from both of you. Thanks for that. A quick one, follow-up; just on the GLS can you give us a sense of when we see the declining contribution from rewards fulfilment just play out is there a kind of revenue mix breakdown you can provide between the legacy piece and the growth piece?

Rupert Duchesne

Look, it's a great question. Let us come back to you with that in a future quarter because it's not something we've previously talked about. Clearly you heard us talk about where the sort of—the super new platform business has reached at 15 percent of gross billings.

But let us come back to you with a more considered answer on that because we haven't really talked about that in a way, and I'd like to make sure that we're giving you a very clean and crisp answer

Operator

Your next question comes from Robert Peters from Credit Suisse. Your line is open.

Robert Peters — Credit Suisse

Thanks very much for taking my question. Rupert, just given the cardholder growth we saw at Aeroplan in the quarter, I was wondering if you could provide us an update on churn trends? And maybe if you could remind us what a normal number of cardholder acquisitions would be to get back to 2014 cardholder levels? I believe that's kind of indicated by Slide 21 in the presentation.

Rupert Duchesne

I'm not quite sure we actually—the line was a little crackly. I'm not sure we exactly heard the question. Would you mind—I think it was around what is the normal level of cardholder acquisition versus what we've seen. But I actually—we didn't get—none of us in the room here got the question.

Robert Peters

Can you hear me better now?

Rupert Duchesne

Much better. Yes.

Robert Peters

Sorry. It must be an issue with my headset. I was essentially saying if you could give us an update on churn trends in the cardholder base in Aeroplan? And then remind us what a normal level of acquisitions would be, just...

Rupert Duchesne

Okay. Look, yes, now I totally get the question. We saw very, very high levels of attrition in '14 into '15 as a result of the sort of massive sign up of cards we saw in '14. Those attrition levels are now back down to a normal level, and in a typical year we'd normally expect to add something like 100,000 new credit cards. It has been higher than that because of the extraordinary ongoing success of things, but we are well-ahead of net acquisitions compared to where we were in 2013.

And we do expect to continue to see effective acquisition by TD. Exactly what the attrition rate will look like from the cards they have acquired in the last 12 months and since we passed through the interchange bubble, it takes a year or so for that to wash through. But these are better-quality cards and the spend patterns are building on them, so we think that this is actually a really healthy sign for the business.

Robert Peters

And, Rupert, maybe to follow up and talk about average spend. So it sounds like it was higher than the original TD cardholders when the new program launched.

Rupert Duchesne

Correct.

Robert Peters

But could you give us any kind of—how does it compare relative to your legacy cardholders?

Rupert Duchesne

We're not—I think what I'd like to say there is that it is still early days on these new acquired cardholders. In other words, the overall spend in the program essentially was flat this quarter. We talked a little bit about why that was, and it was sort of up on non-travel stuff and down on travel stuff, which essentially gave us flat spend.

What we're focusing on now is share of wallet by credit card. So the average spend on these cards is below the historical average spend per card, but it is building. And the secret there is for us to encourage people when they have these cards to concentrate their spend on the Aeroplan card, and there are programs in-market to encourage that.

Operator

And as a reminder, if you would like to ask a question, please press *, followed by the number 1 on your telephone keypad.

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

Adam Shine — National Bank Financial

Thanks a lot. Good morning. I guess I'll go back to the flip side of Anthony's question. We see cost per mile going down for the second quarter this year. Part of it, I guess, goes back to Rupert's response in terms of more classic within travel, and then perhaps also to what David was talking about in terms of miles for taxes and fees. Are there any other elements worth highlighting? How should we see the trend evolving in the back half of this year and maybe any telegraphing of trend in terms of continuation into '17? Thanks.

Rupert Duchesne

Look, I…

David Johnston

Sorry. Go ahead—well, I was going to say, I think you captured the key drivers…

Rupert Duchesne

Yeah.

David Johnston

In the question.

Rupert Duchesne

Well answered. You answered your own question very well. You're bang on. It's basically flat.

David Johnston

Trends broadly…

Rupert Duchesne

Yeah.

David Johnston

Flat going forward.

Rupert Duchesne

I mean one thing we are seeing at the moment is a little bit of additional classic being given to us from Air Canada particularly on international routes. So that is part of the equation that you saw, and we expect that to continue through the course of a year, given what Air Canada has said publicly about the way their global network is performing.

So I think you should basically expect that to be flat to H1.

Adam Shine

Great. Thank you for that.

Operator

And we have no further questions in queue at this time. I'll turn the call back to Mr. Robert Duchesne—Rupert Duchesne for closing remarks.

Rupert Duchesne

Thank you. So look, where I'd like to end here is just to reiterate what I said before we went into questions. This is a challenging year. The global economy, as everybody knows is, fragile. But underneath that we actually feel that the pretty aggressive actions we've taken over the last 18 months to focus on simplifying the business, get the cost base trimmed, and really focus on our core businesses, is working.

We have—we believe we're going to weather the currency and foreign exchange issues very well, notwithstanding having spent a little bit more through the transition of our technology through the outsourcing agreement with HPE that helps us with the longer-term cost base. And Aeroplan in a pretty flat Canadian economy is performing very well.

So we actually feel very good about the revised guidance, notwithstanding we had to bring the top line down for the combination of factors we talked about, which is currency, disposal, and a little bit of economic caution.

We're confident around our adjusted EBITDA being pretty much where we said at around the 9.5 percent, perhaps slightly better, and the free cash flow Tor talked you through the bridge. So at this point in the year and after, frankly, a lot of very meticulous work on what the next six months is going to look like because we obviously did not want a repeat of what happened last year, management feels that the company is in a good place and that results will come, notwithstanding the lumpiness that you saw in this quarter because of commercial decisions that were right for us and our partners around Nectar in the UK.

So we look forward to—I know we're speaking to a number of you individually over the coming weeks, and we'll be back to you in November on a formal basis.

Thank you very much.

Operator

This concludes today conference. You may now disconnect.

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