CNW

AIMIA INC.

FOURTH QUARTER 2015

RESULTS CONFERENCE CALL

FEBRUARY 25, 2016

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FINAL TRANSCRIPT

Aimia Inc.

Fourth Quarter Year-End 2015 Analyst Conference Call

Event Date/Time: February 25, 2016 — 8:30 a.m. E.T.

Length: 62 minutes

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PRESENTATION

Operator

Good morning. My name is Sean (phon), and I'll be your conference Operator today. At this time, I'd like to welcome everyone to the Aimia Inc. Fourth Quarter Year-End 2015 Analyst 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 period. If you would like to ask a question at this time, please press *, then 1 on your telephone keypad. If you'd like to withdraw your question, please press the # key. Thank you.

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

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

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

With me on the call today are Rupert Duchesne, Aimia's Group Chief Executive; David Johnston, Group Chief Operating Officer; David Adams, EVP and Chief Financial Officer; and Steve Leonard, Group Financial Controller.

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

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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 be found on Page 4 of the presentation.

Finally, I'd like to draw your attention to the new disclosure around the company's divisional structure, which was changed from the beginning of January. This can be found on Page 30 of the slide deck.

In the next half hour Dave will review the final quarter of 2015 against the guidance we had set in November, David Johnston will tell you a little about the new structure and the progress we are making in our two larger businesses, and Rupert will close with the 2016 guidance and how we are positioned for the longer term. We'll aim to keep this to 30 minutes, and set aside as much time as possible for your questions.

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

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

Thanks, Karen, and good morning, everyone. We're pleased to have the challenges of 2015 behind us and to have finished the year with better-than-expected gross billings in the fourth quarter, which took our full year results ahead of our November guidance.

We saw a number of moving parts both from inside and outside the business that made it difficult to forecast the year, and the fourth quarter was no exception. Let me walk you through the full year highlights.

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The business delivered full year gross billings of 2.47 billion, and we made progress with our main coalition partners. This was despite the operational factors of interchange reform in Canada, along with the exit of our anchor partner from Nectar Italia and transitions at Nectar in the UK, which affected the top line.

We also had some pressure on consumer spend in parts of Canada as we came through the second half and the dollar weakened, but we delivered adjusted EBITDA margin better than 9 percent as we made real progress in reducing the operating cost base. Free cash flow ended the year at 207 million.

So let me turn now to the results for the quarter. Gross billings for the fourth quarter were in line with last year on a reported basis at 688 million, and down by 5 percent on a constant currency basis.

Strong take up of bonus campaigns at a number of key partners at Nectar in the UK exceeded both our and our partner's expectations, and we saw gross billings for the EMEA region up over the same quarter last year. APAC also contributed 2 million, with new platform-based business in Australia in 2015.

These underlying gains also got a significant boost from currency translation, which more than offset the change from gross to net accounting in the US business, which had a negative $6.5 million impact in the quarter.

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In Canada, TD gross billings in the fourth quarter were stable over last year with higher percentage volume offset by lower yield, which came into effect in June of 2015 as a result of interchange reform.

The phasing of promotions and bonusing at CIBC and Air Canada accounted for around half of the $20 million decline in the Canadian business. The other half of the decline was expected, and was attributable to the Canadian proprietary business where we continued to cycle a contract exit.

Adjusted EBITDA came in at 76 million before the severance costs incurred in the quarter of $13 million. There were three main contributors to the increase over last year.

We got improved leverage in the Canadian business, and our corporate expenses, including consulting fees, IT, business development spend, and share-based comp were all lower than last year.

Finally, after the successful extension of the Aeromexico's CPSA to 2030 and the renegotiation of Club Premier's financial card contracts, the Board of Club Premier released some of the surplus liquidity that had built up over time in the business. This resulted in the distribution of almost $10 million higher than last year, which arrived before year-end.

Fourth quarter free cash flow came in at 83 million before the impact of around $5 million of cash severance payments in the quarter and after higher year-over-year tax benefit of 13 million. Cash flow came in stronger than we expected due to the following factors: we experienced higher accumulation and lower redemptions in the Nectar program; we had higher cash receipts in the US

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and UK business at the end of December; and we had the elevated payment in foreign exchange benefit on the Club Premier distribution.

These more than offset CapEx spend, which was slightly higher than guidance, and meant we finished the year at 207 million.

Currency accounted for around $5 million of the increase in capital spending in 2015, and during the second half of the year we accelerated our CapEx to meet new client commitments. We are also deploying the Aimia loyalty platform for use in our own Middle Eastern coalition later this year.

In our coalition business we continue to invest in the Canadian contact centre transformation, as well as new Aeroplan and Nectar apps and the relaunch of Nectar. This CapEx level will trend down in 2016.

Let me take a minute now to help you understand the variability we are seeing in accumulation and redemption patterns, and how that makes free cash flow more challenging to forecast. But first, a few general observations are worth noting.

Despite quarterly variability, our track record is one of consistently generating solid free cash flow, delivering $200 million or more of free cash flow annually in four of the last five years. While the fourth quarter was stronger than normal in 2015 due to bonusing at Nectar and underlying Aeroplan card spend during the December holiday period, it's always the strongest

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quarter for free cash flow. And the first quarter is typically the weakest, as we see elevated payments to our partners to fund seasonal redemptions.

Typically, 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.

Gross billings at Aeroplan also tend to be lower in the first quarter when members travel less, due to seasonal travel patterns and through reduced financial card purchase volume at the start of the year.

While the bonus campaigns themselves are always a known fact and quite often revolve around seasonal activities in the second and fourth quarters, the variability comes with the needs and plans of our partners, and the consumer take up on bonusing campaigns. In the fourth quarter of 2015, we had less bonusing than in the prior year at CIBC and Air Canada, but this was offset by strong bonusing at Nectar.

These factors, combined with the continued Sainsbury’s transition to more bonusing, which commenced beginning in April of 2015, will lead to a more pronounced free cash flow swing in the first quarter of 2016.

As we look at the investments we're making, we are concentrating those investments in loyalty platforms and data-driven analytics, which drives significantly higher margins than those generated by our older redemption platforms.

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Simultaneously, we are working on the potential disposal of noncore assets which are not as well aligned with our longer-term strategic direction. We will update you further on the outcome of this ongoing process as soon as we can.

We have also taken an impairment charge of $13.5 million related to certain intangible assets in our Canadian proprietary loyalty business due to discontinued contracts and the economic environment which impact the business' future cash flows.

Finally, ending with the balance sheet, surplus cash at December 31st included a large portion which was set aside to fund our seasonal redemptions in the first quarter of 2016, and $22 million was used to complete the $50 million of share repurchases, which we announced at the end of November.

With the share repurchases completed in February, we have now returned $275 million to shareholders since November of 2014. This has reduced the share count to 152.2 million shares, and the lower share count has contributed to a 20 percent increase in free cash flow per share in 2015.

As we look forward, operating well within our bank and debenture covenants remains a priority, as this enables us to maintain our investment-grade rating and access debt capital markets in Canada.

As we move through 2016, our plan is to accumulate sufficient liquidity on the balance sheet to enable us to repay the $200 million bond maturing in January of 2017, should capital markets remain challenged.

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

David Johnston — Group Chief Operating Officer, Aimia Inc.

Thanks, Dave. We announced a new operating structure in August focused around core assets, and this structure became effective from January of this year.

I'm going to put a little colour and some numbers around this to help you better understand the makeup of the new business segment.

The Americas Coalition business, which represented around 61 percent from our gross billings in 2015, is mainly focused on the core Aeroplan asset, as well as some proprietary loyalty work that we do for a small number of financial services clients.

We're also bringing more focus to the International Coalitions business. At $717 million of gross billings in 2015, this accounted for around 29 percent of our top line.

As we announced to members in Italy in December, the Nectar Italia Program will wind down in the next few days, and we've also made a decision to exit Chile on the expiry of our contract with Cencosud. So the real focus here will be on Nectar UK and our Air Miles Middle East Coalitions. The shopper insights and communications business will also be reported within this division.

Shopper insights, when combined with the attributed revenue from our i2c joint venture with Sainsbury's, is now over $110 million of gross billings. It continues to grow by winning new

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retail clients and extending our leading-edge analytics and data monetization services with our existing clients.

Finally, Global Loyalty Solutions will bring together our platform-based loyalty solutions for clients like P&G, Avis, TELUS, and Optus. In 2015, this business represented around 10 percent of gross billings. It will scale over the next five years, and with scale will drive profitable growth and improving returns on invested capital.

Our strategy here is to help retailers, CPGs, and financial services companies deliver personalized shopping, banking, and redemption experiences to drive retention, and more effectively market to their customers. We do this by leading-edge technology platforms and wrap-around services, as recognized recently by Forrester Research.

Forrester called out Aimia as a leader for its end-to-end loyalty solutions for both large and mid-size organizations: the only company to achieve such recognition in both categories.

At the same time as this we're migrating existing clients from high-cost legacy technology to our new platforms, as well as moving out of the lower-margin reward fulfillment contracts.

So let me turn now to some operational highlights from Q4. It's probably too early to call Q4 an inflection point, but overall the underlying trends are positive, as you could see from the slides. This gives us confidence in the operating performance of Aeroplan and Nectar as we head into 2016.

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The trends we're seeing at Aeroplan now that we're past the interchange distraction from 2015 reinforce our view that we have made the right choices around our partners and the investments we've made in the program and are building a solid platform for growth.

Last quarter, we told you that marketing spend and financial card acquisition at our partners would pick up in the fourth quarter, and we saw the benefit of that in the Q4 results. In the fourth quarter, total credit card purchase volumes were stable compared to last year, and were 6 percent higher than the average quarterly purchase volume since January 2014.

Total active credit cards have also remained unchanged over the last four quarters, and remained 8 percent higher than in January 2014.

At TD, new card acquisitions, combined with attrition trending back to historic levels, drove an increase in the active card base in the quarter. TD's strong fall campaign push made up for the most of the lost ground earlier in the year due to interchange, and in fact 40 percent of 2015 new card acquisitions were made in the quarter.

By bundling TD Aeroplan cards with its banking offering and careful targeting, TD has also ensured that the new cards acquired should now be much stickier, and have higher spend characteristics over the longer term.

Now given economic volatility, it's hard to predict whether the spend growth increase in the quarter was a trend and whether the market forecast for premium consumer card spend of around 5 percent is correct. This obviously remains an area for us to watch.

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However, operationally there's much we can do to build the financial card base despite the state of the economy. We're aligned with TD and CIBC in our plans to grow the card portfolio.

With TD that involves ongoing TD acquisition campaigns which bundle cards with new banking accounts. The quality of those new cards should continue to drive attrition back to more historic levels, and support the growing active card base.

At CIBC it is building on their success in new card acquisition in the small business space to improve the ratio of higher-spend cardholders in their base.

At AMEX we made slower progress, but there remains a significant opportunity to reinvigorate their card acquisition strategy.

These are all tangible actions that we intend to execute in 2016 to grow the Aeroplan financial cards portfolio, which is the core driver of Aeroplan growth.

Turning to Nectar now. Last quarter we told you bonusing activity at Nectar, and in particular at Sainsbury's, would be a key area of focus in the fourth quarter. The result was a positive one.

Q4 points issuance at Nectar with bonus and promotional campaigns at three of our biggest partners, Sainsbury's, eBay and British Gas, came in better than we had expected back in November.

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At Sainsbury's, Q4 bonus issuance was at record levels and twice the level of 2014. This took total points issuance for Q4 above 2014, a real improvement on the softer numbers we'd seen in Q3.

Sainsbury's used bonus points very effectively in the quarter with their Collect for Christmas campaign, and despite a challenging grocery market external data indicates that Sainsbury's had a better Christmas than its competitors.

In 2016, a key operational focus is making the transition to bonus-led issuance a success for Sainsbury's and British Gas, focusing on the returns they can generate if used effectively as a more focused marketing tool. However, we expect to see the heavier use of bonusing drive ongoing quarter-to-quarter variability.

Q1 issuance should get some bonusing benefit from Easter. It will, however, still be lapping higher base level issuance from 2015, and we expect to continue to see modest grocery price deflation at least through the first six months of 2016.

Gross billings from British Gas will also be around $30 million below 2015 as they make their transition.

These factors mean we don't expect to see Nectar growth in the first half. The comparators will become easier as we head into the second half of the year with more experience around new bonusing platforms.

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So I think it's worth taking a moment to look at some of the progress we've made and how the member experience is improving while these changes are occurring. Nectar and Aeroplan members are more satisfied and engaged with their programs today than they've ever been.

At Nectar, the net promoter score has climbed 7 percentage points since the Nectar relaunch. We released our new app, which has now been downloaded 1 million times, even before an advertising campaign which starts next week.

Active early adopters of the app earn 50 percent more points, and those members are receiving a personalized selection of offers delivered weekly to their phone, and are more likely to redeem their points at a partner other than Sainsbury's, which is good news for the business.

When we think about the health and long-term success of Aeroplan, a key question that we ask ourselves is how successful have we been in expanding the depth and breadth of the program beyond the original frequent flyer base? Since 2009, as we started to recover from the economic meltdown, gross billings from our financial card partnerships have grown 4 times faster than those from our travel partnerships.

Gross billings from financial cards not associated with frequent flyers are 5 times those of frequent flyers. And Air Canada has been the primary beneficiary of the resulting incremental ticket purchases, which the airline would have otherwise had to fight for against its competitors. That's the power of a loyalty coalition, with both Air Canada and Aimia benefitting from its success.

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At the same time, flight rewards have become truly attainable for members. The number of flight rewards issued has climbed 20 percent since we launched our new card partnerships to 1.9 million flight rewards in 2015, enough, by the way, to fill 11 Boeing 777s every day of the year.

Members who researched flight redemptions were materially more successful in booking a trip, and the average Aeroplan Diamond member redeemed 7 times in 2015. Many of these members are booking Market Fare Flight Rewards that give members access to every seat on every flight at competitive pricing. With 30 percent of flights booked now MFFR tickets, the incremental cash flow to Air Canada is $180 million above 2013 levels.

With a significantly more valuable member proposition, the net promoter score for Aeroplan has steadily gained in the last year to its highest level ever. The strongest gains have been among our most valuable members.

In conclusion, our members are experiencing the improvements to the program we've made in a recognizable way. Our most valuable members are seeing the kinds of benefit they'll tell their friends about, and that should see them moving the card to the front of wallet and create momentum. And at the same time, we're helping make them loyal Air Canada customers, illustrating the mutual benefit of coalition programs that makes the model so valuable.

Finally, let me turn to OpEx, where we've been putting significant management focus over the last two years. In August we indicated a target of $20 million of cost savings from the end of 2015, but that did not include the actions we'd already set in motion in 2014.

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We've now actually reduced our operating expense run rate by $37 million. This is combined with an additional $20 million that will be fully implemented by the beginning of 2017. The savings were achieved from a variety of activities, and I'll walk you through a few of these.

With more than 80 percent of Aeroplan bookings now made online compared to around two-thirds in 2010, we took the decision to take significant cost out of our Canadian contact centre, resulting in around 200 employees leaving the business. We reduced a number of senior management positions in markets like the US, we exited businesses in Italy and in Chile, and through the move from a regional to a divisional structure, a further 275 positions have been eliminated.

All-in-all, this has resulted in a sizeable reduction in our workforce. Our cost-cutting efforts are continuing through 2016 with a focus on areas such as procurement efficiencies and property rationalization. In cutting costs, our goal is to ensure we're aligned with how the business is evolving while protecting the core assets key to our long-term growth.

Set against the savings we're achieving in 2016 will be the $10 million we're investing for the transition of our outsourcing to HPE. The deal will provide real efficiency and cost avoidance benefits over the longer term, as well as improved agility and security to meet client needs.

Our guidance assumes year-end exchange rates. Currency will likely again impact operating expenses, as it has in the last year. The unfavourable impact of a weaker Canadian dollar added $33 million to foreign-denominated operating expense in 2015.

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In conclusion, we have a simpler organization, a more focused cost structure, and we demonstrated solid progress with TD, CIBC, and Sainsbury's in Q4. As we face a choppier economic climate our attempt is to continue delivering the cost savings we've set out while building the Aeroplan active card base and the Nectar bonusing platforms that are key to the long-term growth of our core assets.

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

Rupert Duchesne — Group Chief Executive, Aimia Inc.

Thank you. So as you've listened to Dave and David, we hope you've taken away a couple of thoughts.

Yes, there were several external forces weighing on our business, but despite those forces we delivered a solid fourth quarter in 2015, with the higher PLM distribution that came in at the end of the year providing an extra bump up to adjusted EBITDA and free cash flow and a strong quarter at Nectar helping the top line.

You'll recall we provided a preliminary outlook for 2016 in November which we've evolved to set 2016 guidance, reflecting stronger-than-expected 2015 comparative results, but some continued economic weaknesses that we're seeing in Canada, and of course the low Canadian dollar.

With that context our current expectation is for gross billings to be stable in 2016 with Aeroplan growing and Nectar broadly in line with 2015. At Aeroplan, we expect to grow across the

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partner base, underpinned by growth in our financial card base and Air Canada's planned capacity increase.

Within retail, the first full year of our newly launched partnership with Toyota will more than offset the effect of lower fuel prices at Esso and the impact of recent hotel mergers.

There are reasons to be cautious, of course. The Conference Board of Canada, for example, said its consumer confidence index fell more than 11 points to 95.5 in February alone. For Aeroplan, there are a number of variables that we're watching closely: any impact on the economy on travel decisions, on overall spend in a Canadian market, and how that influences average spend on our financial cards.

Average spend remains mixed by province, with Ontario, for example, faring much better than Alberta, as one would expect.

In the International Coalitions division, we expect growth from our shopper insights business, while Nectar will be broadly stable in light of continued transition at Sainsbury's and British Gas. And of course the division's results won't have gross billings from Nectar Italia this year.

Global Loyalty Solutions will be building scale in its platform-based business that see an overall top line decline as it ramps down the low-margin rewards fulfillment business.

Thanks to our aggressive actions to cut operating costs and despite the exchange rate pressures, we expect adjusted EBITDA margin to be above 9 percent. That includes the effect of a Club Premier distribution more in line with a typical range of 15 million to $20 million.

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Strong cash flow conversion means that we expect 2016 free cash flow of between 190 million and $220 million. Free cash flow on a per share basis will rise again, thanks to the lower share count. Capital spending will be between 75 million and $85 million.

Now none of this guidance reflects any effect from potential sales of noncore businesses that we've discussed earlier. To the extent that such transactions are completed we will adjust our guidance.

We should also be clear that we know that free cash flow in the first quarter, when we have lower accumulation and fund redemptions from the fourth quarter, will be lower than the rest and is typical for our business. Like free cash flow, adjusted EBITDA tends to be seasonally lower in the first quarter, and we expect a more pronounced swing this year as we cycle Italy and launch new Nectar marketing in the UK. But both of these factors are accounted for in our guidance.

We made some substantive progress in our business in the last year. We've significantly reduced our costs, and intend to do more. We've more closely aligned our Aimia executive committee to our new divisional structure following the departure of a few leaders, as you'll have seen in the press release.

We are focusing our capital on our core businesses that will drive recurring, predictable, and high-margin revenue, while disposing of noncore assets. At the same time, we maintained our dividend and returned excess capital to shareholders now exceeding $1 billion over the last five

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years. We did all of this while improving the fundamentals of our core programs and the member experience in the face of several significant external challenges.

I'd also like to add that we also have the benefit of the experience of a new director on our Board, Emma Griffin, who joined on January the 26th. Emma's an exceptional asset to the Board, bringing international experience, both managerial and commercial, along with a depth in capital allocation strategies in the capital markets that complements our existing directors' expertise.

We enter 2016 with a restructured business, a strong balance sheet, and a focused plan to deliver. All of these near-term actions put us in a stronger place to deliver against our vision: being the world leader in data-driven marketing and loyalty analytics, developing and growing businesses that are rich in permission-based data assets, and which feature a stable recurrent revenue business models.

Maintaining that focus, along with an aligned cost base, positions us well to follow our clear roadmap to grow and leverage our experience in coalition loyalty in the travel, retail, and financial services sectors; to be the provider of choice in the loyalty strategy and platform space; to expand our retail data analytics and monetization capabilities beyond grocery into other consumer service and retail sectors; to partner, where appropriate; to optimize return on long-term invested capital; to exploit economies of scale and scope to generate superior returns from a portfolio of assets in major economies globally; and finally, of course, to be a responsible corporate citizen and a voice for ethical business.

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So when I look back to the fourth quarter and I look forward to 2016, the progress we've made at Aeroplan, Nectar, and our Global Loyalty Solutions business continues to give us energy and excitement. The work we've done building our business for the long term is paying off.

So now I'd very happy to take your questions. Operator, please proceed.

Q&A

Operator

Thank you, sir. At this time, I'd like to remind everyone in order to ask a question, please press *, then the number 1 on your telephone keypad.

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

Kenric Tyghe — Raymond James

Thank you, and good morning. The TD card acquisition, impressive in the quarter; I wonder if you could provide a little colour on as we look at that growth how much of that perhaps reflects the easier sell on the value proposition versus bundling with other products and/or the impact of promotional campaigns? I'm just trying to get an idea of how we should think about the evolution and the step-up in TD card acquisitions.

David Johnston

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I'm not sure that's an either/or. I mean I think what drove the acquisitions in the fourth quarter is what we talked about. Once we got passed the distractions of interchange there was strong joined-up marketing campaigns between ourselves and our banking partners.

What the bundling does is it obviously does strengthen the marketing, strengthens the value proposition, but we also think it makes the new cards acquired stickier because it's bundled with other banking products.

Kenric Tyghe

Great. Thank you, David. And then just with respect to the conversions in commentary, obviously positive read-through in terms of the AMEX conversions in. I wonder if you could provide a little colour on your AMEX co-brand and how that base is trending and perhaps the mix within that portfolio?

David Johnston

I mean I think the remarks highlight we're very, very pleased with the progress we've made with TD and CIBC in the quarter. We've probably got a little bit more work to do to catch up those growth rates with AMEX.

Operator

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

Adam Shine — National Bank Financial

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Thanks a lot. Good morning. I've got one for Rupert and then maybe one follow-up for David. Rupert, just with respect to some of the executives with strategy mandates departing and obviously some noncore assets appropriately being shopped, can you just maybe remind us how Aimia's strategy going forward may or may not be evolving? And maybe a few words as to what might be up perhaps even this year for any US coalition?

Rupert Duchesne

Let me start with the first half of your question. As you could have seen by the actions we've taken in terms of the move from the geographic to the divisional structure and the cost savings and focus of that has provided us, Australia is pretty firmly set, as I said at the end of my remarks. And we are very focused this year on delivering exactly what we have put in place over the last couple of years. And, therefore, you should not expect any material change in strategic direction from us as, frankly, we focus on the execution and delivery from the investments and changes we've made over the last couple of years.

With respect to a US coalition, we have obviously been active in that space for some considerable time. We're still very active. We do expect that to come to fruition, but that is not something we expect to happen in terms of a material impact in 2016.

But as I've said before, the earnings profile of a major US coalition is really quite exceptional. It would be an extraordinary good use of capital, but we will, of course, tell you at the point we make a decision to proceed on that. And we would quite clearly segment any of the

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activity related to that from the rest of our statistics so you can clearly understand what's going on underlying in the main cash flow engines that are already in their maturity phase.

Adam Shine

Okay. Thank you for that, Rupert. And maybe just turning to David. With respect to some of the puts and takes as we try and compare the '16 guidance to the '15, obviously it's been alluded to a few time at PLM elevated distributions, but how should we look at, for example, Nectar Italia? Obviously there's a step down on gross billings, which had been scaling down quite a bit through 2015, but was Nectar Italia perhaps in a loss proposition which provides some relatively easier comparable? And anything that you can say with respect to the white label exercise with Chile as it relates to comparable guidance?

David Adams

Yeah. Adam, we talked a bit about this one the last quarter, right? The biggest single impact actually is in free cash flow, right, because we had a spike in redemptions, and Nectar Italia's program was wound down. So our free cash flow this year was negatively affected by some $15 million. And that I think—it won't recur, so clearly that's going to help us in 2016.

The other benefit from a free cash flow perspective is really the cost-saving actions that we've taken throughout the year. We've taken out $37 million worth of OpEx this year, and next year you're going to get the benefit of the full year of that cost savings. And as we've rationalized the business, including exiting from Chile amongst other things, that's going to be continuing. And

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we've talked about a continuing focus on operating cost efficiencies, which again you'll get the full year effect of that in 2017, right, as we affect that through this year.

So operating cost production ongoing to be able to continue to do that. And again, that nonrecurring nature of Nectar Italia, which is really going to be a first-half effect because there is some going to roll over into Q2 where we actually paid for those redemptions that occurred in the first quarter.

Operator

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

Drew McReynolds — RBC

Yes. Thanks very much. And just first, David, just wanted to say it's a real pleasure working with you. I think this may be your last call, so just wish you all the best ahead.

David Adams

Thanks, Drew. Thank you very much.

Drew McReynolds

And just a couple of big-picture questions, just following up on Adam's question for you, Rupert, just on strategic priorities just drilling in a little bit more. On the coalition front versus the platform business and then the data analytics piece, I think three or four years ago we, from where I sit, we're thinking we'd see a little bit more progress on the coalition front than what we've seen. Is

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this still a priority business for you and maybe above and beyond the US coalition just talk about potential other coalition opportunities globally? And then I have a couple others.

Rupert Duchesne

Sure. Look, I think as I said, we still regard coalitions and our unique expertise in that area as a highly valuable and leverageable asset. We have perhaps the longest experience of retail coalitions, and clearly we remain the leader in terms of travel-based coalitions and the sophistication needed to run them for broad membership base.

So you will see us over the course of the next three years continue to pursue new opportunities in coalition and not just that of the US. What I will say, however, is given, frankly, the really extraordinary run of bumpiness economically over the last four or five years where we haven't really seen a genuine recovery from the financial meltdown, we are being very conservative in terms of where we allocate the capital to a venture like this.

There have been many opportunities, including a number in the frequent flier space, which we just did not feel were appropriate risks to take and, therefore, you haven't seen quite the velocity that we might have hoped for three or four years ago in terms of coalition launch. But that doesn't in any way suggest that we don't intend to do this in the future because it really is leveraging off a really deep intellectual capital base.

And also we've spent a significant amount of capital on developing the platforms which are applicable to coalitions and just as much measure as they are for single retailer programs. So

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we've got a technology base now that we can leverage, scale, and get economies from by using that as the underpinning of new coalitions.

So quite a long answer, but I think it's a very important one to understand that we continue to regard that. And the analysis we did during the course of 2015 proved that this is a very appropriate place to deploy capital and has significantly attractive return.

Drew McReynolds

Okay. I appreciate that, Rupert. And if I can squeeze just one more in I guess for you, Dave. If you can just update us or me on the capital priorities here and just kind of weighing the balance sheet with dividends with the buyback? And the key part of this question is within the context of either putting away some of your balance sheet for future coalition, you've got the refinancing, which obviously you'll probably handle with cash for at least 2017, and then of course the backdrop on the agreement with Air Canada. Just trying to understand how conservative you want to be going into all of that in the background versus in the near term spending capital on a buyback or maintaining or increasing the dividend?

David Adams

Sure. There's a lot in there, Drew. Let me start with capital markets—or actually I'll start with capital spending because that's an easier one. We have grown capital spending quite a bit in the last little while, and it's gone into—you're starting to see the benefits of that roll out. We're talking about a new Aeroplan app. There's a new Nectar app.

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We're investing in our data analytics business, which is a world-class platform that needs to continue to be invested in to maintain its competitive advantage. And we are investing in the Aimia Loyalty Platform. And you see we are rolling our rewards; the first of our instance that we're using it will be in the Middle East as we put this on this year, and we're loading people like Avis, amongst others, on that platform.

So there's been a lot of investment that's had to occur. And the sad reality is it's been recurring concurrently, and we did have to pull some stuff forward last year to meet customer commitments. But as we've indicated in our guidance, you're seeing that bubble start to come down, and we do expect to see capital spending decline next year. But as we continue, though, with these products, I don't ever—my own personal opinion is is you're not going to return back to a 20 million or a $30 million capital model, right? It may continue to come down but there's going to continue to require investment in these products to maintain their competitiveness in what is a pretty competitive global market.

With respect to capital in the balance sheet, we do have a $200 million bond due in '17. And capital markets are challenging. We have and we indicated, as I did in my remarks, we're going to accumulate liquidity on the balance sheet to be able to deal with that repayment should we need to do so, which will maintain our availability under our line of credit should we need to access it to, for example, if we had to launch the US coalition program we'd be able to access that if necessary.

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So a strong balance sheet has always helped. It's served us well through the last recession and a whole variety of volatility and over the almost nine years that I've been here. And I think it will continue to do. So I don't think that you should expect to see any share buyback this year. But going forward, clearly we'll be opportunistic and we have demonstrated that when we build up surplus capital we will return that to shareholders if we don't have a good use to deploy it.

And I think the last question was around a dividend, and I said clearly our free cash flow guidance is—and our track record of delivering around $200 million worth of free cash flow for year-in and year-out, there's more than adequate free cash flow to continue to pay the dividends with a good margin for error.

And as is our policy, at the Annual Meeting in May the Board will evaluate as to whether or not a further increase to that is either necessary or appropriate at that time.

So I think the answer will be steady as she goes. I don't think you're going to see much change in our capital allocation policy.

Operator

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

Tim Casey — BMO

Thanks. A few questions. Just one clarification, should we expect any cash charges related to the exit out of Italy this year?

David Adams

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No, Tim. Yeah. It's pretty much done. There's only a few people left. Cash benefits, no redemptions, yeah. That's right, Dave.

Tim Casey

Okay. Just I wanted to follow up on the capital discussion. Yeah. You've got a bond return maturing in '17, but you've also got bonds maturing in '18 and '19. How are you going to address that in the context of the challenges that you've had and the looming renewal with Air Canada? It would seem to me the bond market would be wary to renew those debt instruments until there's some clarity at least on the Air Canada contract. Can you talk about how you're approaching that?

And then in a related question, on your enthusiasm to expand into coalition, when we look at the numbers as you've presented them, all the cash flow is still coming out of Canada. The non-Canadian operations don't even cover the corporate costs as you present them. So I mean isn't it time to retract that type of growth strategy, given some of these capital challenges that seem to be coming up over the next three or four years?

Rupert Duchesne

So let me take those in reverse. Firstly, the answer to your second question is no. The work we did during the course of last year demonstrated that it's still a very attractive return on capital to invest in those businesses. And notwithstanding the tough time that the UK economy has seen over the last couple of years, the Nectar asset is actually a very valuable asset that will contribute in the forward three years that we're looking at.

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The second answer is clearly capital markets right now, and debt capital markets in particular, are in a tough spot, and hence what Dave said about being sure that should we not be able to roll over the bond because of the capital markets situation generally we have the cash reserves to pay that. However, I don't see quite the concern that you're highlighting with respect to Air Canada renewal.

If you go back to the situation with the credit card contracts, which some of the more pessimistic analysts at the time suggested was an Armageddon situation where we could be left out in the cold, I think we clearly demonstrated that the value of that relationship with the card provider was an extremely important asset. And we really didn't have any problem there. And I look at the Air Canada renewal in 2020 in very similar light.

We have a very constructive, very mutually beneficial relationship, and I would expect that when we renew there'll be movements either way, but frankly we are mutually dependent on each other. And I really do not have a concern that that will affect. So we feel very comfortable. Obviously, we have just done our three-year plan. We feel very comfortable that we're actually on the conservative side with respect to our ability to deal with our laddered maturities that go through '17, '18, and '19.

David Adams

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Yeah. And, Tim, if you do your modelling—when you do your modelling and you look at your forward forecasts, if you assume that we repay the $200 million bond, you’ll note that we'll be well inside a BBB- rating.

And the profile at that time should easily allow for a rollover of the remaining bonds going forward. And underneath them, of course, is the $325 million worth of perpetual preferreds, which have no repayment obligation.

So I'm pretty confident that Aimia will be able to roll over that debt.

Rupert Duchesne

Tim, the other thing is I think you’re also ignoring the asset value we have in some of the ventures that we’ve undertaken. Cleary we have an extraordinarily successful business with our Club Premier investment where, as Dave said, we’ve just been through not only a substantial extension of the CPSA of the airline to 2030, but literally just launched new credit card relationships that look very similar in construct to those that we did in Canada a few years ago, as well as obviously our investment in Cardlytics, which both of these ventures have substantial capital upside for us.

And so we feel very comfortable overall in terms of our asset base versus the debt that we have in the marketplace.

Operator

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

Brian Morrison — TD Securities

Good morning. You've done a very good job on the cost savings to date, and Dave did a good job addressing the heightened CapEx in recent year. I'm just wondering with your heightened focus on cost control here what could a normalized rate of CapEx be and how much could you bring this down? Because there's obviously a significant ramp in 2013/'14.

David Adams

It's going to be very—Brian, it's really tough to say. Like we've given guidance over '16, but for example if we're really successful in actually acquiring new customers, for example, in the data analytics business or in the platform business there are initial capital requirements that are required to do some initial customization, right?

So some of it is going to be dependent on how successful we are in actually growing new clients because new clients drive new client—new clients drive new requirements because you need to drive new applications for those clients. But it won't go up from—I can't see it going up from the 2016 levels that we've guided to. It should go down.

Brian Morrison

Okay. That's helpful. And then, Rupert, on a high level—and you've been asked a lot of questions, I think, on this front—but clearly your share price hasn't traded on what would be

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considered typical valuation parameters. So you just mentioned the Air Canada contract; you seem quite confident on that. Has there been progress on that front? Or what from a high level do you feel needs to be accomplished here to rectify this share price?

Rupert Duchesne

Well, look, I think the most fundamentally important—and that's why we've talked about all of the changes we've made for the last year—is really sort of solid and predictable delivery of the assets that we're currently operating and those that we intend to retain.

I think as we roll through 2016 and you see the quarterly results come through and with very strong confidence in our ability to deliver at the operating level this year, I think that will help the market understand that these are really valuable assets, particularly as you just alluded to, in terms of the underlying free cash flow generation profile. And if you look at a free cash flow multiple, we are materially below what would be an appropriate valuation at this point. So I think there's quite a lot of upside here.

I also would go back to what I said before is we have unique intellectual capital. We have it obviously in our retail programs, in our data analytics business, but we also have it in the way we operate and manage the travel coalition of Aeroplan here in Canada. Unlike in the credit card situation, were we to enter negotiations or when we enter negotiations with Air Canada that will not be on the pages of a newspaper. That'll be a private discussion.

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But as I said earlier, I believe that we are very well positioned with the extraordinary strength of Aeroplan outside of the frequent flyer-related space to have a tough, but good negotiation with Air Canada at the time that we do that.

Operator

Again, if you'd like to ask a question, please press *, then 1 on your telephone keypad.

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

Robert Peters — Credit Suisse

Hi. Thanks very much for taking my question. I just wanted to say thanks as well to Dave for all your assistance over the year. It's been a pleasure working with you.

Just a quick question, and apologies if this has already been addressed. When we think about the cardholder acquisitions and we saw a strong improvement on the TD side in the fourth quarter, can you remind us how we should think about the ramp-up for cardholder spend for the new customers? I'm assuming we would expect a faster ramp than the initial acquisitions at TD in 2014. Or would they be around the same pace?

Rupert Duchesne

Typically the ramp-up takes sort of six to nine months. And there are two aspects there. Firstly, clearly a number of people who require credit cards still have an old credit card in their

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wallet which they have already paid a fee for, et cetera. So you tend for that overlap period to get split spend. Once the other card expires then you tend to get spend concentration pretty quickly.

So that process tends to take a few months for the card to become truly active and then concentrated. Thereafter, it really is a question of what the perception from the cardholder is of the program that they have joined. And that, for a high spender, as David pointed out in his remarks, the high spenders actually have a significant number of redemption experiences in a typical year. So they very quickly become satisfied with the product they've chosen, and that's what gets you to the maturity spend level.

Clearly the other aspect here is the construct of bundling where you have a customer who already has a relationship and is putting together a number of financial products. Our view is that that would accelerate somewhat the spend maturity profile.

So I think the short answer to your question is perhaps a little quicker than typical, and certainly perhaps materially quicker than we saw with the massive sign-ups in 2014. But still, these cards are going take a number of months to reach spend maturity.

The one fundamental difference as well from 2014 sign-ups is you'll remember that 2014 sign-ups was a combination of exactly the customers that we and TD expected to have, as well as, frankly, a very large number of customers who took advantage of either just the free miles or took the credit card, kept it in their wallet, didn't spend very much, and then when the year anniversary

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came up attrited. We do not expect to see that kind of behaviour from these sign-ups, so we expect these to be much more reliable and what I would call a typical Aeroplan credit cardholder.

So we think it's very encouraging the demonstrated capacity for card acquisitions by TD in the fourth quarter.

Operator

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

Drew McReynolds

Yeah. Thanks very much for squeezing another one in here. Just on the margin side there's—you gave good guidance, which is appreciative, and obviously came in with your guidance in 2015. Just as we look out over the medium term—and it's really more of a modelling question here—lots of moving parts that you've covered off this morning. I'm just wondering if there's any kind of blue sky target you're willing to throw out there? And if not, just what are the real key deltas, the two or three deltas that we should be looking on to see where margins could go from here?

Rupert Duchesne

Well, look, clearly we have a slightly better crystal ball than you do because we've just done our budget. But all joking aside, one of the critical drivers of margin is clearly the earn/burn ratio in Canada. That's always been absolutely critical. With slightly difficult economic times ahead of us, which as I said we've incorporated into our guidance, we typically see changes in redemption

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behaviour, et cetera, but predicting those with absolute precision is a little tough. But we're very confident of the ability to get margins above the 9 percent level that we've described.

The other factor, of course, is foreign exchange. And we've seen extraordinary volatility of that in the last 12 months with respect to the Canadian dollar. As I said earlier, we've based our outlook for the year on current levels, but we've also got the issue of what may or may not happen with the UK and bracks (phon) there. So foreign exchange could affect the margin and has obviously done so during the course of 2015.

Drew McReynolds

Thank you.

Operator

There are no further questions at this time. Presenters, I turn the call back to you.

Rupert Duchesne

Okay. Thank you very much. Look, over the last three years and particularly in the last 12 months we've undertaken a really significant transformation.

Major improvements in each of our core businesses obviously started with the new financial card deal in 2013, but has really progressed with taking each of those businesses to a new level in terms of sophistication, digitization, and consumer appeal. We've also reorganized our structure to be more efficient, and this coming year is really about capitalizing on that very hard work.

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We've got stable and growing assets. They've proven in the past to be very resilient to economic softness, and I feel very comfortable with where we sit at the beginning of what is, I think, globally going to be quite a bumpy year.

In closing, I'd like to say thank you to a number of people who have provided extraordinary service to Aimia: Mark Hounsell and Eric Monteiro, who are both leaving at the end of this month, and of course to Dave Adams. We've reported together through 30-odd quarters. It has been a huge pleasure, and we have been through many, many things since you joined us in 2007.

We have what I think is an extraordinarily strong balance sheet, and that's a testament to your strategic thinking in that regard. We wish you all of the best in your retirement.

For the rest of you on the call today, we look forward to introducing you to our CFO, Tor Lønnum. He will be with us when we report our first quarter results and hold our AGM on May the 13th.

Look forward to speaking to many of you over the coming days and to addressing you again on the 13th.

Thank you.

Operator

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

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