Aimia Inc.

Aimia sale of Nectar and related businesses

Event Date/Time: February 1, 2018 – 8:30 a.m. E.T.

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FINAL TRANSCRIPT

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Length: 32 minutes

CORPORATE PARTICIPANTS

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

David Johnston
Aimia Inc. – Group Chief Executive

Mark Grafton
Aimia Inc. – Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Tim Casey
BMO Capital Markets – Analyst

Kenric Tyghe
Raymond James – Analyst

Brian Morrison
TD Securities – Analyst

Christopher Mittleman
Mittleman Brothers – Analyst

PRESENTATION

Operator

Good morning. My name is Jessa and I will be your conference operator today. At this time, I would like to welcome everyone to the Aimia Update Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press star, then the number one on your telephone keypad. If you would like to withdraw your question, please press the pound key.

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

Karen Keyes – Head of Investor Relations, Aimia Inc.

Thank you very much, Jessa, and thank you to all of you for joining this morning on short notice. We are aiming to only take around 30 minutes of your time this morning, but we'd like to be able to answer some of your questions.

With me on the call today are David Johnston, our Chief Executive; Mark Grafton, our Chief Financial Officer. I'm going to hand it over in a moment to David for some opening comments about the transactions, and Mark will speak briefly to the credit facility amendment filed today on SEDAR, and then we'll take your questions.

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. These are on Page 3 of today's deck which you should be able to find on our website.

The businesses being sold today will be reported as Discontinued Operations for the year ended December 31, 2017. When we report later this month, we'll be giving you a clear view of the shape of the continuing operation and the relevant comparable numbers to help you build your model.

Today is really about giving you a chance to ask questions about the transaction and the credit facility amendment. Given we're in a quiet period, we are restricted in terms of being able to answer questions about the broader business, particularly as it related to 2017 results and 2018 guidance, so we please ask you to hold those questions for our call on February 15th when they can be put in the context of audited financials on a new divisional basis.

With that, I'll hand it over to David.

David Johnston – Group Chief Executive, Aimia Inc.

Thanks, Karen, and thank you everyone for joining us this morning. I wanted to briefly address how we got to today's announcement and what it means for Aimia. Let me start with a bit of context.

Profitable growth at Nectar has always been based on our ability to add new partners. Coalitions need to evolve with collectors changing purchasing preferences, and we made progress in this front in recent years with the addition of partners like eBay, Virgin Trains, and more recently, The Daily Mail. However, in the period since Sainsbury's joined as a founding partner in 2002, we also saw our largest accumulation in redemption partner of all. Over those years, Sainsbury's has become a much broader retailer in their own right. They expanded into convenience, now selling more clothing and financial services, and the acquisition of Argos last year extended their general merchandise offering. With these changes, they essentially started to look more like a coalition as they sought to differentiate in a highly competitive retail landscape.

In a prolonged period of fierce grocery competition, cutting costs has also become important: you have seen initiatives that Sainsbury's has taken on that front with more action to reduce costs announced in the last few weeks. Although they continue to prioritize knowing their customers better than anyone else, being able to do that more cost efficiently has certainly been one of the asks, one that in fact led the shifting of the balance between base and bonus points issuance that we saw in 2015.

These developments over a long period provide an important context for today's announcement. The Sainsbury's changes combined with the exit of British Gas and the choices made by Homebase's new management in 2016 meant that our prospects to add new partners of scale beyond the existing base became more limited. This left us with fewer options to generate additional value for our company, as well as for collectors, and still meet Sainsbury's strategic priorities. For those reasons, we mutually agreed to pursue a sale.

We determined that selling the Nectar program and related analytics businesses to Sainsbury's at this juncture was the optimal risk adjusted outcome ahead of 2019. Importantly, the outcome we've reached will also secure a seamless transition for collectors as well as for employees, around 300 of whom will transfer to Sainsbury's under the terms of the deal.

As you will have seen from our press release, Sainsbury's will acquire the Nectar program and the brand, as well as our 50 percent stake in i2c and the related analytics businesses in the U.K. which support the Sainsbury's business for a gross consideration of around $105 million. This will be offset by $183 million of cash, providing coverage against the large outstanding points liability, which, as you know, has a highly liquid redemption mechanic. That liability is now off our balance sheet, having transferred to Sainsbury's as part of the transaction. Redemptions in our retail coalition are always by their nature more liquid than in a travel coalition and the sale frees up the cash that we had to reserve under the Sainsbury's contract to protect against that eventuality.

The final element to touch on is the working capital component. Cash related to points issuance in October and November will be in Aimia's cash number for the quarter, which we'll report in a couple of weeks. However, the cash outflow for redemption activity is normally paid in January; the working capital adjustment paid to Sainsbury's is largely cash related to that December activity. Our analytics business outside the U.K. and our Middle East businesses are not part of the transaction and will be managed as part of our Insights & Loyalty Solutions division going forward.

Finally, in connection with the transaction, we agreed to certain amendments to our credit facility, which I'll ask Mark to speak to in a minute.

What we're announcing today is consistent with the priorities we set out in May of last year: progressing key strategic and commercial partnerships for Aeroplan, ongoing business simplification and acceleration of cost savings, and preserving a strong cash and liquidity position. Let me touch briefly on each of those.

For Aimia, today's news will provide a sharper focus on the opportunities and potential of Aeroplan and free up more Management time to do this. Remember that Aeroplan is a profitable business; in the first nine months of the year, Aeroplan generated a billion dollars of gross billings, and over $200 million of Adjusted EBITDA. We have the strong Aeroplan asset to build on, which is based on a powerful brand and a five million strong membership base.

We'll come back more on the costs at the quarter end disclosure, but as we've guided to you previously, our headcount was down to around 2,000 at the end of December. We expect the cumulative impact of the previously planned reductions and the transfer of employees associated with today's announcement to take our employee headcount figure down a further 400, to around 1,600 by the end of the first quarter.

Finally, in conjunction with the deal, we've removed the redemption liability from the balance sheet and reduced overall debt.

Let me hand you over to Mark to take you through that part of today's announcement.

Mark Grafton – Chief Financial Officer, Aimia Inc.

Thanks, David. As many of you will have seen, we announced changes to certain provisions of the agreement for our outstanding credit facility today. Those of you who have read our credit agreement will recall that this transaction required the unanimous consent of the lending syndicate. The changes we have announced today are in the context of obtaining that consent.

We have repaid $100 million of the drawn amount outstanding, reducing our debt levels. We have also reduced the overall size of the facility to $208 million with lower leverage covenants aligned to the new shape of the business post disposal.

The interest rate we will pay on the debt will increase modestly, while the reduction in the drawn amount, $208 million, will contribute to lower interest expense. We expect our cash generation ahead of 2020 to support further repayments of the remaining drawn amount.

We had already adopted a conservative approach to liquidity and acquisitions, and so we don't anticipate the revised covenants and restrictions to be highly constraining, and while we had already stopped paying dividends due to the CBCA capital impairment test, we will have additional restrictions on doing so whilst the credit facility is in place.

The net impact of the transaction and the debt repayment will result in a reduction in the $670 million of cash and cash equivalents we had at the end of September, but with $208 million less of our remaining cash tied up in Nectar reserves based on 30 September amount, we will now be in a position to focus much of the remaining cash on the Aeroplan business.

Overall, on a pro forma basis as at September 30, our financial position remains robust. We have close to $400 million of cash and cash equivalents, combined with equity investments which have a book value of more than $200 million, and that ahead of reporting what is typically our most cash-generative quarter, which we will do in a few weeks' time.

Let me hand you back to David for a brief conclusion.

David Johnston – Group Chief Executive, Aimia Inc.

All right, thanks, Mark. Our decision to sell Nectar to Sainsbury's was the right risk adjusted outcome for all of our stakeholders. We'll be talking again in two weeks. At that point, we'll give you more colour around Q4 performance and how we see 2018 unfolding.

Through the course of 2018, we'll also look forward to sharing more insight into our Aeroplan strategy well beyond 2020. In the meantime, we know that continued execution against the cost reduction and balance sheet priorities we have articulated is essential. We look forward to updating you on our progress there in a couple of weeks' time as well.

With that, I'll open the line for any questions.

Q & A

Operator

At this time, if you would like to ask a question, please press star, followed by the one on your telephone keypad. Please limit your questions to one question and one follow-up question before re-entering the Q&A queue.

Your first question comes from the line of Tim Casey. Please go ahead.

Tim Casey – Analyst, BMO Capital Markets

Thanks. Could you tell us how much Nectar represented of the redemption reserve of $2.3 billion on the sheet, how much that'll come down with this transaction? How much did Nectar represent of your nine-month Adjusted EBITDA?

David Johnston – Group Chief Executive, Aimia Inc.

Mark?

Mark Grafton – Chief Financial Officer, Aimia Inc.

Yes, let me tackle the reserve question first. As at 30 September, the future redemption liability relating to the Nectar program was in the region of $230 million.

In terms of the Adjusted EBITDA in nine months, that's not broken out specifically. The Nectar program does account for the most significant part of the international coalitions division, and if you take a look at the Loyalty unit billings number, within that segment, we have the Nectar program and the Middle East program. As you'd expect, the Nectar program is by far and away the biggest proportion of that.

Tim Casey – Analyst, BMO Capital Markets

You can't comment on profit contribution or EBITDA contribution?

Mark Grafton – Chief Financial Officer, Aimia Inc.

When we report the Q4 numbers in a couple weeks' time, we'll be showing the businesses that we disposed of within discontinued operations, so there'll be full visibility on that then.

Tim Casey – Analyst, BMO Capital Markets

Thank you.

Operator

Again, if you would like to ask a question, please press star, followed by the number one on your telephone keypad.

Your next question comes from the line of Kenric Tyghe. Please go ahead.

Kenric Tyghe – Analyst, Raymond James

Thank you and good morning. David, recognizing that the market multiple on loyalty programs has compressed in the last decade, still trying to reconcile your commentary with respect to mutually agreed and optimal risk adjusted outcomes, with the reality is this was the business a decade ago there was a quiet for, as I recall, the better part of 13 times EBITDA and roughly $755 million. Yet today, the proceeds on this or the like will be on a multiple by my rough math, let's call it in the low single digits. Could you just help me reconcile what I'm missing that this outcome is the optimal risk adjusted outcome for the Company?

David Johnston – Group Chief Executive, Aimia Inc.

Obviously Kenric, I wouldn't get into the details of the commercial negotiations, but I would say that in arriving at our decision, obviously the context of this deal and the context that I highlighted in my remarks was very important. The growth of Sainsbury's both from the accumulation and redemption side, as well as their increased breadth of their offering has at times made it challenging to add new partners. Through our discussions with Sainsbury's ahead of the expiry of the current contract 2019, we concluded that today's transaction was the best risk adjusted outcome for all stakeholders. I will say that, clearly, we evaluated the market thoroughly and we evaluated a number of different alternative

courses of action and our analysis was very clear that this was the right way to go, but I wouldn't comment specifically on the price.

I'll say a couple of other things, though. By doing this deal, we've achieved $105 million in consideration. We've removed the pretty significant and pretty liquid redemption liability from the balance sheet. We retain ownership of our next-generation AIP platform, and it enables even greater management focus on Aeroplan, which is our most profitable business.

I'd also say that over the years that we've owned Nectar, we've had 10 years of Adjusted EBITDA and free cash flow in that business. We sold the AMIT royalty business license for $54 million last year, and we still retain parts of that original acquisition, including, for example, the Middle East business.

Kenric Tyghe – Analyst, Raymond James

Thanks very much. I'll leave it there.

Operator

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

Brian Morrison – Analyst, TD Securities

Good morning, just a couple quick questions if I can. Can you just comment on what specific redemption reserve at Aeroplan will remain after this announcement? Will it still be close to $300 million?

Mark Grafton – Chief Financial Officer, Aimia Inc.

Yes, I think that's what we—the main liquidity that we will be maintaining on the balance sheet under the terms of the credit agreement is the $300 million right now, based upon the levels of debt that we have drawn down, so we don't really see any significant change in that.

Brian Morrison – Analyst, TD Securities

Okay. Then with respect to the $70 million in targeted savings by 2019, does this announcement have any update with respect to the savings you anticipate from Continuing Operations in terms of those targeted savings?

Mark Grafton – Chief Financial Officer, Aimia Inc.

I think we'll come back and give you more colour on those numbers in a couple weeks' time, as we said, when we've got the audited financials. Obviously, when we identified the $70 million target by 2019, some of that $70 million savings would have taken place in the businesses that are today for sale, but on the other hand, this is further simplification which should itself allow for other cost savings. We'll tie that together for you in a couple of weeks' time when we can present the numbers.

Brian Morrison – Analyst, TD Securities

Okay, but some of those savings do relate to these businesses?

Mark Grafton – Chief Financial Officer, Aimia Inc.

Some of what was in the $70 million did relate to these businesses, yes, that's correct.

Brian Morrison – Analyst, TD Securities

Correct. Do you mind if I ask one more question?

Mark Grafton – Chief Financial Officer, Aimia Inc.

Sure.

Brian Morrison – Analyst, TD Securities

With respect to—this is unrelated, though. With respect to your carrying value of your equity investments, and you've alluded to that, I understand that—I believe that your long-term investments, excluding—I'm sorry, the disclosure you have with respect to the $395 million in cash. That excludes the $184 million with respect to corporate bonds, correct?

Mark Grafton – Chief Financial Officer, Aimia Inc.

No. The cash and cash equivalents number that we disclosed on Slide 11 includes all of that. What Slide 11 doesn't include is the equity investments in the lines of Cardlytics and PLM, which we illustrate on Slide 12.

Brian Morrison – Analyst, TD Securities

Okay, my mistake. Then with respect to the adjusted S-1 that's been put out for Cardlytics, will there have to be a write-down that takes place with respect to the carrying value versus the actual market value?

Mark Grafton – Chief Financial Officer, Aimia Inc.

Look, I think it'd be premature to comment today on anything connected to the Cardlytics process. As you know, they've filed the preliminary S-1; we wish them well. I wouldn't—it would be a bit premature at this point to comment on that.

Operator

Your next question comes from the line of Chris Mittleman. Please go ahead.

Christopher Mittleman – Analyst, Mittleman Brothers, LLC

Hi guys, trying to understand the benefits of this transaction for Aimia shareholders because it's a little bit difficult to see that at the moment. This is a cash-generative business, I believe. I don't know exactly how much it was responsible in the International Coalitions segment, but as you said, I think it was the vast majority of that.

As I understand it, even though it was a lower margin business for you guys, it was still a cash-generative business. I'm just wondering conceptually, I understand you're saying that there wasn't much of a growth opportunity going forward for this business, but if it's a cash-generative business, to basically pay money to someone else to take that away from you—it's hard for me to understand.

When this business was bought in 2007, 10 years ago, Aeroplan paid some CAD$700 million to the owners of LMG and I don't recall a reciprocal exchange in value coming back. It's not like they paid to take the business—the same kind of dynamic wasn't in effect back then. I'm just really confused by the rationale here to realize this. I mean, the multiple of EBITDA and the multiple of free cash flow, it's hard. It's hard to understand. Could you just give me a sense of how much free cash flow will be basically going away as a result of this transaction?

David Johnston – Group Chief Executive, Aimia Inc.

Chris, there's two broad points for that question, the bit you characterized as conceptually, help me understand, and then there's the specific on the numbers. On the specifics, on the numbers, as we've said, we'll come back to provide more detail on that with our Q4 financials, so we won't answer that bit of the question today.

But on the first part of the question, and this may be slightly repetitive, but I'm going to say three things. First of all, the context within which that decision was taken—as I've said, Sainsbury's have

grown materially, both on the accumulation and redemption side, with an increased breadth of offering that at times made it challenging for Nectar to add new partners. In fact, we lost a couple of partners, not related to Sainsbury's but we have lost a couple of partners over the last couple years.

As we sat down with Sainsbury's and talked about 2019 and beyond, as we understood more about their views in that context, we did a lot of analysis on what would be the right outcome. Our determination is, and I'm very confident in the arithmetic behind it, that this was the best risk adjusted outcome for all of our stakeholders. As you would expect, we did that analysis internally and we sought external advice for the Board on that as well.

Point one is context. Point two is, again I'll go back to what we've achieved with the deal, which we get $105 million consideration. We've removed a pretty liquid liability from the balance sheet, we retain ownership of the AIP Analytics program, and we get to focus more time, capital, etc. on Aeroplan, which is by far our most profitable business.

On one point of detail, I think, Mark, just comment on the mechanics of the previous transaction because I think that actually the redemption reserve did transfer with that transaction.

Mark Grafton – Chief Financial Officer, Aimia Inc.

It did. Yes, the mechanics around the cash and the redemption reserve from 2007 pretty much mirror what's happened today. When the business was acquired, it came with $200 million of cash and then equivalent size redemption reserve, and today, the cash has transferred with business equivalent to the redemption reserve. Those two things are mirror images of each other.

Christopher Mittleman – Analyst, Mittleman Brothers, LLC

Okay. In terms of advice, I think you said that you were advised by, I think it was RBC. Was this a Board vote that had to be unanimous or how did that go? Or was the Board not even required to vote on this?

David Johnston – Group Chief Executive, Aimia Inc.

Well, of course we have Board approval for the transaction and Board approval was required. I don't think it's appropriate to get into the details of that, but on any transaction of this nature, not only would approval for the transaction we sought, but we've obviously been talking to the Board for some time about the options.

Christopher Mittleman – Analyst, Mittleman Brothers, LLC

Okay. RBC, was that the same investment bank that advised on the Air Miles royalty sale?

David Johnston – Group Chief Executive, Aimia Inc.

We didn't disclose at the time who our advisors were on that transaction, so I'm not going to do that now. But RBC did advise us on this Nectar transaction, and they've supported us on a number of other transactions throughout our history. But we didn't disclose specifically AMIT.

Christopher Mittleman – Analyst, Mittleman Brothers, LLC

Okay. Thank you very much.

Operator

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

David Johnston – Group Chief Executive, Aimia Inc.

Okay, thank you very much. I think in closing, the final thing that I really want to do is just thank all of our employees, and in particular the employees of Nectar, i2c and the other businesses who leave us as part of this transaction today for their continuing efforts and their ongoing commitment.

Thank you all for joining us today, and I look forward to catching up with you all again in just a couple of weeks' time as we talk through our Q4 results.

Operator

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