AIMIA INC.

FOURTH QUARTER 2017

RESULTS CONFERENCE CALL

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FINAL TRANSCRIPT

Aimia Inc.

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PRESENTATION

Operator

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

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

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

Karen Keyes — Head of Investor Relations, Aimia Inc.

Thank you very much, Lisa. Good morning to everyone attending on the phone and the webcast this morning. With me on the call today are David Johnston, our Chief Executive; Mark Grafton, our Chief Financial Officer; and Steve Leonard, Vice President and Chief Accounting Officer.

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. For those of you following along with us on the webcast, you should see these on the screen in front of you now. For those of you accessing the presentation which can be downloaded on the website, these can be found on Page 3 of the Q4 highlights presentation.

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. The definitions of these and the reconciliation to their most comparable GAAP metric can be found on Page 5. We've also included a full income statement, which can be found on Page 6, and a reconciliation of our return on invested capital metric on Page 7.

Our initial comments today are going to focus on how 2017 ended against the guidance we gave to you last year, which has been laid out for you on Slide 8. And our numbers for Q4 have been reported on the basis of the new divisional structure effective from the beginning of October. The two businesses sold two weeks ago are now being treated as discontinued operations. The main part of the deck will be on that basis.

In addition to Slide 8, to walk you through the two sets of numbers at a high level, we've also provided Slides 10, 65, 66 in the back of the deck to help you build models. We'll be happy to help support you through that process, so please don't hesitate to reach out to us.

As you can see from the agenda slide, today's presentation is structured into three sections, with the first covering the update on strategy and the high-level view of the quarter, including a recap of some of the takeaways from the Nectar sale announcement; Mark will take you through the detail of the financial and operational highlights; and David will come back to what you can expect to see from us in 2018. We'll aim to wrap up remarks in around 25 minutes to leave time for questions.

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

David Johnston — Chief Executive, Aimia Inc.

Thanks, Karen. Morning, everyone. Despite the challenges that 2017 brought, our team has stayed focused on execution and delivered to our guidance.

We delivered gross billings of around 2.1 billion, adjusted EBITDA margin of 14.1 percent, and free cash flow of $227 million. Lower OpEx, solid billings performance in Aeroplan, and manageable redemption levels have helped us deliver our 2017 free cash flow guidance.

For the fourth quarter, this meant billings at $566 million, adjusted EBITDA margin was 16.5 percent, and free cash flow was $119 million, underpinned by our actions to reduce CapEx and take costs out of the business.

However, we know that shareholder questions go well beyond the current performance. So following the news in May, we set out three clear priorities: Number one, progressing our strategic and commercial partnerships discussions and a broader, more differentiated Aeroplan member offering; number two, ongoing business simplification and acceleration of our cost savings; and preserving a strong cash liquidity position on the balance sheet. So let’s talk first about what we’ve achieved there.

With the Nectar transaction announced two weeks ago, we have further simplified the business. Through 2017, we actually exited three other investments in businesses, namely U.S. Channel & Employee Loyalty, the New Zealand rewards fulfillment, and the Canadian Air Miles trademark. Those were in addition to the sale of Enhancement Services in late 2016.

This in turn has meant we're now much more focused on our flag ship Aeroplan program, which sits within the Coalitions businesses generating a margin of close to 18 percent in 2017 on gross billings of 1.3 billion.

Our total operating expenses ended the year down around 16 percent as we exited businesses and accelerated cost savings.

And finally, we've preserved a strong balance sheet. Since November 2016, we've cut our debt levels to $358 million from 650 million, supported by strong Q4 cash generation. We ended the year with around $0.5 billion in cash and bond investments, and importantly, around $200 million less cash tied up in reserves.

Salaries are the single-largest driver of cost in this business. And as we made decisions about what businesses to exit and how to drive cost efficiency over the last two years, we've reduced headcount to around 2,000 at the end of December. And that's from close to 3,200 at the end of 2015.

About 300 people left the business with the Nectar transaction this month, and that along with some previously planned exits, will take headcount down to about 1,600 by the end of March.

In the businesses we retain, we see a margin improvement of almost 400 basis points, increasing to 14 percent from 10 percent in 2016 as we've removed layers from the organization. We expect margin to improve further in 2018 because we've got leaner corporate functions and savings targeted at technology and delivery spend in the Insights and Loyalty Solutions business.

Last year, we set ourselves a target of $70 million of annualized savings to achieve by 2019. Notwithstanding our exit from the Nectar business, we are maintaining today our commitment to that $70 million target.

I want to come back just for a minute to the Nectar transaction because there may be some of you who didn't the chance to join the previous call a couple of weeks ago.

Nectar was a strong brand and defined what a retail coalition could look like. And the asset we acquired in 2007 generated 10 years of very solid margin and free cash flow. As you can see from the discontinued operations results, we reported around $430 million of billings and a 13 percent margin, which translated into $50 million of free cash in 2017.

However, with the Sainsbury's contract expiring in 2019, there was limited runway to grow and drive profitability, and that factored into our view. Our view was also influenced by a context in which the grocery market had become more competitive, and our largest anchor partner had become an even more significant player within the program, given their expansion into areas like clothing, and most recently, their acquisition of the general merchandise player Argos. And this had also made it harder for us to acquire new partners at scale.

The other factor we had to consider was the redemption liability, which as you will see, is much more liquid in a retail program than it is in a travel coalition, and hence requires a greater degree of cash coverage.

The redemption dynamics between a retail and travel coalition are very different, particularly in terms of the length of time it takes for you to accumulate enough points or miles for a reward. As you can see, while you can quickly redeem in £2.50 increments at the Sainsbury's till with Nectar, it's a significantly longer cycle for Aeroplan, where saving for a trip takes a lot of planning and coordination. And even a gift card will require you to collect the equivalent of $25 in miles. A one-way flight is around twice that.

The Nectar deal was, in our view, the best risk-adjusted outcome, crystallizing the liability at a point in time, freeing up management time to focus on the future of Aeroplan, which has more attractive characteristics as a travel-based coalition and with a diversified partner base.

So let me shift to a few points around Aeroplan redemption in the quarter before I hand it over to Mark. Aeroplan redemptions were up 7 percent in the last two quarters of the year when compared to last year with the fourth quarter up against low redemptions in 2016, particularly in non-air.

We also had stronger market-fare flight reward redemptions this year, partly driven by the availability of attractive fares, as actually airline fares have moved lower in the market through 2017.

Burn/earn for this year was 88 percent. Importantly, more existing members were accumulating in the fourth quarter than at the same time last year, and members who redeemed were re-engaging post-redemption at similar rates to the same quarter last year. And that's reflected in the next chart.

Healthy accumulation meant that members are not churning their overall mileage balances at a faster rate than they were in the past, and the overall redemption liability has not materially changed. We had the benefit of lower unit costs due to mix shift, which meant that despite higher volumes unit costs fell. Redemption expense ended the year up nearly 4 percent, or around $34 million higher on a total expense of over $800 million.

Now I'll come back to what to expect in 2018, but before I do I'm going to hand you over to Mark, and he's going to go through the new divisional structure and more details around Q4.

Mark Graton — Chief Financial Officer, Aimia Inc.

Thanks, David. There's a lot to cover today with a shift to a new reporting structure, so I thought it might be helpful to distill down the three main highlights today before I dive into the detail.

Once you get through the noise created by the disposals in 2016 and 2017, our two main divisions collectively generated around $1.6 billion of gross billings at a margin of around 14 percent. We reported a broadly stable top line in the fourth quarter and can see a path to better margin with operating expenses coming down as we execute on the $70 million of cost savings we announced previously.

And our cash and bond investments, after accounting for the impact of the Nectar transaction and the related $100 million debt repayments, were around $0.5 billion.

So let me go through each of those elements now. The changes to our divisional structure were effective from the fourth quarter of 2017. With the announcement of the Nectar sale, the

Coalitions business now primarily comprises the results for Aeroplan, our Canadian rewards business, and the distributions from our Mexican investment. The Nectar business is now being reported as a discontinued operation.

The Insights and Loyalty Solutions division accounted for around 17 percent of gross billings. It includes all of our other businesses, where we largely run third-party loyalty programs and provide analytical platforms and services to clients. Our Middle East coalition and proprietary loyalty businesses continue to be operated under a single cost structure, and they fall in this division.

Further to the sale of the Nectar business, costs for certain remaining activities in the UK will be absorbed in the Coalitions division.

We have also allocated our corporate costs across the divisions for both 2016 and 2017, providing a clearer view of the differing divisional margin structure. The main change here is the inclusion of our product development activities within the ILS division.

The 2017 base adjusted EBITDA margin for Insights and Loyalty Solutions was minus 6 percent in 2017, which included the release of Middle East contingent consideration. We still have work to do here, but the framework for significant cost transformation is in place, and we expect margins in the Insights and Loyalty Solutions division to increase from the 2017 base.

Further to the Nectar sale, Aeroplan now represents over 80 percent of the gross billings of the Company at around $1.3 billion for the year. It also accounts for most of the $240 million of adjusted EBITDA delivered in the Coalitions division.

Aeroplan gross billings and redemption trends will continue to be the key in understanding the margin and cash profile of the business overall, and we will put a little more emphasis on that in our commentary and guidance today.

So let me turn to gross billings in Q4. Overall, gross billings across the two main divisions were stable in Q4. Within Coalitions, the impact of outsourcing the fulfillment of gift cards, which resulted in a net revenue accounting treatment, masked growth at Aeroplan, while high reward fulfillment drove 6 percent constant currency growth in Insights and Loyalty Solutions.

At Aeroplan, gross billings were up 2 percent despite low financial card promotional miles issuance, as mix drove higher yield. Our mixed conversion campaigns and Air Canada capacity growth were the main drivers, along with good retail growth has totally performed well against a tough comp. Costco also had a bonusing campaign in the quarter.

Financial card gross billings were up, again driven by AMEX, with more modest growth at TD and CIBC.

While the active average financial card base was up 4 percent for the year, improved attrition offset by slower acquisition took the year-end financial card numbers slightly below last year, although purchase volume was up in the quarter.

David already covered redemption costs and operating costs at a high-level, but I thought it would help to show you how operating costs are trending in the Coalitions and ILS divisions.

Operating expenses were down around 16 million, with the bulk of that being a $19 million improvement in Q4, with around $8 million of that related to one-off costs.

The reversal of the contingent consideration in relation to our acquisition of the noncontrolling interest in the Middle East business was a one-off that helped deliver an improvement in operating expense in the division, despite costs previously capitalized being recorded as operating expenditure in 2017.

In the Coalitions division, lower Aeroplan marketing expense also drove some one-off savings, which we do not expect to repeat next year. The remainder related to overachievement against our targeted $9 million of cost savings, which will clearly help underpin margin in 2018.

The improvement in the Coalitions adjusted EBITDA was the main contributor to improved margin in 2017, with the Insights and Loyalty Solutions division broadly flat as lower gross margin was offset by lower operating expenses.

The contribution from the Aeroplan program was a result of higher gross billings and lower unit cost driving fourth quarter and full year adjusted EBITDA. Lower share-based compensation also contributed.

Also included in Coalitions adjusted EBITDA was slightly lower Club Premier distributions, which affected currency movements as the business continues to perform well, adding to its member base and improving margin in 2017.

Cash conversion in the continuing operations was 77 percent, with $146 million of cash generated in the year. We paid $13 million of cash taxes in 2017, with around $6 million of that included in discontinued operations.

Interest expense in the second half of the year reflected some step up in rates, but net interest expense at around $26 million was lower than last year, primarily as a result of lower debt levels.

CapEx spend ended below our guidance, and was significantly down on the prior year. Total capital expenditure was around $43 million in 2017, with $38 million of the spend in the continuing business. CapEx in the businesses sold to Sainsbury's was running at around $5 million to $6 million.

Finally, the positive contribution from working capital and other was above last year. The impact of the onerous contract provision recorded in Q2 and which will be paid out over several years is reflected here.

Year-end cash was $780 million, including strong Q4 free cash flow at $114 million on a post-severance basis. The net impact of the Nectar transaction reduced that by around $174 million, while debt repayment of $100 million against our credit facility took pro forma cash to $506 million.

We also had around $100 million of equity and equity-accounted investments based upon current book values. This includes 2.9 million shares in Cardlytics. Our investment there was mark-to-market further to its IPO last week based on a share price of around $13 as it issued into a tough market. You'll have seen the shares trading higher this week, with a high to date in the $19 to $20 range, which would add around C$20 million to the valuation.

Since 2016, we have reduced debt levels by $300 million, and continue to maintain leverage below 2 times, remaining well within our covenants.

We are maintaining cash reserves of around $300 million to $350 million to satisfy our minimum liquidity covenant under our credit facility agreement, leaving remaining cash at around $150 million to $200 million prior to free cash flow generation in 2018. That cash provides financial flexibility ahead of our 2019 bond maturity, remembering that the minimum liquidity covenant reduces dollar-for-dollar for any debt that we repay.

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

David Johnston

All right. Look, I'll actually start here with the ILS business. As we reflect on our priorities, the ongoing transformation of ILS, which is our loyalty services business, remains important in improving our consolidated margin and cash flow profile. So let me talk about what we're doing here.

The geographic footprint of the business is a real differentiator that helps us serve top-tier brands, providing consistency across markets. And partnering with CMOs is helping us shift to a recurring revenue model where we bundle SaaS products and professional services together in a simple, standardized model that is very scalable.

We're focused on growing the business while executing against our previously planned and targeted cost reductions. Margin was down in 2017 as we expensed previously capitalized costs, but we'll no longer be cycling that impact in 2018, and investment requirements have naturally reduced with the maturing of our product set.

CapEx investment in AIP, our next-generation insight platform—which by the way launched to our first real-life client, ICA, in January—and that CapEx investment will reduce in 2018 with the completion of the core product. And we expect other clients to transition to AIP through 2018.

Finalizing plans with clients to migrate them off the expensive legacy technology will reduce our delivery and technology costs, while further cost reductions in our operating model is in progress with the consolidation and offshoring of operations to low-cost delivery centres. That approach will move the business towards stronger and attractive margins.

But now let me turn to Aeroplan. Air Canada's decision in May certainly made this a challenging year. However, I'm excited by the Aeroplan strategy work that's underway internally, and we're going to talk more about that through 2018. That work is grounded in a deep understanding of our members' needs with consumers wanting broader choice, an evolving mobile experience, and rewards that are distinctive and localized. We'll pivot from just points bookings to tailored experiences that evolve and reflect what members do with their leisure time, both at home and when they travel.

Even before May, obviously we were looking to evolve Aeroplan, and we were speaking to the existing and potential partners about some of the ways that we were going to make that happen. New long-term commercial and strategic relationships are now even more important to our post-2020 revenue diversification and margin, and we continue to pursue those discussions.

Aeroplan has important strengths, assets, and capabilities that we bring to bear, not least the analytics we have around the member, our knowledge of the premium traveler, and the significant purchasing power associated with our outstanding points liability. You should expect to see the Aeroplan beyond 2020 aimed at the Canadians who engage most with us today: premium members who travel less frequently and for leisure rather than business.

More choice around flights will be important in the offering for the higher-value, multi-airline reward offering for domestic, transporter, and international travel, but you'll see a further extension of the core member experience beyond flights.

Our technology investments will be focused on making it easier and more convenient to interact with us as we move away from an Air Canada and Star-only flight offer, expand our car rental and hotel offer, and offer members a simpler customer experience and more integrated pricing.

You'll see us making some of the CapEx choices to enable us in 2018 with a more distinctive and convenient mobile platform. We have the data and analytics to deliver a service that enables personalized decision-making in real time with local relevancy.

Improvements in our hotel offer and more flexible modes of payment will be in market this spring, with more active marketing reinitiated around the program this year. And we're looking forward to reporting back on that and our other initiatives over the next few quarters.

Our existing partnerships also remain important to the way people engage with us, and we're delighted to announce a partnership renewal with Home Hardware this week.

Now positive redemptions are at the core of a successful program. Our current expectation is that the modestly elevated redemption levels we've seen in 2017 will continue, which we expect to drive some increase in redemption expense, particularly in Q1, which is typically the biggest quarter for redemption.

Our focus in the first half of 2018 will be spend and card redemption in our tenured credit card base, but with slower new card acquisition compared to last year when we had strong acquisition campaigns in market, we would expect the overall cardholder base and financial card gross billings to decline somewhat. Increased Air Canada capacity, a robust economic context driving household spend, and more clarity on how we will evolve Aeroplan should be factors that counter some of these pressures.

Clearly, with how events are moving you can see a leaner shape emerging in which Aeroplan will be the key driver of this company. Reflecting that, we'll be guiding on key performance metrics that we expect to see in this division. Overall, we expect Coalition top line to be around $1.3 billion.

Improving gross margin and progress in OpEx will drive an improvement in adjusted EBITDA margin to above 18 percent. We've assumed a further increase in redemption expense in 2018, reflecting that redemption levels only started to increase from May onwards in 2017. We've also factored some pressure on gross billings into the guidance, along with some increases in Aeroplan CapEx to support the transition to the broader travel offering that I talked about.

You'll see that we're also guiding on a pretax basis to reflect the operational improvements we expect to deliver. On the basis of the profitability of the business and our current tax profile, we expect to begin paying taxes again in Canada, and that could amount to between $35 million and $40 million.

At current levels and reflecting expected working capital outflows in 2018, Coalition free cash flow should land in a rage of $155 million to $175 million, which would translate to a range of between $120 million and $145 million on a consolidated basis.

2017 saw us deliver on our guidance and make progress against our strategic priorities. We maintained a robust balance sheet, saw growth at Aeroplan in 2017, accompanied by a significant jump in profitability as we started to deliver on cost savings. 2018 will be about continued execution against our priorities, and in particular, progress around our Aeroplan partnerships and member offer.

We look forward to sharing more details about our plans to enable more choices for Aeroplan members well beyond 2020.

And with that, I'll hand it to the Operator for questions.

Q&A

Operator

At this time, I would like to remind everyone in order to ask a question, please press *, and then the number 1 on your telephone keypad. We'll pause for a brief moment to compile the Q&A roster.

Your first question comes from Drew McReynolds with RBC. Your line is open.

Drew McReynolds — RBC Capital Markets

Yeah. Thanks. Thanks very much. Just a couple of, I guess, confirmations. Just first in terms of the Coalitions guidance with the 18 percent or higher margin, just can you confirm that includes PLM dividends? And could you just maybe give us an assumption of what you'd expect for 2018 on that front?

Mark Grafton

Yeah. Hi, Drew. Yeah. It does. So the Coalitions segment includes PLM, and yeah, we're expecting distributions to be in line with what we've seen this year.

Drew McReynolds

Okay. And in terms of the allocation of corporate cost to Coalitions, looking at prior year it seems to be in the kind of $65 million, $70 million. Is that a similar type of allocation we should assume for 2018 in that guidance?

Mark Grafton

Yeah. I mean, I think as you say, we've set that out on Slide 56 that '16 and '17 we've restated so they're consistent. And that's reflective of the allocation that we'd expect going into 2018.

Drew McReynolds

Okay. Thank you. And just in terms of trying to kind of bridge between free cash flow guidance for the whole company of $227 million in 2017 to a apples-to-apples free cash flow number for 2018, can you kind of walk us through that bridge? Obviously you're not giving a similar guidance number for '18, but just wanted to kind of see how that steps down.

Mark Grafton

Yeah. I mean, let me try and go through that a couple of steps. I mean firstly, I mean the $227 is reflective that we owned the Nectar and associated businesses throughout 2017; obviously, they won't feature in the 2018 free cash flow guidance, so that's the primary change. We also did some other disposals during the year; we sold the Air Miles royalty, which was cash positive for us in 2017. So again, that is one of the bridging items.

I guess then you start to get into looking at it on the assets that we're owning now and looking at how they compared to 2017, and I think I'd pull out some of the pieces that David talked about. We have reflected some downward pressure on gross billings; we have assumed some increase in redemption; we've got the CapEx in there in respect of supporting the transition. And whilst we've shown the guidance on a sort of a pretax basis, obviously we will be starting to pay taxes again in the Aeroplan program in 2018.

And then offsetting all of that, we've got further operating expense savings.

Operator

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

Adam Shine — National Bank Financial

Thanks a lot. I think you might have already answered some of this during the course of the presentation and maybe just in the prior question. But when we look at the Coalition EBITDA around 18 percent versus the 17.9 percent of '17, are there any other data points we should be thinking about in the context of not seeing further upside, particularly as you continue to push forward on the streamlining of expenses? The other question relates to those expenses that inasmuch as you're still targeting the $70 million by 2019, there's been so many moving pieces in terms of divestitures, particularly the latest last—well, a few weeks ago with Nectar. Can you give us a context in terms of is that still referencing the 2016 corporate cost base? Or should we be thinking about it from a different starting point? Thanks.

Mark Grafton

Okay. So let me try and take those in turn. I mean, firstly thinking about the adjusted EBITDA margin in Coalition '17 through to '18, there are a few items to consider. So as we've talked about, we do expect billings to be lower in 2018 in that division, which will obviously have an impact on gross margin, which will drop through into adjusted EBITDA.

We talked about some of the OpEx benefit that we got in Q4 not expecting to repeat in 2018. So obviously, that then plays a role. You may have seen the stock-based compensation charge in 2017 was actually a small credit, whereas we expect that to normalize in 2018. So again, that's giving a headwind on margin. And then offsetting that, as you then moved on to your question, is around the operating cost savings that we will deliver.

In terms of the moving parts, I mean clearly we have disposed of a number of businesses during the year. I think the $70 million target that we set out, there were cost savings relating to the Nectar business included within that target. But at the same time, the furthest simplification opportunities having disposed of those businesses means that we remain comfortable with that $70 million target.

Adam Shine

Okay. And maybe I apologize, not an entirely rhetorical question, but there's a lot of items that are included or excluded, frankly, in a number of the adjusted EBITDA numbers, of which I think there are five or six in the various disclosures. I'm just curious why if you're going to go to the trouble of removing severance charges to boost up EBITDA, we don't sort of ratchet down the EBITDA in the context of some of these one-off items? Is there any particular reason for that?

Mark Grafton

I mean, I think we've tried to call out these one-time items in many places; frankly, both stuff that are charges that we're saying we want to call out, as you've talked about, in terms of severance, but equally we have called out the contingent consideration release relating to the Middle East, which was a sort of—which was a credit. And we have called out some of the onetime cost savings in 2018—sorry, in Q4 2017. If there are any specifics around that that you want us to sort of reconcile further, pick up with Karen after the call.

Operator

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

Stephanie Price — CIBC

Good morning. Can you talk a bit about the rise in the redemptions, the Aeroplan redemptions you saw in the quarter? Maybe what drove it and what you've seen since the quarter ended?

David Johnston

Sure. I'll pick that up, Stephanie. I mean, I'd say three or four things. First of all, as I think I referenced in the script, Q4 2016 redemption growth had been low, so there's a bit of a lap factor there. But there's a couple of other things going on. There is more capacity, more seat capacity in the market. And we've seen—and there's a chart in the deck that partially illustrates—there's been lower fares in the latter half of the year. And there is, as well, some underlying elevated levels of redemption. But what we're also seeing, and this is absolutely critical, is that our members continue to reengage and earn after burn.

But those four factors, the 2016, the increased capacity, lower fares, and some underlying increase in redemption are the key factors I'd highlight.

Stephanie Price

Okay. And have you seen that going into this quarter as well?

David Johnston

It's too early. I mean, we obviously watch it very carefully, but it's too early to sort of give disclosure on Q1. You can rest assured that, as we have been doing since May and since before, it's something we monitor very closely.

Operator

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

Brian Morrison — TD Securities

Morning, David. I sort of want to follow up on that previous question, and it relates to the free cash flow guide on the Coalition program. So the message in recent quarters seems to be that membership behaviour at Aeroplan shouldn't be impacted with the Air Canada contract going through 2020, and that's clearly not the case now. So what's causing the membership behaviour to change now? For example, the card gross billings going down, the higher redemption rate. And do you see the billings decline or the higher redemptions as being more heavily weighted in the free cash flow guide decline in 2018?

David Johnston

So look, I don't think I'd … first of all, I don't think I'd characterize it the way you would at the start of your statement, but let's talk about how we've approached cash flow drivers for the year. And I'll talk about what some of the underlying behaviour might be there. So of course, there is still some uncertainty. And as I said, our focus—so if I look at gross billings, we see gross billings being slightly lower in 2018.

Our focus is very much in the first half of the year on retention. And so we see a modest decline in gross billings there, and at the same time we see a modest increase in levels of redemption. I think that is to be expected, and as I've said, I wouldn't reach the conclusion that's just a member reaction to the Air Canada news. I would again direct you to what's actually happening in the market, particularly the availability of very competitive market fare flight rewards.

So those, I think, are the drivers of that cash number and the kind of member dynamics that sit underneath them. And to get the whole way through to free cash flow, there's also some CapEx there because we're doing some build as we point towards 2020, and then Mark's talked as well about the impact of tax.

Brian Morrison

So is this more just market opportunities that people are redeeming than anything to do with the program? Is that the message?

David Johnston

Look, I think it's part of the mix, Brian. I don't think it's one thing or the other. It's a mix. So part of it is market opportunity, and the availability of higher capacity, and great market fare flight rewards out there. But there will be some of it, which could also be—which will also be member behaviour linked to uncertainty.

And as we said in our remarks, we've got to continue to address that.

Brian Morrison

Okay. That's fair. Can I ask one more question?

David Johnston

Sure.

Brian Morrison

Sorry, when you—Slide 37 you put a framework for the renewed Aeroplan, and I'm just trying to—I appreciate the colour as you move towards the next generation—

David Johnston

Yeah.

Brian Morrison

—but can you maybe just to the extent you can talk about the differentiation from other programs out there and where you think your key advantage will be specifically on the redemption value proposition?

David Johnston

Yeah. Look, the phrase you use, to the extent you can, is helpful there because we're not—I look forward through the course of this year to sharing a lot more on how we're building the post-2020 strategy. But I don't want to go there now.

What I can tell you is it'll be built on what we already have. Our differentiators are the breadth and the purchasing power of our 5 million member base, the premium nature of that base, the capabilities that we've built over a long period of time in analytics, which'll help us localize and understand the reward business we believe better than anyone else. But it's an interesting situation in that the new product that we launch is post-2020. We're still two years out from that.

And in sharing with you where I think our competitive advantage would be, obviously I'm sharing that with other people. So I'm going to stay a little bit guarded, but we know we need to give you more—build up more colour through the course of this year, and we will be doing that.

Brian Morrison

That's fair. Thank you.

Operator

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

Our next question comes from the line of Andrew Walker from Rangeley Capital. Your line is open.

Andrew Walker — Rangeley Capital

Hey, guys. Thanks for taking the questions. Just a couple quick questions. So on PLM, earnings were up around 60 percent and distribution was down a little bit. Can you just talk about what's driving that? And what your outlook for 2018 is?

Mark Grafton

Sure. So I mean, from a distributions perspective, I mean it's down slightly in Canadian dollar terms. I mean, it really is very modest. I mean, that's entirely due to exchange rate fluctuations. The Company declares its dividends in US dollars, so we see that fluctuation. The dividend policy of PLM is really something that is for the board of PLM to set.

Obviously we are part of that board, but we're only one part of that board, so I wouldn't want to sort of go into those board and dividend discussions any further. But I think in answer to one of my earlier questions, I said we've assumed that the dividends that we get from PLM in 2018 will mirror what we received in 2017.

Andrew Walker

That's perfect. That's perfect. And then you guys have been pretty aggressive around selling noncore assets. Just looking forward, is PLM considered a core part of the business? Or is that something you guys might look to do something with?

David Johnston

Look, it's one that you could argue both ways, to be quite honest. I mean, the argument that it's a core business would say it's a premium travel-based coalition-anchored around financial cards that therefore in many ways looks a lot like Aeroplan, and we've clearly been a partner in that business for a long time. And it also generates a decent dividend stream.

So from that point of view you could argue that it looks a lot like our core business. On the other hand, we also understand that it's a potentially quite valuable asset, and we'll continue to weigh those factors in our analysis.

Operator

Our next question comes from the line of Kevin Kovacs. Your line is open.

Kevin Kovacs

Hey, guys. So just trying to clarify, so on Slide 37, that stuff at the bottom about the next stage of the concepts around travel, can you flesh that out a little bit? So like what exactly should we expect to hear from you in the spring? What progress do you hope to have made or be able to tell us by then?

David Johnston

I mean, I think I'm going to keep my powder largely dry on the content of what we're going to say, but broadly what I'm saying is through the course of this year and starting from the spring, we're going to be sharing more details about how we're going to develop the member experience, both right now for members of pre-2020, as well as how we're shaping our strategy post-2020.

But I don't want to get into the content list yet. Safe to say we'll be sharing more detail on strategy through this year.

Kevin Kovacs

Okay. So then on Home Hardware, can you tell us a little bit about the tenor of the latest renewal and if the economic terms have changed at all?

David Johnston

We don't disclose the economic terms of any of those contracts. I mean, obviously Home Hardware has been a partner for 11 years, and it's a partnership that we know from talking to members that they value. So we're delighted with the renewal, but no, we don't disclose the economics on the contract.

Operator

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

Tim Casey — BMO

Thanks. Could we just review maybe how we should think about walk down of EBITDA in 2018? So you've provided some helpful disclosure on gross billings and margin for the Coalitions business. Then from that we should subtract roughly $60 million in corporate costs. And then how should we think about ILS in terms of a consolidated EBITDA profile?

Mark Grafton

So I mean, the corporate costs are included within the Coalitions division's numbers. I think from an ILS perspective, we do expect profitability to improve in that business in 2018 for some of the reasons that David's talked about. In 2017, the margin on the ILS business was negative 6 percent, but we do expect that to improve as we go through into 2018.

Tim Casey

So that 18 percent guidance on the Coalition margin includes the full allocation of corporate costs?

Mark Grafton

It includes the allocation of corporate costs within the Coalition segment and some corporate costs are now sitting within the ILS segment. But yeah, the majority of corporate costs are now within the Coalitions area.

Tim Casey

So there's nothing else—beyond whatever we factor in for ILS, there's no other EBITDA charges of an operating nature that we should factor in a model?

Mark Grafton

No. For 2018, the two divisions that we own are Coalitions and ILS. We've given you the margin guidance on Coalitions, so yeah, you're correct, the only thing—the only other element then is the ILS business.

Tim Casey

Okay. Thanks. Could you comment on Cardlytics? Obviously, they're going through their IPO. How should we think about your holdings there? Order of magnitude, what do you think the net cash impact will be? And is there any other balance sheet adjustments that we should consider when we think about the cash implications there?

Mark Grafton

Sure. So I mean, obviously when they IPO'd just under a week ago, because that information was out there in the market we used that price to mark to market our investment in Cardlytics. So you will have seen that come down within our reported numbers. I mean, they launched into a pretty tricky market, but it's traded well since then.

So if we use a sort of $19 price, then we've probably got another $20 million Canadian on top of the valuation that we've disclosed in the accounts. So we will now mark that to market every quarter. The market is now setting the price for that asset, but that gives you a context of the sort of true value of that asset.

Tim Casey

And you're on 180-day hold, is that correct?

Mark Grafton

So yeah, we've got 180 lockup post-IPO along with other shareholders. That's right.

Operator

Our next question comes from the line of Chris Mittleman from Mittleman Brothers. Your line is open.

Chris Mittleman — Mittleman Brothers

Hi. Would you guys be willing to disclose the transactions cost associated with the sale of Nectar?

Mark Grafton

I mean, yeah. So, Chris, we'll disclose that in Q1 when we actually push the actual sale through the transaction. It'll be the usual type of cost that you'd expect, so there'll be legal advice on that, there'll be accounting advice, and then there'll be the investment banking advice. But we will disclose that in Q1.

It will be the normal things and the normal type of stuff that you'll be expecting.

Chris Mittleman

Okay. I'm also trying to understand a little bit more about the rationale behind this transaction because it's been something that has been very difficult for shareholders to grasp, I think. The valuation that it's based upon appears to be less than 2 times EBITDA, ostensibly using the just over $100 million that was quoted. It's hard to really understand this because this is a business that's actually grown over the past ten years or so that you've owned it. I mean, when you guys paid 15 times EBITDA for it in 2007, the EBITDA was around $47 million Canadian, I think. The membership was around 12.5 million accounts. Now EBITDA is running around $60 million and you've got 19 million accounts. And somehow the decision was made to sell it for 2 times free cash flow, less than 2 times EBITDA.

And I understand that you are faced with most likely this risk that you're referencing is the risk of Sainsbury pulling out of the program, but the risk that you're seeking to avoid it seems like you just realized it a year earlier than necessary. Meaning that instead of waiting to see what Sainsbury actually did and letting those liabilities run off in due course, you've chosen to pay them out a year in advance and give them that cash in addition to all of the infrastructure, and facilities, and know-how of the data analytics, especially the i2c.

So I'm wondering what the thinking was there because it's very hard to—I mean, I understand trying to avoid risk, but this doesn't appear to be avoidance of risk; this seems to be embracing and realizing the risk a year in advance of when it would be necessary. So in my mind, if I was in your situation and I was faced with Sainsbury telling me we're not going to renew, then I would probably just say, okay, well then we'll ride that out and we'll take another year of free cash flow, $50 million, let those reserves pay out as they would do most quickly, I'm sure, after 2019. And then let Sainsbury, I guess, figure out a way to come up with a loyalty program to compete continually with Tesco and Morrisons because it's hard to imagine Sainsbury's going without this.

I mean, clearly they seem to want it, but they haven't been made to pay for it. And this is the thing that's very difficult to understand. So could you just give me some sense of what you guys were thinking? And also what other considerations were given here? Was there a consideration to do nothing and not sell it in this way?

David Johnston

Sure. So I think, Chris, I'll put out, let's say, three questions from that. One is the question on valuation and how we weighted the factors, the second I just want to comment on one thing you said about i2c, and then the third point is your point around alternatives.

So from a valuation perspective, I will say what I've said before which is I am telling you this was the best risk-adjusted outcome for the Company. With the Sainsbury's renewal coming in 2019, we looked across a broad range of options. You got to remember that current cash flows are no guarantee of future cash flows. And across all the options, Sainsbury's were the dominant partner in the program from an accumulation point of view and from a redemption point of view.

The second biggest source of consumer redemption was at Argos when Sainsbury's acquired Argos. So they became significantly the dominant partner within the program. And that constrained our ability to grow, frankly, before 2019, as well as potentially afterwards.

So we weighted those factors in along—and as we looked at alternatives, we also weighted in the state of the UK economy, the state of the UK grocery market, and how the other players that you've referred to look at loyalty, et cetera. We did a lot of analysis on what a variety of alternatives would look like, and came to the determination it was clear that this was the best risk-adjusted outcome.

You will recall, and I referenced this in my remarks, that the liability in Sainsbury's or the consumer redemption experience is extremely liquid. So I have Aeroplan points; if I want to book an Aeroplan flight, I've got to do a bit of planning, align family holiday, all kinds of stuff. It takes a while. If I want to burn every single Nectar point, I can just walk into Sainsbury's tomorrow and do that. So it's just a very different level of, let's say, risk in the liability.

On the i2c point, i2c was a JV with Sainsbury's that worked purely on Sainsbury's data and purely within the UK market. The IP behind that technology and the next-generation technology platform, AIP, was not included in the sale and comes with us. And that's the platform for our international business that we launched with ICA and we'll be rolling out around the world. So we didn't give up that IP in the transaction.

So net, we looked at this very hard. We looked at the alternatives. And we believe this was the best outcome weighing in all those factors.

Chris Mittleman

Okay. But the thing is that Sainsbury needs to have a loyalty program. So when you were faced with negotiation, Sainsbury obviously telling you they're leaving the program, where are they going if they leave the program? What was—I'm trying to understand why you guys were made to sell this thing for less than 2 times EBITDA to someone who clearly wants it. If they want this cash flow and they want this business, they should be made to pay a fair price for it. So I'm just trying to understand what the ultimatum was. They say to you, if you guys don't give it to us for less than almost nothing, we're going to leave? And go where? I'm just trying to understand how that works.

David Johnston

Yeah. Look, I don't think it would be appropriate for me to comment either on the detail of negotiation with Sainsbury's or on what Sainsbury's are thinking about their future strategy. I mean, I'll just observe as a consumer that Sainsbury's are pretty much a coalition by themselves. They are the supermarket, the bank, and a petrol company, and a clothing line, and Argos, which is a major white and brown goods retailer. So they're a coalition by themselves.

But I'm not going to get into the mechanisms of a negotiation, and nor can I really speculate on what their future view might be of loyalty. What I can tell you, and I'm repeating myself, but the question kind of requires it, is we evaluated the alternatives. I have absolute conviction that this was the right alternative for all our stakeholders.

Operator

I would now like to turn the call back for closing remarks.

David Johnston

Okay. Well, look thank you, everyone. I appreciate your time today. I'd like to thank all of our employees for delivering on the guidance in 2017.

And I look forward to talking to all of you again soon.

Operator

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

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