AIMIA INC.

THIRD QUARTER 2019

RESULTS CONFERENCE CALL

OCTOBER 29, 2019

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Aimia Inc.

Third Quarter 2019 Results Call

Event Date/Time: October 29, 2019 — 8:30 a.m. E.T.

Length: 22 minutes

CORPORATE PARTICIPANTS

Tom Tran
Aimia Inc. — Investor Relations Director

Jeremy Rabe
Aimia Inc. — President and Chief Executive Officer

Steve Leonard
Aimia Inc. — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Drew McReynolds
RBC Capital Markets — Analyst

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Aimia Inc. Third Quarter 2019 Results Call. At this time, all participants are in a listen-only mode.

After the speakers' presentation, there will be a question-and-answer session. To ask a question during the session, you will need to press *, 1 on your telephone.

Please be advised that today's conference is being recorded.

If you require any further assistance, please press *, 0.

I would now like to hand the conference over to your speaker for today, Tom Tran, Director of Investor Relations. Please go ahead, sir.

Tom Tran — Investor Relations Director, Aimia Inc.

Thank you, Carol, and welcome, everyone, to this morning's call. Today's presentation can be found on our website.

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 Slide 2 of the Q3 highlights presentation.

The presentation refers to a number of non-GAAP metrics to help you better understand the results of the business. For all of our non-GAAP metrics, a definition and a reconciliation to their most comparable GAAP metric can be found on Pages 3 and 4. As usual, you will find a full GAAP income statement on Page 5.

With me on the call today are speakers Jeremy Rabe, our Chief Executive Officer, and Steven Leonard, our Chief Financial Officer. Jeremy will begin with our strategic update before handing over to Steve to take you through the results of the quarter. We will have time for your questions at the end.

With that, let me hand over to Jeremy.

Jeremy Rabe — President and Chief Executive Officer, Aimia Inc.

Thanks, Tom. In 2019, we've made significant headway in executing on our strategic plan enhancing Aimia's investments and business to create value for all stakeholders.

Reflecting on the key accomplishments so far this year, and their strategic rationales. First, we completed the divestiture of Aeroplan, Fractal, and as announced yesterday, our entire stake in Cardlytics. We saw the opportunity to crystallize these assets at strong valuations and increase our balance sheet strength by removing the Aeroplan redemption liability and by paying down debt.

Second, we've significantly improved the Loyalty Solutions business and built a solid foundation to leverage the strong technology, brand, and know-how in creating a platform that capitalizes on future organic and inorganic growth.

And last, we've worked with Aeroméxico and agreed that excess cash at PLM should be distributed efficiently to shareholders, resulting in the increased distributions from PLM, which you saw on an exceptional basis in Q1 of 2019 and climbing higher every quarter since.

The long-term outlook for the company remains strong and positive, and management's focus will remain on executing its strategic priorities. These are continue to improve profitability and growth in the Loyalty Solutions business, enhance the value and distributions of our PLM and BIG investments, evolve the company's positioning within the growing loyalty and travel markets through a combination of organic growth and sector-focused M&A, and continue to use a disciplined capital allocation framework to make smart decisions around use of cash.

Our actions to date and future intentions reinforce our conviction that there remains tremendous opportunity to enhance the value of Aimia's existing business and investments.

Moving on to the commercial business, the company is delivering on its plans and seeing good traction with existing clients as well as a healthy pipeline building into 2020. Business wins in the quarter included a new contract win in the US, expanding our work with a leading global consumer goods client to support their full portfolio of brands; renewed professional services contracts in the US with a leading airline partner, a global payment provider, as well as with a worldwide entertainment company; and leading telecommunications service provider in the Middle East. These business wins collectively, will help partially offset the ongoing roll-off of legacy clients, which we've previously discussed and which is expected to weigh on full year revenue in 2019 and into the first half of 2020.

Notwithstanding the gradual roll-off of clients that had been impacted by the Aeroplan uncertainty, we have good visibility of revenue from existing client contracts and are now seeing stronger renewal rates across the business, and the underlying client base is trending stable.

Moving on to Slide 11. We continue to have good momentum in rightsizing our cost base, and the third quarter results reflected a significant improvement over last year and the prior quarter. Progress has been made on reducing the key elements of the company's long-term cost structure, which includes staffing, technology, and real estate. Our headcount was 520 in the third quarter, down from 560 last quarter and 780 a year ago, as we realign our global service delivery using fewer strategic hubs that can leverage the technology investments currently serving our broadest clients.

On technology, we are executing on our new IT contracts signed last quarter and are progressing on time and on budget. In the quarter, efforts were made to transition the joint IT infrastructure away from Aeroplan as we decouple the business and drive cost savings of more than 40 percent on our newly renegotiated infrastructure agreement, which represents our largest IT-related cost. Furthermore, insourcing of our enterprise loyalty platform application development work at our Minneapolis office is also on track and will add to the reduced cost base over the long run.

Finally, on real estate costs, we subleased our Sydney office; moved our Toronto team to a new office at the end of September; and obtained new office space in London, with the team relocating before year-end. Our Montreal office will also be moving during the first half of next year. These real estate consolidation efforts will contribute to a lower cost and real estate footprint in 2020.

We will continue to focus on optimizing the cost base to ensure future profitability, but I am delighted to see that the loyalty solutions business already generate a positive reported EBITDA in the third quarter. The significant improvements we've already achieved are very encouraging and reaffirm our cost transformation plan is working, driving improved results in the near and long term.

And with that, I'll hand it over to Steve, who will cover the Q3 financial highlights before I wrap up on a few concluding remarks. Steve.

Steve Leonard — Chief Financial Officer, Aimia Inc.

Thank you, Jeremy. The highlight in the third quarter was the substantial improvement in adjusted EBITDA and free cash flow losses compared to last year. Free cash flow loss of $3 million was a significant improvement compared to last year's loss of $11 million despite incurring $4 million of IT-related transition costs out of the onetime $10 million expected to be incurred in the second half we called out last quarter. Excluding restructuring in IT-related costs, normalized free cash flow was positive $3 million during the third quarter of 2019.

Based on this quarter, we continue to expect free cash flow to be significantly better in the second half of this year compared to the first half, benefitting from the improved business results and cost-reduction initiatives. Overall, consolidated results in the third quarter were much improved, and the company remains on track to deliver adjusted EBITDA profitability during 2020.

Turning our attention now to our two business segments. In the Loyalty Solutions business in the third quarter, the trend remains broadly the same as the second quarter. Lower revenue led to reduced gross margin, which was partially offset by a meaningful $10 million, or 25 percent, year-over-year decline in operating expense, including a onetime noncash gain of $3 million from the sublease of a portion of our Sydney office space in the current-year period.

Reduced headcount, share-based compensation, and rent expenses were partially offset by the onetime IT decoupling costs of $1 million in this segment. These were the main drivers of the operating expense improvements this quarter.

Loyalty Solutions adjusted EBITDA profit for the quarter was $1 million, which included a $1 million distribution received from our Aimia Kantar Insights joint venture in the ISS business and the sublease benefit mentioned earlier, compared to a loss of $3 million last year.

In corporate and other, operating expenses were higher by $2 million over last year, which reflected IT decoupling costs of $3 million as well as higher professional and advisory fees and severance expenses offset by lower headcount, stock-based, and incentive-related costs. Corporate adjusted EBITDA loss was $6 million in the quarter compared to a loss of $5 million last year.

Moving on to PLM. PLM's financial performance in the quarter continues to be positive, and operating metrics were solid. Member growth was up 12 percent over last year to 6.6 million enrolled members in the third quarter, and gross billings were up 10 percent year over year to US$67 million, mainly from heavier promotional activity by Aeroméxico as they invest in the program.

Softening macroeconomic conditions and Aeroméxico's reduced capacity with the grounding of the 737 MAX are expected to be near-term headwinds. But long-term prospects remain strong, underpinned by the favourable secular trends. Adjusted EBITDA was US$21.5 million, up 13 percent over last year, benefitting from strong top-line growth in operating leverage.

Aimia received $6 million in distributions in the quarter, which was up $1 million over last year, bringing the year-to-date total to $31 million. Full year distributions are now expected to be $35 million for the full year, representing a substantial increase over 2018.

Turning now to free cash flow. Reported free cash flow for the quarter significantly narrowed to a loss of $3 million, a substantial improvement over last year's loss of $11 million. Free cash flow was significantly improved in the third quarter, mostly due to strong improvement in adjusted EBITDA. We collected $1 million in cash interest and received a nominal amount in a cash tax refund. Working capital movements were minimal in the quarter.

Moving on to the balance sheet on Slide 19. We ended the quarter with cash and investment in bonds totalling $437 million. Aside from the operating cash flow in the quarter, we received proceeds of $71 million from the sale of 1.7 million shares in Cardlytics. Since the end of September, we have sold the remaining stake of 1.3 million shares for additional net proceeds of around $60 million. Reflecting these proceeds and excluding the restricted cash, our pro forma available cash at the end of September 30 was $400 million.

Restricted cash was $100 million at the end of September, following the release of $27 million from the restricted cash account related to final CRA notice of its reassessments related to the 2013 tax audit for Aeroplan, and we are awaiting the Revenue Quebec assessments to follow shortly, with up to another $8 million to be paid, for a total of $35 million to be paid related to this matter.

We expect to be adjusted EBITDA profitable during 2020 and will provide further colour on our expectations when we release our Q4 2019 results.

And with that, I'll hand it back to Jeremy to wrap up the closing remarks. Jeremy?

Jeremy Rabe

Thanks, Steve. Yeah. So just to conclude, I'm really pleased with our progress in the quarter. I think we've crystallized the value of our stake in Cardlytics, delivered a very strong quarter on track to profitability, really confident in our organic and acquisition opportunities to driving growth going forward.

So with that, we'll turn it over to your questions. Operator, go ahead.

Q&A

Operator

Thank you. As a reminder, to ask a question, you will need to press *, 1 on your telephone. To withdraw your question, please press the # or hash key. Please stand by while we compile the Q&A roster.

Our first question comes from the line of Drew McReynolds from RBC Capital Markets. Please go ahead.

Drew McReynolds — RBC Capital Markets

Thanks very much. Good morning. Couple from me. First, on the buyback activity, it looks like you've got through your 9 million NCIB. Wondering kind of what your thoughts are with respect to putting another program in place and whether there are any constraints to do that.

And then secondly, Jeremy, just on PLM, maybe update us on the relationship there. And given the ramp-up in distributions for 2019, is that something you feel is sustainable year in, year out as you go forward? And I have a couple of others.

Jeremy Rabe

All right. Hey, Drew. Thanks for your questions. So first on the buyback potential, we've put in place a pretty robust, I think, capital allocation framework where we look at, on a very frequent basis, potential uses of capital, returns that we would expect from those, and obviously, the risk associated with those. Buybacks is clearly one of those alternatives that we look at very seriously. We've said in the past and we remain that we are open to doing additional buybacks. We've done a significant amount already, as you can see.

And we can't do another NCIB this year. So that's done. We've exhausted kind of the full potential of that until May of next year, but we could explore doing another substantial issuer bid, for example. So we are prepared to do additional buybacks. It will be dependent, again, on this kind of capital allocation framework that we use on an ongoing basis to look at returns across different alternatives of capital allocation.

Then on PLM, so I think we're really focused on making sure that that company is set up well for growing and continued growth going forward. I think we've seen that come through in a good quarter this past quarter in spite of some broader kind of macro headwinds that Steve mentioned.

I think there is pretty good alignment amongst shareholders that it doesn't make a lot of sense to have cash sitting on the PLM balance sheet and that that cash is probably more effectively put to use and deployed by the shareholders. So as that business continues to grow, I think we would expect to see distributions increase in line with the natural growth that we're seeing coming out of the business.

Drew McReynolds

Okay. Thanks. And a couple of others. On the Cardlytics divestiture of the stake, any tax implication there? And then with respect to the M&A pipeline, is this—I know sometimes difficult to predict, but is this something we could kind of have an announcement by the end of the year perhaps?

Steve Leonard

Okay. I'll take the Cardlytics, Drew. We don't estimate any cash tax related to the Cardlytics divestiture. Those proceeds are net all-in.

Drew McReynolds

Okay.

Jeremy Rabe

And then on M&A, we're doing a lot of work on that front. We're looking for businesses that are EBITDA-positive, cash flow-generative that we could buy at multiples that would be accretive to NAV that would generate synergies with our existing business.

We put in place a very robust filtering process and review process. We have new board members that are also helping in terms of making sure that we're being very disciplined about how we go about doing that. So it is difficult, obviously, to comment exactly on specific timing around that. We don't want to put a gun to our head, and the last thing we want to do is do any bad deals.

I think, given the level of activity that we've seen, we can be pretty selective about how we do it, and we're certainly not going to, again, be forced into doing anything in a specific time frame. But we are seeing attractive opportunities out there, and we'll be prepared to execute on those in due course.

Drew McReynolds

Okay. And then sorry. Just last for me. On the Loyalty Solutions segment, can you give us any sense of the run rate revenues and EBITDA margin profile once all of it's steady state? And the associated CapEx of that business? That'd be great. Thank you.

Jeremy Rabe

Yeah. So just on the CapEx, we actually flow the CapEx through the P&L. So the CapEx that we currently have in the business shows up there in OpEx. So on a steady state, I mean we'll, as we get into more the Q4 results, we'll kind of figure out how to provide, I guess, a bit more guidance in terms of longer-term profile there.

I'll just give you some kind of general qualitative guidance to help you out. I mean, we will see revenue continue to be soft as these legacy clients roll off the end of this year and the first half of next year. After that is when we will really see, I'd say, a more stable base, which we could grow from on the revenue side. And EBITDA, I mean you've seen that we've generated a positive EBITDA result in the third quarter, and we think the business has largely been stabilized at this point and transformed.

And we still have a number of cost savings and efficiency initiatives that are still flowing through. The IT contracts that we mentioned before, those, while they've been negotiated and signed, we're still in kind of implementation mode, and so the real savings from those will really start flowing through in 2020. So we think that that business will continue to be in good solid position for 2020 and will provide us a great base for growth from then on.

Steve Leonard

And we said at the end of the last quarter, we expected about $10 million in the IT decoupling costs. We've incurred around $4 million in Q3, and we expect to have another $6 million in Q4. And that's a mix of ending up in the Loyalty Solutions and the corporate P&Ls.

Drew McReynolds

Okay. Thanks. Thanks for all that.

Jeremy Rabe

Thanks, Drew.

Operator

And as a reminder, it's *, 1 if you would like to ask a question.

And we have no one else in queue at this time. I'll turn the call back to Mr. Rabe for closing remarks.

Jeremy Rabe

Thanks, Operator. So thanks, everyone, for joining the call today. As I mentioned in the presentation, I think we've made some real solid progress on improving Aimia's long-term operating business performance. And the strategy we've set out is a really great way to enhance the value of Aimia's substantial assets for all of our shareholders.

So I want to sincerely, sincerely, and a huge thank you to all of our employees for all their passion, their focus, continued support, and obviously, the strong financial results that we've generated in the quarter.

Look forward to speaking to all of you again when we report our fourth quarter results. Thank you.

Operator

Ladies and gentlemen, this concludes today’s conference call. Thank you for participating. You may now disconnect.