AIMIA

AIMIA INC.

FOURTH QUARTER 2019

RESULTS CONFERENCE CALL

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Aimia Inc.

Fourth Quarter 2019 Results Call

Event Date/Time: February 25, 2020 — 8:30 a.m. E.T.

Length: 23 minutes

CORPORATE PARTICIPANTS

Jeremy Rabe
Aimia Inc. — Chief Executive Officer

Steve Leonard
Aimia Inc. — Chief Financial Officer

Tom Tran
Aimia Inc. — Investor Relations Director

CONFERENCE CALL PARTICIPANTS

Riley Gray
RBC Capital Markets Equity Research

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Aimia Inc. Fourth Quarter 2019 Results Conference 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 this 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 Mr. Tom Tran, Head of Investor Relations. Please go ahead.

Tom Tran — Director, Investor Relations, Aimia Inc.

Thank you, Sharon, 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 Q4 highlights presentation.

The presentation refers to several 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 metrics 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 CEO, and Steve Leonard, our CFO. Jeremy will begin with our strategic highlights before handing over to Steve to take you through the results of the quarter. We will have time for questions at the end.

With that, let me hand over to Jeremy.

Jeremy Rabe — Chief Executive Officer, Aimia Inc.

Thanks, Tom. Good morning everyone on today's call and webcast. 2019 was a transformative year for Aimia with tremendous progress made towards building a stronger company through the hard work, focus, and execution of our team. We put in place an ambitious plan to radically simplify our operating model, optimize our cost base, and demonstrate a sharper focus on our core capabilities in order to strengthen our foundation.

To recap the highlights for the year, firstly, we delivered what we set out to achieve at the beginning of the year; to significantly improve the operating performance of the business.

Operating expenses, excluding impairments taken in 2018, declined by more than 20 percent, or $56 million, over last year to $207 million as the company implemented its cost transformation plan, and adjusted EBITDA loss rapidly narrowed to $32 million, representing a 50 percent improvement. Excluding severances and onetime items, the improvement in adjusted EBITDA was 90 percent.

Secondly, we realized the value of key assets and investments at strong valuations, including the sale of Aeroplan for net cash proceeds of over $0.5 billion plus a transfer of $1.9 billion in redemption liabilities off our balance sheet.

We sold our entire stake in Cardlytics for more than $130 million as well as exited our minority interest in Fractal Analytics at three times our initial investment for around $10 million.

With these sale proceeds, we have demonstrated fiscal prudence in paying down debt and preserving a solid financial position while opportunistically returning capital back to shareholders throughout the year.

In 2019, the company returned a record high amount of capital to shareholders through stock buybacks and dividends totalling around 390 million. We developed a disciplined capital allocation process. And while the company did evaluate lots of M&A opportunities, the best use of capital was to buy back our own shares.

We know our assets well, and we continue to believe that the Aimia share price does not reflect the value of these assets. This value was independently validated by a third party with access to the company's information prior to the SIBs at the end of 2019.

Furthermore, we simplified and streamlined the business and substantially completed the decoupling of our operations from Aeroplan to drive a leaner operating model in order to maximize the performance of our Loyalty Solutions operating business.

Also, working closely with the PLM management team and our joint venture partner, Aeroméxico, we agreed to return excess cash back to PLM shareholders, leading to the exceptional distribution received in the first quarter of 2019 and full year distributions totalling $35 million, which is double the amount received in 2018.

Lastly, the comprehensive settlement reached with our shareholders was also a significant development for the company in 2019, leaving behind a major distraction and one-time costs.

As you will have seen in our separate release issued this morning, we announced the reconstitution of our new board to help lead the company forward. We expect the shareholder representation on our board will help tighten the alignment with our investors and further facilitate the exchange of ideas and best practices to grow the company and create value for all stakeholders. For the management team, it will be business as usual to continue on the path of demonstrating the continued operational progress.

Overall, 2019 was a great year for Aimia, with these accomplishments highlighting the success in achieving our key objectives set at the start of the year.

We're working closely with our partners at PLM and BIG to ensure continued strong performance of our joint investments. As we continue to deepen our partnership to grow the PLM program and explore ways to enhance value, we're encouraged to see positive development in the industry that we believe provide a good public comp on the potential value of our unique investment.

In October of last year, Virgin Australia announced it would buy back its remaining 35 percent interest in its frequent flyer program, Velocity, from its minority shareholder in the business for consideration of approximately A$700 million, implying an enterprise value of A$2.1 billion. The transaction was completed at a very healthy valuation multiple of 16 times adjusted EBITDA on a pre-synergies basis.

As we previously stated, we strongly believe our stake in PLM, a growing business which has generated adjusted EBITDA of US$85 million in 2019 and has a similar cobrand financial card-based business model to that of the Velocity loyalty program, is a high-quality investment, given our meaningful representation on PLM's board, long-term commercial contract with the airline, and strong banking relationships. The outlook for PLM remains strong and positive, and we look forward to deepening our cooperation with our partners at PLM and Aeroméxico. As we have consistently stated, our focus remains on growing the Club Premier program for the benefit of all stakeholders.

In Asia, we're also actively engaging with our partners at Big Life, which is the entity that operates AirAsia's loyalty program, BIG Loyalty, currently one of the largest loyalty programs in Asia with 25 million enrolled members and over 200 partners. Our focus here will be to assist with the strategic program development and sharing of knowledge to best leverage the loyalty program's comprehensive lifestyle platform to drive continued member engagement.

The success we have seen in our investment in PLM, where the program has grown and reached a scale to generate sufficient profitability to support steady income distributions to its shareholders, provides a proven framework for us to leverage our success gained in Mexico and deploy it across Asia.

Our ability to drive operational improvement continued in the fourth quarter, as we executed on streamlining the company's operating systems, realigning our technology support, and consolidating our real estate footprint. Headcount in Q4 was reduced to 450 from 520 in Q3, as we transformed the way we deliver our contact centre services in Canada through a more cost-effective outsource model. For the full year, headcount has declined by 40 percent from 750 at the beginning of the year.

On technology, we're progressing well in executing on our renegotiated IT infrastructure contract and have now substantially completed our decoupling from Aeroplan with a few remaining IT projects to be finalized by the first half of 2020. We expect the reduction in this IT spend will lead to annualized savings of more than 40 percent year over year, once fully implemented by the end of Q2 2020.

Furthermore, insourcing of our enterprise loyalty platform application development work was completed in the fourth quarter and will also add to the reduced cost base over the long run as we retain greater control over the management of these assets.

On real estate, we relocated to a lower-cost office space in London in December, and our Montreal office will be moving in the first half of this year into a shared office space. These real estate consolidation efforts will also drive a lower cost in real estate footprint going forward. Overall, excellent progress has been made on reducing the key elements of the company's cost structure and improving the long-term health of the business.

Finally, let me come back to our commercial operations, where our Loyalty Solutions business is a well-recognized global full-service provider of leading loyalty technology platforms and services for the world's leading brands. We're extremely pleased with the remarkable speed in improvements in transforming our Loyalty Solutions business and are seeing good traction with both existing client growth and new customer wins.

In the fourth quarter, our Loyalty Solutions business signed new strategic consulting contracts with a leading South American food retailer and a US-based travel entertainment company.

Also, in our Air Miles Middle East coalition program, member engagement remains healthy supported by the recent enhancement of the loyalty program's online travel shop, designed to provide members with more options to redeem, including flights, hotels, car rental, and experiences. Members can also now book their travel using cash instead of going to other travel sites and can earn Air Miles as part of the process.

In further evolving our business model to perform more efficiently and cost effectively, we've also established strategic partnerships that will help extend our reach with new customers and expand our capabilities while allowing us to continue delivering the great service we currently provide for our clients.

An example of this is our recently announced partnership with Microsoft, where our loyalty technology SaaS platform will be available online through Microsoft's Azure Marketplace for brands worldwide seeking a dynamic customer loyalty management platform. We're excited about our new strategic partnership with Microsoft, to furthering both our innovation and co-sales of our ALP SaaS platform through Azure while offering our clients access to innovative cloud-based tools with a leading technology provider.

Lastly, during the fourth quarter of 2019, we saw several industry transactions announced that highlight the strong demand for personalized marketing services by well-established and leading technology firms. MasterCard's acquisition of SessionM, Oracle's purchase of Crowdtwist, and Nielsen buying up Precima, we believe these recent transactions reinforce our view on the unique value of our Loyalty Solutions assets in helping brands forge stronger relationships with their customers.

Looking ahead, with the business now significantly stabilized, we're placing a sharper focus on our core capabilities to enable operating growth. We will achieve this by building on Aimia's strong loyalty technology platforms and leveraging our extensive brand recognition and deep industry knowledge from decades of experience as an operator.

The strategic priorities for our Loyalty Solutions division in 2020 will be to continue improving its operating performance and delivering growth in core markets to drive a higher base of recurring revenue from the sale of our loyalty technology solutions; evolving our proprietary SmartJourney methodology, which uses unique algorithms, AI, and machine learning techniques to predict consumer behaviour; and uncover the highest impact revenue opportunities and risks for our clients.

Next, leveraging areas of competitive advantage and superior differentiation to optimize our resources and efforts while leveraging strategic partnerships that can extend our capabilities and accelerate our business development success.

And lastly, demonstrating a cost management discipline with a scale of operation to ensure growth can be sustained. We believe these strategies priorities will position the Loyalty Solutions to operate more effectively and compete with greater impact in 2020.

I'll now hand it over to Steve, who'll cover our financial highlights before I wrap up with some closing remarks. Steve.

Steve Leonard — Chief Financial Officer, Aimia Inc.

Thanks, Jeremy. We once again delivered on continued operational progress with losses from the existing operating assets rapidly narrowing. The highlight in the fourth quarter was the significant improvement in reducing the adjusted EBITDA loss to $13 million, an improvement of 45 percent over the same quarter of last year. Despite incurring one-time costs of $6 million for IT decoupling, $3 million in severance, and $2 million in litigation and activism-related expenses.

Free cash flow was negative $12 million in the fourth quarter, an improvement of $1 million over last year. Excluding severance and onetime costs, the improvement in free cash flow was closer to $9 million.

Overall, we had a good quarter and a strong finish to the year as our business continued to improve.

Turning our attention now to our two operating segments. In our Loyalty Solutions division, we continued our momentum in making headway on the operating performance by dramatically reducing expenses and improving profitability. Loyalty Solutions operating expense was down $40 million in the fourth quarter, an improvement of $15 million over last year, excluding the impairment taken in 2018, despite incurring around $2 million in severance and $1 million in IT decoupling. Reduced headcount-related costs and lower technology expenses were the key levers of operating expense improvements in the fourth quarter. We expect these same drivers will contribute further to improvements in operating expenses in 2020.

Loyalty Solutions adjusted EBITDA continued to improve in the fourth quarter with a loss of $3 million, an improvement of 80 percent over last year's loss of $14 million. Excluding restructuring and one-time items, Loyalty Solutions adjusted EBITDA was breakeven, reaffirming our cost transformation plan is working and driving improved results in the near and long term.

Moving to Corporate and Other. Operating expenses were higher by about $1 million over last year due to $4 million in IT decoupling, litigation and activism expenses discussed already, and $1 million in severance, offset by lower professional and advisory fees and reduced headcount. In 2020, Corporate operating expenses are expected to reduce further, benefitting from the full year of running with a leaner team, integration of back-office information systems, and lower advisory fees. The Corporate function will focus on its investing and oversight role.

Moving to PLM. PLM's financial performance in the quarter continued to be positive, and operating metrics were solid. Member growth was up 10 percent over last year to 6.7 million enrolled members. And gross billings were up 12 percent year over year to US$71 million from the growth across all its major accumulation partners. PLM adjusted EBITDA performance was steady at US$22 million due to a strong top-line performance with offset by rewards mix from targeted promotions as well as technology investments to support the program's digital transformation.

Aimia received $5 million in distributions in the fourth quarter, up 4 percent over last year, bringing the year-to-date total to $35 million, representing a substantial increase over 2018.

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 of a growing middle class, increasing credit card penetration, and rising air travel in Mexico.

Turning now to free cash flow. Reported free cash flow for the quarter improved by $1 million over last year at a loss $12 million. The improvement in the fourth quarter was mostly due to strong improvement in adjusted EBITDA. We collected $3 million in cash interest and paid a nominal amount in cash tax. Working capital outflow was $4 million in the quarter as a result of working capital timing.

Moving on to the balance sheet. We ended the quarter with cash and investment in bonds totalling $350 million. The largest cash movement in the fourth quarter related to the cash payment to repurchase $125 million, in total, for our common and preferred shares through the substantial issuer bids in December. As a result of the recently completed SIBs, the Company has reduced its common shares by an additional 14 percent to 93.8 million shares outstanding and lowered its preferred shares by more than 25 percent to 9.4 million shares outstanding. The reduced share count of preferreds will lower the run rate cash financing cost of future preferred dividends to around $3 million per quarter, as well as lower the associated Part VI tax payable on preferred dividends.

Restricted cash was $97 million at the end of December, of which $73 million was set aside as restricted cash as part of the Aeroplan transaction. Around $65 million of the restricted cash is expected to be released to Aimia in accordance with the terms of the share purchase agreement. As you can see from our cash balance, the company continues to maintain a robust balance sheet with a healthy level of cash and no debt to operate and grow the business.

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

Jeremy Rabe

Thanks, Steve. To conclude, I'm really pleased with our strong finish to close out the year. In delivering a solid set of 2019 financial results and achieved our key objectives set out for the year.

2020 is off to a good start. Our outlook is positive, and we remain on track to deliver profitability and substantially improved free cash flow during 2020.

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

Q&A

Operator

And if you'd like to ask a question at this time, please press *, then number 1 on your telephone keypad. If you would like to withdraw your question, press the # key. We'll pause for just a moment to compile the Q&A roster.

First question comes from Riley Gray with RBC.

Riley Gray — RBC Capital Markets

Good morning. It's Riley here on for Drew. Just looking at the 2020, do you still expect positive adjusted EBITDA? And what is your outlook for free cash flow? Thanks.

Steve Leonard

Yeah. As Jeremy closed in his remarks, we're still focused, as we said, at closing of 2019. We've stabilized the business. We feel confident that we'll be adjusted EBITDA positive in 2020.

On the cash flow side, we want to point out that we are facing Part VI tax payable, related to the preferred dividends we paid in 2019, including the cumulative amount of preferreds we paid in the first quarter. So that will have a drag on our cash flow in 2020. But cash flow going after the first quarter, where we'll pay most of the Part VI tax, should track adjusted EBITDA.

Riley Gray

Thank you.

Operator

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

We have a question from Brian Morrison with TD Securities.

Analyst — TD Securities

Good morning, guys. It's Lauric in for Brian. So you guys recently completed your SIB for common and preferred shares. I'm just wondering, is there a legal restriction on the number of times you can do an SIB in one year?

Steve Leonard

I'm not aware of any frequency on the SIBs. So if the company so chooses, we can do another SIB.

Analyst

Okay. And then the second question; with regard to the new directors who've been appointed by the Mittleman Brothers as well as the requisitioning shareholders, are you able to tell us who was appointment by whom?

Jeremy Rabe

I don't think we disclose that. What we are—

Analyst

Oh.

Jeremy Rabe

—excited is, as you'll have seen in our results, there was a lot of costs, one-time costs, associated with that activism/litigation last year, and it was a big distraction for the company. I think going forward we're really excited to have that behind us. As you'll have seen in the new board, we have representation from a number of shareholders that have a significant ownership of the company. So we really expect that to create a great deal of alignment between what's in the best interest of our shareholders and how the Company is managed.

So I think that's a real positive, and so I think we have also, within the board's slate, you'll see a good mix of different types of skill sets and different backgrounds and diversity there. So I think it'll be a good, robust board.

Analyst

Okay. Great. And then finally, with regard to your previously stated intention of being free cash flow breakeven by 2020, does that target still stand? Or will that be dependent on the new board?

Jeremy Rabe

Yeah. We remain on track to deliver the profitability in 2020. Our free cash flow will also be substantially improved. You heard Steve talk a little bit about the Part VI tax that will happen in Q1, but we remain status quo in maintaining our expectation to deliver that profitability in 2020.

Analyst

Okay. Thank you.

Operator

At this time I will turn the call over to Mr. Jeremy Rabe for closing remarks.

Jeremy Rabe

Well, thanks everyone for joining today. Also, to those employees that are on the call, just want to extend a huge thank you to all of you for your hard work over the course of the year. Great year, and off to a great start in 2020. Look forward to speaking with you all again soon. Thanks, everyone.

Operator

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