



AIMIA INC.

FOURTH QUARTER 2020

RESULTS CONFERENCE CALL

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Aimia Inc.

Fourth Quarter 2020 Results Conference Call

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Length: 32 minutes

CORPORATE PARTICIPANTS

Tom Tran

Aimia Inc. — Director, Investor Relations

Phil Mittleman

Aimia Inc. — Chief Executive Officer

Michael Lehmann

Aimia Inc. — President

Steve Leonard

Aimia Inc. — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Meaghen Annett

TD Securities — Analyst

Drew McReynolds

RBC — Analyst

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Aimia Inc. Fourth Quarter 2020 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 the session, you will need to press *, 1 on your telephone.

Please be advised 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 today, Tom Tran, Head of Investor Relations. Thank you. Please go ahead, sir.

Tom Tran — Director, Investor Relations, Aimia Inc.

Thank you, Chris, and welcome, everyone, to this morning's call. Today's presentation is available on SEDAR and the company's website.

Before we get underway, I would like to remind everyone to review our forward-looking statements and the cautions and risk factors pertaining to the statement.

With me on the call today are speakers Phil Mittleman, Aimia's CEO; Michael Lehmann, our President; and Steve Leonard, our CFO. Phil will begin with our strategic highlights, followed by Michael who will cover the performance of our investments before handing the call 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 it over to Phil.

Phil Mittleman — Chief Executive Officer, Aimia Inc.

Thanks, Tom, and good morning to everyone on the phone and webcast today. I'm excited to share the significant progress that we made at Aimia in a very short period of time.

Under the leadership of a reconstituted board and a new management team which was established less than a year ago, we delivered against what we set out to achieve: to transform Aimia into a lean, nimble, opportunistic holding company, poised to create value for Aimia's stakeholders for many years to come.

We announced a new strategy as a holding company to provide a broader and more balanced mandate, enabling greater flexibility for Aimia to capitalize on the best possible investment opportunities globally. To help execute our new corporate strategy, we acquired Mittleman Investment Management, and we further enhanced the executive team with the addition of Michael Lehmann, former partner at Third Avenue Management, as President of the company.

We rapidly cut costs and rightsized the corporate expenses with a leaner team and targeted an annual cash operating expense run rate of \$12 million, and we remain on track to achieve this target. Excluding severance, our holding company corporate cash flow was neutral in 2020.

We combined our operating loyalty subsidiaries into Kognitiv, concurrent with an investment by Kognitiv shareholders and board members as well as an investment by Aimia and retained a significant stake in an exciting technology company with substantial potential upside, while at the same time limiting future risks to the holdco.

This transaction is structured similarly to our highly successfully investment in Cardlytics where Aimia contributed certain IP, operating expertise, and board presence, along with funding into a tech-forward company which was subsequently brought public in an IPO. We believe Kognitiv has the potential

for a monetization event that would provide a similar positive outcome. Subsequent to quarter-end, Kognitiv made some exciting corporate announcements that we will touch on later.

At Aeroméxico, we signed an enhanced shareholder agreement with a buyout option of PLM and extended the CPSA between Aeroméxico and PLM to 2050, which incorporated numerous modifications to strengthen the loyalty program. These amended agreements are being honoured during the bankruptcy process, and we expect it to be formally assumed by Aeroméxico.

We also made a significant investment in Clear Media, one of the largest outdoor advertising firms in China, purchased at a very attractive valuation at an opportunistic time, participating alongside a blue-chip consortium of growth-oriented investors.

Recently, Clear Media added a non-executive director from industry leader JCDecaux to its board, who is also a member of the investor consortium, comprised of Clear Media's current CEO, Jack Ma's Ant Group, and the China Wealth Growth Fund. Collectively, the consortium owns a combined total of 88.2 percent of Clear Media's outstanding shares, with Aimia's stake at 10.85 percent.

We generated \$13 million in realized gains from opportunistic investments and committed an initial \$6.4 million to a special-purpose vehicle created to pursue a leveraged buyout of a target company, with the option to increase our ownership to 25 percent of the target if the LBO is consummated.

We received \$67 million previously held in a restricted cash account established at the time of the Aeroplan sale, and we are attempting to recover an additional \$33 million deposit related to a tax assessment when we held the Aeroplan business.

Last and by no means least, we repurchased 4.4 million shares under the company's latest NCIB at an average cost of \$3.31 after fees, a significant discount to the current market price. Over the past two years, we have repurchased more than 40 percent of our outstanding shares.

In addition, management and directors have personally bought more than 1.4 million shares in the open market during a tumultuous year, demonstrating our unwavering confidence in Aimia's value and future prospects.

Overall, 2020 was a great year, and we entered 2021 with strong momentum.

For 2021, our goal is to remain cash flow neutral at the holdco, with cash operating expenses, preferred dividends, and taxes covered by the resumption of PLM dividends and other investment activities. Our strategic vision is to continue to build a portfolio of investments that can deliver sustainable value for stakeholders, uniquely accessible to investors through Aimia stock.

As a permanent capital vehicle that can invest for an indefinite period, we take a private equity approach to investing, employing an active owner's mentality to growing our investments and the unique ability to hold investments for long durations of time, allowing for the greatest value to be realized with maximum tax efficiency.

The company's capital allocation priorities are to deploy its cash towards investment that we expect will earn an annual IRR greater than 15 percent by seeking long-term investments in public and private companies on a global basis through controlling and minority stakes. We target companies that exhibit durable economic advantages, evidenced by our well-established track record of substantial free cash flow generation over complete business cycles, guided by strong, experienced management teams with a focus on assets that can generate additional cash flow and distributions to upstream to the holding company.

Ideally, these investments will utilize the company's over \$700 million in operating and capital tax losses to further enhance stakeholder value. Any potential investment will be structured as a ring-fence, stand-alone entity that is not financially entangled with Aimia's holdco, and will not expose the

parent company to any risk other than its initial investment. If we deem it necessary to use leverage for investment, it will only be incurred at the subsidiary level.

We remain patient and disciplined in identifying and capitalizing on the best investment opportunities we can find globally.

Finally, let me spend a moment to discuss two recent announcements. Through the close relationship we have developed with AirAsia, we saw a unique opportunity to create value for Aimia stakeholders. Aimia entered into a binding memorandum of understanding with AirAsia to sell its 20 percent equity stake in AirAsia's loyalty company, BIGLIFE, for a transaction value of approximately C\$31 million to be satisfied by 85.86 million new publicly traded ordinary shares of AirAsia, currently representing a gain of approximately \$13 million based on the carrying value of BIGLIFE of \$16.4 million at the end of 2020 and at current AirAsia share pricing.

We also participated in a private placement resulting in the acquisition of 35.61 million new shares at RM0.865. Upon completion of the BIGLIFE transaction, which is subject to AirAsia shareholder approval, Aimia will own a total of 121.47 million new shares in AirAsia for an approximate 3.1 percent equity stake in the airline, representing a value of approximately \$41 million as of yesterday's closing price.

By exchanging our minority position in BIGLIFE for publicly traded stock in AirAsia, we will enhance the value of BIGLIFE by allowing AirAsia to acquire full ownership and reap the strategic benefits from the many opportunities it affords the airline. At the same time, Aimia has provided liquidity while participating in what we believe will be significant upside in AirAsia's equity.

We fully support the airline's efforts to strengthen its financial position and pursue its digital transformation, and we believe that AirAsia will emerge from the pandemic as a stronger airline, uniquely

positioned to capitalize on the sizable pent-up demand we believe exists for low-cost travel across Southeast Asia.

With signs of air travel picking up again, including the TSA in March of this year recording its highest daily passenger screenings of over 1.5 million, we believe it is an opportune time to make this investment in AirAsia. As pandemic conditions ease from the global rollout of vaccinations and a rebound in air travel ensues from pent-up demand, airlines that have survived the pandemic and have emerged with leaner operations and in healthier financial shape are likely poised to recover and thrive in a post-COVID-19 world.

Moving on to the Kognitiv announcement. We are very pleased to see the strategic progress being made at Kognitiv, including their recent personnel hires and their sales transaction and partnership agreement with IRI, a global leader in innovative solutions and services for consumer, retail, and media companies. IRI acquired the ISS business, a leading retail consumer insight provider that enables collaboration between retailers and suppliers from Kognitiv for undisclosed terms.

Through the partnership agreement, IRI and ISS will explore opportunities for IRI's retail clients to leverage Kognitiv's unique Platform-as-a-Service to scale their partnerships, connect peer to peer, and deliver new value to consumers through hyper-personalized experiences within their ecosystem.

This partnership with IRI validates Kognitiv's unique collaborative commerce technology platform and aligns the organization with a global leader in big data and predictive analytics. The sale of ISS also significantly strengthened Kognitiv's liquidity position for future acquisitions and enables both organizations to co-invest in their partnership, to build out their joint capabilities, and deliver innovative solutions for existing and new clients.

We are also excited about Kognitiv's recently announced additions of a new President, Shawn Pearson, and CFO, Julia Wehmeyer, both of whom possess expertise in building commercial scale and high-performing teams as well as capital market experience, positioning Kognitiv for a successful future.

And with that, let me turn the floor over to Mike to provide you some further updates on our investment portfolio. Mike?

Michael Lehmann — President, Aimia Inc.

Great. Thanks, Phil, and good morning to everyone.

We'll begin our discussion with PLM, where I'll be speaking to the operating performance in USD, which is PLM's functional currency.

PLM's operating metrics continued to show healthy member engagement, which was up 4.5 percent over last year to 7 million enrolled members in the fourth quarter.

While gross billings were down 48 percent over last year to \$37 million in the fourth quarter due to COVID-19, PLM continued to demonstrate signs of recovery with gross billings up 41 percent over last quarter, driven by higher accumulation volume by its airline and banking partners.

Revenues were down 47 percent compared to last year's \$35.8 million, but was up 32 percent over last quarter due to increased redemption volume.

Adjusted EBITDA was \$8.8 million in the quarter and included the impact of a one-time \$1.7 million provision on unsecured receivables with the airline. It's important to note that absent the one-time provision, adjusted EBITDA would have been a positive \$10.5 million in the quarter and a positive \$45.2 million for the full year, a testament to the resilience of the coalition business model in the face of the worst downturn the airline industry has ever experienced.

Free cash flow was a positive \$17.9 million in the fourth quarter and a positive \$18.7 million for the full year, excluding the \$50 million prepayment of award tickets in Q2 2020.

Subsequent to the end of the fourth quarter PLM distributions resumed, and Aimia received US\$7.9 million or C\$9.8 million.

Overall, PLM performed very well in 2020 despite a challenging operating environment and has continued to demonstrate signs of recovery. PLM is a highly successful loyalty program with a track record of profitability and cash generation, providing consistent and growing distributions to its shareholders, Aeroméxico and Aimia.

Moving on to Kognitiv. In the fourth quarter, revenues were \$23.9 million and adjusted EBITDA was a loss of \$9.5 million. The reduction in revenue over last quarter is mainly due to reduced loyalty services in Canada as a result of the expected gradual roll-off of previously lost clients. Lower revenue and higher one-time professional fees were the key drivers impacting the adjusted EBITDA performance in the fourth quarter relative to the prior quarter.

Kognitiv continues to be focused on transforming its business model to a recurring revenue Platform-as-a-Service model following the combination with Aimia Loyalty Solutions and the sale of ISS and is making good progress implementing its rigorous cost synergy program through 2021.

Moving on to our investment management business. Revenue from investment management fees were \$400,000, and a loss before income taxes was negative \$700,000 or negative \$100,000, excluding depreciation and amortization.

Assets under management grew to \$230.3 million in the fourth quarter of the year from \$201.4 million, an improvement of 14.3 percent quarter on quarter due to strong relative and absolute performance from a rebound in its value-oriented investment strategy.

And finally, moving on to Clear Media. Clear Media's financial results reported last week continued to demonstrate signs of recovery. Total revenue bottomed in March 2020, and the recovery in revenue continued in the third quarter and fourth quarter of the year. Total revenue in the fourth quarter of 2020 slightly exceeded the level of the same period from the prior year. And the forecast for 2021 is for total revenue to be materially higher than 2020.

We expect the management team to execute on its growth-oriented plan to digitize the commercial panels, with the goal of attracting new advertising revenue streams. China's economy has continued to recover and major operators in the region, such as JCDecaux, are seeing signs of strong recovery in the Chinese domestic advertising business, with revenues almost back to pre-COVID levels.

And with that, let me turn it over to Steve to take you through the financial results. Steve?

Steve Leonard — Chief Financial Officer, Aimia Inc.

Thanks, Michael. Let's begin by covering the consolidated results before we move to the segment performance and cash movements in the quarter.

In the fourth quarter, total income was \$10.2 million, mostly driven by a \$5.9 million tax-sheltered gain from tendering into the improved takeover bid for Village Roadshow, as well as a \$3.1 million share of net earnings from our equity accounted investments.

Reported expenses were \$5.9 million, down 20 percent compared to last year due to actions to reduce the holding company cost structure.

Moving on to the Holdings segment, total income was \$9.8 million, down from \$19 million in the same quarter last year, mostly due to a lower share of net earnings of equity accounted investments.

Total expenses were \$4.8 million in the fourth quarter of '20, down 35 percent from \$7.4 million in the same quarter last year, driven mostly by reduced technology spend and other office expenses

benefitting from \$1.5 million in technology and rent credits. Lower severance and stock-based compensation and other compensation awards also reduced expenses in the fourth quarter.

Within total expenses, corporate operating expenses, which includes compensation and benefits, professional advisory and service fees, and technology and other office expenses, were \$4.3 million in the quarter, down 72 percent from \$15.3 million in the same period last year. For the full year, these expenses were \$20.6 million, a substantial reduction from \$45.9 million in 2019.

Excluding share-based compensation and other performance awards, corporate cash operating costs were \$2.5 million in the quarter and \$18.4 million for the full year, demonstrating our progress towards achieving a cash operating expense run rate target of \$12 million per year.

Moving on to cover cash movements for the quarter, we ended the fourth quarter with a total cash balance of \$146 million, down \$26 million from \$172 million last quarter. The main movements in cash this quarter compared to last quarter were an investment in JCDecaux for \$10.5 million, as well as a \$4.7 million investment in various public company securities, an initial funding of \$3.3 million in the Special Purpose Vehicle. We repurchased 1.4 million common shares for cash consideration of \$5.6 million under the NCIB during the fourth quarter at an average price of \$3.92 after fees per share.

Corporate cash operating costs were reduced to \$2.5 million, and we paid preferred dividends of \$3.2 million and income taxes of \$1.3 million. These were offset by a \$5.9 million gain from tendering our Village Roadshow stake in the improved bid.

Subsequent to the end of the quarter, we also made a \$9.4 million investment in the AirAsia private placement and additional purchases totalling \$8.2 million in various public company securities. Furthermore, we made a \$3.2 million payment towards the remaining portion of the initial funding for this special-purpose vehicle.

And lastly, we received \$4.3 million in cash related to the Kognitiv closing working capital, taking our pro forma cash to approximately \$130 million. Including our public securities portfolio, which had an approximate market value of \$44 million as of yesterday's close, Aimia's pro forma cash plus liquid investments totalled \$174 million.

And with that, let me turn it over now to Phil to wrap up with a few concluding remarks. Phil?

Phil Mittleman

Thanks, Steve. This is a very exciting time for Aimia. 2020 has been a transformative year, and we have been moving at a rapid pace to create stakeholder value. The significant progress made in executing on our new strategy and the many exciting developments in our various holdings demonstrate our unwavering confidence in Aimia's value and future prospects. 2021 is shaping up to be very promising, and we remain focused on delivering lasting value for Aimia's stakeholders.

So with that, we will turn it over to your questions. Operator, please go ahead.

Q&A

Operator

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

Your first question comes from Meaghen Annett of TD Securities. Your line is open.

Meaghen Annett — TD Securities

Thank you. Good morning. Where does Clear Media stand in its progress towards digitizing display panels? How far along is that transformation? And can you provide a timeline for the progress?

And just out of curiosity, what are the differences in economics between digital and what those panels are replacing?

Phil Mittleman

Hi, Meaghen. Thanks for the question. So we don't have details because they haven't disclosed publicly the details on how quickly they're digitizing the panels, and they haven't publicly released kind of their version of the economics of those digital panels.

But I can tell you that the business plan they've stated is to accelerate the progress of that digitization process. I think one of the big differences between the "new" Clear Media and the old Clear Media is that the old Clear Media had a controlling shareholder that was drawing out all of the cash for dividends because it had a leverage problem. The new Clear Media is focusing investing that capital on that digitization process.

So I think that it would be fair to say that I think they'd be doing that as fast as they can. We don't have any publicly released data yet on how quickly that's going, but we can assume that it's going as quickly as they can.

In terms of the economics, the economics of them are very exciting. I think the numbers we've seen are that these digitized billboards get about three times the revenue of a normal billboard. So you can imagine that while the CapEx up front is expensive to get them converted, the subsequent ROI is significant and rapid, and it should result in transforming Clear Media into a much more exciting kind of growth company versus what it used to be, which is kind of like the old media outdoor advertising model.

Michael Lehmann

Meaghen, this is Mike Lehmann. Additionally, if you look at Clear Media, Clear Media is, they're in 24 cities throughout China. They've increased their outdoor displays year over year 57,000 to 59,000,

so they continue to grow. And if you just extrapolate the growth in digitization from JCDecaux, within their street furniture division, digitization revenues have been up something between three and four times in terms of percentage of overall revenue from street furniture over the past four or five years. So digitization isn't rapid meaning flip of a switch. It's a slow increase.

What we can say is, because of 2020 and the reduction of revenue from average panels because of COVID and the reduced CapEx spent during 2020, the likelihood of the digitization, it probably took a little bit of a slowdown during 2020, but we expect that to substantially increase in '21, '22, and '23 as foot traffic around street furniture rebounds.

The expectation is that the foot traffic and car traffic are going to rebound much more quickly than other traffic, particularly around airline travel. So we're expecting that as the prices per panel increase and the foot traffic increases, so will the cash flow, and that'll flow through to the building out of the digital platform.

Meaghen Annett

Okay. That's great. Thank you very much. And secondly, following the up-front payment of about \$10 million in Q1 '21 from PLM, how should we think about additional distributions throughout the year?

Phil Mittleman

Yeah. I don't think—we're not going to give projections on dividends for 2021, and I wouldn't try to extrapolate just a run rate quarter over quarter because they can be lumpy. But I think that it's safe to say that we expect the business to continue to improve.

I think, obviously, the company exhibits very strong performance, improving performance, and we're confident that we will see significant dividends this year and heading towards getting in line with

previous years, but we can't give specific guidance. And it's both hard to predict and also somewhat lumpy, but we're very excited about what we see.

Meaghen Annett

Okay. And just lastly, any further update on the potential to exercise your option to increase your stake in the Special Purpose Vehicle? We see you took some steps post quarter-end but believe there's more potential there. So has your outlook changed at all on that front?

Phil Mittleman

No. Our outlook has not changed. The Special Purpose Vehicle has continued to acquire shares in the target. And we'll give you update when we can, but our plans have not changed there.

Meaghen Annett

Thank you very much.

Phil Mittleman

Thank you.

Operator

Again, if you would like to ask a question, press *, then the number 1 on your telephone keypad.

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

Drew McReynolds — RBC

Yeah. Thanks very much. Good morning. I guess, Phil, on the PLM update, you alluded to the Aeroméxico bankruptcy process and still to formalize the agreements with PLM, et cetera. Is there a timeline or time frame for that to happen?

And then secondly, on the Kognitiv, generally, at a high level for 2021, what kind of milestones does Aimia want to see with this particular asset here in 2021? Thank you.

Phil Mittleman

Sure. Sure. Hi, Drew. Thanks. Thanks for the questions. So with PLM, I've said it many times, and I'll say it again. The bankruptcy process, it always kind of takes twists and turns you don't really expect. I would say that at a macro level, I'll say we are seeing our contract adhered to, to the penny. There's no financial difference to us whether it's been formally assumed or they're honouring it the way they've been honouring it. So as you're seeing, you're seeing a resumption of dividends paid as well.

So as far as the process goes, there's no material difference to us on the actual moment that it's assumed. However, I will say that the delays in the assumption of this contract have been the result of us making decisions that are to the benefit or our belief they're to the benefit of Aimia stakeholders. So we're making decisions as they go, and the decisions are all to benefit our stakeholders. And when it's assumed or if it's automatically assumed on the exit from bankruptcy, whatever that is, it remains being fully honoured. And we'll keep you posted, but that's really all I can say at this moment.

With regard to Kognitiv, I think, Kognitiv, I'll say a few things. First of all, Kognitiv is—it's rare in that you don't see a lot of times, you don't see a tech company that's actually the only one out there doing something. And in Kognitiv's case, I do not see another company in the tech world doing what they're doing, and that's very rare and exciting.

And while we're not giving guidance, I know what you're asking for is kind of what we're looking for. And I think what we're looking for we're seeing. And that is that we're seeing a significant shift from managed services revenue to subscription pass model revenue.

I would say that, the one little bit of guidance I'll give you is I'll say the managed services revenue when we initiated this merger was in the 30 percent range. That number's heading to more like 80 percent,

90 percent range. So we're seeing a very positive shift and much higher revenues and much higher-quality revenues.

I think when you look at what this merger was, it started off with, when these entities were merged into Kognitiv, they had some roll-off revenue. They had some clients that were already scheduled to roll off. So they had that. And then they had to shift to this new model, this subscription pass model that Kognitiv offers. And we're seeing now clients extending contracts, new clients coming in. We're seeing an increase in the pipeline.

And then what you're seeing is something that I think is probably the most important thing, which is IRI. IRI is an industry leader in this space. And a lot of people have said well, Kognitiv's like a black box. Is what they do real? What do they do? And I think what you've seen with IRI is an industry leader come in, scrub the business, make a significant acquisition in the business, but most importantly, create a joint venture with that business.

And what they're saying is, we believe that Kognitiv's product and platform is something that we can sell to our large customer base. And that should tell you volumes about what they have and whether it's real or not and whether it's saleable or not and what the market thinks of it. Because IRI is a very smart group of people, and they have a very smart and large, diverse group of clients. And they're going to be now selling Kognitiv's product into their customer base.

So we're seeing all the things we want to see, and we're very excited about what we see. We see them attracting key new pieces of talent. The people that they're hiring know tech. If you look at Shawn's resume as well particularly, he knows the business. These people aren't signing on because they don't see a bright future there. They're signing on because they think they've found something that is going to be a significant leader in this space.

So all the things we're looking for we're seeing, and we're very excited about the future of Kognitiv.

Drew McReynolds

That's good colour, Phil. Thank you.

Phil Mittleman

Thank you.

Operator

There are no further questions at this time. I will now return the call to Mr. Tran for closing remarks.

Tom Tran

Thank you, everyone, for joining today's call and webcast. If you have any questions, please reach out to Investor Relations. This concludes today's call. You may now hang up.

Operator

Ladies and gentlemen, thank you for your participation.