

Aimia Inc.

Second Quarter 2022 Results Conference Call

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CORPORATE PARTICIPANTS

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Aimia Inc. — Chief Executive Officer

Michael Lehmann

Aimia Inc. — President

CONFERENCE CALL PARTICIPANTS

Brian Morrison

TD Securities — Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Aimia Inc. Second Quarter 2022 Results Conference Call. At this time, all lines are in listen-only mode.

Following the presentation, we will conduct a question-and-answer session.

If at any time during this call you require immediate assistance, please press *, 0 for the Operator.

This call is being recorded on Friday, August 12, 2022.

I would now like to turn the conference over to Steven Leonard. Please go ahead.

Steve Leonard — Chief Financial Officer, Aimia Inc.

Thank you, Sergio, 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'd 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 my name is Steve Leonard, Aimia's CFO.

Phil will begin our strategic highlights, followed by Michael, who will cover the performance of our investments, before handing the call over for me to take you through the results for the quarter. We'll 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, Steve, and good morning to everyone on the phone and webcast today.

We continued to advance our strategy of maximizing the value of our existing holdings while seeking to deploy capital towards new investment opportunities to deliver strong returns for our stakeholders.

With \$580 million in cash and liquid investments, no debt, and approximately \$750 million in tax losses, we continue to actively pursue an exciting pipeline of opportunities with long track records of free cash flow generation.

To recap the strategic highlights for this second quarter, beginning with PLM.

This is our first chance to comment on the transaction since it closed. We are very pleased to report that we received \$537 million in cash on closing, or \$5.84 per common share, which was \$45 million more than when we announced the proposed transaction in February.

The proceeds are net, aside from some transaction-related fees, and we do not expect to pay any additional cash taxes on this transaction.

In addition, we are eligible to receive an earnout of approximately \$27 million on a net basis should the PLM program achieve targeted annual gross billings by 2024.

Aimia intends to deploy most of the proceeds towards the acquisition of majority or significant minority stakes in cash-generative businesses operating either the US or Canada that will ideally utilize our sizeable tax losses.

We will also use a portion of the proceeds to continue to repurchase shares under our NCIB, which we renewed in the quarter. So far this year, we have repurchased over 2 million shares, including 1.4 million shares under the current program. We have 6.3 million shares available to repurchase under the current NCIB program, supported by an automated share purchase plan.

As we discussed previously, we continue to opportunistically buy back our common stock, as we see a significant discount to our intrinsic net asset value.

Moving to TRADE X. TRADE X continues to grow as it opens new global trade corridors to facilitate cross-border automotive transactions across Europe, Latin America, Africa, the Middle East, and Asia. TRADE X recently announced the opening of a new corridor in the Dominican Republic, where there are exciting opportunities for imports into this Caribbean nation.

While we have seen headwinds in the fundraising market for technology and growth companies, TRADE X continues to execute on its commercial strategy to achieve approximately 1 billion in gross vehicle sales this year.

Moving to Kognitiv. Recently, Kognitiv was successful in securing a multiyear contract extension with National Australia Bank that will utilize the collaborative commerce platform.

Kognitiv continues to focus on the strengthening of its pipeline with several new global brands across different verticals that are prime candidates to benefit from its approach to empowering business to grow, adapt, and transform through collaborative commerce.

Moving to our investment in Clear Media. The slowing Chinese economy and recent COVID-related shutdowns have created a challenging operating environment for advertising in China. And Clear Media is facing a situation that is similar to the first half of 2020 and has responded to the situation by implementing cost-saving initiatives.

Clear Media is a high-quality business that stands to benefit from its sizeable market position and enhanced digital offering.

Moving to our investment in Capital A. Air Asia continues to see the benefit of increased travel as the Southeast Asia region emerges from COVID restrictions.

In the second quarter operating results, the airline carried 5.6 million passengers, or more than 7 times the volume carried in the same period in 2021. This represents about 43 percent of 2019 passenger levels. So there's still room to recover, but the trend is very positive.

This low-cost airline is uniquely positioned to capitalize on the sizeable pent-up demand for travel across Southeast Asia. Capital A continues to develop and enhance the value of its digital assets.

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

Mike?

Michael Lehmann — President, Aimia Inc.

Thanks, Phil. And good morning to everyone.

I'm going to begin with a review of TRADE X. Including acquisitions that were completed in the fourth quarter of 2021, TRADE X generated gross vehicle sales of \$222 million in the second quarter of 2022, or \$471 million year to date, which is holding to our full year estimate of approximately \$1 billion in gross vehicle sales.

The Company continues to develop its platform and expand its trade corridors, which presents certain operational challenges on the cost and trade financing side, but we're confident that the path to growth is on the right trajectory.

Moving on to Kognitiv. In the second quarter, revenues from continuing operations were \$14.4 million, an increase of \$1.3 million or 10 percent over the same period last year, mainly due to new clients and improved revenues from travel and hospitality clients, albeit still dampened by travel restrictions related to COVID-19.

Adjusted EBITDA from continuing operations was a loss of \$10.3 million, an improvement of \$1.7 million over the same period last year, which improved mainly due to lower operating expenses.

Kognitiv continues to focus on maximizing revenue growth from existing clients by expanding its current client subscription base through member growth, as well as widening the scope of their service engagements. Kognitiv continues to be focused on expense reduction initiatives to improve its cost structure by removing inefficiencies and ancillary cost as it aligns its commercial delivery model.

Moving on to Clear Media. Due to the continued mobility restrictions within many of China's largest cities, including Beijing, Guangzhou, and Shanghai, demand for out-of-home advertising, such as Clear Media's bus shelters, has been temporarily reduced. This is creating a challenging operating environment for all outdoor advertisers in China.

Total revenue for the 6 months ended June 30, 2022, was RMB\$341 million, down 47 percent from the same period last year and similar to the first half of 2020 when there were similar COVID-related shutdowns throughout China.

Given this tough environment, we recorded a reduction to our carrying value in the quarter of \$8 million. This adjustment was based on the current weakening environment, marketing demand, and the time we now expect for the business to return to its historical revenue and EBITDA levels.

Once the mobility restrictions are lifted, we're anticipating a similar rebound within the outdoor advertising market that the rest of the world is currently seeing. But until that time, Clear Media's recovery is being delayed.

Next up is Capital A. Southeast Asia has seen a resurgence in air travel as the region has relaxed or removed all COVID requirements for travellers. As was expected, pent-up demand within Malaysia,

Indonesia, the Philippines, and Thailand drove dramatically better operating metrics for each of Capital A's airlines.

And finally turning to our investment management business. Revenue for the quarter from investment management fees were approximately \$500,000 and earnings before income taxes was a loss of \$400,000, including \$200,000 in non-reoccurring expenses and non-cash amortization of intangibles.

Assets under management were \$132.2 million at the end of the second quarter, down 29.4 percent sequentially, largely due to the negative performance of MIM's concentrated value-oriented portfolio, which was impacted by the broad-based weakness in the global equity markets.

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

Steve?

Steve Leonard

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

Starting with our consolidated results. In the second quarter, loss from investments was \$32 million compared to \$9.7 million of income last year.

The negative performance was mainly related to \$8.8 million non-cash equity pick up of our share of Kognitiv's net loss; \$16 million of a negative net change in fair value of our marketable securities; and \$8 million reduction in the carrying value of our Clear Media investment.

Reported expenses were \$3.5 million, down from \$5.9 million in the same quarter of last year, mainly driven by a decrease of 1.5 million of share-based compensation and 500,000 in professional fees and other expenses.

Within total expenses, corporate operating expenses, which includes compensation, professional and advisory fees, as well as insurance, technology, and other office expenses, were \$3.1 million in the second quarter, down from \$5 million in the same period last year, again, to lower share-based compensation, professional fees, and other expenses.

Moving on to cover the major cash movements for the quarter. We ended the second quarter with total cash, excluding liquid investments, of \$10.2 million. Including marketable securities of \$36.3 million not held in Precog, total cash and marketable securities were \$46.5 million at the end of the quarter.

The main movements in cash this quarter were proceeds from the sale of Capital A's shares of \$1.8 million; \$2.6 million to repurchase shares under the NCIB; \$3.2 million of preferred dividends and related Part VI tax of \$1.3 million; and holding cash operating costs were \$3.4 million.

Available tax losses approximated \$750 million at the end of the second quarter, comprised of \$390 million in capital losses and \$360 million in net operating losses, mostly in the US and Canada and some in the UK.

As mentioned earlier, we intend to utilize these tax losses to mitigate taxes associated with our investment strategy.

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

Phil?

Phil Mittleman

Thanks, Steve. We are extremely pleased with the outcome of our PLM divestiture.

Completing a transaction with an airline-related asset during a worldwide pandemic with Aeroméxico in bankruptcy proceedings was a very complex and difficult achievement, to say the least. I'd

like to take this opportunity to thank the entire Amia management team and its board and advisors for their tireless efforts in getting this done.

We'd also like to thank Aeroméxico and PLM teams for our long and successful partnership, their careful management of PLM and the airline through the most difficult period in aviation history, and their tireless efforts to structure and execute this transaction. We wish Aeroméxico tremendous success moving forward with Club Premier as a wholly owned loyalty program.

With this transaction behind us, we are now focused on deploying our capital into cash-generative businesses while we continue to buy back our common stock.

We are actively conducting diligence on new potential investments, and we look forward to providing you further updates in due course.

Steve Leonard

Operator, that concludes today's prepared remarks. Please go ahead and prompt for questions.

Q&A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the *, followed by the number 1 on your touch-tone phone.

You will hear a three-tone prompt acknowledging your request, and your question will be polled in the order they are received.

Should you wish to decline from the polling process, please the *, followed by the number 2.

If you are using a speakerphone, please lift the handset before pressing any keys.

One moment for your first question.

Your first question comes from Brian Morrison from TD Securities. Please go ahead.

Brian Morrison — TD Securities

Good morning.

Steve Leonard

Hey, Brian.

Phil Mittleman

Good morning. Hey, Brian.

Brian Morrison

Hey. Good morning, guys. So congratulations on getting PLM over the finish line. I guess the next question, however, is I know you're not going to go into detail about reallocating the proceeds, but maybe just you've had some time with the process getting dragged out to evaluate many opportunities. I'm wondering what the duration is to reallocate these proceeds? I know there's no firm hard date, but can you give us some sort of colour?

Phil Mittleman

Yeah. Hey, Brian. It's Phil.

Brian Morrison

Yeah.

Phil Mittleman

Listen, we've been actively looking at targets since before this transaction closed. We've been in advanced diligence on a lot of opportunities. And we obviously want to put the cash to work as quickly as we can. We know idle cash doesn't really benefit anybody, but at the same time we're not forcing a transaction that doesn't make sense.

And as you know, the worldwide markets have had some pretty serious dislocation, so the opportunities have increased. You see private equity firms stepping back because the debt markets are uncertain, and you've seen sellers kind of adjusting their expectations downward and that takes a little time, so we're trying to take advantage of that.

The good news is with the amount of cash that we have, we don't have to be as reliant on debt markets as other firms might, so we're seeing some great opportunities.

So we're working as quickly as we can to get the cash to work, but as I said, we're not forcing anything. But I would say that we feel the urgency that I'm sure you feel and others feel because it's frustrating to see our stock not react to the assets and the cash that we have on the balance sheet.

But we think that will change once you start to see the type of deals that we're pursuing. And you get one or two of those under our belt and you have that backbone of earnings, and I think that'll change things.

So we recognize the urgency and we feel it.

Brian Morrison

Okay. So let's take that one step further. So your share price is you've got net cash of about \$3.50 per share when you subtract the prefs. So essentially, you've got about \$1 per share for all of your remaining assets. That's about \$90 million. So I agree with you, there's a dislocation here.

Other than just being active with your NCIB, is there any other sort of ways to create value for Aimia shareholders at this point in time through capital returns or another—purchasing prefs or whatever it might be?

Phil Mittleman

Yeah. I mean, I think the number one way that we're going to recognize value is by creating value and by increasing our NAV. And the way we're going to do that is by investing wisely, but also creating value that people can actually see in these other assets.

When you say that they're only valuing them at \$1 a share, it's because we understand there's a lack of clarity in what's going on in some of these things that you just can't—it's hard to predict where these things wind up and how you get a value marker and when and what you can provide to the market. So that's frustrating.

So I think we have to be clear and disclose as much as we can on those and create value as much as we can in those while we deploy this capital into value-creating things. We're not focusing on just buybacks. That's not the way we're going to create the real value for Aimia shareholders.

It's a balancing act and, obviously, we're committed to it, and you see us buying back our stock aggressively. We think it's significantly undervalued. But it's a combination.

Invest it wisely and create value in what we have, and I think people will refocus on that once they see deals come in with this capital that they can point to and they can kind of clearly value and give them confidence to buy and hold our stock.

Brian Morrison

All right. I guess the last question I have, when you're talking about private-market valuations being tricky is TRADE X looks like you're actually—that is the one private investment that seems to be going quite well at this point in time.

Just wondering what you think the next marker would be. Will it be another round of financing? Or when can we think of when we might see a monetization event on that one?

Phil Mittleman

Yeah. I mean, I guess value markers come in really two forms, right? Transactions, either you're raising money, or you're doing a transaction of some type of event. So I think with the equity—the tech markets the way they are for equity and debt right now, I think we're focusing on organic growth, just recycling the capital that they have and growing that way.

So as soon as we see an opportunity to do some type of transaction at a value that we think is beneficial for stakeholders, we'll do it. In the meantime, we're going to continue focusing on growing it prudently using the capital that they have.

Brian Morrison

All right. Thank you very much. Look forward to seeing further deployment.

Phil Mittleman

Thanks, Brian. Appreciate it.

Steve Leonard

Thanks, Brian.

Operator

Thank you. Mr. Leonard?

Steve Leonard

Yeah?

Operator

There are no further questions at this time. Please proceed.

Steve Leonard

Okay. Thank you, everyone. That will wrap up the call, and we look forward to talking to you at our next quarter call.

Thank you.

Operator

Thank you. Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.