Aimia Inc.

Third Quarter 2022 Results Conference Call

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CONFERENCE CALL PARTICIPANTS

Surinder Thind
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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Aimia Inc. Third Quarter 2022 Results Conference Call. At this time, all lines are in listen-only mode, and 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 Wednesday, November 9, 2022.

I would now like to turn the conference call over to Mr. Albert Matousek. Please go ahead.

Albert Matousek — Head of Investor Relations and Communications, Aimia Inc.

Thank you, Kelsey, and welcome, everyone, to this morning's call.

Today's presentation is available on SEDAR and on our website.

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

My name is Albert Matousek, Head of IR and Communications.

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, Albert, and good morning to everyone on the phone and webcast today.

To recap the strategic highlights for the quarter, we are pleased with our results, the highlights of which included earnings of $5.93 per common share, mainly due to the closing of the PLM transaction whereby Aimia recognized a gain net of tax of $530.6 million.

Aimia intends to deploy most of the proceeds towards investments in companies with long-term track records of free cash flow generation, as well as exciting growth prospects that will utilize our tax losses.

We also continue to repurchase shares under our NCIB. So far this year, we have repurchased over 8 million shares of our common stock. We continue to opportunistically buy back our shares, as we see a significant discount to our intrinsic value.

Now on to our holdings. 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.

The company did experience some macro headwinds during the quarter as it refocused its business by reducing inventory risk and its associated working capital needs to focus more on the transactional platform model. We remain confident and excited about TRADE X's future.

Moving to Kognitiv. Revenues were down in the quarter versus the prior year, but remained slightly ahead on a year-to-date basis, as Kognitiv's customer retention continues to be very high. The company is focused on reducing costs and improving efficiencies to achieve profitability while it pursues additional financing to improve its liquidity profile.

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

Clear Media is a high-quality business that stands to benefit from its sizable market position once China reopens and once the mobility restrictions are lifted. We remain very excited about Clear Media's future prospects.

Moving to our investment in Capital A. AirAsia continues to see the benefit of increased travel as the Southeast Asia region emerges from COVID restrictions. This low-cost airline is uniquely positioned to capitalize on the sizable pent-up demand for travel across Southeast Asia, while Capital A continues to develop and enhance the value of its digital assets.

And with that, let me turn the floor over to Mike to provide you some further info 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. TRADE X generated gross vehicle sales of approximately $176 million in the third quarter, which was below the level of gross vehicle sales in the most recent quarter but was a significant increase from the period from last year, mainly as a result of acquisitions closed in the fourth quarter of 2021.

Year to date, TRADE X generated gross vehicle sales of $647 million, which is tracking below the full year guidance of approximately $1 billion as a result of a pullback in volume and a reduction in vehicle prices due to market headwinds that the industry has experienced beginning this summer.

We now expect TRADE X to generate full year gross vehicle sales of between $800 million and $900 million for the full year 2021, significantly above last year.

The company continues to develop its platform and expand its trade corridors and distribution partners and continues to work through certain operational trade financing challenges that often accompany rapid growth.

Moving on to Kognitiv. In the third quarter, revenues from continuing operations were $13.5 million, a decrease of $500,000 or 3.6 percent over the same period last year, mainly due to lower-margin client roll-offs, offset in part by new client revenues.

Adjusted EBITDA from continuing operations was a loss of $7.9 million, an improvement of $600,000 over the same period last year, mainly due to lower technology and compensation expenses, with the latter impacted by headcount reductions, offset in part by lower revenue.

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 servicing agents.

In addition, the management team remains focused on expense reduction initiatives to improve its cost structure as it aligns its commercial delivery model.

Moving on to Clear Media. Total revenue for the nine months ended February of 2022 was CNY 526 million and continues to be affected by COVID-related shutdowns throughout China. In most markets globally, out-of-home advertising continues to experience strong growth, often high single-digit organic sequential growth. Once the mobility restrictions are lifted in Clear Media's markets, we anticipate a similar rebound to its street furniture business, but until that time, Clear Media's recovery is being delayed.

Next up is Capital A. In the third quarter operating results, the airline carried 9.9 million passengers, almost 23 times the volume carried in the same period 2021. This represents only 54 percent of 2019's passenger levels, so there's still room to recover. And the trend continues to be positive, with quarter-over-quarter growth of 36 percent.

AirAsia set a quarterly load factor of 86 percent, the highest figure recorded since the onset of the pandemic. This low-cost airline is uniquely positioned to capitalize on the sizable pent-up demand for travel across Southeast Asia, while Capital A continues to develop and enhance the value of its digital assets.

And finally, returning to our investment management business. Revenue for the quarter from investment management fees were approximately $400,000 and the earnings before income taxes was a loss of $100,000.

Assets under management were $125.6 million at the end of the third quarter, down 10.4 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 market, offset in part by new inflows from existing clients.

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, 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 third quarter, income from investments was $533.9 million compared to $7 million of income last year. The positive performance was mainly related to the close of the PLM transaction whereby Aimia recognized a gain net of tax of $530.6 million.

Expenses were in line with the prior-year period of around $3 million when you exclude stock-based compensation, and the current-quarter goodwill impairment charge of $11.4 million, and the litigation provision of $4 million.

For the holding segment, corporate expenses, which include compensation, professional, and advisory fees, as well as insurance, technology, and other office expenses, were $4.9 million in the quarter.

Excluding the $4 million litigation provision and a $2.5 million credit associated with stock-based compensation, holdco expenses were $3.4 million for the quarter, a decrease of $300,000 versus the same period last year.

Moving on to cover major cash movements for the quarter. We ended the third quarter with cash of $521 million. Adding in marketable securities of $36.6 million not held in Precog, total cash and marketable securities were $557.6 million at the end of the quarter.

The main movements in cash this quarter were net proceeds from the PLM transaction of $537.3 million, $32.1 million used to repurchase shares under the NCIB, a $14.2 million currency translation adjustment, $3.1 million of preferred dividends and related Part VI tax of $1.3 million, and holdco cash operating expenses of $3.4 million.

Available tax losses approximated $785 million at the end of the third quarter, which has increased partly due to currency, post filing of the returns.

The distribution is comprised of $390 million in capital losses and $395 million in net operating losses, mostly in the US and Canada. As mentioned earlier, we intend to utilize these tax losses to mitigate taxable operating and capital earnings generated from our investments.

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

Phil?

Phil Mittleman

Thanks, Steve. This is a very exciting time for Amia.

Having successfully navigated the Aeroméxico bankruptcy, two waves of COVID, achieving successful liquidity events and legacy holdings, and having repurchased approximately 9 percent of our outstanding common shares so far this year, we are now extremely well positioned.

The recent dislocations in the capital markets are creating great opportunities for Aimia, now armed with over $550 million in cash and liquid investments, no debt, and approximately $785 million in tax losses.

We are in advanced stages with some exciting investment opportunities, and we hope to be able to share further information with you in the near future.

Albert Matousek

Well, thank you.

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

Q&A

Operator

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

You will hear a three-tone prompt acknowledging your request, and your questions will be polled in the order that they are received. Should you wish to decline from the polling process, please press *, followed by the 2.

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

One moment, please, for your first question.

And your first question comes from Surinder Thind from Jefferies. Please go ahead.

Surinder Thind — Jefferies

Thank you. I'd like to start with a question about just capital allocation. Can you maybe provide any colour on kind of the mix that you're thinking of between share repurchases and dividends at this point? Or is that somewhat of a flexible target relative to your target of $75 million of return (phon)?

Phil Mittleman

Yeah. Hi, Surinder. Yeah. It's a balancing act. Because of the uncertainty in the debt markets, some of the targets we're looking to acquire are obviously going to take on debt at the sub level. And until we're clear on what type of cash we need to transact, we'll kind of revisit the amount of money that we'll consider using for repurchases and/or dividends at that point.

Surinder Thind

Thank you. And then just following on in terms of just some of the holdings that you have. Is there maybe a little bit of colour that you can provide more on TRADE X in terms of just kind of the business decisions that are being made there?

It sounds like maybe they were expanding too quickly, or the macro kind of hit them a little quicker than anticipated. How should we think about when you talk about reducing inventory risk and some of those kinds of things, how much of those are kind of start-up issues and how much of them are kind of business decisions at this point?

Phil Mittleman

Yeah. I think it was a little of both. I think they got a little ahead of themselves in terms of when the market got really hot, we think they bought too much inventory anticipating kind of a limitless demand and limitless ability to access working capital. And when things took a turn, they were in the middle of actually a financing raise at the time. They had raised some money at a significantly higher valuation. And when the tech spigots kind of turned off for the world, they had to step back and kind of re-pivot on their model and liquidate inventory, focus on the transactional model, pre-sold-only cars. And in the meantime, they took obviously some hits in terms of valuation of those vehicles.

So it was just kind of getting a little ahead of themselves growing too fast. But I think they're doing a good job of adjusting. And going forward, you're going to see much a more transaction-oriented model with much less reliance on inventory and working capital.

Surinder Thind

Got it.

Michael Lehmann

And if I could jump in for a second. Surinder, it's Mike Lehman.

TRADE X, just to kind of reiterate, TRADE X is a B2B model, right? Not a B2C model like a Carvana and the like. So, with regard to the B2B model, they're certainly impacted, but not to the degree that the B2C is and other asset-heavy businesses are. TRADE X is more of the brokerage model. So they own the platform sitting in the middle and they participate with each party, both the buyer and the seller, and they just transact in the middle.

The inventory that they had was part of the start-up costs and the start-up assets to get into different trade corridors. And as they get into those trade corridors, they were adding inventory in order to prime the demand within that to satisfy the demand in those markets. So that was more of a one-time effect than part of their long-term business model.

Surinder Thind

Understood. So it sounds like that this should theoretically be an asset-light business, right? Much more of a technology—

Michael Lehmann

That's right.

Surinder Thind

—-oriented form and it's more about just entering geographies and so forth that there's these kind of inventory or start-up tech costs.

Michael Lehmann

That's exactly right. So the way to think about it is is they have this platform sitting in the middle and they're the ones that are able to both gauge what customers have to sell, the autos that they have to sell, as well as what customers' demand is, the pull-through, what they want to buy.

So when somebody comes in and says, I want to buy 150 cars of this year, this model, this mileage, this kind of trim package, they can put that into the TRADE X model. And the TRADE X model is called an Instant Request. And then they put that out to all their customers that are on the sell side and the sell-side folks can match those buys, and they sit in the middle, and they just clip cash flow on both sides.

So you're right, it's asset light. And it's akin to the equity markets, a Bloomberg or a capital markets program where they're sitting in the middle and there are buyers and sellers creating demand off of one another. And their platform and the ability to recognize what the inventory level is for people that want to sell and where the demand is for people who want to buy, that's the attractive value here.

Surinder Thind

Got it. That's actually really helpful.

And then just thinking about big picture and kind of as you look towards making the next set of investments, maybe talk a little bit about the attractiveness of more local North America in the current environment versus maybe more globally at this point. Or how should we think about the trade-offs, especially in an environment where the macro seems to be slowing?

So is that part of the consideration at this point? How should we think about that?

Phil Mittleman

We look globally. We search. We obviously appreciate that some of the bigger dislocations are happening outside of North America. Whatever we do, however, we'll take advantage of our available NOLs and capital losses in North America. So if we were to transact in something outside the US, it would be more of a global business that could have a footprint in Canada or the US ultimately that would tap those.

So we do look and are looking globally, but the companies that we're looking at all have the same attributes. It's their long track records of free cash flow generation through economic cycles, great management teams, strong growth rates.

So we're combing the world and we do obviously have that in mind as well.

Surinder Thind

Okay. And then just in terms of kind of thematically as you think about investing globally, can you maybe talk a little bit about are there additional market considerations at this point, given it seems like China may be a bit more difficult to invest in? How should we think about the investment there at this point?

It seems like there's less investor appetite for investment in the region and maybe just some geopolitical considerations there.

Phil Mittleman

Yeah. I mean, when we went into the investment in China through Clear Media and we understood that there was geopolitical risk, obviously those risks have heightened since we made the investment, but the partners that we took on there were really the best partners you could ever assemble.

We have JCDecaux, the leader in that business in the world. We have Ant Financial and effectively through an investment fund the Chinese government. So you couldn't ask for a better group to navigate what's going on there.

I think that obviously we wouldn't seek out further investments into that type of geopolitical climate now but having being in there and having to navigate through, I mean, the unlikely bad luck of being the only place in the world with a zero-COVID policy when you're an outdoor advertising firm is not ideal. But this company is very resilient. It's a great business. I think they'll survive it and thrive quickly thereafter.

And I think having these type of partners through this period can also provide opportunity. There's also weakened competitors. There's always a possibility of M&A in situations like this. And so I think we're happy with the partnership. We're happy with where the business is going to wind up. We're not happy with having to endure this period, and it's not a fun thing for shareholders to endure. But if you're going to go through it you want to go through it with this group and this type of business that they can cut costs during times like this, and they quickly scale back up when things rebound, as we saw after the first COVID wave, we had a really fast snapback.

So, optimistic about the future of it. Not going forward, you won't see us getting into situations with that level of geopolitical risk, especially for large investments that we're going to be controlling.

Surinder Thind

Got it. And then in terms of, I guess, finally, maybe a question on Capital A at this point. When we think about the rebound in travel, or it starting to rebound, we're still well below pandemic levels. What's your willingness to kind of be patient at this point in terms of maybe not just Capital A, but the broader portfolio?

Does it make sense to think about the current holdings relative to the opportunity costs at this point? Or is this something where it just makes more sense to wait a few years, if that's the right way to think about it?

Phil Mittleman

Yeah. I mean, if we were facing an opportunity that required cash and we had to decide between Capital A and that investment, we would obviously have to weigh the opportunity cost.

But in our current situation where we have a lot of cash, we have the ability to be patient and let it play out a little more. I think the reason Capital A has been depressed is I think if it wasn't for the fact that they have to deal with a regulator there and kind of show they had to adjust their balance sheet and go through a process there, once that's resolved, I think there's been a fear of delisting there that caused the stock to drop and stay low, and I think that's artificially been depressing what would otherwise be recognizing a strong rebound in their business.

So I think once that's corrected, I think the stock will reflect more accurately what's going on there, which is a very sharp rebound of the business and some of their underlying assets. So we're patient.

It's not—to refresh your memory, I'm not sure since I know you're new to the story, but the bulk of this stock was acquired because we sold AirAsia a 20 percent stake in their loyalty business that we owned that we had determined we were not going to see any cash flow from in the future.

So we thought it made sense to convert that into liquid shares of the airline, which I think we think have upside and obviously a lot more liquidity than the previous holding had. So we're not—this isn't like we don't seek out investments in airlines typically.

The models are not looking for cyclical businesses, especially like airlines, but in this case it was unique the situation we found ourselves in. And we're definitely patient enough to wait till we get what we think is a fair value for it, which is significantly higher than where the stock is now.

Surinder Thind

Got it. Okay. That's it for me on the questions.

Thank you very much.

Phil Mittleman

Great. Thank you.

Albert Matousek

Thanks, Surinder.

Operator

Thank you. And your next question comes from Brian Morrison from TD Securities. Please go ahead.

Brian Morrison — TD Securities

Thank you. Good morning, guys. Phil, can I just follow up—

Albert Matousek

Good morning, Brian.

Brian Morrison

—good morning. Can I just follow up on the capital allocation question? I'm not sure that I got it clearly. Are you still committed to the 75 million through an NCIB and special dividend potential post the PLM transaction?

Phil Mittleman

Well, when we first announced the $75 million, there was an initial—there was an NCIB underway that we were optimistic we could utilize because we knew PLM was coming and was hopefully going to close sooner than it did.

So we missed that window. So the first NCIB we missed.

Brian Morrison

Mm-hmm.

Phil Mittleman

We renewed the second NCIB, which we fully took advantage of. And in the meantime, we're obviously reviewing in advanced stages on some larger investments.

So, because of the fact that we don't know exactly what the equity cheque size is going to be required for some of these deals we're looking at, we're going to make those deals. We've obviously acquired a lot of stock. We've spent approximately 35 million buying back through this NCIB. And as you know, we love buying back our stock and we want to keep buying back our stock, especially at these prices.

But we have to figure out how much cash we need for these deals we're considering. And once that is—once we have a clear handle on that, then we'll revisit what we're going to do on the buyback end or dividend side.

Brian Morrison

Okay. And then I guess question for Steve maybe. Did the value of your tax losses increase this quarter? I thought they were $750 million previously.

Steve Leonard

Yeah. Well, half of the NOLs, Brian, actually a little bit more of the NOLs, almost two-thirds are in USD. And currency was a driver.

There's always a few other things as we file returns. There's some additional losses that are accreting, but mainly it was currency.

Brian Morrison

Got it. Thank you. Mike, maybe just a couple operational questions. I want to follow up on TRADE X. So I understand the de-risking of the model. Are you able to share what the percentage of sales is that were inventory transactions versus, say, transactional?

And is there any—as you de-risk the model here, is there any risk of obsolescence or is it immaterial at this point in time?

Michael Lehmann

Yeah. Thanks for that, Brian. So we can't get into the very specific details, but I can say over 90 percent, closer to 95 percent are pre-sold cars. So those are cars that they're just sitting in the middle, if you would, right?

And as they—as you can imagine, they get into new markets and those new markets are—there's a great demand for cars. That's why they're signing on with TRADE X. They need cars, they need inventory, and TRADE X is a perfect partner to provide that inventory.

But there needs to be a little bit of a proof of the model. So what they have done is they've acquired cars and moved them into that market. So there can be very quick transactions that occur to prime the pump, if you would. It's kind of not really the right term, but directionally it is.

And so as they move cars into the Dominican Republic, for example, and there's a massive demand for kind of middle-market cars there, they can have cars either on the water or being transported so when there's a transaction demand, they can just hit it immediately and all of a sudden get into that market, steal some share in that market, get some—a lot of velocity, I would say.

But it was, I think, it was a difficult period during the summer because they did acquire some inventory. It did increase the demand from dealers dramatically, which is a great thing long term, but they held inventory with, as you can see, for the past four months consecutively, MMR has traded down, right? So the average pricing of cars has moved down. And if you just look at the average price of cars sold, it's been kind of in the mid to high 20s and all of a sudden it's softened into the mid to low 20s. So that's just the overall market moving down.

So I don't think that the likelihood of this being—in fact, it's not going to be an asset-heavy business. This is going to be an asset-light business sitting in the middle. So it was just kind of a point-in-time situation where they did get caught with a little bit of inventory, and $500 or $200 per unit adds up. So that's really the reason.

But going forward, it's going to be much closer to that 95 percent pre-sold cars.

Brian Morrison

Okay. Thank you for that.

Michael Lehmann

Yep.

Brian Morrison

Maybe if I can follow up on Kognitiv. It looks like the carrying value of your common share holdings went down a little bit this quarter once again.

Does the lowering of the valuation take into consideration the potential need for additional capital? And if so, are there any additional creative sources available than just vanilla equity?

Phil Mittleman

The decline you're seeing there, Brian, is just our non-cash take from their quarterly loss. So it's not like—

Michael Lehmann

The equity accounting of it.

Phil Mittleman

It is the equity accounting. So we're not saying they're actually doing a write-down, such as a natural reduction. Yeah.

Michael Lehmann

Yep.

Phil Mittleman

Yeah. They have noncore assets that they could sell. They have some other options.

So yeah, they're pursuing all different options. I think when this tech crash/tsunami hit, I think a lot of companies, including Kognitiv, were just forced to face reality and say, look, we've got to live in a world where there may not be financing sources available. We've got to make these models work. And I think it's ultimately healthy for everybody to do that.

And I think it just accelerated Kognitiv's efforts to get their cost structure in line, focus on the right business initiatives in going forward.

So yeah, they're exploring all the options that they have available to them. And it's more than just their typical raise, yes.

Brian Morrison

Okay. Okay. This will be last question then. In terms of your significant cash resources, obviously you're in a very fortuitous position, but are you able to provide, narrow down any of the sectors that you're focused on and progress with your diligence on that front?

Phil Mittleman

I mean, we can't really give detail except to say that the sectors are the type of sectors we would have said we would go after: companies that don't burn cash or significant cash during severe downturns.

Obviously, as you face recessions we want to make sure that these are companies that either are recession proof or recession resistant. They will have—they'll share the attributes of long track records that you can see of generating a lot of cash and growing throughout economic cycles.

There'll be a moat to entry in the sector. They all have great management teams. I think companies that we're advanced with are companies that maybe we wouldn't even see during the boom times. I think a lot of buyers have dropped out on the market because they can't do what we can do.

I would say that we are like a buyer going into a real estate transaction with no mortgage contingency and paying all cash, whereas other people require 50 percent mortgages. And so the debt market is the way they are, while we intend to put leverage on, modest amounts of leverage on at the sub level on these deals, we don't have to up front. So we can move forward and aggressively and be at the front of the buyer list because of that.

And at the same time, obviously, you're seeing seller realization that because of that their prices are more reasonable. So you're seeing—

Brian Morrison

Right.

Phil Mittleman

—while you're never going to see a great company transact at 5 times EBITDA, you're going to see great companies drop from 11 to 12 down to 8 to 9. It's a big difference and allowing us entry into those types of things.

Companies that are really just A-plus companies across the board is what you should expect to see. And we're excited to give you more info when we can in the near future.

Brian Morrison

All right. Well, I look forward to seeing what you uncover. Thanks very much, guys.

Brian Morrison

Thank you.

Albert Matousek

Thanks, Brian.

Operator

And there are no further questions at this time. You may please proceed.

Albert Matousek

Thank you, everyone, for joining today's call and webcast. I wish you all a great rest of the day.

Thank you very much.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you very much for participating and ask that you please disconnect your lines. Have a great day.