

Aimia Inc.

Fourth Quarter 2022 Results Conference Call

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CONFERENCE CALL PARTICIPANTS

Andrew Lopez

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Aimia Inc. Fourth Quarter 2022 Results Conference Call. At this time, all lines are in a 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 Thursday, March 16, 2023.

I would now like to turn the conference over to Albert Matousek, Head of Investor Relations. Please go ahead.

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

Thank you, Michelle, and welcome, everyone, to this morning's call. Today's presentation is available on SEDAR and on our 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 statements.

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 the strategic highlights followed by Michael, who will cover the performance of our investments before handling the call over to Steve to take you through the results of the quarter. We will have time for your questions at the end.

In addition to our earnings release and investor slides for the quarter, we have also posted an updated presentation on the Tufropes acquisition, which we expect to close tomorrow.

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.

We are excited about our recently announced acquisitions of Tufropes and Bozzetto for a total of \$585 million. These two businesses generated \$72 million in pro forma adjusted EBITDA for the most recent fiscal years, with high free cash flow conversion, providing Aimia with a strong foundation on which we will continue to build.

These two companies will form the backbone of our strategy to continue to acquire businesses that generate significant cash flow for Aimia, utilizing our sizable tax assets while presenting strong opportunities for future growth.

On January 31st, we announced that we signed definitive agreements to acquire Tufropes for \$252.6 million. Tufropes is a global leader in high-performance synthetic fiber ropes and netting solutions for global aquaculture, maritime, and other various industrial end markets.

Tufropes is expected to achieve annual revenue of approximately \$130 million for the fiscal year ending March 31, 2023, with industry-leading adjusted EBITDA margins of 18.5 percent. With our operational improvement initiatives, as well as the optimization of product mix, adjusted EBITDA margins are expected to grow above 20 percent within the next two years.

Aimia expects to close the Tufropes transaction tomorrow, March 17th.

On March 6th, Aimia announced that it had signed a definitive agreement to acquire Bozzetto Group for \$332.4 million. Bozzetto is one of the world's largest ESG-focused providers of specialty chemicals, offering sustainable textile, water, and dispersion chemical solutions with applications in

several end markets, including the textile, home and personal care, plasterboard, and agrochemical markets.

Bozzetto achieved annual revenue of approximately \$330 million and adjusted EBITDA of \$48 million, with an adjusted EBITDA margin of 14.5 percent for the fiscal year ending December 31, 2022. This transaction is expected to close before the end of the second quarter of 2023.

Turning to our financial results. We ended 2022 in a strong financial position with over \$540 million of investable cash and liquid securities, a diversified portfolio of holdings that we believe are poised to deliver strong results in 2023, and tax losses of over \$660 million that will help shield a sizable portion of our taxable income and capital gains for years to come.

During 2022, Aimia bought back 8.3 million common shares on the open market, fully utilizing its most recent NCIB for total repurchases in 2022 of \$36.5 million worth of our common stock.

Turning to our holdings. TRADE X's asset-light model has begun bearing fruit, and in the first months of 2023, saw margins improving.

Kognitiv, under the guidance of a new CEO, Tim Sullivan, has accelerated their cross-cutting efforts and has begun executing a new business plan.

Clear Media is expected to enjoy a strong recovery as two years of zero-COVID policy finally ended in China.

Capital A is experiencing a very strong rebound in its airline business.

Moreover, as we recently announced, we are increasing our previously stated \$75 million capital return target to \$100 million, of which we have executed \$36.5 million in open-market purchases in 2022.

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

Mike Lehmann — President, Aimia Inc.

Thanks, Phil, and good morning to everyone. I'm going to begin with a review of TRADE X.

TRADE X started the year strongly but ended a midyear slowdown as rapidly rising interest rates and the prospect of a recession caused used car prices [audio gap] demand to decline, just as the Company was building inventory to launch several new and promising end markets.

The situation has improved and demand for used cars has returned and pricing environment has stabilized. With the new target markets up and running, the Company has successfully worked through its excess inventory.

TRADE X's asset-light program, called Instant Request, is seeing steady improvement in both gross vehicle sales and gross margins.

TRADE X continues to develop its existing trade corridors and continues to open new trade corridors across Latin America, the Caribbean, as well as Africa.

TRADE X generated gross vehicle sales of \$150 million in the fourth quarter of 2022, a significant increase from the same period last year, mainly as a result of the acquisition that was closed at the end of the fourth quarter 2021.

We remain confident and excited about TRADE X's future as it continues to develop its Instant Request platform.

Moving on to Kognitiv. In the fourth quarter, revenues from continuing operations were \$12.5 million. Adjusted EBITDA from continuing operations was a loss of \$5.9 million, a significant improvement of \$5.2 million from the loss of \$11.1 million from a year ago.

Led by its new CEO, Tim Sullivan, Kognitiv has undertaken a series of initiatives to reduce costs and drive efficiency as it rolls out its existing and new commercial offerings. In January 2023, Kognitiv obtained \$10 million in new debt financing from a US institutional investor.

Moving to Clear Media. The COVID-19 pandemic has continued to impact the operations of Clear Media during the three months ended December 31, 2022. China finally ended its COVID mobility restrictions in December, which led to significantly affected the demand for outdoor advertising in 2022. This led to a decrease in revenue from RMB 1.265 million in 2021 to RMB 724 million in 2022, a reduction of 43 percent. And EBITDA declined from RMB 690 million in 2021 to RMB 58 million in 2022.

Despite the negative impacts of the zero-COVID policy, we're confident that Clear Media will rapidly recover now that China has reopened, and mobility restrictions have been lifted.

Next up is Capital A. In the fourth quarter, the group carried 7.8 million passengers, an increase of 187 percent year over year, resulting in a quarterly load factor of 86 percent.

For the full year 2022, the group carried 34.2 million passengers, which represents only 46 percent of 2019 passenger levels. So there's still a lot of room to recover, but the trend continues to be very, very positive.

The 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 it over to Steve to take you through the financial results. Steve?

Steve Leonard — Chief Financial Officer, Aimia Inc.

Thanks, Mike. Let me 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 fourth quarter, loss from investments was \$11.1 million compared to a loss of \$5.8 million last year. The loss from investments in the quarter was mainly due to unrealized fair value losses recognized from our investments in Clear Media and TRADE X preferred shares.

The equity pickup of Kognitiv's net loss in the quarter, offset in part by higher interest dividends and other investment income, as well as the \$4 million unrealized fair value gain recognized from the issuance of TRADE X warrants concurrent with the execution of the amended and restated offer, resulted in the results for that period.

Expenses came in at \$10.6 million, an increase of \$2.9 million compared to the same quarter of the prior year.

For the Holdings segment, corporate operating expenses, which include compensation, professional, and advisory fees, as well as insurance, technology, and other office expenses, were \$6.3 million in the quarter, down \$0.3 million, mainly due to a decrease in compensation and benefits of \$1.6 million, due primarily to a decrease in share-based compensation of \$1.5 million. This was offset in part by an increase in professional advisory fees of \$1.5 million, due primarily to \$2.1 million in transaction costs associated with the Tufropes acquisition.

Moving on now to cover cash movements for the quarter. We ended the fourth quarter with \$505 million in cash. Adding in marketable securities of \$36.7 million not held in Precog, total cash and marketable securities were \$542 million at the end of the quarter.

The main movements in cash this quarter were: \$3.1 million of preferred dividends related Part VI tax of \$1.3 million paid; \$2.1 million of transaction costs incurred in relation to the Tufropes acquisition; \$1.8 million used to repurchase shares under our NCIB; \$2.7 million of negative translation adjustments

related to cash; and \$4.7 million of net cash outflows related to holding company costs and other investment activities.

Moving on to our pro forma unrestricted cash. We expect to have \$200 million in pro forma unrestricted cash and liquid investments at the end of the upcoming transactions we've announced.

Walking you through, we ended the fourth quarter, as I said earlier, with \$542 million in cash and liquid investments. We expect the two transactions, as we have announced, to the total consideration of \$584 million related to those transactions, \$29 million of transaction and debt fees, offset by approximately \$242 million in expected debt, and a \$13 million rollover from Bozzetto management in an equity participation of the business, as well as a \$17.5 million favourable closing working capital adjustment on the Tufropes acquisition.

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

Phil Mittleman

Thanks, Steve.

The closing of the PLM transaction took longer than expected due to the Aeroméxico bankruptcy proceedings, but we had, nonetheless, been carefully planning to redeploy the proceeds.

As evidenced by our two recently announced acquisitions, our strategy is to seek companies that generate significant free cash flow and provide capital appreciation opportunities for our stakeholders, and to use our tax losses to enhance these results.

As we seek companies to acquire, we can act swiftly when presented with the right opportunities, and we did so with the two recent purchases.

Tufropes for \$252.6 million, or approximately 9.9 times adjusted 2023 EBITDA, and Bozzetto Group for \$333.4 million, or approximately 7 times adjusted 2022 EBITDA.

Combined, these companies generated over \$72 million in EBITDA in their last fiscal years, with strong management teams and long track records of growth and free cash flow generation. These investments will form the backbone of the “new” Aimia, with plans to grow both organically and through carefully planned accretive acquisitions.

Further, once Aimia has established our target leverage for each of these investments at 3 times EBITDA, we expect to have over \$200 million in excess cash and liquid holdings to use for further acquisitions and share buybacks.

We will continue to execute our strategy of maximizing the value of our current portfolio holdings while redeploying our capital into new investments with significant upside. Due to that, 2023 is off to a strong start for our entire portfolio, and we look forward to providing further updates as soon as we can, and we look forward to an exciting 2023.

Albert Matousek

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 *, followed by the 1 on your touch-tone phone. You will hear a three-tone prompt acknowledging your request. Should you wish to decline from the polling process, please press the *, followed by the 2. If you are using a speakerphone, please lift the handset before pressing any keys. One moment, please, for your first question.

First question comes from Andrew Lopez of TD Securities. Please go ahead.

Andrew Lopez — TD Securities

Hi. Good morning.

Phil Mittleman

Good morning.

Mike Lehmann

Good morning.

Steve Leonard

Good morning, Andrew.

Andrew Lopez

Just a couple questions on your transactions there.

So for Bozzetto, just wondering if you can provide some colour on the acquisitions maybe being contemplated within that structure, within that company, such as—just looking for kind of the materiality, quantum of the revenues that you might be kind of targeting. And then, if you expect that should lead to synergies or multiple arbitrage.

And also, if you could just speak to the internal rate of forecast revenue growth for Bozzetto as well.

Phil Mittleman

Sure. Hi, Andrew. Thanks for the questions.

So, with regard to—I'll give you an example with Bozzetto, for example. Our first target is—and first of all, the management has been incredibly successful at integrating bolt-on acquisitions. They're really careful about their strategy, and I think the targets that we have here fit that bill.

A typical target, and I'll give you, for example, our first one is in the range of \$8 million to \$10 million in EBITDA. It's strategically located in another area that will allow them to expand into the Americas. So there's a lot of synergy opportunities and a lot of opportunities to grow their business in areas that they really wanted to focus on.

In terms of their growth rate, we're not going to get into too much detail at this time until we close. But I could say, the last few years have been double-digit, top-line growth.

Andrew Lopez

Okay. That's helpful.

And then for Tufropes, is there potential to utilize those tax losses through Tufropes? And would that be simply be through expanding of market share?

And just, if you could speak to the current financial instability, if there's any risk achieving leverage targets for Tufropes just given what's been going on in the banking world lately.

Steve Leonard

Okay. I'll take the tax question, and then maybe I'll let Phil or Mike jump in on the leverage side.

But on the tax side, you'll note that the business we acquired is pretty much based in India today but has over 75 percent of their revenue base outside of India. They're an exporter.

We're looking at a strategic plan, which would move some of the operating activities, at least on the sales and marketing side, internationally, actually in Canada, and eventually take advantage of the NOLs we have available to us in Canada.

That will be over a process of time. There are certain things that we have to do in order to get that activated but that definitely is something that we envision with this investment. So there will be opportunities to mitigate the cash tax cost relative to this business.

Phil or Mike?

Mike Lehmann

Yeah. Hi, it's Mike Lehman. I'm happy to jump in on the leverage question.

You're right. There's a lot of uncertainty going around global debt markets. There's no question about that. But we're highly confident. We've been in active discussions with lenders and expect to achieve the level of three times adjusted EBITDA for the acquisition.

We've had a lot of dialogue, a lot of very favourable feedback, and we're in the very late innings locking that up. So there shouldn't be a question at all.

Andrew Lopez

Okay. Perfect.

And then just the last question on the return of capital. So just like quick math here, we're looking at your \$100 million target. Is it fair to say that since you're not going to get there with the NCIB with the renewal in June, if you would be looking at a special dividend or maybe a SIB to make up this kind of shortfall?

Phil Mittleman

Yeah. That is fair. I think it's going to be a function of how quickly we execute the price, where the stock price is when we're done with the NCIB. If it remains as depressed as it is, I think you'll see a SIB. So we think the stock is very undervalued, and we're going to aggressively repurchase it. And we will use all the means at our disposal.

Andrew Lopez

Okay. That's great. That's all for me. Thanks. I'll jump back into the queue.

Mike Lehmann

Thanks, Andrew.

Phil Mittleman

Thank you, Andrew.

Steve Leonard

Thank you, too.

Operator

Once again, ladies and gentlemen, if you do have a question, please press *, 1 at this time.

There are no further questions at this time. We'll turn it back to you for closing remarks.

Albert Matousek

Well, thank you, everyone, for joining today's call and webcast. We look forward to talking to you again at the next earnings call. Thank you very much.

Operator

Ladies and gentlemen, this does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your lines.