

Aimia Inc.

Fourth Quarter 2023 Results Conference Call

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CORPORATE PARTICIPANTS

Joe Racanelli

Aimia Inc. — Vice President, Investor Relations & Communications

Tom Finke

Aimia Inc. — Executive Chairman

Steve Leonard

Aimia Inc. — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Surinder Thind

Jefferies — Analyst

Brian Morrison

TD Securities — Analyst

PRESENTATION

Operator

Good morning and welcome to the Aimia Inc. Fourth Quarter 2023 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 Tuesday, March 26, 2024.

I would now like to turn the conference over to Joe Racanelli. Please go ahead.

Joe Racanelli — Vice President, Investor Relations & Communications, Aimia Inc.

Thank you, Operator, and good morning, everyone. With me are Aimia's Executive Chairman, Tom Finke, and our Chief Financial Officer, Steve Leonard.

Before we begin, I'd like to point out a couple of items. First, we issued our financial results for the fourth quarter and year-end periods earlier this morning. All of materials including the news release, MD&A, and financial statements are available from our website and SEDAR+.

We will be using a presentation today, and for those listening to our discussion by phone, a copy is also available from the IR section of our website.

Some of the statements made during today's call may constitute forward-looking information about our future results, and our future results may differ materially from what we discuss. Please refer to the risks and uncertainties that may affect our future performance that are referenced in our presentation and in our MD&A.

In addition, we will be making note of GAAP and non-GAAP financial measures. Reconciliation of these is provided.

Following today's presentation, please reach out to me if you have any outstanding questions or require any clarification on the matters discussed today.

So with that, I'd like to turn the call over to Tom. Please, go ahead, Tom.

Tom Finke — Executive Chairman, Aimia Inc.

Thank you, Joe. Good morning and thank you for joining us today. Since becoming Executive Chairman in January, I've had the pleasure of speaking with many of you.

For the benefit of those who I've not yet to meet, I'd like to begin my remarks with a brief introduction of my experience and a summary of the reasons why I decided to invest in Aimia and join the board as Chairman.

My career has been spent in the banking and asset management industry, most recently as Chairman and CEO of Barings LLC, a \$350 billion global asset management company. This experience trained me how to evaluate companies, work with management teams to achieve strategic objectives, and, most of all, how to unlock value for investors. It's from this lens that I viewed Aimia as an undervalued company when I decided to participate in the private placement closed in October of last year.

Developments in 2023 and more recently have reinforced my belief in Aimia's potential upside. However, this will only be achieved through responsible investment decisions and a focus on achieving our operating goals at our majority-owned subsidiaries.

Our presentation today is one that will set the baseline for Aimia going forward given the significant changes in our portfolio in 2023. Most notably, we made two transformative acquisitions last year: Bozzetto, a sustainable specialty chemicals company, and Tufropes, an industrial ropes

manufacturer. Last year, we also facilitated the merger of Tufropes with Cortland Industries creating a global ropes business, which has been rebranded Cortland International.

In the partial year we have owned these companies, Bozzetto's results were in line with our expectations. At Cortland, we looked to improve performance by focusing on integration initiatives and prudent capital investment. Steve will expand on these items in his section.

Since becoming Executive Chairman, I've often been asked what impact recent management changes have had on our strategy and focus. The simple answer is that we are now laser-focused on executing on our operating strategies at Bozzetto and Cortland, prudently monetizing the minority investments held in the Holding Company segment and strengthening the balance sheet at the holding company.

Achieving these goals will take time. Some things we can do in 2024. Some will take longer to realize. That said, everything we do will be focused on value creation for shareholders. Let me spend a couple minutes to review our path to value creation.

Slide 7 presents our path to value creation, illustrating our four key pillars.

First and foremost, we are focused on operating our company in a transparent and disciplined manner and establishing clear investment and capital management strategies.

Next, Aimia is focused on assisting the management teams at Bozzetto and Cortland to help them achieve their strategic objectives and growth goals.

In addition to our focus on managing our core holdings, Aimia will continue to pursue the monetization of minority investments in the holding company's portfolio. Steve and I will go into more detail about this portfolio later.

Finally, as we realize on our non-control investments, we will seek to strengthen our balance sheet so we can implement a responsible capital allocation and investment strategy.

Slide 8 is a summary of the major acquisitions that Aimia completed in 2023.

We acquired Bozzetto for \$258 million for a 94.1 percent stake in the company. This acquisition was driven by Bozzetto's compelling business model and its consistent history of profitability. Roberto Curreri and his team are proven operators in their industry and have demonstrated the ability to achieve their growth objectives even in the face of economic headwinds.

We also acquired Tufropes, a manufacturer of synthetic ropes and netting solutions and integrated it with the tuck-in acquisition of Cortland Industrial. Combined, the acquisitions totalled \$263 million and have been rebranded at the corporate level as Cortland International.

In November, Stuart Janke, a 30-year veteran of the ropes industry, was promoted to CEO. He and his team are focused on the integration of Cortland and Tufropes and executing on sales channel strategies that we are confident will improve performance going forward.

As previously mentioned, a cornerstone of our strategy is to invest in our core platform companies to help drive growth. Bozzetto's acquisition of StarChem, presented here on Slide 9, is an example of this approach. This tuck-in acquisition, which closed in early January of this year, was valued at \$24.1 million for 65 percent of the business.

The acquisition is strategic on a number of levels. Most significantly, the acquisition allows Bozzetto to expand its market presence in North America and strengthen its customer relationships in the textile industry. Initial results have been encouraging, and we look forward to the continued integration.

On Slide 10, we provide an example of how we are opportunistically monetizing our minority investments.

Capital A operates AirAsia, and we acquired shares in the company following the sale of our equity stake in the airline's loyalty program in 2021. Since October 2023, we have sold approximately \$23 million worth of shares, of which \$11.1 million was sold in the fourth quarter. As of last week, we still hold more than 56 million shares of Capital A.

I will now turn the call over to Steve to discuss our financial highlights for the fourth quarter and the fiscal year.

Steve Leonard — Chief Financial Officer, Aimia Inc.

Thank you, Tom. Good morning, everyone.

Starting with Slide 12, Aimia generated consolidated revenue of \$291 million in fiscal year 2023. Of this total, \$192 million was generated by Bozzetto and \$99 million by Cortland.

I should point out that revenue and related operating results we have reported for Bozzetto and Tufropes Cortland are from their respective dates of acquisition and do not represent 12 months of operations.

On a full year, pro forma basis, assuming we closed these transactions on Jan 1, 2023, consolidated revenue would have been \$438 million, or 50 percent more than our consolidated revenues reported.

Slide 13 shows two of our key financial metrics, namely revenue and adjusted EBITDA, both for the quarter and year ended December 31.

Given that we have reported Cortland and Bozzetto since their respective acquisition dates, which is less than 12 months, year-over-year comparisons are not meaningful. To help gauge our progress and performance, our Q4 consolidated results are compared against our performance in Q3.

Our results in Q4 for revenue and adjusted EBITDA were softer than the prior period. In Q4, we generated \$100 million of revenue, down 12.4 percent from the preceding quarter. The decline was driven by a number of macroeconomic and geopolitical developments that weakened customer demand at both Bozzetto and Cortland.

We generated an adjusted EBITDA loss of \$4 million in the quarter, which compares to positive EBITDA of \$9.7 million in the preceding quarter. Including the softness on the revenue side from the operating businesses, we had an impact on adjusted EBITDA in the quarter that related at the Holdings segment with \$9.4 million of costs related to investor activism. I'll explain the segments in a little more detail later.

Our consolidated net loss for the fourth quarter and full year were significantly impacted by changes in the value of our investments and the equity pickup as outlined in Slide 14.

Starting with TRADE X. The business was unable to restructure its trade financing or secure enough proceeds from the sale of its subsidiary, Wholesale Express, to satisfy its obligations and continue operations. As such, it was placed into receivership by one of its creditors in late December of '23.

For the quarter, we recorded an overall loss of \$23.7 million including a fair value loss of \$20.8 million on the convertible notes and \$2.9 million credit loss on a bridge loan.

For the year, we recorded an overall fair value loss of \$82.3 million on the preferred shares and convertible notes, plus the \$2.9 million credit loss.

For Clear Media in the fourth quarter and for the year, we recognized an unrealized fair value loss of \$27 million related to slower-than-expected recovery of China's economy, which impacted the Clear Media business.

Lastly, our equity pickup on the Kognitiv results amounted to a net loss of \$20.7 million for the full year. It is important to note that Kognitiv has made progress on narrowing its losses with Q4 2023 cutting the adjusted EBITDA loss by more than half versus the prior-year quarter.

Combined, these non-cash developments continued to recognize an overall non-cash loss of \$130 million. This was partially offset by a non-cash gain of \$19.3 million related to the PLM earnout.

We achieved over 99 percent of the targeted gross billings in fiscal year '23. We expect to receive a \$32 million cash payment related to the earnout in Q2 of this year subject to final confirmation of the amount due based on PLM's fiscal year 2023 audited financial statements.

Turning to our liquidity slide. As you can see, the waterfall chart, we ended the year with total liquidity of \$137 million, up from \$87.7 million where we started on October 1st. The increase was largely due to the private placement that generated more than \$30 million in net proceeds.

Other positive impacts included the \$17.1 million from the redemption of an SPV and \$11 million in proceeds we generated from the sale of Capital A shares.

These increases were offset by a decrease in fair value of marketable securities of \$6 million and payments and other expenses of \$26.1 million, which included \$8.7 million in cash costs of shareholder activism, interest expense on the Bozzetto financing of \$8 million, which is paid on a semi-annual basis, and \$6 million of CapEx in the quarter.

We ended the year with a total liquidity of \$137 million, which was comprised of \$109 million in cash and \$28 million in marketable securities.

I should point out, of the \$109 million in cash and cash equivalents held by Aimia, \$48.7 million is held in Bozzetto and \$11.3 million is held in Cortland.

Turning to our segmented results, starting on Slide 17.

Bozzetto generated positive results for both the fourth quarter and full year for both revenue and adjusted EBITDA. Sustainable specialty chemicals company generated revenue of \$70 million in Q4, down \$7.4 million from Q3 2023.

The quarter-over-quarter decline was largely attributable to softer demand due to shipping disruptions in the Red Sea, which is a key transportation route used to reach Bozzetto customers. Revenue was also impacted by lower raw material costs that were partially passed on to customers.

Bozzetto's adjusted EBITDA for fourth quarter '23 was \$10.4 million, representing a margin of 14.8 percent. Bozzetto's totals for Q4 2023 were down from \$11.7 million or 15.4 percent respectively from Q3 2023, which was a very strong comparable quarter.

Since we acquired the business on May 9th, Bozzetto generated adjusted EBITDA of \$30.6 million over this eight-month period at a margin of 15.9 percent.

On a pro forma basis for 12 months, Bozzetto would have generated revenue of \$297 million in 2023 and \$46.1 million of adjusted EBITDA, which would represent a margin of 15.5 percent.

Despite some of the headwinds we faced in Q4, Bozzetto's results were more in line with expectations for the year.

Cortland's financial highlights, turning now to Slide 18.

Cortland generated revenue of \$29.7 million for Q4 2023, down 22.6 percent from \$38.4 million generated in Q3 2023. The quarter-over-quarter decline was attributable to a number of factors, including softer customer demand caused by economic uncertainty, which had some pressure on pricing, and delays to customer deliveries due to shipping disruptions in the Red Sea, which is a key transportation route used to reach Cortland customers.

Cortland adjusted EBITDA for Q4 '23 was \$2.5 million, which represents a margin of 8.4 percent. Cortland's adjusted EBITDA totals for Q4 2023 was down from \$5.7 million and 14.8 percent respectively from Q3 2023 results. The declines were due to the factors already cited.

On a full year basis, Cortland's adjusted EBITDA for fiscal year 2023 was \$11.3 million, representing a margin of 11.4 percent.

Due to headwinds experienced in Q4, Cortland's performance for the year was below our expectations.

This concludes my review of the financial highlights. I will now turn the call back to Tom for his closing remarks.

Tom Finke

Thanks, Steve.

On Slide 20, I'd just like to summarize some of the key highlights.

Obviously, this Q4 and all of 2023 were active periods for the company, and we completed a number of important milestones and, also, quite frankly, addressed a number of challenges.

As we look forward, as Steve mentioned, we have the earnout potential at PLM, which will be approximately \$32 million of incoming cash in the second quarter. We continue to work hard on the integration of StarChem with Bozzetto. We'll continue to monetize Capital A's investments and also continue to work opportunistically on our other non-control investments.

I'd be remiss if I didn't touch on one very important point with you. As previously announced, Aimia's board has engaged an executive search firm and is meeting with potential CEO candidates. Our board is very focused on this search and finding a proven executive that can lead Aimia forward.

In summary, with the change of management in January, we have set Aimia on a path that is focused on maximizing the performance of our core holdings, strategically monetizing noncore investments, reducing costs at the holding company level, and establishing a more transparent and disciplined investment and operating strategy. All of this is aimed at unlocking value to the benefit of all our shareholders.

We look forward to continuing to provide updates in the course of the year, and, at this time, I'll ask the Operator to open the lines to 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, and your questions will be polled in the order they are received. Should you wish to decline from the polling process, please press *, followed by the 2. If you are using a speakerphone, please lift the handset before pressing any keys.

Your first question comes from Surinder Thind with Jefferies. Please go ahead.

Surinder Thind — Jefferies

Thank you. Tom, just a couple of questions here. Maybe, Steve, as well. I think the first thing I'd like to understand is, if we were to start with Bozzetto, can you provide any colour on kind of the seasonality component related to the quarter-over-quarter change in revenues?

And then just any colour on run rate organic growth. Like where are we at this point in the cycle?

Steve Leonard

Yeah, Surinder, it's Steve.

Yeah. Their seasonality for the short time we've held them is not noticeable. It's more the difficulty, as I mentioned, was we were not able to provide year-over-year analysis, so we've been doing the quarter over quarter. And, really, what we saw in Q4 was some softness relative to the logistics challenges with the Red Sea and then some raw material pricing.

But the raw material pricing is really it's not a concern because Bozzetto, although the revenue line may come down, holds their margin or their gross margin. And you'll see the margins for the quarter were still strong.

It's early to date for the year, but they're doing well out of the gate. We're not going to give any forward [audio gap] information beyond that. But overall, we're very happy with the Bozzetto team and how they're managing the business.

Surinder Thind

Got it. And then, I guess, on the Cortland side, I'll ask the same questions on just seasonality, organic growth. And then but you also mentioned just pressure on pricing.

And then just maybe an update on where we are in the integration process as well just to better understand if there's any details you can provide.

Steve Leonard

Maybe, Tom could add a bit on integration. I'll just talk the financials.

With Cortland, same. With the logistics, a larger challenge as they export where they're exporting from, from the Indian-based manufacturing sites. And quite a bit of their shipping does go through the Red Sea. So they've had to reroute and get engaged with their customers on timing, et cetera. So that's impacted some of the performance in Q4.

And as well, obviously, typically, their shipping costs are passed along to customers, and their customers are looking at their all-in costs and where they can source product. So this has had a little bit of pressure on pricing. So that's what's impacting the Cortland business. And I'll let Tom speak to integration.

Tom Finke

Yeah. On integration, Surinder, realistically, I kind of look back to as Stuart took over in November, where we really started I think making progress on the integration. And one of the strategies or, if you will, the rationale when you acquire Cortland and paired it with Tufropes is, in India, we have a lot of production capacity. And Cortland sells a number of what I'll call higher level, higher value out of ropes. That said, you have to do work to prepare those operations, certify them, to make these, if you will, higher-value ropes.

So it's projects like that that are underway. Certainly, we've made a lot of progress. We have a very strong COO in India who's made a lot of changes in the last several months. But that's part of the goals that we have for Stuart and the team is really to execute on the integration through the course of this year and, hopefully, also allow us to break into new sales channels with the extra capacity.

Surinder Thind

Got it. And then just one follow-up maybe or just philosophically, when you think across the rest of the portfolio, and if we were to look at let's say something like Clear Media, and you think about the strategy of trying to monetize not specifically that asset but the rest of the portfolio, where is the trade-off in terms of monetizing it in the near term versus how patient you're willing to be in giving up the opportunity cost? Right? Because obviously, when you think about China, you think about geopolitical

tensions. You think about market issues. There's a whole host of things. So are you just willing to be patient at this point?

Or how do we think about something like that where maybe those assets or resources could be better used or deployed elsewhere?

Tom Finke

Yeah. That's a very good question. The way we think about it, where we are today with our minority holdings is some very different situations. Right? As it relates to Clear Media, we're certainly seeing signs that things are turning around. There's a very strong management team there that Steve and I recently met with. And it's not that we'll wait forever for some homeruns, but we just think in the near term, let them continue to perform as they kind of have their strategy for rebuilding their revenue and earnings.

And an investment like that is not as liquid and would take a process to sell as something like capitalized shares, where we feel the other side of this is we could sit here and say, should we hold the shares forever because we think there's more and more upside? Or should we responsibly reduce our position? And we've taken the latter view given that the shares have come up in the last year from where they were.

So we're going to look at each situation and balance what's the right decision on the timing of monetization and ability to monetize at a fair value. But we're also not going to sit around forever and just hope for things that might not manifest.

Surinder Thind

Got it. Thank you very much. So I appreciate the colour there. That's it for me.

Steve Leonard

Thanks, Surinder.

Tom Finke

Thank you.

Operator

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

Brian Morrison — TD Securities

Hi. Good morning. Can we go back to Cortland? Your EBITDA is far off expectations from your Investor Day. Can you just break down what's operational shortfall caused by economic uncertainty? How much is the shipping disruptions?

And are these shipping issues, are they simply timing that will get pulled back into this year's sales? Or are they lost?

Steve Leonard

Yeah. Yeah, Brian. It's a few things. They were shipping about 30 percent of their business through that corridor and that's impacted. As I mentioned. They've had to look at different options to get their products to their customers.

And part of it is timing, but I wouldn't put it all on timing because, as I mentioned, their customers look for other sources. It is a competitive industry, and they're looking at other sources. And hence, in some cases, they'll still get the product to the end customer, but they may have to take a little bit of hit on the top line on the pricing.

So yes. We're acknowledging in the quarter that the EBITDA margin was lower than we had obviously expected when we did the Investor Day. We didn't know at the time of the Investor Day that these logistics challenges were coming through the Red Sea. That was after the fact.

The management team is working on self-correcting some of these challenges. And I wouldn't expect Q4 to be indicative of what we would be seeing going forward but that's about the best I can say right now.

Brian Morrison

So with that comment, Steve, should we expect that prior expectations at Investor Day are reasonable for 2024 if the shipping is pass-through? Or are the geopolitical issues too big to think that's realistic? And then I guess I assume there's no update on potential access to leverage but maybe just comment on that.

Steve Leonard

Yeah. I would say that as long as we have the issue with the logistics, this business is impacting the quarter. Bozzetto, again, it has ability to source production not only through its European channels, but it's more global. And it has operations around the world, so it doesn't have to necessarily put its product through that channel. Whereas Cortland is a little more dependent as I mentioned.

So as long as that—that's going to have a bit of an overhang on Cortland. But there's elements, as Tom spoke to, the integration to moving to a higher performance. A lot of the things that we planned when we did the acquisitions, let's call it the investment theses that are underway, getting the technical specifications and getting into the higher margin and higher-unit sale price products. And we're continuing to make progress on those.

On the financing, we did take a pause through the end of the year. We're relaunching that. We'll probably have more of an update for you when we release our first quarter results.

Brian Morrison

Okay. Steve, maybe just sticking with you for a moment. The cash at the holding company level, you went through it quick. Do I have it correct? It's \$49.1 million at the holdco, and then pro forma will add in Cap A's monetization in the PLM earnout?

Steve Leonard

Yeah. So at the holdco level, we have about some \$61 million. So what was your number you said, Brian?

Brian Morrison

It was \$49 million when I subtracted out Bozzetto and Cortland.

Steve Leonard

Yeah. Yeah. \$49 million, that's right. And then there's \$32 million coming in we expect before we hit the end of the second quarter related to the earnout.

Brian Morrison

Right. Okay. And then Clear Media, I didn't see any update on financial performance. Have digital panels revenue, EBITDA, have they all now troughed? And are we starting to tick up? Where does that business stand? There's no disclosure on it.

Steve Leonard

Yeah. They still incurred a little bit of more softness. That's why we ended up taking an additional write-down in the quarter with the business.

Having said that, some of what we explained at Investor Day, what they've been doing as they've been renewing their leases on the panels because these panels are leased in a number of cities in China, they've been working on addressing the cost structure. Really, what this needs is some momentum on the consumer front in China, which will pull through advertising dollars on the panel.

So the business was softer in '23. We're expecting some improvement in '24 from Clear Media but not at the speed that we expected, and, hence, that's why we've done a write-down of \$27 million in the quarter.

Tom Finke

The other thing I'll add to that and it kind of goes back to Surinder's question too is the reality of our minority portfolio these days is it is a much smaller part of the overall Aimia in terms of driving, quite frankly, building liquidity and things like that at the holding company.

So while it's still very important and we want to monetize it at the appropriate time in the appropriate way, yet I think we can be prudent and wait for that and see things turn around given just how much it would actually affect or not affect what we're doing. We're doing what we're doing just regardless of when the market does.

Brian Morrison

Understood. All right. Thank you very much.

Steve Leonard

Thanks, Brian.

Operator

Ladies and gentlemen, as a reminder, should you have a question, please press *, followed by the 1.

There are no further questions at this time. I will now turn the call over to management for closing remarks.

Tom Finke

Thank you, Operator. Once again, I'd just like to thank everybody for their time today. There was a lot to go through today. And as I said, we achieved a lot in 2023, but, also, in this year, have set the company on a path that's very focused on operational excellence and really strengthening the company through the course of the year.

Steve and I will continue to provide updates in the course of the year. And we look forward, also, to engaging more directly with all of you and invite you to set up calls with us if you'd like to go into more detail.

Again, thank you and have a good day.

Operator

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