

Aimia Inc.

Second Quarter 2024 Results Conference Call source

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CONFERENCE CALL PARTICIPANTS

Brian Morrison

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Aimia Inc. Second Quarter 2024 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 Tuesday, August 13, 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 on this call are Aimia's Executive Chairman, Tom Finke, and our President and CFO, Steve Leonard.

Before we begin, I would like to point out a couple of items. We issued our financial results for the second quarter earlier this morning. All of our materials, including the news release, MD&A, and financial statements, are available from our website, as well as being posted on SEDAR+.

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

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

In addition, we will be making note of GAAP and non-GAAP financial measures. Reconciliation is provided in the appendix of our presentation.

Following today's Q&A session, if you do have any follow-up questions, please reach out to me, and we're happy to answer any questions.

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 the start of 2024, we have been busy on a number of fronts, focusing primarily on creating value and strengthening our financial results.

Our performance in the second quarter reflects the momentum we established in the first quarter, a momentum we expect to sustain through 2024.

Our Q2 financial results were driven by the solid performances of our core holdings Bozzetto and Cortland, each of which made progress with several key financial metrics.

Another important development in Q2 was the earnout of \$32.9 million from the PLM transaction. The receipt of this payment enabled us to launch our normal course issuer bid that will result in the purchase of up to 10 percent of our public float, or approximately 7 million shares, through June 2025.

Related to this effort to create shareholder value was the formation of the Strategic Review Committee, chaired by Jamie Scarlett, one of Canada's most respected legal advisors, with more than 40 years of experience completing complex M&A transactions. The committee will fast-track our efforts to return capital to investors. I will expand on the work of the Strategic Review Committee later in our discussion.

One last development in Q2 that I want to mention relates to the appointment of Steve Leonard to the joint role of President and CFO. This appointment was based on a number of factors, including

Steve's wealth of experience in leadership and the effectiveness of our leadership model that we established in January. With Steve's appointment, we effectively ended the search for a CEO and are thereby avoiding the compensation costs associated with that role.

I will now ask Steve to review our financial results in more detail.

Steve Leonard — President & Chief Financial Officer, Aimia Inc.

Thank you, Tom, and good morning, everyone.

Turning to our consolidated results on Slide 7, Q2 was marked by improvements to a number of key financial metrics over Q1, despite some macroeconomic headwinds. Most notably, consolidated revenue grew marginally in Q2.

Adjusted EBITDA was \$12.3 million, up 83.6 percent from Q1. This improvement was largely driven by the reduction in SG&A of \$6.4 million at the Holdco segment, excluding share-based compensation and costs related to the termination of the Paladin agreements.

I should point out that our gains in Q2 were offset by a number of developments, including the impact of higher shipping costs, shipping delays, and the rise of raw material costs due to inflation.

\$7.2 million of the costs associated with termination of the Paladin agreements and \$9 million of shareholder activism costs in Q2 contributed to a modest increase to our net loss when compared to Q1 '24.

What's important to take away from our consolidated results for Q2 is that we've been able to sustain the momentum established since we reported our Q4 '23 results, despite the negative effects of several macroeconomic developments.

Looking at the performance of our subsidiaries, starting with Bozzetto on Slide 8.

The results of the specialty chemical business were again solid in Q2, when compared to its performance in the preceding quarters. Bozzetto's Q2 results reflect the success of the StarChem acquisition completed in January of this year. The acquisition was driven by Bozzetto's goal of expanding its presence in North America and diversifying its product mix.

In Q2, StarChem contributed \$8.4 million of revenue and \$2 million of adjusted EBITDA. These totals were up 15 percent and 33 percent respectively from Q1.

Bozzetto combined results for Q2 were nonetheless impacted by effects of inflation that softened customer demand and increased raw material costs, resulting in lower margin.

To mitigate some of the negative effects of the macroeconomic headwinds, Bozzetto has implemented initiatives to reduce shipping costs and reduce raw material costs by making increased use of local suppliers and local production facilities in Asia. Bozzetto applied these similar tactics successfully in the past, most recently during the global pandemic.

The results of Cortland International for Q2 are presented on Slide 9.

Cortland made progress in Q2 to several key metrics, despite the persistence of global shipping disruptions that contributed to reduced availability of shipping containers and higher shipping costs.

While some of these challenges remain, Cortland benefitted in Q2 from improved product mix, growing its revenue by 3 percent to \$35 million when compared to Q1.

Cortland's adjusted EBITDA declined in Q2 by \$400,000 relative to Q1, primarily due to \$1.2 million of advisory fees incurred in the current quarter for a business transformation initiative aimed at accelerating Cortland's growth. This business transformation initiative led to the development of a strategic road map to build market share, strengthen its sales force, and improve operational performance. The benefits of this new strategic road map are expected over the coming quarters.

Turning to the performance of our noncore assets on Slide 10, there were several important developments in Q2 worth noting.

At Kognitiv, Q2 was marked by the continued progress against its cost-cutting and reorganization initiatives, as marked by a modest improvement against adjusted EBITDA on a year-over-year basis.

Also worth noting is that Kognitiv recently sold its enterprise business and will use the proceeds to grow its SaaS business.

At Clear Media, China's largest operator of bus shelter advertising panels, Q2 saw soft demand for its advertising displays due to the slow recovery of the Chinese economy. Clear Media sales are expected to improve in the coming quarters, based on encouraging long-term outlook for China's economy.

At Capital A, we monetized \$13.3 million worth of shares and warrants. We currently have a balance of approximately 9 million Capital A warrants to monetize.

With the formation of the Strategic Review Committee, crystalizing value of our noncore holdings remains a priority.

Turning to our liquidity. We ended Q2 with \$112.8 million in consolidated cash. This marked an increase of \$14.6 million in our liquidity from our cash position at the end of Q1 '24.

The major impacts to our liquidity are presented on the waterfall slide on Slide 11.

Chief among the inflows included the monetization of \$13.3 million in Capital A shares and warrants, and \$32.9 million of the PLM earnout.

Among the major outflows were \$3.8 million of preferred share dividends, \$3.4 million of investor activism expenses, \$10.9 million related to the termination of the Paladin agreements, and \$14 million of Bozzetto-related payments, including \$7.2 million semiannual interest payment and a senior

loan amortization payment of \$4.2 million, and a \$2.3 million payment related to concluding the StarChem acquisition.

Looking ahead, we do anticipate our cash position to decline through the balance of '24. As a result, managing costs and preserving liquidity will be key priorities.

In Q1, we provided guidance as the result of our improved performance and increased visibility on forecasted results.

As a reminder, we forecasted adjusted EBITDA for Bozzetto and Cortland to be in the range of \$80 million to \$85 million on a combined basis for fiscal '24, and we estimated Holdco costs to remain approximately \$13 million on a recurring basis.

Based on the performance to date, we are reiterating our adjusted guidance for the year, albeit at the lower range of the scale. Our tracking against our forecasts is indicative of the progress we've made in our operational performance since the start of the year.

Given the feedback from some investors, we decided to present selected valuation metrics on Slide 13. These are taken from our financial statements and MD&A—these metrics are taken from our financial statements and MD&A and are available on SEDAR and available on our website. We are presenting the information in a simplified manner to help investors with their modelling. We look forward to your feedback.

This concludes my remarks. I will now turn the call back to Tom for his closing comments.

Tom Finke

Thank you, Steve.

Earlier, I noted that we have taken measures since January, a lot of measures, aimed at unlocking shareholder value. Before I open the call to questions, I'd like to review the progress of our efforts and our plans in the coming months.

Starting with the normal course issuer bid that I discussed earlier, we received approval from the TSX in early June to purchase up to 10 percent of our public float. That is the maximum allowed under the program. This represents just over 7 million shares.

As you can see on Slide 15, we have purchased approximately 25 percent of available shares, regularly purchasing our maximum daily amount. We will continue to be opportunistic with our purchases and, when possible, purchase blocks of shares as they become available, as was the case in July when we acquired a block of 1.3 million shares.

On the next slide, I want to talk about our Strategic Review Committee.

This significant development related to our efforts to create value in July and after the successful outcome of our AGM. This committee, as I said, is chaired by Jamie Scarlett and includes directors Rob Feingold and Jordan Teramo and is actively supported by Steve and the members of his team.

The committee's mandate is to develop a road map that will, one, unlock the growth potential of our core holdings, Bozzetto and Cortland; two, optimize Aimia's capital structure to support the return of capital to shareholders; and three, continue to responsibly monetize our noncore assets in an expedient manner.

Since its formation, the Strategic Review Committee has met several times, including engaging with potential advisors and to discuss the various options available to the Company. Some of these options include the potential sale of, or merger of, one or both of Aimia's core holdings, the potential merger of

the holding company with another entity, and the potential recapitalization of the holdco and core holdings.

In the coming weeks, the committee is expected to finalize the selection of financial advisors that will assist with plans to return capital to shareholders.

To recap, we are committed to building on the progress we have made since the beginning of the year and will be focused on meeting our guidance targets and rolling out the efforts of the Strategic Review Committee in the second half of 2024. We will look forward to providing updates on our progress, particularly as we achieve key milestones.

This concludes my remarks. Thank you for taking the time to listen to our update, and we will now take questions from research analysts on the call.

Q&A

Operator

Thank you. Ladies and gentlemen, if you'd like to ask a question, please press *, 1. To withdraw your question, press *, 2. Again, to ask a question, press *, 1.

One moment, please, for your first question.

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

Brian Morrison — TD Securities

Thanks very much. Good morning.

Tom Finke

Good morning, Brian.

Steve Leonard

Good morning, Brian.

Brian Morrison

Hi, Steve—or Tom. Can you just maybe go into a little bit more detail, Tom, what you meant there by potential recapitalization? Does that mean bringing the debt up to the holdco level and collapsing sort of the ring-fenced subsidiaries?

Tom Finke

Yeah. It could mean that. And so I'll preface by saying, this is what we're exploring. The current—when you look at Aimia today, we have no regular debt at the holding company, no debt at Cortland, but we have debt at Bozzetto. So a potential angle could be to do a holdco refi. But we have to look at all options. It's obviously complex, given you have a company based in Italy, et cetera. So we're looking at all options, but it could be that.

Brian Morrison

I assume the purpose of that would be able to maintain the cash losses that you have available to you. Correct? Or more appropriately utilize them?

Tom Finke

I think it's more about—

Steve Leonard

It's—

Tom Finke

Yeah. Go ahead, Steve.

Steve Leonard

Yeah. I mean, it's partly, I mean, tax loss. It's partly, could be tax loss, but the main reason, Brian, is there's certain provisions. Bozzetto agreement was great. We were able to close that with the transaction. But it does have some ring-fencing and some gates around availability of cash flows up at the parent level. So it's something that we're looking at that, if we do a recap and we do it at the holdco level, it'll give us greater access to the Bozzetto cash flows. And the arbitrage there is the cost of debt, as well as any tax leakage. There's certain withholding taxes and things that we have to look at.

Brian Morrison

Okay. I didn't hear you talk about the prefs. And I remember, certainly at the AGM, but I think last call as well, you talked about the potential of exploring not only bringing back or repurchasing equity, but also maybe looking at the prefs. What's the status of that at this point in time?

Steve Leonard

As Tom's indicated, under the purview of the Strategic Review Committee, everything's on the table. So we're also looking at the prefs. You've seen, with the resets on the Series 3 and Series 4, the cost of those prefs have increased. And don't forget, we also have the Part VI tax that goes along with the preferred dividends. So yes, it's something we're also looking at as a potential when we're talking about our recapitalization at the holdco.

Brian Morrison

Okay. And then in terms of Cortland, I heard your comments. But you did mention benefits are expected in the upcoming periods; I think are the words you used. What's going to get those benefits to surface?

Steve Leonard

There's a couple of market initiatives that they're looking at. And both are paying—we didn't give it a lot of colour in Q2 because it's early days. Two of them are—one is, we've talked about HMPE, which is our high-performance rope. And what we're really trying to do there is take advantage of the production facilities in India, which is a lower cost. The US unit, the Cortland Industrial unit, was producing HMPE under a certain brand and, now, we've rebranded a brand out of India.

And the challenge with the Indian business, just selling that, was it really comes down to the engineering and the confidence that customers have in the product. They're not just going to randomly buy product from Asia. They want to know that it meets all the specifications and the technical requirements. So this is what Cortland Industrial's brought, because they have the engineering know-how and the specifications. And now, we're shifting that production to India. And it's early days. We hope to give you a little more progress in the second half on that product line.

And then the other one that's also gaining some ground is related to the aquaculture and the fish cages. That was something that Tufropes was selling into when we acquired them but not significantly, and it was white label. We're starting to build some relationships in that market. Early days, but we're seeing some progress. And as we indicated when we acquired the business, the fish cages attract margins associated with them. So those are two of the initiatives.

And then, the last thing with this advisory work was just, as you can imagine with integration, is really improving the operational efficiency of the two businesses. And we felt that it was worth spending a bit of advisory spend to accelerate the integration of those two businesses.

Brian Morrison

And are the freight costs—are those the major headwind with the conflict in the Red Sea right now?

Steve Leonard

They're impacting both businesses. But Bozzetto has a little more play because they have facilities in Asia, as we mentioned in our remarks. So they can kind of play with like ring-fencing production and keeping production locally, or sourcing because source of supply on Bozzetto, on the raw material, they've been taking advantage of a lot of cheaper raw materials coming out of China. China's exporting a lot of product, so they're taking advantage of that and helping to improve margins.

Whereas, on the ropes business, it's a little more challenging. A significant portion of the Tufropes business is exports. So they do have to look at exporting costs. And container costs have gone up 4 or 5 times what they were 12 months ago. So that's the challenge there.

And, obviously, it's not only facing a challenge for the Cortland business; it's also for competitors. So I mean, some of this is starting to normalize. It's kind of the new normal. But at the end of the day, it does have some lumpiness in the timing of orders getting ordered. And obviously, we're looking at sourcing the best logistics to send the product across to Europe and Americas.

Brian Morrison

Okay. Thank you for that. Last question. Clearly, have we seen an inflection point in the financials there yet? Or are we still down on a sequential basis?

Steve Leonard

Yeah. They're still seeing some downward pressure on their results. The advertising market there, it's all tied to consumer spend. And consumer spend in China is down, if you read some of the macro news that's going on, where we're seeing some gross domestic product news that things are starting to rebound. But the consumer, it's really going to be driven by consumer spend.

The good thing that they're doing is they're going to each of their—a lot of these contracts where they have the bus panels are with cities. And they go to these cities and they—when the contracts are coming up for term, or even if they're not coming up for term, they're renegotiating the leasing arrangements at significantly lower cost. And because they own such a large market share, these cities really don't have a lot of other companies to turn to. So we expect, when the advertising market comes back, their leverage is going to be much more meaningful.

Brian Morrison

Okay. Yeah. No. I understand. Okay. Well, thank you very much for the answers. And good luck with the management (phon) of the strategic review.

Joe Racanelli

Tom, Steve, we've received a couple questions from our shareholders on the webcast. And if you wouldn't mind addressing one, provide an update on status of relations with Mithaq?

Tom Finke

Sure. Well, since the AGM, I did reach out to representatives from Mithaq. And I will say this: we've had a couple conversations, they've been cordial; I have nothing material to report. But our hope is we can work together, and with not just Mithaq but all our large shareholders, as we move forward on our strategic review.

Joe Racanelli

And another question received a couple of times is, when would you provide an update on the strategic review process? When can we expect some announcements?

Tom Finke

Well, the work is underway. Our hope would be, as I said, in the coming weeks, to have some announcements around advisors who will help us. Some of that will be geared towards what our priorities are between the various options. But we will, with each milestone, let's call it, have—we will reach out and communicate with shareholders.

Joe Racanelli

Thank you all for joining us. That concludes our call today. And as mentioned, if you do have any follow-on questions, please reach out to us. We're always available.

Tom Finke

Thank you, everyone.

Operator

Ladies and gentlemen, this concludes your conference call for today. You may now disconnect. Thank you.