AIMIA INC.

FIRST QUARTER 2017

RESULTS CONFERENCE CALL

MAY 11, 2017

DISCLAIMER

The conference call, the accompanying presentation materials and this transcript have been furnished for your information, are current only as of the date of the conference call, and may be superseded by more current information. Aimia Inc. (“Aimia” or the “Corporation”) does not undertake any obligation to update the information, whether as a result of new information, future events or otherwise.

The information contained in this transcript is a textual representation of the Aimia Q1 2017 results conference call and while efforts are made to provide an accurate transcription, there may be material errors, omissions, or inaccuracies in the reporting of the substance of the conference call.

Aimia does not assume any responsibility for any investment or other decisions made based solely upon the information provided in the conference call or in this transcript, in the accompanying presentation materials or otherwise on the Corporation’s website. Investors are advised to seek professional investment advice and review the Corporation’s regulatory filings before making any investment or other decisions.

CAUTION REGARDING FORWARD LOOKING INFORMATION

Forward-looking statements are included in this document. These forward-looking statements are typically identified by the use of terms such as “outlook”, “guidance”, “target”, “forecast”, “assumption” and other similar expressions or future or conditional terms such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and “should”. Such statements may involve but are not limited to comments with respect to strategies, expectations, planned operations or future actions.

Forward-looking statements, by their nature, are based on assumptions and are subject to important risks and uncertainties. Any forecasts, predictions or forward-looking statements cannot be relied upon due to, among other things, changing external events and general uncertainties of the business and its corporate structure. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, dependency on significant Accumulation Partners and clients, failure to safeguard databases, cyber security and consumer privacy, reliance on Redemption Partners, conflicts of interest, greater than expected air redemptions for rewards, regulatory matters, retail market/economic conditions, industry competition, Air Canada liquidity issues, Air Canada or travel industry disruptions, airline industry changes and increased airline costs, supply and capacity costs, unfunded future redemption costs, changes to coalition loyalty programs, seasonal nature of the business, other factors and prior performance, foreign operations, legal proceedings, reliance on key personnel, labour relations, pension liability, technological disruptions, inability to use third-party software and outsourcing, failure to protect intellectual property rights, interest rate and currency fluctuations (including currency risk or our foreign operations which are denominated in a currency other than the Canadian dollar, mainly pound sterling, and subject to fluctuations as a result of foreign exchange rate variations), leverage and restrictive covenants in current and future indebtedness, uncertainty of dividend payments, managing growth, credit ratings, audit by tax authorities, as well as the other factors identified throughout Aimia's MD&A and its other public disclosure records on file with the Canadian securities regulatory authorities.

The forward-looking statements contained herein represent Aimia's expectations as of May 11, 2017 and are subject to change after such date. However, Aimia disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

FINAL TRANSCRIPT

Aimia Inc.

First Quarter Results Conference Call

Event Date/Time: May 11, 2017 — 8:30 a.m. E.T.

Length: 45 minutes

CORPORATE PARTICIPANTS

Karen Keyes
Aimia Inc. — Senior Vice President, Investor Relations

David Johnston
Aimia Inc. — Group Chief Executive

Tor Lonnum
Aimia Inc. — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Brian Morrison
TD Securities — Analyst

Martin Landry
GMP Securities — Analyst

Adam Shine
National Bank Financial — Analyst

Kenric Tyghe
Raymond James — Analyst

Stephanie Price
CIBC — Analyst

Anthony Zicha
Scotia Bank — Analyst

Drew McReynolds
RBC — Analyst

Tim Casey
BMO — Analyst

Sui Wang
Foresters Asset Management — Analyst

Jose Saracut
Manulife — Analyst

PRESENTATION

Operator

Good morning. My name is Sharon, and I will be your conference Operator today. At this time, I would like to welcome everyone to the Aimia Inc. First Quarter Results Conference Call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press *, then the number 1 on your telephone keypad. If you would like to withdraw your question, press the # key. Thank you.

Karen Keyes, Head of Investor Relations, you may begin your conference.

Karen Keyes — Senior Vice President, Investor Relations, Aimia Inc.

Thank you very much, Sharon, and good morning to all of you attending on the phone and the webcast this morning.

With me on the call today are David Johnston, our newly appointed Chief Executive; Tor Lonnum, our Chief Financial Officer; and Steve Leonard, Vice President and Corporate Controller.

Before we get underway, I'd like to remind everyone to review our forward-looking statements and the cautions and risk factors pertaining to the statements. For those of you following along on the webcast, you should see these on the screen in front of you now. For those of you accessing the presentation, which can be downloaded on the website, these can be found on Page 3 of the Q1 highlights presentation.

I'd also like to point out the presentation refers to a number of non-GAAP metrics to help you better understand the results of the business. The definitions of these metrics and a reconciliation of these to their most comparable GAAP metrics can be found on Pages 4 and 5.

We have also included a full income statement, which can be found on Page 6, and a reconciliation of our newly introduced return on invested capital metric, which can be found on Page 7.

Our reported Q1 numbers, shown here on Slide 8, include results for the US Channel and Employee Loyalty business. The sale of that business closed on May the 1st, so we'll be focusing our commentary on the core business excluding it. That was also the basis on which we issued our 2017 guidance earlier this year.

And with that, I'll hand over to David.

David Johnston — Group Chief Executive, Aimia Inc.

Thank you. And thank you, everyone, for joining us this morning. First of all, let me say I'm proud to have been asked to take on the role of Group Chief Executive following Rupert's retirement.

Second, if you've had a chance to read our disclosure documents overnight, you'll note that we have a lot to talk about this morning.

At the top of the list of things we expect you'll want to hear more about is the update we provided on our partnership with Air Canada. And linked to that are the new details we are able to share around cost savings, as well as the update on the dividend and the balance sheet.

In order to maximize time for questions, we've decided to step away from the normal structure of the call. The slides, as we'd normally present them, are available as you can see, and of course we're happy to answer questions on any of them. But in our remarks we're just going to hit a few of the slides, which we'll refer to by slide number so that you can follow along.

So let me start by saying this: We firmly believe that reaching an agreement with Air Canada to renew our partnership post-2020 would provide more value to both company's shareholders. And while we said it in the press release, it bears repeating, they've not served us formal notice of their intent and there are three years left to run on this contract. But it's become clear to us in recent discussions we've had that they have other intentions, and thus we had an obligation to update you.

While disappointed, we're prepared. And we're going to walk you through what we're doing to build further resilience into the business.

But let's start with a level-set on the health of the Aeroplan program today by looking at the first quarter results, and so if you'll turn to Slide 15. This was the fourth consecutive quarter of growth at Aeroplan, with gross billings up 5 percent to $309 million. Miles issued on our financial cards were up 5 percent, driven by higher purchase volume.

Increased capacity at Air Canada drove a third consecutive growth of miles issued there. Gross billings at Air Canada were up 8 percent.

Elsewhere, lower gross billings reflected the fact that we had a successful launch of Toyota in early 2016.

On Slide 16, you’ll see that the TD and CIBC portfolios continue to represent more than 50 percent of Aeroplan gross billings, and including American Express, financial cards account for around two-thirds of Aeroplan gross billings.

These are significant portfolios for Aimia. They’re also significant to the Canadian financial card market. Recent market share data confirmed that around 10 percent of Canadian credit card purchase volume flowed through them last year. Remember, too, that our credit card contracts run to early 2024.

TD was the most significant contributor to financial card performance in the quarter, outpacing the purchase volume market growth. Overall, the one-month active cardholder base at TD and CIBC was up 7 percent for the second quarter in a row, fuelled by TD’s growth and improving card attrition. So all-in-all, a good quarter for Aeroplan.

Before we come back to the overall strategy around coalitions and contract renewals, let me touch briefly on Slide 17 to cover performance in International Coalitions in the quarter.

Currency was again a factor with a $21 million impact on gross billings. The largest decline in the pound sterling to the Canadian dollar rate last year was obviously in June, so we expect a currency impact again in Q2.

Gross billings were down 14 percent on a constant currency basis, mainly due to slower Sainsbury's campaign activity following on from a strong Q4.

Homebase exited the program as planned in January as the Company transitioned to new ownership, and that'll have around $5 million impact on a quarterly basis through the year.

We've not been able to find a new loyalty model that would work for British Gas, but with gross billings having already dropped to around 3 million a quarter after the impact of regulatory pressure in the last few years, and so we expect Q2 to be the last quarter in which they will issue Nectar points. So adding new partners remains a priority at Nectar, and the Daily Mail launch will mark an important addition in the next few months.

Let's jump now to Slide 31, which will be familiar to you. Obviously, contract renewals with our major partners don't come as a surprise. Since 2005, as the coalition model has evolved, a number of partners have joined and left our coalitions. And we've continued to look at ways members earn and burn in our programs through transitions.

As we plan for contract renewal discussions, we continue to evolve our model and offering to ensure a mutually acceptable return structure with current and future anchor partners. And that's very much where we expected our discussions with Air Canada would lead.

Our current purchasing agreement guarantees capacity to Aeroplan in exchange for a substantial volume and certainty of advanced ticket purchases, which generate significant cash inflows to the airline.

And just advance to Slide 32. Key priorities we think about the future is to ensure Aeroplan members continue to have access to a strong redemption offering around air rewards.

Clearly, any change to our relationship with Air Canada could impact our access to that capacity allocation or pricing in addition to affecting accumulation gross billings with Air Canada. And while a change could impact our cost of rewards going forward, it's important to remember exactly what we buy.

In 2016, around 50 percent of the 1.9 million air rewards Aeroplan purchased were at fixed price, representing around a third of the $700 million cost of rewards we spent with Air Canada and Star Alliance partners. That represented substantial cash flow to Air Canada, but also represents a contribution to filling planes when loads are running lower, and the pricing of some of those seats reflects that.

It's also worth remembering that mile balances representing in excess of 200 billion miles remain with Aeroplan. There's a wide variety of possible outcomes and alternatives post-2020, and our goal would be converting those balances into continued value for members.

On Slide 33, you'll see that the availability that our members experienced when booking those seats has improved over time. Value and availability drive stickiness with consumers, particularly those who aren't frequent flyers. And it's worth remembering that the vast majority of our 5 million members are not frequent flyers. Aeroplan currently helps them to choose Air Canada for their travel goals.

With Aeroplan, they're getting those flights faster. We compared our 1.9 million flight reward bookings in 2016 against actual market fares and other leading travel reward programs in Canada, and found that on average across all financial card categories Aeroplan needed fewer miles to fly.

What that means, it means the most active members in the Aeroplan base, those that have achieved diamond status, redeemed on average 6 times last year. And across the entire active member base, those 5 million members redeem on average once every two years, predominantly for flights.

These are things that provide a competitive advantage to our coalition partners, such as TD and CIBC. And that's what makes Aeroplan distinct from both in-house frequent flyer programs, as well as other travel reward programs.

However, as I said, we've been planning for a wide range of possible outcomes through the next two- to three-year period, and as part of that we'd already decided to take a number of additional steps to focus our business and resources on our core coalitions that build more flexibility into our operating model.

And to talk to that, I'm going to hand you over to Tor.

Tor Lonnum — Chief Financial Officer, Aimia Inc.

Thanks, David. So on Slide #35, we are accelerating plans to take more action on cost savings in 2018 and 2019, including further action to reduce our operating expense to help support any such changes or transition periods.

Our focus remains on the health, sustainability, and growth in our core coalitions, and we have not ruled out further asset sales.

Starting on these actions now will ensure we are able to deliver benefits beginning in 2018, and we will be targeting annualized savings of $70 million from 2019 to build flexibility should we see an expiry resulting in lower gross billings or high cost of rewards after 2020.

Our CapEx is already expected to fall to between $50 million and $60 million this year compared with the $68 million in 2016. It is expected to reduce materially again in 2018 as we complete investment in our analytics platform and continue to take a hard look at new investments.

The work we have been doing is delivering stronger margins. In the quarter, you saw our OpEx down 9 percent, and you saw us deliver an adjusted EBITDA margin of almost 20 percent in the Americas Coalitions and around 14 percent in the International Coalitions business.

On Slide #36, our ROIC is a new measure we have introduced this quarter. And it was significantly higher in these two divisions as a result of the higher adjusted EBITDA, which is the base for the calculation we are using.

Overall, ROIC was at 6.3 percent in the quarter, and we hope the use of this metric will allow us to demonstrate increased discipline around how we allocate capital to generate returns. And it will be used to measure medium-term ROIC of our existing businesses and investments.

On Slide #37, we also plan to extend our financing maturities to 2020 with a planned drawdown of $200 million from our $300 million revolving credit facility. The proceeds will be used to redeem the 2018 senior secured notes ahead of their January maturity.

Redeeming these notes will give us more flexibility to take advantage of opportunities which may arise ahead of 2020. It will also optimize our cost of debt, taking advantage of the lower interest rate on the revolver to reduce our overall interest rate by around 60 basis points to 4.4 percent whilst maintain a debt to adjusted EBITDA ratio of around 2 times.

Finally, on Slide 38, let's move back to what we see for the rest of the year and the dividend. Nothing we're saying today around Air Canada will change much for the next few quarters, and we still expect to deliver our full year guidance.

At the top line this quarter Aeroplan was strong, offsetting the expected declines due to customer transitions and currency at Nectar, and seasonality, which affected free cash.

As we think about the dividend, we will continue to take a view on the payout ratio in light of expectations around annual cash flow and taking into consideration all the normal factors around our medium-term strategy, outlook, cash flow expectations, and balance sheet.

The quarterly dividend of $0.20 per share we have declared today would reflect the payout of around 55 percent of annual free cash flow before dividends paid on the basis of our current guidance.

And with that, I'll hand it back to you, David, to sum up.

David Johnston

All right. Thanks, Tor. As we said, we wanted to leave the bulk of the time today for questions. But let me just end now with a couple of remarks on what I'd like you to take away from this morning.

We're reconfirming our 2017 guidance, and simplification of the business and operational discipline will continue to drive results. The Air Canada contract is in place for three years until 2020.

Aeroplan has now grown for four consecutive quarters and has been up 5 percent with an active and growing base of financial cardholders. At Nectar, the fourth quarter is expected to be the strongest percentage of issuance again this year.

We're taking the strategic decisions needed to reinforce financial flexibility and the future of our coalitions. As we look to the future, the return we can bring to shareholders by focusing on our members and the value we bring to them will be front and centre in our minds.

Finally, I'll just say this. We've always said we didn't want to negotiate in public. Air Canada has chosen a path which has made this a public issue.

We were prepared for that, and we're taking action now to protect shareholders. We've been working on alternatives for some time, and we look forward to providing further updates in due course.

And with that, I'll hand it over for questions.

Q&A

Operator

At this time, I would like to remind everyone in order to ask a question, press *, then the number 1 on your telephone keypad. We will pause for just a moment to compile the Q&A roster.

Your first question comes from Brian Morrison from TD Securities. Your line is open.

Brian Morrison — TD Securities

Good morning. David, just a couple macro questions, if I can. How do you convey the maintaining of the value propositions to members in light of the current uncertainty and essentially ensure that members remain engaged in the program, and that gross billings maintain at current trajectories or levels?

David Johnston

Well, I mean I'd start with let's be clear that both what we've said this morning and what Air Canada has said is that it's business as usual, and there's three years to run on that contract. And members will continue to earn and burn. We've invested significantly over the last few years to make sure that Aeroplan is the leading market proposition in terms of value, flexibility, et cetera, and it will continue to be.

So there's no reason for members to do anything other than continue to engage in the program over the next three years. And as we've said, the Aeroplan program is a significant brand, and we believe there'll be alternatives going forward beyond that period.

Brian Morrison

Okay. So maybe just on the flip side, in maintaining your outlook for 2017 and then looking beyond—I realize the agreement goes through 2020—but is there a concern that there would be a change in member redemption patterns that could impact free cash flow? Typically I think the life of a mile is 30 months.

David Johnston

No, we don't have a concern because really for the reasons I just said. I mean there's three years to run on the contract. There's no reason for customers to change their behaviour. And obviously, as we've also said, we're taking actions on cost. And we've identified a number by 2019, but we'll be taking action on costs sooner than that.

So no, I'm not concerned about that at this point.

Operator

Your next question comes from Martin Landry from GMP Securities. Your line is open.

Martin Landry — GMP Securities

Good morning. I'm wondering, your other partners in the Aeroplan coalition, do they have in their contracts a provision that required a need to have an airline partner in the coalition?

David Johnston

It wouldn't be appropriate to discuss other contract relationships other than what we've said, which is the credit card contracts run through to 2024. I'm not going to, for obvious reasons, not going to talk about detail within those contracts.

Martin Landry

Okay. And what—have you talked to your other partners in the coalition? Have you announced that news to them? And if so, what's been their reaction?

David Johnston

Look, you would expect us to maintain ongoing relationships with our partners, so of course we'll be working with them through this. Again, I'm not going to comment on their reaction. But I think everybody would focus on the same thing.

There's three years left to run on this contract. Both us and Air Canada have said that it's business as usual. And remember, we have 5 million members. Most of them are frequent spenders, not frequent flyers, so there's every reason for them to stay connected with the program.

Operator

Your next question comes from Adam Shine from National Bank Financial. Your line is open.

Adam Shine — National Bank Financial

Thank a lot. Good morning. David, when we look at, I guess, some of the alternatives that you're exploring—and I fully understand you're not necessarily going to give us much in the way of details—but I guess one obvious one is you just leave the sort of proposition of Air Canada as an accumulation partner and you get into what your competitors are doing, which is basically fixed-cash alternatives in RBC Avion or other type of cards. Do you want to speak at all to that? And maybe Tor can sort of chime in because as we look to the EBITDA shortfall that inevitably is going to ensue, temporarily or otherwise, some stop-gap measures or mitigating factors will ultimately be the cost savings that Tor is talking about and then also any reformulation to the Aeroplan program. Can you speak at all to that? And any details or thoughts in terms of stopping the gap in the shortfall would certainly be helpful. Thanks.

David Johnston

Sure. I'll turn to Tor in a second for the second part of that question. It was good of you to say that I was unlikely to want to give too much detail on the first because you're absolutely right. But I will say this, and some of it I've said already, but the reason I have confidence in our alternatives is we have 5 million highly engaged members. Our net promoter scores and other KPIs within the program are improving. And we and our members represent huge purchasing power in the market. We have, I think, something like 200 billion unredeemed miles sitting with our members, and that's clearly significant purchasing power that is of interest to other partners.

So for that reason and others I have great confidence in our ability to generate alternatives, and we've clearly been working on that.

And, Tor, maybe you'll pick up on the second part of that question?

Tor Lonnum

Yeah. Absolutely. Thanks, David. So just to elaborate a bit, and you could hear from my script that the way to think about this, as you alluded to, is that there is Air Canada gross billings are a part of our overall gross billings at about 10 percent. And then as we talked about in the script, when you look at the air redemptions that we had, and just using 2016 numbers, they represented about $700 million. And of that $700 million, about one-third was related to the fixed or the Classic seat.

So it kind of gives you an indication in terms of where there could potentially be an impact. And that's why, as we talked about earlier, it's natural to look at mitigations in terms of further simplification of the business and also taking out OpEx.

So for sure, as David said, that's an important part of preserving our flexibility, preserving our cash flow, and our margin going forward.

Adam Shine

When you talked—

Tor Lonnum

The last point I'd just make is, again talking about redemptions, it's important to know that that also means that there is 50 percent of the rewards that was issued last year which is not Classic or fixed, i.e. it was Market Fare Rewards or Star.

Adam Shine

So I guess just to clarify a few elements here, you guys have relationships separate and distinct to Air Canada obviously with a variety of other Star Alliance partners, right? I mean that's number one. Number two, the fixed or Classic seats, the 8 percent that we're talking about obviously offer the greatest value proposition and come with the greatest discount. That's the one that for all intents and purposes disappears. Maybe you can just confirm a few elements there? And then also just related to this 70 million of savings, can you remind me what the delta news is today in terms of are we gapping from—I can't recall—40, 50 up to 70? What's the new news today on the savings?

Tor Lonnum

So just to clarify a couple of items, I mean you alluded to how the relationship with Star Alliance is handled, and that's handled through the contract with Air Canada.

Now in terms of any assumptions that you make related to cost of redemptions, keep in mind that when we talk about the allocation that comes with the contract with Air Canada it's important to remember that that's not only seats that can be sold at a market price. Keep in mind that some of that is distressed inventory. And that's a part of the equation that is important to remember.

Now in terms of the question related to the savings, the net news today in savings are $70 million from—with a full year effect in 2019. And obviously to get to that full year effect in 2019 we have to be able to demonstrate that there will be effects in the numbers starting in 2018.

Operator

Your next question comes from Kenric Tyghe from Raymond James. Your line is open.

Kenric Tyghe — Raymond James

Thank you, and good morning. David, with respect to the announcement it reads as if the redemption options for Aeroplan beyond 2020 are Air Canada are open-ended and that there's a very long or indefinite tail to the redemption. Is that a correct reading of the announcement?

Karen Keyes

Of their announcement, Kenric?

Kenric Tyghe

Yeah. It reads as if your redemption options on Air Canada beyond 2020 remain pretty much open-ended.

David Johnston

Look, I don't know that I would read into that that they're, in your words, pretty much open-ended. So no, I'm not ready to reach that conclusion at this point. So I'd think I'd answer that with what we've already talked about, Kenric.

I think we have and are working on a wide variety of alternatives post-2020. I should also say that we still, as I said in my remarks, we still believe that an agreement with Air Canada would be the best outcome for both shareholders. So for sure that could be part of the discussion.

Kenric Tyghe

I think the follow-up to that, David, would be would you be required in terms of your mileage bank and with Air Canada's initiating its own new program, regardless of whether it is or isn't open-ended, would you be required or is there a requirement to sort of port that bank over to Air Canada? Or could you potentially as part of your own repositioning do you have options in terms of your own mileage bank, given that you own that mileage bank?

David Johnston

Our members own that mileage bank. And no, our members will have other options after 2020. We talked about 200 billion miles outstanding. Our members redeem about 80 billion a year. And we have flexibility with how that is used after the current contract.

Operator

Your next question comes from Stephanie Price from CIBC. Your line is open.

Stephanie Price — CIBC

Good morning. Air Canada states in their press release that they will continue to offer Aeroplan seats at market rates post-2020. Can you talk about the delta between this and the existing contract? And whether Aimia does expect to buy seats from Air Canada post-2020?

David Johnston

No. Sorry, I'm not going to do that because, as I've said, it's a bit like the answer to the other question. I'm not going to talk about what we're going to do 2020 because what I've been clear on is that we've anticipated this. We are working on alternatives. And that's kind of where I'm going to end. So I'm not going to speculate on what those alternatives might look like post-2020, either with Air Canada or with any other partner.

Tor Lonnum

But just keeping in mind what I said earlier, if you take the 2016 stuff, remember that 50 percent of the rewards issued to members in 2016 was Market Fare.

Stephanie Price

Right. Okay. And then in terms of the 70 million in cost savings, can you give us an idea of where some of those cost savings are from? And if you believe that the 70 million is going to bridge the gap from that Air Canada contract?

Tor Lonnum

Yeah. So in terms of the OpEx savings, what I'd say is we were able to bring forward some of the cost savings that we have previously announced and implemented them and were able to demonstrate impact already last year.

In terms of the 70 million, it's important to say that this is really about continuing to simplify the business. And embedded in simplifying the business for sure when you look at that OpEx, keep in mind that already this year we have started to implement cost savings in areas such as the finance department; such as in the global development area. So that is just examples of areas where we have already started to implement OpEx savings.

Now to be a bit more elaborate on your question, there is clearly in our business three buckets of OpEx. It's related to FTEs, it's related to IT spend, and then there's primarily marketing and property. That's the last bucket. So that's the natural areas to consider.

Now I understand that you would like to have more granularity around the 70 million and what's really the drivers and how will it flow into the numbers. And our plan is to try to give you a bit more granularity on that question post our Q2 reporting.

Operator

Your next question comes from Anthony Zicha from Scotia Bank. Your line is open.

Anthony Zicha — Scotia Bank

Yes. David, I'd like to get a bit more clarity on the potential price increase that would be related to the flight awards. Or if you can't mention that, then how about how can you counter the price increase? And finally, because of this Air Canada relationship change, how is it going to impact your breakage assumptions? Like are you going to revise that now? Or you already have a number that will pick up during the year?

David Johnston

Yeah. So I'll let Tor comment on the breakage rate in a second. On your first question on pricing, I think I'd answer that by asking you to think about purchasing power. So our members are buying $700 million worth of seats in a year. And as I've said now a few times on the call, there's significant mileage balances outstanding, and there will be at the end of the contract.

So that will represent great purchasing power for our members, and we believe will be attractive to other partners in the marketplace after 2020. And it will be that purchasing power that helps us secure pricing arrangements with whatever partner we're talking to that continue to deliver value for members and ultimately for our shareholders.

Tor, on breakage?

Tor Lonnum

Yeah. So on the breakage, as David said earlier, there is nothing that is changing in terms of the program. And we expect behaviour to continue the way it has been. And so there is no change to the breakage in our mind.

I'd just like to highlight again the calculation related to the cost question because, as I said, if you take the redemption cost from our P&L and look at how the redemptions were distributed, the Classic seats represented about 50 percent of the redemptions, i.e. 50 percent are Market Fare awards. And if you look at it from a cost perspective, you'll see that Classic represented about one-third of the 700 million that David alluded to earlier.

Anthony Zicha

Okay. So you don't expect any change in the consumer behaviour now with this Air Canada change? And you don't expect that you'll be tapping into your reserve, the 300 million reserve that you have?

Tor Lonnum

Well, as I said, I mean, the offer is still the same. There is—the customers will be able to continue to accumulate, and they will be able to continue to redeem.

Operator

Your next question comes from Drew McReynolds from RBC. Your line is open.

Drew McReynolds — RBC

Yeah. Thanks very much. Tor, can you just comment on your dividend policy? You said a specific payout ratio, but obviously you got some uncertainty coming down the pipe in terms of 2020. Just wondering what the rationale is for maintaining the dividend at the moment versus maybe paring it back and bolstering the balance sheet?

And then secondly along the same line of questioning, can you provide an update on the extent to which at Nectar in the UK or Mexico are potentially noncore, just given all the dynamics? Thank you.

Tor Lonnum

Yeah. Thanks. Thanks for the question. As you could see and as you could hear from what I talked about earlier, we are reconfirming the guidance today. And based on the full year free cash flow as we see it today, there is no reason not to maintain the dividend and a healthy dividend payout ratio. Keep in mind also that the cost savings that we're announcing today are intended to help mitigate any impact or major contract changes, and protect returns to shareholders.

Of course, as you said, I would highlight that the contract with Air Canada runs until 2020, and that's important. And long-term impact of contract changes could change that outlook, but there is nothing that we or Air Canada have said today that should imply any change in the member behaviour, and that's why we're confirming the dividend today and confirming the 2017 guidance.

Now on the question in terms of what's core and what's not core, I think it's fair to say that if you read the release we're talking about coalition programs being our core business, and both Nectar and PLM qualify in that respect. We have also said very clearly that our investments need to be assessed on the medium-term outlook compared to the ROIC metric, and that will be sort of the guiding principle going forward.

Drew McReynolds

And if I can just have a quick follow-up; you refer to a material step-down in CapEx post-2017. I think anyone running a DCF this will be a delta just in that free cash flow equation through and post-2020. Is there any way you can give us a sense of what that step-down would be?

Tor Lonnum

I think for now I'd say material clearly means you've seen that our CapEx has come down quite a bit already, and material is clearly more than a single-digit million in terms of CapEx. But I don't really want to be drawn further into how much it could be. I'd much rather give that granularity post our Q2, as I said earlier.

Operator

Once again, if you'd like to ask a question, press *, then the number 1 on your telephone keypad.

Your next question comes from Tim Casey from BMO. Your line is open.

Tim Casey — BMO

Thanks. So, Tor, just to revisit the dividend question, are you saying that so more or less you're looking to maintain a free cash flow payout ratio of 55 percent?

And second question is with respect to your options are you willing to confirm that you're not going to effectively reprice your redemption grid? Or is that one of the levers that you will keep some flexibility on as events unfold between now and 2020? Thanks.

Tor Lonnum

Yeah. So, Tim, I'll answer the first part, and then I'll hand it over to David for the other part. I think what we're trying to say is that we are reconfirming the guidance for the full year in terms of for 2017. As I said, there is no reason not to maintain the dividend and a healthy dividend payout ratio.

I did not commit specifically to a percentage of the free cash flow. You will see from the dividend policy statement that we are saying that the dividend should be linked to our free cash flow outlook. And that's kind of—that's the key driver.

David Johnston

And to the point on flexibility, I mean first of all I'd say clearly it's in our interests as we explore alternatives to maintain a very strong and healthy program with a strong and healthy member base and a clear value proposition. But I'm not going to talk specifically about the various value levers.

Tim Casey

Thank you.

Operator

Your next question comes from Sui Wang from Foresters Asset Management. Your line is open.

Sui Wang — Foresters Asset Management

Hello. Thank you. I'm just wondering have you guys get a chance to talk to rating agencies after today's press release? What's their view on the new developments over there?

Tor Lonnum

We haven't had the chance to have this discussion with the rating agencies yet because, as you could read from the release, this is a very recent development. But we are—we have talked to them about what we were planning to do in terms of our balance sheets, and we will give them an update post meeting.

Sui Wang

Do you guys have any kind of guidance in terms of your credit rating? Are you comfortable with stay with the investment grade? Or there's a potential change there?

Tor Lonnum

Well, I mean keep in mind that the rating agencies have said that their outlook is right up until 2019. And as we have said several times today, the contract with Air Canada runs until June 2020. The contract with the financial card partners run until 2024. So without commenting directly on your specific question, I think I'd say there's nothing really that has changed today.

Operator

Once again, if you'd like to ask a question, press *, then the number 1 on your telephone keypad.

Your next question comes from Adam Shine from National Bank Financial. Your line is open.

Adam Shine

Something we haven't talked about today really is on the Sainsbury's side where that contract comes up in 2019. David, can you speak at all to that? I'm sure you're going to say that you expect a renewal. But if we look back at prior renewals, they seem to have been for perhaps shorter periods. As per your deck, the five plus five turned into a seven-year renewal. Just any comment on that one would be appreciated.

David Johnston

No, I don't really want to comment further on Sainsbury's beyond what was in the release. We mentioned it in the release because we were obviously talking about a major partner agreement with Air Canada, and Sainsbury's also represents a fairly significant chunk of gross billings. But the current contract runs to 2019.

As I've said, we prefer to negotiate in private, so I'm not going to comment any further on that.

Adam Shine

Okay. I'll leave it there. Thanks.

Operator

Once again, if you'd like to ask a question, press *, then the number 1 on your telephone keypad. Your next question comes from Jose Saracut from Manulife. Your line is open.

Jose Saracut — Manulife

Hi. Hello. Good morning. Just a quick question regarding the balance sheet and capital structure. Can you hear me?

Tor Lonnum

Yes. We can hear you just fine. Hi. How are you?

Jose Saracut

Great. Not too bad. Thank you. So you're redeeming the 2018 bonds, 200 million. You're left with '19 at 250 million. It looks to me right now you have more preferred shares outstanding than some bonds out there. I was wondering what's your policy towards the preferred shares? It looks like they're trading at a good discount. Have you thought about reducing that? Or you still believe you're at the optimal capital structure regarding the prefs?

Tor Lonnum

Well, as I said, I mean nothing has really changed today. And keep in mind that in principle what we're doing related to the balance sheet is that we're switching from the bond maturing in 2018 to using the revolver. So the debt level will stay at the same level, $450 million, and that's in line with what we announced in terms of our financing structure in Q3 last year.

So I think I'll just leave it at that.

Jose Saracut

Okay. Thank you.

Operator

Once again, if you'd like to ask a question, please press *, then the number 1 on your telephone keypad.

Your next question comes from Drew McReynolds from RBC. Your line is open.

Drew McReynolds

Yeah. Thanks very much for the follow-up. Just back to Air Canada, I think, David, you alluded to not receiving a formal letter of intention to, I guess, exercise the rights under the agreement. Just to prevent both parties here and the public markets from avoiding the uncertainty around this, is there any way you can ask for that or get that so you have a 100 percent certainty here? Just because it reads in your press release something very different than Air Canada, and it doesn't appear that anything here is legally binding at the moment. Thank you.

David Johnston

Look, I think everything we've said today has been designed to avoid uncertainty in the public markets. Based on the discussions we've had and what we've seen from Air Canada, including quite recently, we felt that we had to disclose what we've said today, which is we don't believe it's their intention to renew.

So I think that's quite clear. And what's also clear is what we talked about on the actions that we're taking and the alternatives that we've had. I think the specifics of whatever documents will be around this process is actually not that helpful to share in the public market.

But I'll also say my view remains that an agreement between Air Canada and Aeroplan is the best thing for shareholders on both sides. And we continue to be open to discussion.

Drew McReynolds

Thank you.

Operator

Once again, if you'd like to ask a question, press *, then the number 1 on your telephone keypad.

We do not have any questions at this time. I will turn the call over to the presenters.

David Johnston

Okay. Thank you. Well, as we said, we left the bulk of time today for questions, so hopefully that has been helpful to you.

Thank you for your questions, thank you for joining us this morning, and I'm sure we'll be talking to many of you soon.

Operator

This concludes today's conference call. You may now disconnect.

*****