AIMIA

**AIMIA INC.**
**THIRD QUARTER 2015**
**RESULTS CONFERENCE CALL**
**NOVEMBER 13, 2015**

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# FINAL TRANSCRIPT

**Aimia, Inc.**

**Third Quarter Results**

**Event Date/Time: November 13, 2015 - 9:00 a.m. E.T.**

**Length: 56 minutes**

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## PRESENTATION

**Operator**

Good morning, ladies and gentlemen. My name is Aaron and I'll be your Operator today. At this time, I would like to welcome everyone to the Aimia, Inc. Q3 2015 Quarterly Results Analyst Call. At this time, all lines have been placed on mute to prevent any background noise. After our speakers' remarks, there will be a question and answer session. If you would like to ask a question at that time, please press star, one on your telephone keypad.

I would like to turn the call over to Ms. Karen Keyes, Senior Vice President of Investor Relations. Ms. Keyes, you may begin.

**Karen Keyes** – Senior Vice President, Investor Relations, Aimia, Inc.

Thank you very much, Aaron. Good morning, everyone. Good morning to all of you attending both on the phone and the webcast this morning. With me on the call today are Rupert Duchesne, Aimia's Group Chief Executive; David Johnston, Group Chief Operating Officer; and David Adams, EVP and Chief Financial Officer.

Before we get underway, I'd like to remind everyone to review our forward-looking statements and the cautions and risk factors pertaining to these statements, which can be found on Page 3 of our third quarter results highlights presentation available on the website.

I would also point out that the presentation refers to a number of non-GAAP metrics to help you better understand the results of the business. These are explained on Page 4 of the presentation.

In the next half-hour, Rupert, David and Dave will review what's happened in the business over the last quarter and provide some context for our updated 2015 guidance and expectations for 2016. We will then set aside the rest of time for your questions, as normal.

With that, I'll hand over to Rupert.

**Rupert Duchesne** – Group Chief Executive, Aimia, Inc.

Karen, thank you, and thank you, everyone, for joining us. We expected 2015 to be a challenging year and, clearly, the results we released reflect that. Economic challenges in key markets, the time it took to reach a resolution on interchange rate reform, and the transitions in progress for our coalition programs were factors we knew would put financial pressure on us this year, but what we've experienced is actually a more aggressive slowdown than anyone anticipated.

In October 2014, the Bank of Canada was predicting GDP growth of 2.5 percent, and it dropped its estimate every quarter after that until October 2015, with its latest estimate of 1.1 percent, less than half of what was expected a year earlier.

In the UK, food prices are where the real story is for Aimia and its anchor partner Sainsbury's. As of September, food prices had fallen for 15 consecutive months, including 2.5 percent from January to September this year.

Now, we're pleased that the interchange file has been resolved now, but because it took longer than expected, it led to lower marketing spend on financial cards and slower new card acquisitions in the first three quarters of the year, delaying expected growth to 2016.

We certainly are not happy with the financial results we've reported today, but as we saw the challenges building, we proactively put a plan in place, alongside the reorganization that we announced last quarter, to drive $20 million of cost savings for 2016. Reorganizing our business into three divisions will allow us to simplify, focus and grow. That work is well underway, with the cost savings being just one aspect. We've already put in motion the $20 million cost savings plan which will eliminate more than 200 jobs this year, and other work, such as our partnership with HP, to contain costs in the long term.

We've now gone beyond these actions and have identified measures to achieve a second $20 million in savings, to be implemented by the end of 2016, to ensure that we're running the absolutely most efficient company we can without constraining the growth plans for our core businesses, and for non-core assets, we've engaged advisors to consider and evaluate potential disposals.

The result is that, despite the drop to gross billings we're experiencing, we're not just protecting, but we're improving our Adjusted EBITDA margin, and when we look to 2016, we expect to deliver both double-digit Adjusted EBITDA and strong margin growth, which will result in improving free cash flow per share. Throughout, we remain focused on returning cash to Shareholders, as demonstrated by the $348 million returned through dividends and share buybacks since November of 2014.

Although the economic uncertainty persists, we expect many of the factors that have forced us to reduce our 2015 guidance to be alleviated, and those that will continue into the new year have already been baked into our expectations for 2016, as Dave Adams will explain in a little while.

Our decision to focus on the programs and assets on which our reputation with marketers is based was obviously a statement of belief. We believe strongly that our coalitions offering for individual clients who will come together under our Global Loyalty Solutions business, and our Shopper Insights and Communications business, together meet the needs our clients have to make business personal for their customers. Customers are increasingly savvy. They know they're giving brands all kinds of data about themselves and they're demanding personalization in return. Our business has evolved to help our clients stand apart from their competition in that regard. Sainsbury's, TD and Toyota are just three examples of partners that are evolving the way they talk to loyalty and increase spend from their customers, and our partnerships with them are helping to make that possible.

In each of the core businesses that we're focusing on, we have a unique and market-leading capability, and in each area we're investing and reallocating capital to build an even stronger offering, yet it's been harder this year to see the underlying progress we're making to refine and improve our businesses, not just because of the forces that are pressing on this year's gross billings, but also because of very high comparative bars set by the launch of a new financial card partnership in Canada last year.

David Johnston will show you in a minute what we see as the underlying strength of our flagship coalitions, Aeroplan and Nectar, and some of the indicators that we're watching to measure our financial success in meeting our partners' evolving needs.

Over to you, David.

**David Johnston** – Group Chief Operating Officer, Aimia, Inc.

Thanks, Rupert. As we come into the last few weeks of the year, we have a pretty firm view of the trajectory to year-end in our two major coalitions. Let me help you understand the performance of Aeroplan and Nectar, and how that will come together to underpin our expectation for modest growth across the Group in 2016. I'll also discuss how our 2016 business plan will result in a greater level of focus and simplicity in our operations and stronger operational leverage.

Let's start in Canada, where our progress with TD and CIBC is becoming more apparent. The TD and CIBC active card base has stabilized over the last three quarters and remains 6 percent above 2013 levels. New card acquisition is increasing, while attrition is decreasing. With CIBC attrition down to historic levels and TD attrition levels expected to reduce further in 2016, new card acquisition should now translate to further growth in the active card base, and that growth, combined with the 3 percent increase in spend per card we're already seeing, will shift purchase volume from the slight decline we saw this quarter into growth next year.

Last quarter, I talked about purchase volume as one of the key indicators of the performance of the Credit Card portfolio. It's not a clean read this quarter, as gross billings were down more substantially than purchase volume. This is mainly because the price per mile we receive only declined from the end of the second quarter, once we had a resolution on interchange. The linkage between purchase volume and gross billings will become increasingly evident as we go through the next three quarters.

One of the reasons we wanted to partner with TD is their impressive ability to market and sign new card holders from an existing customer base, and they proved that in our first year together. You'll remember, too, that there were joint marketing commitments over the first four years of the contract. Now that interchange has resolved, the Bank is in the market with increasingly focused marketing campaigns, three of which are illustrated in the slides.

The first, the SuperEarn Your Way to Distinction campaign, focuses on the value card holders get from being in the Distinction tier. The second is an example of the bundled offers promoting broader banking products and aimed at new customers both from inside and outside the Bank. New TD all-inclusive bank account holders, for example, can get a fee waiver on a TD Aeroplan card and Aeroplan Mile welcome bonuses by adding products, such as overdraft protection. Finally, TD has a Good to Know acquisition campaign, which is aimed at new potential card holders and highlights the benefits of Aeroplan.

These campaigns are key tools to help TD retain their existing customers, gain new ones, and drive spend growth and spend consolidation beyond the 3 percent increase we saw in the quarter.

For its part, CIBC has a Putting it all on Your Card campaign in the market aimed at existing card holders, and More Ways to Get More out of Your Card campaign aimed at new ones.

We're also doing our part. We launched the Aeroplan Behind Your Plan campaign in September, and are running ads alongside TD's to drive home key messages about the value and availability that we have added to the program over the last few years. Our members have been taking notice of the changes that we've been making to transform the program since 2013.

Redemption success metrics continue to be positive and Net Promoter Scores are climbing and are highest among our most valuable Distinction tier members.

It will likely take until the first quarter of 2016 to see this heightened level of promotional activity translate into growth and spend consolidation on cards, but, with more straightforward comps, we're confident that we'll see modest growth in purchase volume and gross billings from Aeroplan co-branded credit cards in 2016.

However, we expect our business with American Express to remain challenging. AMEX is cycling aggressive levels of investment and unprecedented growth. It continues to suffer from higher levels of attrition associated with the fee-waive acquisition in 2014. This is compounded by a low level of new card acquisitions in 2015, creating a drag on gross billings, despite good conversions for membership rewards. We continue to work closely with AMEX to encourage the strengthened level of support required to reverse this trend; in particular, determining how best to capture the growth available with our higher-end co-branded cards, such as Platinum and Reserve.

Despite a weaker economy, we believe the targeted and differentiated activities and campaigns to highlight the rich Aeroplan offering to card holders will result in sustainable growth in the card base and change the mix, driving higher spend per card.

Finally, let me touch on Air Canada. The significant investments we made in 2014 mean Aeroplan is now a much more attractive way to reward our joint customers with our loyalty. It's also an important lever in the domestic travel market that has become more competitive. With Air Canada's increased capacity coming onboard, and their accumulation grid changes and altitude program now largely in place, we expect to have a strong foundation for growth in 2016.

Overall, we expect Aeroplan to be back in growth in 2016, based on the increasing strength of the financial cards portfolio. In Retail, we added Toyota as a significant new partner this quarter, and we see a positive outlook for gross billings with Air Canada as they add capacity.

Turning now to Nectar, Nectar is transitioning to being more bonus-driven and more digital, ensuring it continues to drive value for partners and engagement with members. In the UK business, our focus has been on working through the dual impact of a change in base accumulation rates and ongoing food price deflation. While we had lower gross billings with Sainsbury's in 2015, they're leading the way on how to use a bonus-driven strategy. They're making strides in determining how to reward their best customers in a targeted way to drive market share.

While overall points issued were down and the level of bonusing is not yet enough to offset the decrease in base miles year-on-year, bonus points were up 15 percent this quarter compared with last year. As a result, gross billings will remain variable from quarter-to-quarter for now. However, higher bonusing is expected around peak shopping periods, so we have significant expectations around the level of activity over the next two quarters, fourth quarter Christmas campaigns and first quarter Easter activity, to take absolute levels of issuance above this quarter. This will also take us to the April anniversary of the change in points issuance, giving us better visibility of what a full annual cycle would look like.

With British Gas, our second biggest client, a regulatory change has materially limited the way they can issue points, and this has had an impact on Nectar gross billings. Fortunately, the regulatory change coincided with the investments we were already making in refreshing and digitizing Nectar. Under a new multi-year renewal, which takes effect in January, British Gas members will be rewarded through bonus point offers and Nectar partner offers. The new structure rewards members on a more flexible basis for their behaviours, enabling British Gas to be more responsive to market and consumer trends. Going digital will allow personalized offers on a more responsive and more frequent basis, but the change from base issuance to the use of more bonusing will again drive more variability in gross billings, with overall British Gas gross billings expected to be down $20 million in 2016.

Our customers' continued engagement with Nectar is also evident in the take-up of recent offers for redemptions outside Sainsbury's; again, the kind that will be a key part of new Nectar.

While points redeemed are down, this is mainly a reflection of the fact that accumulation is lower and members are, therefore, cycling lower balances. Burn/earn has been tracking above last year and, as always, redemptions are likely to track higher than issuance in Q4. With increased bonus issuance from our key partners in the first half of 2016, we expect burn/earn to be lower next year.

We continue to expect some lumpiness in points issuance, as well as lower redemptions in the first half of 2016, with Nectar in transition and some changes underway with our largest partners. What's important is that we are shaping the way that next-generation coalition should look with the changes that we're making; 7.7 million digitally actively members are already receiving the more personalized offers that will be key to new Nectar. The level of take-up should give us great opportunities to expand the new Nectar proposition with other partners in the future.

Turning now to our business plan for 2016, the autumn is always a busy time for business planning and this year even more so due to the reorganization along lines of business that we announced last quarter. While we haven't concluded the business planning cycle yet, we're focused on a number of elements to grow market share, generate growth, improve profitability and continue to generate healthy returns.

A key part of the reorganization was the creation of a Global Loyalty Solutions business. We're transitioning the product set away from traditional lower margin rewards fulfillment towards a subscription-based, platform-led offering, with products such as Smart Button and the Aimia Loyalty Platform. We see a strong market for the end-to-end solutions we offer, from strategy through to platform implementation and program operations, offerings that help our clients build stronger relationships with their customer base. We're seeing real success with this direction reflected in a healthy sales pipeline.

The win we announced today, to help Optus deploy their new ground-breaking program with more than 9 million customers, reflects this progress. The Optus implementation, like the Avis one announced in August, is a great example of our new Global Loyalty Solutions strategy in execution.

The continued momentum we're seeing for Global Loyalty Solutions illustrates the positive impact of reallocated capital to higher margin parts of the business to drive better long-term results. In this vein, a key goal over this planning cycle has been to ensure we make the right investments to keep our capabilities leading-edge and generating top line growth, particularly in analytics, where we know we can generate strong returns.

In order to ensure we can accelerate this reallocation of capital to grow the core businesses, we have engaged advisors to consider and evaluate potential disposals of non-core assets. We've also paid greater attention this year on our OPEX and CAPEX plans to ensure that we're operating efficiently and driving longer term profitability. As a result, we're now implementing the $20 million of cost savings announced in August, which will result in over 200 roles eliminated by the end of 2015. Longer term savings will come from our HP partnership. Since we announced the contract in May, we've been doing the necessary detailed planning and transition costs will be about $10 million, but over the longer term, this will contribute to slowing the rate of OPEX growth of our IT expense and reducing the capital expenditure required, while gaining access to the global best practices and skills that HP has to offer.

As we move forward with the new lines of business and look beyond what we can achieve in 2016, our business planning identified a second $20 million of cost savings to improve margin. We have started to take action on these measures as well, and expect to have these savings in place by the end of 2016.

So, let me conclude here with a few thoughts. Operationally, we're making progress and focusing more to better allocate capital, simplifying what we do, and delivering cost savings that improve our operating leverage. The deal we signed in 2013 is delivering a stable financial card base from which to grow the Aeroplan business in 2016, and although creating some pressure on gross billings through the transition, the shape of our Nectar business is changing to a more digital and bonus-driven model that ensures our partners can be more responsive to market and consumer trends. This will create a stronger base for 2016, and beyond.

With that, let me hand you over to Dave Adams.

**David L. Adams** – Executive Vice President and Chief Financial Officer, Aimia, Inc.

Thanks, David. Knowing that 2015 would be a tough year, we made deliberate decisions to cut costs and manage cash to protect ourselves, while continuing to make important investments in the business, in the consumer value proposition, and returning a significant amount of capital our Shareholders. This quarter should be an inflection point. The good progress we're making operationally has not fully translated into the financial results in the way we had expected in the first nine months of the year, but it is expected to deliver some improvement in the fourth quarter, and significantly more progress in 2016.

David has already spoken to these factors that affected the top line, so let me touch briefly on some of the other key financial metrics for the quarter before moving on to our outlook for the year and considerations for 2016.

So turning now to Slide 15, against tough comps and with some increased softening in the environment, the quarter's gross billings were down by 8 percent, or by 12 percent on a constant currency basis. At the Adjusted EBITDA level, the $49 million we delivered in the quarter took year-to-date Adjusted EBITDA to $162.2 million, or a margin of 9.1 percent, in line with our full-year guidance of 9 percent; and free cash flow per share in the quarter was very positive, with an increase to $0.34, with improved cash from operations and a lower share count as a result of our share repurchases over the past year.

Let me turn now to the Adjusted EBITDA walk. Our quarterly Adjusted EBITDA profile continues to be healthy and the margin this quarter was 8.5 percent, excluding the $3 million of severance costs related to the actions we're taking to implement the new divisional structure and improve 2016 operating leverage.

At the gross billings level, in addition to lower Aeroplan and Nectar gross billings, the changes at Nectar Italia and the exit of contracts in the Canadian proprietary business meant lower contributions for both Canada and the EMEA. The most significant single element of the change was in Canada, where the third quarter of last year benefited from a $19.4 million one-off TD promotion.

We also had higher redemption costs due to higher cost per mile redeemed in the quarter. Aeroplan members booked 4 percent fewer air rewards in the quarter, but miles redeemed were broadly stable. Within that, Star Alliance rewards accounted for more than a quarter of our total redemptions, and the strong US dollar had a $6 million impact on the cost of those Star Alliance rewards. On a year-to-date basis, the currency impact on our Star Alliance rewards was $15 million.

Air rewards booked on Air Canada were broadly stable in the quarter and are up 3 percent on a year-to-date basis, as a result of mix shift to more Canadian destinations in light of the stronger US dollar accounting for over 1.1 million flight rewards. In 2014, our payments to Air Canada rose by more than $180 million, and so far this year we're tracking to a slightly higher amount.

Elsewhere, the traction with global platforms and the investments we're making to ensure products like ISS remain leading-edge means that our product development costs remain higher than last year. The lower EMEA contribution included $6 million of global product costs, but was largely offset by a stronger result in the US and Asia-Pacific, combined with the year-on-year increase in our Club Premier distribution.

As you can see from the next chart, we expect to be getting better operational leverage in the fourth quarter. This will be on the back of a higher top line in Canada and EMEA, and an improvement in the cost per mile redeemed in the Aeroplan program. While the EMEA region will again include $6 million of product development costs, the Club Premier distribution for the fourth quarter should also be higher. We remain confident that these factors will allow us to deliver in line with our margin guidance.

Let me turn now to guidance for 2015. With the impact of a lower active financial card base at Aeroplan and the slower economy in both of our main markets as we entered the second half of the year, our third quarter gross billings at Aeroplan and Nectar were behind where we expected to be. As a result, while we're maintaining our guidance for Adjusted EBITDA margin of 9 percent, we now expect gross billings for the year between $2.4 billion and $2.46 billion. With a strong conversion of Adjusted EBITDA to free cash flow, free cash flow should land in a range between $180 million and $190 million. The guidance excludes severance costs, which are expected to be in the region of between $10 million and $15 million for the full year, around half of which will have a cash impact this year.

Let me spend a minute helping you understand in more detail what was included in our original guidance and what has changed as we've come through the year.

Our previous free cash flow guidance of between $220 million and $240 million assumed that we could absorb the impact of a number of one-offs that we could see when we set our guidance. That guidance included an expectation that the $40 million of one-off tax refunds would comfortably offset the other two items that have negatively affected our operating cash flow. The first was the $15 million of elevated redemptions associated with the Nectar Italia program expiring, and the second was the structural change in working capital profile of our US events business, as clients reduced the size and term of prepayments, which negatively affected free cash flow by about $25 million.

Since the second quarter, the revision of our free cash flow guidance was triggered by the shift in timing of gross billings in our coalition programs, taking into account the likelihood that some of the significant Sainsbury's bonusing activity that we expect in the next two quarters may fall into the first quarter of next year instead of the last quarter of this year, and that the renewed Canadian credit card acquisitions that we see happening today, with the banks only ramping up new marketing campaigns from September of this year, will only translate into top line growth in the first quarter of 2016.

GDP trends moved against us and continued food price deflation in the UK has also had an impact. Meanwhile, redemption levels in Aeroplan and Nectar have held, while currency had an impact on the cost of Star Alliance rewards. We also now expect an increase of $10 million in higher capital expenditures due to accelerated product development costs in order to meet our customer commitments and the stronger pound sterling. With $123 million of free cash flow to the end of September and a $21 million tax refund received since the end of the quarter, total free cash flow is now over $144 million.

We intend to give you more specific guidance for 2016 in February once we see how the year finishes. By then, we will also have our new organization in place and have comparative 2015 numbers aligned with the new divisional line of business structure. But let me give you some idea of what to expect in 2016 will look like in the context of what we've delivered over the last few years, starting with the gross billings picture.

Slide 20 illustrates the unusual year that was 2014. It benefited from extraordinarily high levels of financial card acquisitions at Aeroplan and one-off payments from TD. If we compare 2015 instead against 2013, when we initiated the Aeroplan transformation, our revised guidance represents a $40 million to $100 million improvement on the level of gross billings, notwithstanding the $50 million impact of a gross to net accounting change, a weaker Canadian economy than we had initially expected, the lower yield due to interchange reform, and the expected $45 million impact from the ramping down of the Nectar Italia program. With many of these factors no longer affecting us in 2016, we expect to deliver single-digit growth in gross billings with the Aeroplan program growing, Nectar gross billings being broadly stable and continued transition in our proprietary business with a growing base of clients like Avis, Telus and Optus.

Within Aeroplan, the overall financial cards portfolio is expected to grow in 2016, driven by mid-single-digit purchase volume growth in our credit card portfolios, where we expect growth in the active card base and increased spend per card. The effect of lower price per mile reflecting interchange reform will also be fully cycled from after the second quarter. We also expect Air Canada gross billings to grow as they increase capacity.

Looking at Adjusted EBITDA going forward, the efficiencies that we are implementing are expected to deliver $20 million of annualized cost savings and to contribute to double-digit growth in our Adjusted EBITDA, despite the implementation costs in the region of $10 million associated with out HP outsourcing contract. Normalizing for one-offs in Adjusted EBITDA and free cash flow, we are confident that in 2016 our Adjusted EBITDA to free cash flow conversion will be higher than 75 percent.

Taxes paid or received is a key swing factor to understand when looking at our reported free cash flow conversion. Although we continue to expect between $10 million and $15 million of cash taxes payable across the global business this year, we don't currently expect to pay cash taxes related to the Aeroplan business in Canada for the next three years due to accumulated tax losses. We are also paying lower interest as a result of a $150 million debt repayment in September 2014.

Overall, we remain confident in our ability to deliver free cash flow above 2015's levels, with single-digit growth in gross billings, strong improvement in Adjusted EBITDA, and a typical free cash flow conversion ratio. The upside opportunity will lie in our ability to convert Aeroplan card acquisitions, higher spend per card, and increased spend consolidation into higher purchase volumes in 2016, and to manage Nectar redemptions as we move through the transition with more variable accumulation and increased member engagement; and, clearly, the second $20 million of cost savings we're taking the action to implement now will also improve our operating leverage from the end of 2016.

Finally, let me close by touching on how our continued solid cash generation is benefiting Investors.

Through 2015, we've used our surplus cash to buy back shares and now have completed a buyback of $225 million, which has taken our total shares repurchased to around 16.7 million since November of 2014. The lower share count has contributed to a significant improvement in free cash flow per share. On our current guidance and share count, 2015 free cash flow per share should be around $1, and improve further in 2016, and we continue to trade at a free cash flow yield of around 10 percent. We are in our fifth consecutive year of dividend increases and our dividend per share is up 6 percent over last year. Our dividend yield remains around 6 percent and our current quarterly dividend of $0.19 represents a payout ratio of around 65 percent.

While the last few quarters have been challenging, we expect this to be an inflection point for the Nectar program and to see Aeroplan showing really positive momentum on a number of levels. More importantly, the business is set to deliver growth in 2016, and we'll continue to take action to deliver strongly improved margins and solid free cash flow conversion, driving further improvements in free cash flow per share.

With that, I'd like to now turn it over to the Operator for questions.

## Q & A

**Operator**

Certainly. At this time, if you would like to ask a question, please press star, then the number one on your telephone keypad.

Your first question comes from the line of Adam Shine from National Bank Financial. Please go ahead.

**Adam Shine** – Analyst, National Bank Financial

Thanks a lot. Good morning. One thing you didn't necessarily touch on was the context of redemption activity that didn't quite see this sort of tick-up we normally see from a seasonal perspective. I guess part of it, obviously, as we've heard from you, Rupert, is just the new TD card holders still need to busily accumulate to get to those levels for maybe travel and other redemption, but can you speak to what data points you might be seeing as to that dynamic?

**Rupert Duchesne** – Group Chief Executive, Aimia, Inc.

Yes, so that's quite interesting. I mean, rewards were down around just over 5 percent, but some of the change there was that there was actually fewer non-air rewards redeemed for. So, that really—the miles redeemed were actually half, and that was because of a change in that reward mix. Air rewards were down around 4 percent, but rewards booked on Air Canada were stable. So, this looked to us to be members making sort of rational economic choices about particularly redeeming for domestic travel, with fewer international travel, and we would ascribe that pretty directly to the impact of a weaker Canadian dollar

There are a few product changes we introduced in the quarter, but we don't really think that's relevant.

I do think—and we can probably address this in other questions—I do think that the economic uncertainty we saw in Canada through the third quarter, and, frankly, coming into this quarter as well, had a quite material effect on that demand, and many retail and consumer businesses in Canada, and, frankly, some in the US as well, showed really suppressed activity through the third quarter and are forecasting the same into the fourth quarter. So, this seems to us to be consumer-driven as opposed to anything structural with the program.

**David L. Adams** – Executive Vice President and Chief Financial Officer

Adam, it's Dave. If you take a look at the year-to-date, we're up about—redemptions are actually, in mile terms, they're up about a half a percentage point, and that's up over the

2014 levels, which is actually higher than our historical levels as well, but we're talking in single-digit percentage point terms.

**Adam Shine** – Analyst, National Bank Financial

Right. No. Thank you for that colour. If we look at the extra $20 million in savings that you're targeting, I can understand why you might necessarily wish to elaborate on what specific items you are exploring; if you are, then, that'd be great, I'd love to hear what they are. But I'm curious about the timing. I would've thought that perhaps the stepped-up activity might have yielded savings a bit earlier in 2016, so perhaps curious as to what factors preclude earlier success on those further restructuring efforts.

**David L. Adams** – Executive Vice President and Chief Financial Officer, Aimia, Inc.

Look, I mean, first of all, we're executing the first round of $20 million of savings right now, and as we've said, those will be in place by the start of 2016. The second round, you're right, I'm not going to go too much into detail, but the second round comes from driving further efficiencies in the core operation. That's in areas like procurement efficiency, potentially some property consolidation, and some of those things just take a little bit longer to execute. Obviously, we'll be trying to do them as quickly as we can, but at this point, we've based the guidance on them being executed by the end of next year.

**Operator**

Your next question comes from the line of Drew McReynolds from RBC Capital Markets. Please go ahead.

**Drew McReynolds** – Analyst, RBC Capital Markets

Yes, thanks very much. Rupert, just on—or Dave, just on the guidance or the expectations for 2016, when you talk about the mid-single-digit growth expectation from financial partners, just wondering what kind of macro-environment that would assume. Can that be achieved assuming the current macro-environment?

Then, just secondly, just would be interested in what you're considering as non-core, just in that comment in terms of looking at potential divestitures; and can you give us a sense, just in terms of when you go down that path, whether there's a change in your strategy here or whether the market has changed, which kind of puts these non-core assets into that bucket? Thank you.

**Rupert Duchesne** – Group Chief Executive, Aimia, Inc.

Let's talk about the economy first. As I said in my remarks, the slowdown has accelerated through the third quarter and into the fourth quarter, so clearly we're reporting third quarter results today, but we're well into the fourth quarter already. Frankly, I think that's taken everybody by surprise, the economists, the Bank of Canada, etc. I don't think it's surprising that it happened, we've seen that in a number of Western economies, but particularly in Canada. Over the summer we had a very extended federal election campaign with a very uncertain outcome. We now have a stable majority government and I think whatever one's political view, to have a stable government for four years is very good for Canadian business. There are some personal income tax changes coming for the very highest paid. It's a little hard at this point to understand what the impact of that would be, but that's well above the average Aeroplan member, so perhaps should not be an affect.

So, what we think is going to happen for 2016, and it's still a little early to predict because the holiday season will be a very important indicator, is essentially a continuation of the current status quo with a little bit of recovery of consumer confidence. We have baked that into our numbers for 2016, and that's a significant driver of the guidance we've given, which obviously is a little bit lower than we hoped for, but we do believe all of that will have washed through the system by the time we get to reporting our Q4 result in February, and therefore we'd be able to confirm further and give you more detail on the guidance at that time.

Dave, do you want to handle the question on the asset mix and then I can finish up the question afterwards?

**David L. Adams** – Executive Vice President and Chief Financial Officer, Aimia, Inc.

Sure, yes, and just to follow on the economy as well, if you take a look at Sainsbury's most recent trading statement, they were indicating that in the UK they were looking for sort of a 2 percent growth, and we actually had a 2 percent food price deflation this quarter. So, their anticipation is that that start to unwind next year; and, again, we'll be able to give probably a better view once we get to February.

With respect to the assets, Drew, we've talked a bit before about the monetization of some of our assets, and we want to make it clear that we will consider the monetization of our investments in Cardlytics and Club Premier when it's appropriate to do so, when there are liquidity events in those businesses, but the timeline in those businesses is not really within our control. So the activity that we're looking at today where we've engaged our advisors, are outside of that remit, and we're taking a look at the rest. When we announced the new divisional structure in August, we were pretty clear that our intention was to focus on our core lines of business, which is our coalition businesses, our data analytics and our Global Loyalty Services business, but there are other investments that we've made which may be considered to be non-core, so we're taking a look at all of the rest of our activities in that context.

**Drew McReynolds** – Analyst, RBC Capital Markets

Thank you.

**Operator**

Your next question comes from the line of Anthony Zicha from Scotiabank. Please go ahead.

**Anthony Zicha** – Analyst, Scotiabank

Yes, good morning. Rupert, on the M&A front and business valuations, have the multiples come down since the failed sale of Dunnhumby, and can you give us some colour if there has been any impact?

**Rupert Duchesne** – Group Chief Executive, Aimia, Inc.

I don't think so. I think the—and I'll ask David to comment on it because he's sort of in-market there in the UK, but I think the reality is that that sales process was always a little complex given the diversity of structure and ownership within Dunnhumby, and the various divisions. Clearly, Tesco had some other success in asset sales. I don't think that overall the valuation of high-end data analytics businesses has really changed. One of the reasons why we have been allocating capital to (inaudible)—and, as you know, we've signed a number of new clients—is because we see that as a very valuable and very important long-term asset, and it's right in the sweet spot of what our clients and our partners want, which is really advanced insights developed from the wealth of customer data that our participants in our programs give us.

**David Johnston** – Group Chief Operating Officer, Aimia, Inc.

Yes, I would agree. I think that I wouldn't read much into it at all. There were some factors around the Dunnhumby disposal, particularly the commitments of Tesco and Kroger, which I think would determine the outcome there. I think the market sees that quite clearly and I don't think there's anything to read into it beyond that.

**Anthony Zicha** – Analyst, Scotiabank

Okay, and another question for David Adams. With reference to the potential asset sale, like, could you give us an amount that you're targeting, like how big could it be?

**David L. Adams** – Executive Vice President and Chief Financial Officer, Aimia, Inc.

Tony, it's fairly premature to get into that. We've just engaged advisors and we're early days in the process, so I'd hate to try to give you an estimate on what we think we could realize, if, in fact, we do actually sell anything at this stage.

**Anthony Zicha** – Analyst, Scotiabank

Okay, and one last question; with reference to the US coalition program, is there any update or can you say anything on that, Rupert?

**Rupert Duchesne** – Group Chief Executive, Aimia, Inc.

I don't think there is any specific update. I will say, however, that we remain very confident about our US coalition. I think the early success of Plenti is indicative. What we have done with new Nectar in the UK in terms of mobile, digital and base bonus, is very much where we see the future of coalition loyalty. That's a little bit ahead of where things are right now in the US, so we see the sort of proof of concept being what we've done with Nectar in the UK, and we've got a long history of success with coalitions globally, in many different markets. It's a question of getting the right partners together at the right time, and we're doing well in that regard, but we have nothing to announce at this point.

**Operator**

Again, if you'd like to ask a question, please press star, one on your telephone keypad; and, again, please limit yourself to two questions.

Your next question comes from Tim Casey from BMO. Please go ahead.

**Tim Casey** – Analyst, BMO Capital Markets

Thanks. Could you clarify your comments on Nectar Italia? David, you mentioned that there was an impact in terms of the rundown of gross billings, but are you still committed to Nectar Italia or are you winding the whole program down?

Second question, could you clarify a little more, add a little more colour on the, I guess, divergence in trend between AMEX and TD? Could you just help us understand a little more why you're expecting a downturn in AMEX but still growth in TD? Thanks.

**Rupert Duchesne** – Group Chief Executive, Aimia, Inc.

Well, let me tackle that one and then I'll ask David to talk about Nectar Italia. We're not expecting a downturn in AMEX, we've seen a downturn in AMEX. They've been very good at membership reward conversions. They were actually outstanding at card acquisitions during the transition in early 2014, but, as I think we said last quarter, many of those cards attrited at a much higher rate than was normal, and the marketing activity subsequently on new card acquisition has not been particularly aggressive. We're in the process of developing programs with AMEX to remedy that, but we did want to point out that, as you think about 2016, we're very confident in the performance of TD and CIBC, but we're a little dragged by AMEX, and we're working hard with them to improve that situation.

Essentially, the card marketing on the premium cards stalled for a period, completely unrelated to interchange, and there was significant churn, but we think we are heading back in the right direction, but we did want to point out that we don't think that that's going to be stellar as we go into 2016, and that is in contrast with the confidence we have with TD and CIBC.

So, let me ask David to talk about Nectar Italia.

**David Johnston** – Group Chief Operating Officer, Aimia, Inc.

Yes, on Nectar Italia, when Dave referred to the wind-down, he was referring to the exit of Auchan, which we had talked about previously. We are still active in the Italy market on the coalition. However, we've not included any upside from a potential relaunch of Nectar Italia in our guidance at this stage, and we'll be in a position to give more clarity on the future of that business with our results in February.

**Tim Casey** – Analyst, BMO Capital Markets

Sorry, Rupert, just to go back to AMEX, why did they stop marketing? Why did they go on the sidelines?

**David L. Adams** – Executive Vice President and Chief Financial Officer, Aimia, Inc.

It's Dave. Again, you have to go back to significant attrition. If you go back to the history, they launched—again, if you recall, just prior to our announcing the deal with—well, when we announced the deal with TD, and actually even before we'd signed our new agreement with American Express, they launched a major acquisition campaign starting in the fall of 2012, and it was targeted at the Gold cards. But we've seen that—and that was very successful in terms of new card acquisitions, but it was a non-fee waiver—it was a fee-waiver approach, and what we've seen subsequently, as we've cycled that acquisition campaign that rolled through late '13 and through '14, as we've cycled that, we've seen material attrition and non-renewal. So I think we've seen that there were an awful lot of gamers who got the bonus miles and then cycled back into the Visa Card portfolio. So, other than that, I think that's fundamentally the underlying fact base.

**Rupert Duchesne** – Group Chief Executive, Aimia, Inc.

I'll just add one other point, but, you know, clearly, it's also a question you should ask AMEX. I think, if you remember where the strength of AMEX has been since the new partnership with them in 2004, it really has been at the top end, in the Platinum and Reserve products. During the 2013/2014 transition, they refocused their marketing very heavily around the Gold card base with the effect that Dave outlined. We're now working with them to sort of get back to the market segment where they have shown immense success, and I think that will take some time, but it is why we've made the comments we have with respect to the different quality of performance between AMEX on the one hand and TD and CIBC on the other.

**Operator**

Your next question comes from the line of Robert Peters from Credit Suisse. Please go ahead.

**Robert Peters** – Analyst, Credit Suisse

Hi, thank you very much for taking my question. Maybe just if we talk on free cash flow and then return to Shareholders. So, with the lower guidance that the payout ratio goes to 65 percent in the quarter, you have guys been demonstrating some strong dividend growth over the past couple of years. I was wondering is there a target range for that payout or is there a range where maybe you're a little less comfortable continuing to raise the dividend going forward, or how should we kind of think about that going out to the future?

**David L. Adams** – Executive Vice President and Chief Financial Officer, Aimia, Inc.

Well, I think what you need to do is you need to take—you should take a look back at our historical performance, right. You know, it's 65 percent payout ratio; we're quite comfortable with that, but we've traditionally been at payout ratios in excess of 50 percent.

Again, we haven't put out a target, but it should be in that range of between—in excess of 50 percent and certainly—but 65 percent is probably at the top end.

**Robert Peters** – Analyst, Credit Suisse

Perfect, thank you very much; and maybe, Rupert, I believe you've done a grid change on the classic miles that's going into taking—or going into effect early next year. Just wondering how should we think about the kind of value of the classic rewards now. I believe previously you've disclosed it was like $0.033 for a standard classic reward and up to $0.066 for a business class. I'm not sure if you'd be able to, but would it be possible for you to update those numbers, or how should we think about kind of where you position those going forward?

**Rupert Duchesne** – Group Chief Executive, Aimia, Inc.

These are really minor changes on ceilings and floors and a little bit on a few international routes. It's really refining the grid according to how various routes generate margin versus price, etc. They're really going to have very little affect on the business and I really don't think that they make much difference to the financial outlook of the Aeroplan business, let alone Aimia overall.

**Operator**

Your final question comes from the line of Brian Morrison from TD Securities. Please go ahead.

**Brian Morrison** – Analyst, TD Securities

Hi, good morning, Dave. I know you addressed several items in your commentary, but I wonder if you can just articulate the key inputs to consider in a bridge for 2016 free cash flow, why this is not double-digits such as your EBITDA growth, because it seems to me there's a lot of items that were incurred this year. You mentioned a lot of positives with respect to gross billings growth in credit cards. Is this simply being offset by lower than anticipated gross billings and the lower tax benefits that you received this year?

**David L. Adams** – Executive Vice President and Chief Financial Officer, Aimia, Inc.

Well, let me just take a stab here. So I think, certainly from an EBITDA perspective, I'm very confident with double-digit growth in EBITDA. We're getting the costs out. On the free cash flow side, partially because of currency—and a lot of our product development work is being done in the UK—we're seeing an elevated level of capital expenditures. We're guiding to a number this year, and next year is looking like it's going to be a similar number. So, that's taking free cash flow down slightly. But, we're also starting off a lower base, right. The deferrals in getting the credit card acquisition programs going is starting us off a lower base, and so we're just getting to a lower number, but we're very confident that we're going to deliver growth off of the range that we're guiding to now, and it's going to come through those things that I've described in detail in my remarks.

**Operator**

We have no further questions at this time. I'll turn the call back over to the presenters.

**Rupert Duchesne** – Group Chief Executive, Aimia, Inc.

All right, thank you. Firstly, sort of an administrative issue. I understand that the webcast actually cut out for a period during Dave's comments. So, if any of you had problems with the webcast, IR is going to be very happy to follow up with you after the call. So, that's thing one.

But, then, taking a leap back up to the high level, we've made a number of very significant investments in the last two years: how to set up Aeroplan for the next 10 years with growth, how to take Nectar in the UK to a very advanced stage in terms of mobile and digital, the skills and the capabilities that we need to get the full value from the data in the programs that we operate and those that we operate for others, and we feel that's going to be absolutely instrumental in the medium- and long-term success of the business in terms of making business personal for our clients and customers.

The businesses that we're building and investing in are growth priorities, and, frankly, the talents of the Management Team give me great confidence, and notwithstanding that this has been a bumpy quarter and 2015 has been a lot rougher than we expected, I'm very confident about the transition into 2016, when many of these bumps will be behind us.

You'll have seen announced this morning that Tor Lønnum is joining us as CFO in May of next year. His deep experience will be very helpful to our Team, and we're also going to enjoy the continued counsel of Dave Adams until the end of March, which will ensure a smooth transition.

2015 has been more challenging, as I said, than we expected, but I believe that our strategy remains the right one. The change to the divisional structure will allow us to simplify, to really focus on the profitable assets and to grow from that base. So, I look forward to 2016. That will support the significant growth in gross billings, the double-digit growth in Adjusted EBITDA, and the higher free cash flow that we are expecting next year.

So, I know I'll speak to many to you over the coming weeks and look forward to our year-end results in February. Thank you very much.

**Operator**

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