AIMIA INC.

SECOND QUARTER 2019

RESULTS CONFERENCE CALL

AUGUST 14, 2019

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Aimia Inc.

Second Quarter 2019 Results Conference Call

Event Date/Time: August 14, 2019 — 8:30 a.m. E.T.

Length: 25 minutes

CORPORATE PARTICIPANTS

Tom Tran
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Jeremy Rabe
Aimia Inc. — President and Chief Executive Officer

Steven Leonard
Aimia Inc. — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Brian Morrison
TD Securities — Analyst

PRESENTATION

Operator

Good morning. My name is Sharon, and I will be your conference Operator today. At this time, I'd like to welcome everyone to the Aimia Inc. Second Quarter 2019 Results Conference Call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there'll be a question-and-answer session. If you'd 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.

Mr. Tom Tran, Director, Investor Relations, you may begin your conference.

Tom Tran — Director, Investor Relations, Aimia Inc.

Thank you, Sharon, and welcome, everyone, to this morning's call. Today's presentation can be found on our website.

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, which can be found on Slide 2 of the Q2 Highlights presentation.

Today's presentation will focus on the result of continuing operations. The presentation refers to a number of non-GAAP metrics to help you better understand the results of the business. For all of our non-GAAP metrics, a definition and a reconciliation to their most comparable GAAP metrics can be found on Pages 3 and 4. As usual, you will find a full GAAP income statement on Page 5.

With me on the call today are speakers Jeremy Rabe, our Chief Executive Officer, and Steven Leonard, our Chief Financial Officer. Jeremy will start with our strategic update before handing over to Steve to take you through the results of the quarter. We will have time for your questions at the end.

With that, let me hand over to Jeremy.

Jeremy Rabe — President and Chief Executive Officer, Aimia Inc.

Thanks, Tom. Good morning, everyone.

In the four-and-a-half months since we announced our strategy as a loyalty and travel-focused consolidator, Aimia has made significant progress. We've made beneficial changes to our board and management team, strengthened our M&A capability, won new business, and significantly reduced the long-term cost structure in our operating business.

We remain confident of two things: that the changes we've put in place are improving the operating business performance, and that the strategy we've set out is the best way to maximize the value of Aimia's substantial assets.

Adjusted EBITDA was up on last quarter, after adjusting for the exceptional PLM distribution in Q1, and we continue to expect Aimia to become profitable during 2020.

With the share price that has seen the shares trading at a substantial discount to our view of fair value, we've demonstrated our confidence in our strategy by buying back shares, returning close to a third of the post-Aeroplan proceeds to shareholders. And more importantly, having senior management significantly increase their value at risk by swapping the performance cash that had been awarded previously for equity-based compensation.

In March, we concluded a thorough evaluation of the company's future opportunities and capital allocation priorities. The board unanimously agreed upon a strategy that will see Aimia consolidate selected subsectors in the growing loyalty and travel space.

A sector-focused investment approach was chosen to maximize the value of Aimia's existing assets by leveraging our strong platforms, unparalleled industry experience, and ability to drive operational improvement. The last few months have confirmed that there remain substantial opportunities within loyalty, including immediate opportunities in Loyalty Solutions where we can capture cost and revenue synergies by bringing new businesses on to our platforms.

We've started to narrow our focus, and while it is too early to say whether any of these targets will make it through the robust capital allocation process that we've established, we are in active discussions with a number of potential companies.

Any significant transaction we undertake would obviously be subject to the board review, with the two new directors we added in early July, Dieter Jentsch and Fred Mifflin, expected to contribute to a thorough review around any potential acquisition or disposal.

Moving on to Slide 13. Having a solid, cost-effective platform with the right geographic footprint is key to enabling future synergies through new client adds and acquisitions. Although the ongoing roll-off of last year's client attrition will cause full year revenue to be lower than last year, we added new clients with strong brands in the quarter, and have good visibility of 2019 revenue based on the contracts we have already secured at this point.

Among the wins include, expanding our work with an existing leading global consumer goods client to support an additional brand in their portfolio. We're really excited to be extending the work we already do with them. Also, a Pan-Asian retailer has signed a multiyear contract to deploy loyalty programs across some of its brands using the ALP SaaS platform. This retail group operates supermarkets, hypermarkets, health and beauty stores, home furnishing stores, under a number of well-known brands. In addition, we've signed strategic consulting and analytics contracts in Australia with a leading personal spa company and a specialty fashion retailer, as well as in Canada, with a well-recognized fashion retailer.

In the ISS business, our Aimia Insights platform is now live with a South Korean multinational retailer to provide sophisticated analytics and drive actionable insights with their CPGs.

Over time, we would expect each new win to have the potential to grow, particularly as they move from strategy and design work to implementation of a loyalty platform and generate revenue in line with our other clients. Our average client run rate would generate about a $1 million annually.

Based on prior experience, the stickiness of clients should also grow over time as we continue to increase functionality and the client ramps up its membership base. This can happen very rapidly in a successful program, as we've seen at Nordstrom in recent years and at PetSmart, where the program has grown from zero to more than 26 million members as we approach the first anniversary of the program launch.

We continue to have good momentum on rightsizing our cost base, with progress being made across our four big areas of spend: people, technology, real estate, and other expenses including travel. Since January, Aimia headcount declined from 750 to 560. Our headcount at the end of the last quarter is two-thirds of what it was at the same time last year.

In order to better support our technology platforms, we will consolidate and strengthen our enterprise loyalty platform expertise in Minneapolis, enriching the feature functionality of our product and reducing overall tech spend, as we insource development work which had previously been outsourced to an IT application provider. We will incur some dual running costs and higher costs related to setup and building the internal team in the third and fourth quarters, but these changes will result in lower costs from 2020.

The substantial reset of our IT contracts during Q2 also included a renegotiation with our key IT infrastructure supplier, who provides our data hosting and user support and application service, and represents our single largest IT spend. Our new IT contract will see us move to a public cloud-hosted infrastructure for our data and reset our end user services in line with a substantially reduced employee base, reducing our spend for these IT services on a run-rate basis by over 40 percent year over year, beginning in 2020.

Finally, we have also made significant decisions around real estate, with the consolidation of our Sydney office into a smaller footprint completed in June, relocation of our Toronto office in the fourth quarter, and the relocation of our London offices to lower-cost premises at the end of 2019. As we implement these initiatives, we expect to see a reduction from the current quarterly OpEx rate of around 44 million, of which around 37 million in Loyalty Solutions.

Finally, let me speak briefly to our existing investments, starting with PLM, and then turning to Cardlytics.

As you've seen again this quarter, PLM remains a solid-performing asset, which has delivered adjusted EBITDA of US$83 million on a trailing-12-month basis. PLM has a long-term commercial agreement with Aeroméxico which runs to 2030, long-term co-branded credit card agreements, and there's also a shareholder's agreement which governs Aeroméxico and Aimia's joint investment in PLM, and under which we have strong shareholder rights.

While the macroeconomic conditions in Mexico are placing some headwinds on the business, we remain very confident of the program's ability to generate meaningful returns to Aeroméxico and Aimia.

Cardlytics has significantly increased its membership base with the successful launch of its platform with JPMorgan Chase and is gearing up to launch Wells Fargo beginning in the fourth quarter. The stock has had a very nice run given the recent news, as it establishes a clear leadership position and strong prospects to grow revenues over this large financial institution membership base. We continue to like the business, the management team, and we'll monitor this investment in the context of Aimia's strategy as a consolidator in the loyalty and travel subsectors, as well as our commitment to delivering strong returns for the company and shareholders.

Overall, Aimia had a solid second quarter, with progress made to improve the long-term performance of the operating business and execution of our M&A strategy.

With that, let me hand over to Steve.

Steven Leonard — Chief Financial Officer, Aimia Inc.

Thank you, Jeremy. As illustrated on Slide 17, the highlight for the second quarter was the narrowing of the adjusted EBITDA loss, which improved 38 percent year on year as a result of lower operating expenses and a higher PLM distribution, offsetting revenue and gross margin attrition from last year.

Revenue was 31 million compared to 43 million in the same quarter last year. Aimia's underlying operating expenses were down 23 percent to 44 million, excluding the impact of restructuring and the goodwill impairment charges taken in the second quarter last year. Importantly, operating expenses were down 1 million versus the first quarter of 2019, as we continue to drive the run rate spending lower.

Turning to PLM. We received a 6 million distribution in the quarter, up by close to a third on last year's distribution of 4.4 million. On a year-to-date basis, we have received distributions totalling 25 million and we continue to expect to receive around 37 million in distributions overall for the year.

PLM delivered adjusted EBITDA of US$21 million in the quarter, representing a margin of 31 percent. Gross billings were up 4 percent, despite expected headwinds due to softening macroeconomic conditions and Aeroméxico’s reduced capacity with the grounding of the 737 MAX. Member growth was yet again up double digits in the same quarter from last year, to 6.5 million.

For the Loyalty Solutions business this quarter, the trend remains broadly the same as last quarter. Lost revenue contributed to lower gross margin, which was partially offset by a significant reduction in operating expense. Lower headcount and IT expense reduced OpEx by 17 percent year over year, when you exclude restructuring and adjust for last year’s goodwill impairment. Adjusting for restructuring expenses, Loyalty Solutions adjusted EBITDA loss for the quarter was 8 million compared to a loss of 7 million last year.

Turning now to Corporate and Other. On a reported basis, the Corporate adjusted EBITDA loss was 10 million better than last year. Excluding restructuring costs, which were 2 million lower compared to the same quarter, Corporate adjusted EBITDA loss was 7 million better, mainly due to lower Corporate expense, but also helped by the increase in the PLM distribution.

On to cash flow. Reported free cash flow for the quarter was negative $56 million. This included $24 million paid to HSBC and $6 million of restructuring payments. Free cash flow was also negatively impacted in the quarter versus adjusted EBITDA, mainly due to working capital, including incentive, other compensation, and insurance payments amounting to around $9 million, and some cash receipts of around $5 million slipping out of the quarter and into July. We collected $3 million in cash interest and paid $1 million in cash taxes.

Moving now to the balance sheet on Slide 23. We ended the quarter with cash and investment in bonds of $396 million. The most significant cash movement in the quarter was related to the $162 million paid for common share buybacks, of which $150 million was for the SIB completed in May and 12 million was for share repurchases under our NCIB. At the end of June, we had repurchased 3.5 million of a possible 8.9 million shares of the SIB, at an average price of $3.67.

Other nonoperating cash activities in the quarter included proceeds from the Aeroplan closing accounts of $19.7 million, the payment of transaction costs associated with that transaction of $5 million, and the payment of Q1 preferred share dividend of $4 million.

Restricted cash was at $102 million at the end of June. In the quarter, $24 million of the restricted cash account related to the CRA tax audit was released to pay for reassessments we received. We expect up to another $11 million will be paid related to this audit, and $65 million will be released to Aimia from the restricted account in 2019.

In regard to the reassessments received, we have filed notices of objection, and believe we are more likely than not to prevail. As such, we have recorded the $24 million as a deposit on our June 30th balance sheet.

Finally, the NCIB was completed on August 13th, and we expect this to represent a further cash reduction of $21 million post quarter-end.

Before I hand it back to Jeremy, let me briefly talk you through the direction of cash flow movements you can expect in the second half. We expect a substantial improvement in free cash flow in the second half over the first half. We will continue to get the benefits of the headcount reduction we implemented earlier this year, as well as the timing of receipts that slipped out of the first half, and the absence of incentive payments in the second half. The PLM distribution is expected to add another $12 million. Included in the improved cash flow outlook for the second half will be some additional one-time technology costs related to changes we need to make to transition off the Aeroplan infrastructure and into a new contract with our largest IT provider, and to insource our application development, both of which will substantially reduce our long-term IT costs. We expect this to represent a onetime cost of $10 million in the second half of this year. Taken as a whole, we expect to substantially lower cash outflow to close the year.

As we look forward to 2020, the focus remains to narrow adjusted EBITDA loss to position Aimia, which includes its existing loyalty services business, corporate expenses, and distributions from PLM, to becoming adjusted EBITDA profitable during 2020. We are confident in the actions taken today will enable us to achieve our 2020 target, as well as position the company for a sustainable cash flow over the long term.

And with that, let me hand it over to Jeremy.

Jeremy Rabe

Thanks, Steve. With the support and guidance of a new board aligned to our strategic direction, we've begun executing a new strategy which will create value for the company and all of its shareholders.

First, we're making the Loyalty Solutions business a solid base which we can use as an investment platform.

Second, we've taken significant steps to improve profitability, which is already narrowing the adjusted EBITDA loss in the second quarter. The 23 percent reduction in underlying operating expense in the second quarter this year is evidence of the substantial progress we've made and underpins our view that the existing Aimia business will be able to return to profitability during 2020. We expect to deliver significantly better cash flow in the second half of the year.

Third, we're focused on winning new business and have gathered some good momentum in Q2.

And fourth, we have good opportunities in the M&A pipeline and are advancing discussions with a clear mandate that they need to deliver value if we are to move forward.

As we've laid out in the past, Aimia's investment proposition is based on the attractive long-term returns to be made by effectively and strategically deploying our cash as a loyalty and travel-focused consolidator. The successful execution of our strategy is expected to drive greater shareholder returns.

Together, the $150 million Substantial Issuer Bid completed in May and the Normal Course Issuer Bid now completed in August, represent a return of $183 million to common shareholders, which is a substantial return to shareholders in the span of seven months since we completed the sale of Aeroplan. We will look forward to updating you on our progress when we report our Q3 results later this year.

And with that, let me turn it over for your 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'll pause for just a moment to compile the Q&A roster.

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

Brian Morrison — TD Securities

Hi. Good morning. Steve, just looking at the free cash flow bridge from continuing operations in your commentary, it sounds like modest free cash outflow for the second half. Is it fair to say that it's positive for 2020 as the restructuring costs decline?

Steven Leonard

We haven't given our directional cash flow for 2020 at this point, Brian. What we are saying is we're going to see a substantial improvement in the second half. And as we head into 2020, we're focused on driving towards a profitable adjusted EBITDA during 2020. That's what we've given so far.

Brian Morrison

Okay. Jeremy, change in notes here. The statement of claim, it seems that the M&A or business plans, it's interpreted in there that they're being impacted by the noise that led to the lawsuit. This morning, it seems that you're saying the opportunities remain robust. So can you just confirm that events leading to the claim shouldn't impact your M&A strategy?

Jeremy Rabe

Yeah. Brian, we continue to be focused on executing the M&A strategy. We've seen robust deal flow since we announced the strategy; we continue to see that. It's allowed us to be selective in terms of the opportunities that we look at. So we're sticking very much to the criteria that we established at the outset. So we're not going to pursue businesses that are not cash flow positive, they're outside of loyalty, that wouldn't be accretive. With those criteria in place, we are seeing attractive potential opportunities. We'll continue to pursue those. It's still too early to say, I think, give you any specific timing around it, but I'll have to get through the capital allocation process which is robust and ongoing. But we continue to see good opportunities on the M&A side.

Brian Morrison

So it's business is usual?

Jeremy Rabe

Yeah. I mean, I think there's obviously some noise that people will read in the news. But to be honest with you, I think people also understand that we have some good solid synergies that can be harvested by putting some of these businesses together. We know a lot of these folks, having worked with them in the industry for a number of years, know our reputation and how we do business, and so I think they're excited about the opportunity with Aimia.

Brian Morrison

Okay. And maybe just two more quick ones if I can. Just same note. You've gotten very aggressive with your buyback in recent months. What's the—why do you have so much comfort with what's going on right now that that's the right strategy?

Jeremy Rabe

So I'll start and I'll let Steve add to it. So, I mean, when we look at our share price relative to the value of our assets, we're trading at a substantial discount to fair value. So we have a pretty robust capital allocation process that we put in place where we look at the returns and the risk on allocating capital across different, let's say, asset classes, whether it be M&A or buybacks. And the share price that we've seen recently on the common buyback front has provided some really attractive returns that we wanted to aggressively kind of lock in. So that's the fundamental thesis behind it.

I don't know if there's anything you want to add, Steve.

Steven Leonard

No, that's it.

Brian Morrison

Okay. Then maybe I can just add my last question, then. On that front as well, I mean, Club Premier, it's such a big asset within your portfolio. To the extent you can—I realize it's a sensitive topic, I respect that—but can you maybe just outline the alleged contractual breach and support your position that that's false? Because, I mean, it's fair to say that maybe there's a pattern of trying to capitalize on external distractions here. But how do I get comfortable with traditional valuation as they print their intention to rely less on PLM going forward?

Jeremy Rabe

Yeah. I think you picked up on some of the nuances of the dynamics there. But, I mean, what I would say is that, Aimia is a company that has the absolute highest ethical standards; and any allegations we would take very, very seriously; any irregularities we would take very, very seriously, and we would investigate and try to understand those incredibly thoroughly. We are not aware of any irregularities with regards to Aimia's governance of PLM. The business continues to operate. We have a new CEO, who was the former CFO, who's been put in place, so he knows the business, continues to operate it. And at the end of the day, there's strong contracts in place, both on the commercial side as well as the shareholders agreement, that both parties are upstanding organizations that will continue to honour those contractual agreements. So we continue to see a lot of value in PLM, distribution has increased, and the growth continues at the business.

Brian Morrison

Is there any way they can run a concurrent program beside PLM? Or no?

Jeremy Rabe

So within—so we've hesitated to share specifics of the terms of the commercial agreement, but you could expect that with any standard FFP agreement with an airline, there's going to be a robust exclusivity provision within that. Yeah.

Brian Morrison

Okay. Thank you.

Operator

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

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

Jeremy Rabe

Thank you, Operator. Thanks everyone, for joining the call today.

As I said in the presentation, we've made really significant progress to improve the long-term operating business performance, and the strategy we've set out is the best way to maximize the value of Aimia's substantial assets for all shareholders. I want to sincerely thank all of our employees who remain focused on driving business results which will collectively add to our goal of becoming profitable during 2020.

Look forward to speaking to you again on our third quarter results. Thanks.

Operator

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