



TAKING CLUB PREMIER TO NEW HEIGHTS

How Aimia Helped Aeromexico Optimize Its Loyalty Program

Sandra Diem, Vice President,
Global Business Development — Travel

Evert de Boer, General Manager,
Global Business Development — Travel

AIMIA
INSPIRING LOYALTY

SUMMARY

Aeromexico, Mexico's flag carrier, and Aimia partnered in 2010 to accelerate the development of Club Premier, Aeromexico's frequent flyer program. Together, the two companies formed Premier Loyalty & Marketing (PLM), which owns and operates Club Premier and has transformed it into Mexico's first broad-based coalition loyalty program.

PLM represents a strategic breakthrough for Aimia. It was Aimia's first investment in an international frequent flyer program, and marks the pioneering export of Aeroplan's successful business model to the global stage.

About Aeromexico

Grupo Aeromexico, S.A.B. de C.V. is a holding company whose subsidiaries are engaged in commercial aviation in Mexico and the promotion of passenger loyalty programs. Its fleet includes Boeing 777, 767, and 737 aircraft and the latest Embraer 145, 170, and 190 models. The carrier announced a major expansion plan in 2011 to acquire 20 new and wholly owned aircraft including ten Embraer 190 and ten Boeing 737-8 NG airplanes. Aeromexico will take delivery of nine 787-8 Dreamliners over the next three years. Moreover, in 2012, Aeromexico announced the most significant fleet investment program in Mexican aviation history: the acquisition of 100 new aircraft, including 90 Boeing 737-8MAX and 10 Boeing 787-9 Dreamliner airplanes.

Grupo Aeromexico operates its main hub out of Terminal 2 in the Mexico City International Airport, and offers over 550 daily flights to different cities in Mexico, the United States, Canada, Central and South America, Europe, and Asia.

Aeromexico is a founding member of SkyTeam, the global airline alliance partnering 18 airlines: Aeroflot, Aerolíneas Argentinas, Air Europa, Air France, Alitalia, China Airlines, China Eastern, China Southern, CSA Czech Airlines, Delta Air Lines, Kenya Airways, KLM Royal Dutch Airlines, Korean Air, Middle East Airlines, Saudia, TAROM Romanian Air Transport, and Vietnam Airlines. SkyTeam offers all partner airline passengers a large global network with more destinations and frequencies, and improved connectivity. Passengers can earn and redeem miles through the different airline partners' loyalty programs and enjoy the benefits offered at SkyTeam's 520 VIP airport lounges around the world. SkyTeam offers its 537 million annual passengers more than 14,900 daily flights to 993 destinations in 186 countries. For more information, visit skyteam.com.



About Premier Loyalty & Marketing, S.A.P.I. de C.V.

Premier Loyalty & Marketing, S.A.P.I. de C.V. owns and operates Club Premier, the first frequent flyer program established in Latin America and Mexico's leading coalition loyalty program.

The company's objective is to reward the preference and loyalty of Club Premier's members through the accrual and redemption of Premier Kilometers. Members earn Premier Kilometers for flying with Aeromexico, Aeromexico Connect, SkyTeam airlines, and other airlines; for using American Express and Banamex co-branded credit cards; from converting loyalty currency issued by other premium credit cards into Premier Kilometers, or by purchasing a variety of goods or services from their favorite retailers and service providers who are participating loyalty partners. While members primarily redeem their Premier Kilometers for flights on Aeromexico and other affiliated airlines, they can also exchange them for a wide variety of catalog and experiential rewards available through clubpremier.com.

THE CHALLENGE

Aeromexico's Club Premier has long enjoyed its status as Mexico's premier airline loyalty program. Its base is made up of a dedicated group of frequent flyers. But the program itself was designated a function of the marketing department, and was buried deep within the airline's organizational structure. As such, it suffered from a lack of strategic focus and investment. Aeromexico partnered with Aimia to help devise a strategy to position the program for future growth.

Fortunately, Club Premier already enjoyed widespread brand recognition among frequent travelers. When Aeromexico and Aimia conducted a strategic review of the competitive landscape and market conditions in Mexico, they found the ingredients to successfully transform the frequent flyer program were already in place:

- > With 112 million people, Mexico has the second-largest population in Latin America. A high percentage of its citizens are concentrated in urban centers.
- > Growth indicators are both positive and stable; Mexico boasts an expanding middle class and increasing gross domestic product per capita (approximately 8 percent per year).
- > The Mexican economy faces a bright future, as a large percentage of its 112 million people are under age 15, and will be entering the work force in the next decade — which means an expanding middle class.
- > Credit card usage is still relatively low, but is growing quickly as banks invest in consumer credit in order to expand their customer base and benefit from strong industry economics.
- > The travel industry has undergone dramatic consolidation during the last few years, with the remaining airlines benefiting from increased demand from new and existing customers.
- > The retail sector is still fragmented and informal, but there are signs of rapid growth and potential consolidation.

With conditions ripe for a dramatic expansion of Club Premier, Aeromexico and Aimia together set out to devise a strategic roadmap that would position the program for success in the new millennium.

“With Aeromexico, a first-class airline, premium credit cards, and retail partners all already present under Club Premier’s umbrella, there was a great opportunity to broaden this strong base and provide unparalleled value to the millions of Club Premier members.”

— Rupert Duchesne,
CEO, Aimia

THE OPPORTUNITY

The evolution of Club Premier represented a singular opportunity for two great partners to join forces by collaborating on mutually beneficial goals: Aeromexico sought to accelerate the growth of its core frequent flyer program, while Aimia sought to replicate its success at growing Aeroplan into Canada's premier loyalty coalition program.

A strategic review revealed that following the Aeroplan "playbook" — spinning off Club Premier into a standalone coalition loyalty program — offered the best opportunity to position the frequent flyer program for growth. Together, Aeromexico and Aimia settled on a series of ambitious objectives designed to retool Club Premier's business model into a state-of-the-art loyalty engine. Our defined goals:

- > **Reinvigorate the commercial relationship:** By establishing an arm's-length commercial relationship between Aeromexico and Club Premier, we would move the program to a clear transfer pricing agreement with the airline, resulting in a better definition of cost and revenues.
- > **Broaden the partner network:** By converting Club Premier from a frequent flyer program to a coalition model, it would be able to attract new partners in categories beyond travel, such as personal finance and retail.

- > **Gain insight through enhanced data:** By increasing the variety of business categories partnering in the program, we would enhance Club Premier's understanding of its members' everyday spend, increase the data flow, and create a deeper understanding of consumer behavior.
- > **Broaden the member base:** By targeting new customer segments outside the traditional frequent traveler base, we could help Club Premier build critical mass in the program and generate increased gross billings from partners.
- > **Develop new capabilities:** By spinning off the program into an independent business with a clear strategic mission, Club Premier would be able to invest in a variety of loyalty capabilities, from analytics to campaign management.

Combining a strong local presence in Aeromexico with Aimia's proven success in optimizing frequent flyer programs made coalition development the logical strategic path for accelerating the growth of Club Premier. Local partners are essential to adapting a coalition model to the realities on the ground — a necessity that made Club Premier and Aimia natural partners.

"One of the key elements of Aimia's value-added contribution has been their work with us in designing Club Premier's air reward products. By combining Aeromexico's revenue management expertise with their air reward capabilities, we were able to build a customized solution that optimizes simplicity, profitability, and flexibility and has resulted in a dramatic increase in air reward redemption and customer satisfaction without sacrificing margins. Aimia built complex scenario models to evaluate different alternatives and the commercial agreements between the airline and the loyalty program were negotiated in the spirit of transparency and collaboration. We have adopted the Aeroplan model and adapted it to our local reality. As an example, an interesting product originally launched by Aeroplan, which Club Premier has replicated, is the chartering of an entire flight to popular redemption destinations available only through redemption. We just launched our first chartered redemption product to Las Vegas with tremendous success!"

— Francisco Schnaas,
VP, Rewards and Travel,
Club Premier



“Once we decided to maximize the potential of the frequent flyer program through the creation of a new company, Aimia played a crucial role in helping us shape our vision and then worked side by side with us during several months building a detailed business plan. Aimia brought in world-class thought leaders from around the globe to work through everything from customer segmentation strategy to financial modeling to corporate governance. It’s one of those things where you don’t know what you don’t know, and the fact that Aimia has been down the road before allowed it to bring up issues that we had not taken into account previously. Aimia’s knowledge base around managing the points liability through the spinoff process was invaluable. Structuring important commercial contracts with the airline in a way that balances and protects the economic interests of both parties is another area where Aimia’s expertise is unmatched globally. Aimia also wrote the book on financial reporting for loyalty companies, and their experts provided templates and models to make the transition into separate company reporting under IFRS simple. We would not be where we are today without Aimia, and I expect its continued contribution to keep us on the fast track of growth and innovation.”

— Jeremy Rabe, CEO,
Premier Loyalty & Marketing

THE SOLUTION

In September 2010, Aimia and Aeromexico launched Premier Loyalty & Marketing S.a.Pi de C.V. (PLM) as a stand-alone business based in Mexico City. PLM owns and operates Club Premier, and oversaw its transformation into Mexico's first broad-based coalition loyalty program.

As a result of this strategic roadmap, Grupo Aeromexico and Aimia now jointly control PLM. As part of the joint venture, Aimia acquired approximately 29 percent of Club Premier for US \$35 million in cash. An independent management team, made up of experienced professionals from a variety of backgrounds, now operates PLM on the ground in Mexico.

Establishing Club Premier as a separate company allowed its new management to widen the program's focus from its core frequent traveler base to incorporate both middle-income and additional high-income members. By adding financial and retail sector partners to the core travel offering, the program can now capture a larger share of its members' everyday spend.

The program's new stand-alone structure also offered innovative partnerships resulting in increased engagement opportunities for its members. Recent successful partnership efforts include a co-branded credit card launch with Banamex, a relaunch of both American Express personal and corporate credit cards, and the introduction of a new Club Premier program tier called Titanium with Aeromexico.

In addition, PLM has signed partnership agreements with some of Mexico's top retailers, and has expanded redemption opportunities with new reward categories and service channels. The rapid growth in all aspects of the business came courtesy of a revamped organizational structure with enhanced administrative and customer service capabilities.

By providing both the know-how and the core capabilities, Aimia delivered a valuable contribution to Club Premier's transformation from a frequent flyer program into a coalition loyalty program poised for dramatic growth in the years ahead.

"Aimia has been a great support in our partnership negotiations. We have obtained expert counsel in building our cobranded credit card relationships, as well as insights regarding how to position the program to potential partners outside the traditional travel and financial sectors. Aimia has successfully run loyalty programs for all types of companies, and understands how to win and maintain long-term partners across a variety of verticals. Recently Aimia and Club Premier have even collaborated on cross-border business development efforts."

**— Alejandro González Saúl,
VP, Partnerships & Members,
Club Premier**

THE RESULTS

Today, Club Premier is the leading coalition loyalty program in Mexico. From its base of 2.7 million members in late 2010, the program has expanded to include more than 3.2 million members.

By implementing new enrollment tactics such as enrolling via airport kiosks, PLM has managed to double the rate of member acquisition. Around 75 thousand new members join Club Premier every quarter. And that's just one measurement of the coalition's success. After PLM's first year in business, Club Premier had grown rapidly:

- > The launch of the new co-branded credit card with Banamex, one of Mexico's leading retail banks, was one of the most successful card launches in Mexican history, with new cardholders growing at a substantial rate. Bank conversion partnerships with most major banks now cover more than 95 percent of the premium credit card market in Mexico.
- > In 2012, Club Premier continued to expand its partner portfolio with new partners such as OfficeMax and Soriana grocery, the number two retailer in Mexico which runs more than 550 supermarket and hypermarket locations across the country.
- > The program now boasts an enhanced online rewards platform, with both travel and non-travel rewards, reward raffles, and gamification elements. The number of rewards issued is now 42 percent higher than at the launch of PLM.

Perhaps most importantly to the new company's shareholders, Club Premier has delivered US \$115 million in gross billings, with more than 30 percent adjusted EBITDA margin. The joint venture has been so successful that, in October 2012, Aimia and Aeromexico reached an agreement in principle of an additional 20 percent equity participation in PLM by Aimia.

PLM's fair value has been established at US \$518 million, and Aimia will pay US \$88 million, which includes a discount agreed to at the time of Aimia's initial September 2010 investment. The transaction is subject to customary closing conditions, including the execution of definitive agreements and Mexican regulatory approvals, and is expected to close before the end of 2012. After closing, the equity participation of Aimia and Grupo Aeromexico in PLM will approximate 49 percent and 51 percent, respectively.

The launch of PLM and the spinoff of Club Premier into a separate loyalty program stand as a testament to Aimia's deep expertise in the airline space. The result is a compelling loyalty coalition that provides substantial value to its members, its partners, and its stakeholders. For Club Premier, the sky's the limit.

COMPARISON OF KEY STATISTICS BETWEEN Q4 2010 AND Q3 2012			
	Q4 2010	Q3 2012	Change %
Gross billings per quarter	US \$22.2 m	US \$34.8 m	+57%
Members enrolled	2.7 m	3.2 m	+19%
Partners	57	77	+35%
Numbers of rewards issued	63,603	88,931	+40%
New members enrolled	35,568	89,910	+152%

"Our partnership with Aimia has been a great success. It is based on trust, collaboration, and mutual respect. Together, we have been able to structure fair agreements, select a top-notch management team, and design a winning business model which delivers great value to Club Premier's members, business partners, and shareholders. In fact, Club Premier's value has just about tripled in just two years. The numbers speak for themselves!"

**— Ricardo Sánchez Baker,
CFO, Grupo Aeromexico**

ABOUT THE AUTHORS



**Sandra Diem, Vice President,
Global Business Development — Travel**

Sandra Diem leads Aimia's Global Business Development for travel. She has more than 25 years of experience developing travel loyalty programs. She began working for Aimia more than 15 years ago starting at Air Canada, as part of the small program team that created Aeroplan in 2005. During that time, Sandra was a major contributor to the first commercial agreements between Aeroplan and Air Canada, in addition to starting Aeroplan's CRM, Rewards

Management and Member Management departments. She has worked with many airlines around the world and has been a speaker at airline loyalty program conferences. Sandra was part of Aimia's multi-disciplinary team that executed the investment in PLM in 2010.

Sandra holds a Bachelor of Environmental Studies degree from the University of Waterloo and an MBA from the University of Western Ontario (Ivey School of Business).

+1 514.205.7492, Sandra.Diem@aimia.com



**Evert de Boer, General Manager,
Global Business Development — Travel**

Evert de Boer supports Aimia's global business development efforts in travel. Having worked on both the client and agency side, and across industry verticals, Evert enjoys a unique view of the challenges airlines face today.

Toulouse ESC's Aviation MBA (France). He has published a number of articles on frequent flyer programs and travel loyalty. His most recent article, on 30 years of frequent flyer programs, appeared in the June 2012 edition of the Journal of Air Transport Management.

Evert earned a Master of Science degree in International Business Administration at the University of Maastricht, the Netherlands and Universidad Carlos III de Madrid, Spain.

He is a graduate of the Berkeley-Nanyang Advanced Management Program from the Haas School of Business at University of California at Berkeley, and Nanyang Business School at Nanyang Technological University, Singapore.

Evert has more than 12 years of extensive experience in airline loyalty programs. After crossing from the airline client side to the agency side in 2002, he continued to work on airline CRM solutions for a wide range of clients. He started his career at KLM Royal Dutch Airlines in the Netherlands.

Evert has been a guest speaker at numerous events and institutions, including Cranfield's School of Aeronautics (United Kingdom) and

+1 514.205.6322, Evert.DeBoer@aimia.com

About Aimia



We are a global leader in loyalty management. Our unique capabilities include proven expertise in building proprietary loyalty strategies, launching and managing coalition loyalty programs, creating value through loyalty analytics, and driving innovation in the emerging digital and mobile spaces. We build and run loyalty programs for ourselves and for some of the world's best brands. Customer data is at the heart of everything we do. We are Aimia. We inspire customer loyalty.

Visit us at aimia.com/airlineloyalty.