

Aimia Inc.

First Quarter 2024 Results Conference Call

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CORPORATE PARTICIPANTS

Joe Racanelli

Aimia Inc. — Vice President, Investor Relations & Communications

Tom Finke

Aimia Inc. — Executive Chairman

Steve Leonard

Aimia Inc. — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Surinder Thind

Jefferies — Analyst

Brian Morrison

TD — Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Aimia Inc. First Quarter 2024 Results Conference Call. At this time, all lines are in a listen-only mode.

Following the presentation, we will conduct a question-and-answer session. If at any time during this call you require immediate assistance, please press *, 0 for the Operator.

This call is being recorded on Wednesday, May 15, 2024.

I would now like to turn the conference over to Joe Racanelli. Please, go ahead.

Joe Racanelli — Vice President, Investor Relations & Communications, Aimia Inc.

Thank you, Julie, and good morning, everyone.

With me today are Aimia's Executive Chairman, Tom Finke, and our Chief Financial Officer, Steve Leonard.

Before we begin, I'd like to point out a couple of items.

First, we issued our financial results for the first quarter earlier this morning, and all our materials, including our news release, MD&A, financial statements are available from our website as well as on SEDAR+.

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

I'd like to point out that some of the statements that we're making during today's call may constitute forward-looking information, and future results may differ materially from what we discuss. Please refer to the risks and uncertainties that may affect our future performance referenced in our presentation and MD&A.

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

And following today's presentation, for those who have follow-up questions, please reach out to me, and we'll be able to provide any clarification and set up follow-on discussions.

With that, I'd like to turn the call now over to Tom Finke. Please, go ahead, Tom.

Tom Finke — Executive Chairman, Aimia Inc.

Thank you, Joe. Good morning, everyone, and thank you for joining us today.

Since the start of the 2024 year, we have been busy on a number of fronts primarily focused on creating value and strengthening our performance.

Our results for the first quarter provide a clear indication of the progress we have made.

Our gains in Q1 were largely driven by the strong performances of our core business, Bozzetto and Cortland, who each experienced increased customer demand and improved market conditions.

Bozzetto's organic growth was also complemented by the solid revenue and adjusted EBITDA contributions from its tuck-in acquisition of StarChem, which closed in early January.

Another important development in Q1 was the monetization of more than \$11 million worth of shares of Capital A stock.

Combined, these developments have created a momentum that we plan to sustain through 2024.

This progress, coupled with the feedback from investors, paved the way to formalize a new strategic focus, one that we believe will strengthen our ability to create increased value for shareholders.

I will expand on our new strategic focus in my closing remarks and will now ask Steve to review our financial results in more detail. Steve?

Steve Leonard — Chief Financial Officer, Aimia Inc.

Thank you, Tom. Good morning, everyone.

Turning to our consolidated results on Slide 7, Q1 was marked by improvements in each of our key financial metrics compared to Q4 2023.

Most notably, consolidated revenue grew 22 percent to \$122 million.

Gross margins improved to 28.3 percent from 23.8 percent.

Adjusted EBITDA was \$6.7 million, which represented a turnaround of more than \$10 million from Q4's EBITDA loss of \$4 million.

These gains were driven by stronger performances of each of our subsidiaries versus the prior quarter.

And finally, our net loss improved to \$4.2 million from \$59 million in Q4 of '23.

Looking at the performance of our subsidiaries more closely, starting with Bozzetto on Slide 8, our specialty chemical business experienced both organic and accretive growth in Q1.

The accretive growth stemmed from its acquisition of StarChem, the chemicals company based in Honduras that was acquired in early January. This acquisition, which resulted in \$15.5 million of cash outflows in the quarter net of cash acquired related to the acquisition, was driven by Bozzetto's goal of expanding its presence in North America and diversifying its product mix.

Preliminary results from the acquisition have been encouraging. StarChem contributed \$7.3 million of revenue and \$1.5 million of adjusted EBITDA in Q1.

Excluding StarChem's contributions, Bozzetto's revenue grew by 6.9 percent to \$80.8 million on a year-over-year basis, and adjusted EBITDA grew by 27 percent to \$14 million on a year-over-year basis.

Bozzetto's organic growth was due to a number of factors, including improved customer demands, better product mix, and improved margins.

The results of Cortland International for Q1 are presented on Slide 9.

Given that Cortland International came into being with the integration of two separate businesses, Tufropes and Cortland Industrial, in Q3, any comparisons to prior periods would not be meaningful.

Cortland International made progress in Q1 relative to the period when it experienced a number of macroeconomic and geopolitical headwinds. While some of those challenges remain, particularly with respect to shipping through the Red Sea, Cortland benefitted in Q1 from stronger customer demand and improved product mix.

As a result of these more favourable conditions, Cortland experienced revenue growth of 14 percent and adjusted EBITDA of 60 percent in Q1 from Q4 2023.

Turning to the performances of our noncore assets on Slide 12, there were a number of important developments in Q1 worth noting.

At Kognitiv, Q1 was marked by continued progress against its cost-cutting and reorganization initiatives.

The Company saw an improvement to its bottom line, reducing its adjusted EBITDA loss to \$3.2 million in Q1 from \$5.6 million compared to last year.

At Clear Media, the advertising company continues to experience soft demand for its billboard and advertising displays on account of the slow recovery of China's economy, particularly in consumer spending, which drives advertising demand, since the start of the global pandemic.

Clear Media sales are expected to improve in the coming quarters based on encouraging long-term outlook for the Chinese economy.

In Q1, we monetized \$11.4 million worth of Capital A shares.

As at March 31, we held 56.2 million Capital A shares, a total we expect to monetize through the balance of 2024.

Turning to our liquidity, we ended Q1 with \$98.2 million in cash and cash equivalents. This marked a decline of \$10.9 million from our cash position at the end of '23.

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

Changes to our liquidity were driven by a number of developments.

Inflows included monetization of \$11.4 million of Capital A shares, \$4.4 million from the redemption of other investments; and outflows included the \$15.5 million related to the acquisition of StarChem, and \$7 million of shareholder activism-related expenses, and \$3 million in preferred dividend payments.

In Q2, we expect to receive approximately \$33 million from the earnout of the PLM transaction, and we have 56 million of common shares and 20 million of warranted Capital A, collectively valued at \$13 million as of March 31, left to sell.

Managing costs and preserving liquidity will be key priorities for the balance of 2024.

As a result of the progress achieved in the past two quarters and the visibility we have to the upcoming performance, we are providing guidance for some of our key metrics.

As presented on Slide 12, we anticipate adjusted EBITDA for Bozzetto and Cortland to be in the range of \$80 million to \$85 million on a combined basis for fiscal year '24. This total excludes the impact of the Holdings segment.

At the Holdings segment level, we anticipate costs for the year to be approximately \$13 million excluding one-time costs.

In terms of the one-time costs, we anticipate they'll be in the range of \$13 million to \$14 million. These costs include expected costs for shareholder activism; settlement and employee severance, most of which were incurred in Q1; and advisory services expenses related to an integration project related to go-to-market initiatives at Cortland.

That concludes my presentation, and I will now turn it back to Tom for his closing remarks. Tom?

Tom Finke

Thanks, Steve.

Before I get into our updated strategy, I'd like to share with you some of the context and background that went into our decision-making process.

Developments, over the past five months in particular, provided an opportunity for us to reassess our strategic direction, and the ability to create shareholder value.

Some of these activities are listed on Slide 15 and include the search for a new CEO; strengthening our board and governance with the appointment of Rob Feingold as a director; increased interactions with our subsidiaries and improving our disclosures to highlight the contributions of Bozzetto and Cortland; and finally, we increased our engagement with shareholders who shared with us their feedback on Aimia's direction and ways for us to create value for investors.

These recent developments and shareholder feedback gave me and the other members of senior leadership team the opportunity to assess a number of considerations, including in the holding company structure optimal framework.

How can we close the gap between our share price and Aimia's intrinsic value?

What catalysts or milestones will generate a higher share price?

How should Aimia best use its available capital?

And what should be the focus of Aimia's investment strategy going forward?

Though not all these broad questions can be answered in full now, they did help set the stage for landing on our near-term priorities.

Our realigned strategy, summarized here on Slide 16, centres on three key objectives for 2024.

First, unlock the growth potential of our core holdings, Bozzetto and Cortland, two global companies operating in specialty markets with significant organic and accretive growth potential; second, continue to responsibly monetize our noncore assets in an expedited manner; and third, optimize Aimia's capital structure to support increased financial flexibility and returning capital to shareholders.

We are targeting an initial return of capital through the launch of a normal course issuer bid later this year with amounts to be determined pending receipt of our anticipated earnout from the PLM transaction, completion of certain strategic developments, and based on our liquidity requirements going forward.

These priorities reflect a number of realities such as the fact that both Bozzetto and Cortland are cash flow-generating companies with international customers and favourable market outlooks.

Our objectives will be supported by a number of underlying goals, including continuing the integration of StarChem at Bozzetto; executing on consultant-led analysis to optimize Cortland's go-to-market strategy and maximize its operational efficiency; optimizing Aimia's capital structure at the holding company and subsidiary levels; and finally, identifying other opportunities to return capital to shareholders.

I am confident that the successful completion of each of these 2024 goals will serve as a catalyst for Aimia's margin value and will also help to reduce the current gap that currently exists between our share price and the intrinsic value of the underlying company.

I want to thank you again for joining us today, and I will now open it up to questions.

Q&A

Operator

Thank you. Ladies and gentlemen, should you have a question, please press *, 1. If you'd like to withdraw your question, please press *, 2. One moment please for your first question.

Your first question comes from Surinder Thind from Jefferies. Please go ahead.

Surinder Thind — Jefferies

Thank you. Tom, I'd like to start with the just the key considerations for the priorities you think about the strategic future direction of the Company. At what point do you think you'll have answers to all of the questions that you kind of have posed on Slide 15?

Tom Finke

Thanks, Surinder, for that question.

The reality is I think you have to look at the priorities of what we set out for this year. I think it's an ongoing process. For one, as we reset the management team with a new CEO, we will make other decisions in terms of the longer strategic initiatives.

That said, I think we have to be realistic about what is the Company today. And the Company's value is driven by Bozzetto and Cortland. So how do we maximize that? Are there things such as optimizing

our capital structure that we could do this year that we can get into? And then longer term, where do we go strategically with these core assets? We'll build off of those efforts.

Surinder Thind

Got it. And then I guess just focusing on the core assets, maybe starting with Bozzetto or even with Cortland.

When we think about the quarter-over-quarter improvement that's highlighted, how much of that is improvement in demand as like seasonality? How much is fundamentals? And then how much is maybe one-time items such as any improvement in some of the issues around the Red Sea shipping and those kinds of things?

Steve Leonard

Hi, Surinder, Steve Leonard.

I would say that you have to look at each of the businesses a little bit differently in terms of the impact. While Bozzetto did experience some challenges in Q4 relative to logistics associated with the Red Sea, it did have a much more harsh impact on our Cortland business, especially with exports out of India that were getting routed through the Red Sea.

So you'll see in Q4 of '23, the performance was quite low, and we had cited that. And now in Q1 of this year, we have the improvement. So I would say that part of the improvement that we had in Q1 of this year was tied to some shipments that got held back or rerouted through the channels with customers. So part of the benefit on Cortland quarter over quarter was tied to the Red Sea element. Less so with Bozzetto.

Tom Finke

And the reason for the less so on Bozzetto was because of their ability to increase localized production in various facilities.

Surinder Thind

And then just, I guess, how do you see fundamentals at each company at this point in time relative to where you believe demand should be?

Tom Finke

Yeah. We kind of, in both businesses, I mean we're giving guidance today. We did it collectively for the two businesses, but you could take the Q1 results and look at that relative to if it was repeated in the next four quarters, it's close to the bottom end of the range. So we kind of see where both businesses, there'll be some puts and takes, but some improvement over the quarter we're expecting, which would get us into the higher end of that guidance range. But Q1 would be a good barometer with some improvement going out through the rest of the year.

Operator

Ladies and gentlemen, as a reminder, should you have a question, please press *, 1.

Your next question comes from Brian Morrison from TD. Please, go ahead.

Brian Morrison — TD

Thank you. Good morning.

Tom Finke

Good morning, Brian.

Brian Morrison

Maybe my first question's for Tom.

When I look at the key considerations for priorities, I look at point two and see, determine if holding company structure is optimal. And then I look at point seven and see, determine best use of available capital. I assume that point seven refers to potentially the NCIB. What does, determining if the holding company structure is optimal, mean?

Tom Finke

Yeah. Thanks, Brian.

I look at that more longer term as part of the longer-term considerations. So if you look at us having two core subsidiaries, is there a more efficient structure. And one of the issues we look at is we have \$700 million of net operating losses that are being underutilized. So is there, if you will, ways we could better structure the Company to utilize those? But I think that's more of a longer-term decision.

In the near term, I think focusing on the things we can control in 2024 with respect to the underlying subsidiaries and improving our financial flexibility, we'll prioritize those.

Brian Morrison

Okay. If I move to the operations, Bozzetto seems to be tracking initial expectations. I'm not sure why we don't see more progress throughout the year because it looks like you're just annualizing the current results. And then I guess second—so maybe just address why.

And secondly, with respect to Cortland, what needs to be done here? I mean, if you just annualized the current results, it looks to be half of what the expectations were at the time of acquisition. What needs to be done at Cortland in order to improve its financial performance?

Tom Finke

And then I'll take the second part.

Steve Leonard

Yeah. Yeah. Yeah. So I mean, Brian, we've gone out with guidance. We always wanted to debate and deliberate where we see things. And I know the initial reaction would take Q1 and multiply it by four.

Our comfort level is that's a good base on Q1. There's obviously some initiatives going on, and we're expecting some sequential growth that will likely get us a little higher towards the higher end of the range. And hopefully we can outperform that.

You're right that Bozzetto's holding to the initial business plan numbers whereas Cortland has come in on the low end. And that's one of the reasons, I don't know if you saw in my prepared remarks, that we're launching or we've launched a project, an initiative, to get an acceleration of the business in terms of hitting where we want it to achieve.

And that was—the difference between the two acquisitions was, Bozzetto, we bought. It was pretty much a fully contained business. I mean they've added StarChem recently but seasoned management team that had been in place for well over five years and had a proven capability. Whereas with the Tufropes in Cortland, it was more of a combination and integration thesis. And we're still working out some of the kinks on that.

Tom Finke

Yeah. And I'd add to that on Cortland, Brian, the way you have these two businesses. I do think since Stuart came in as CEO just in November, he's done a lot to sort of get the company focused on a number of initiatives in the short term that can take advantage of the operating capacities in India, the sales channel strategies in the US.

That said, there's a lot more we can do. If you look at the ropes industry and the netting industry, it's fairly fragmented. We want to position the company to grow and succeed and be, obviously, not just hit financial metrics but hit sales and operating metrics.

So as Steve said, when we bought Bozzetto, this is a very well-run company by the same management team when we bought it that continued to grow their business, diversify their product offering, and, with StarChem, expand their geographic reach.

Brian Morrison

Okay. If I just turn gears here for a moment.

Noncore assets, it looks like Clear Media falls under that category. And I guess my focus there is it's at the trough of the cycle. What can we do near term in order to maximize value? It looks to me like you sort of just have to wait this one out.

And then in terms of Kognitiv, it's been a long time coming. Can we potentially do something in order to maximize value or minimize value destruction on that one?

Tom Finke

Well, on Clear Media, I think you have to look that as pretty much a pure play on the recovery of the Chinese consumer. That's what's really going to drive near- and long-term value there.

That said, it is well run. There are very strong sponsors in them with JCDecaux. We don't really drive the bus on that one. It's more of an investment that, in time, as the economy in China on the consumer side turns around and their numbers improve, we can look at an exit point.

Steve, I don't know if you want to talk about Kognitiv. Clearly, yes. We want to minimize investment going forward there, but I'll let you make a couple comments.

Steve Leonard

Yeah. I mean Kognitiv, like you said, Brian, it's been a long time. And obviously, we would like to exit at an attractive point. And they're kind of in an inflection area right now. Tim Sullivan, who leads that

business, has probably been the best CEO that we've had at that business since we've owned it, and he's doing a really good job. He's getting traction with the new product lines that are a more SaaS-based model.

But some of the legacy things, and I know you've heard this before, that we, Aimia, handed over with the Loyalty Solutions business was a bit of a drag on their operating results. So they are taking out cost. The key there now is to grow the topline. They have a strong pipeline, and they closed a large retailer towards the end of last quarter. We might have mentioned that but a good-sized retailer covering the US and on all three platforms of their new model.

So it's kind of like a little bit of wait-and-see here. We don't see an exit point immediately, but we're hoping, in the midterm, we can move on once they hit the full SaaS model that they're running on.

Brian Morrison

Okay. So nothing near term is the message there.

Steve Leonard

Yeah.

Brian Morrison

Tom, last question. And maybe you can, maybe you can't answer this. But with respect to any potential resolution with your dissident shareholder, I'm wondering if there's any progress that has or could be made prior to the AGM.

Tom Finke

Well, I'm always hopeful. We have continued to try to keep an open line of communication. Yeah. I wish I could say that there was news on that. There just isn't right now. So our focus is to continue to openly communicate with our largest shareholder and all our shareholders going into the AGM.

And hopefully there'll be recognition that the work we're doing here is certainly stabilizing the Company. The first quarter was an improvement over the fourth quarter, and I think we're trying to establish the underpinnings for near-term strategies to maximize value and set us up to make some longer-term decisions to further increase that value.

But yeah. We remain open to discussions with all shareholders.

Brian Morrison

Okay. Thank you for your answers and good luck.

Steve Leonard

Thanks, Brian.

Tom Finke

Thank you, Brian.

Operator

And there are no further questions at this time. I will turn the call back over to the presenters for closing remarks.

Tom Finke

Thank you, Operator. And thanks, everybody, for joining our call today.

As always, we are available for follow-up questions and do look forward to getting your input and feedback. It's certainly helped Steve and I and the leadership team at the start of this year, and we look forward to continuing that dialogue. And as we've said, we'll keep updating you on our progress as the year moves forward. Thank you.

Operator

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