

Aimia Inc.

Third Quarter 2024 Results

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Aimia Inc. Third 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 Friday, November 8, 2024.

I would now like to turn the conference over to Joe Racanelli, Vice President of Investor Relations.

Please go ahead.

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

Thank you, Operator, and good morning, everyone. With me are Aimia's Executive Chairman, Tom Finke; and our President and CFO, Steve Leonard.

Before we begin, I would like to point out a couple of items. We issued our financial results for the third quarter earlier this morning. All of our materials, including the news release, MD&A, financial statements, are available from our website, as well as from SEDAR+.

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

Some of the statements made on today's call may constitute forward-looking information, and our future results may differ materially from what we discuss. Please refer to the risks and uncertainties that affect our future performance referenced in our presentation, as well as in our 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.

Following today's presentation, please reach out to me if you have any follow-up questions, or would like to have a call with management.

With that, I'd like to turn the call over now to Tom.

Please go ahead, Tom.

Tom Finke — Executive Chairman, Aimia Inc.

Thank you, Joe, and happy Friday to everybody. I thank you for joining us today.

At the start of this year, we committed to our investors to improving the performance of our core holdings, unlocking shareholder value, and increasing our engagement with each of you. Our recent performance makes clear that we have executed against our strategy and realized several successes.

In particular, we saw double-digit growth for revenue and adjusted EBITDA on a consolidated basis. Each of our core holdings, Bozzetto and Cortland, delivered strong results despite some macroeconomic headwinds.

We also formed a strategic review committee in July, chaired by Jamie Scarlett, one of Canada's most respected legal advisors with more than 40 years of experience completing complex M&A transactions.

And perhaps most significantly, we recently reached a settlement with our largest shareholder Mithaq, which clearly puts behind our differences, allows us to partner together to focus our efforts exclusively on our strategy to grow our core holdings and unlock shareholder value.

Before I turn the call over to Steve to discuss our Q3 financial results, I'd like to comment further on the cooperation agreement with Mithaq and update you on the measures we have taken recently to unlock shareholder value.

The recent signing of the cooperation and settlement agreements with our largest investor marks an important milestone. The agreement came after a number of discussions with Mithaq to better understand how we could be aligned on the strategic focus of the Company and the efforts to unlock value.

These discussions accelerated after our Annual General Meeting in June, when it became apparent that we were more aligned with each other than ever before.

As a result of these agreements, Aimia's Board of Directors will be expanded to include two Mithaq nominees, Asif Muhammad Seemab and Rhys Summerton, individuals who bring extensive capital markets experience and a solid understanding of Aimia's business to our board. We will also add Shahir Guindi, Chairman Emeritus of Oslers, who also brings extensive legal and corporate experience to our board.

Key to the agreement are customary standstill provisions through March 31, 2026, and Mithaq's undertaking to vote all of its common shares in favour of each of Aimia's nominees at our next Annual General Meeting.

With the settlement now behind us, we anticipate that some of the overhang in our share price will be lifted. Just as important, we will now be able to devote all of our efforts on growing the performance of our core holdings and unlocking shareholder value.

Another sign of our recent progress was the formation of the strategic review committee in July. This committee is chaired, as I said, by Jamie Scarlett, and it includes directors Robert Feingold, Jordan

Teramo, and will also include Mr. Seemab, one of Mithaq's representatives. The committee is actively supported by Steve Leonard, our President and CFO, and members of his team.

The committee's mandate is to develop a roadmap that will unlock the growth potential of our core holdings, Bozzetto and Cortland; optimize Aimia's capital structures to support the return to capital shareholders; and continue to responsibly monetize noncore assets in an expedient manner.

Since its formation, the strategic review committee has been meeting regularly with potential and also meeting with advisors to discuss the various options available to the Company. Some of these options include the potential sale off or merger of one or both of Aimia's core holdings; the potential merger of a holding company with another entity; and the potential re-capitalization of the holding company or our core holdings.

Finally, we continue to make progress against our normal course issuer bid in Q3. If you recall, we received approval from the TSX in early June to purchase up to 10 percent of our public float, the maximum allowed under the parameters of the program. This represents just over 7 million shares.

As you can see from Slide 9, we have purchased more than 2.4 million shares, or just over one-third of available shares to date. These purchases, which include the block of 1.3 million shares purchased from Milkwood, represents an outlay of approximately \$6 million to date at an average price per share of \$2.59.

That concludes my remarks. And I'd now like to turn it over to Steve to review our financial and operational results for the third quarter.

Steve?

Steve Leonard — President & Chief Financial Officer, Aimia Inc.

Thanks, Tom. Good morning, everyone. I'd like to begin my remarks with a review of our consolidated financial results.

As you can see from Slide 11, Q3 was marked by improvements to a number of our key financial metrics when comparing our performance on a year-over-year basis.

Our gains were made despite some macroeconomic headwinds and logistical challenges that impacted shipping raw materials to our businesses and products to our customers for both Bozzetto and Cortland.

Most notably, consolidated revenue grew by 13 percent to \$129.1 million.

Adjusted EBITDA was up 55 percent to \$15 million. This improvement was largely driven by strong performance of our core holdings, contributions from the StarChem acquisition in Bozzetto, and a reduction of selling, general, and administrative expenses of \$2.1 million at the Holdco segment.

Net loss for the period improved from a loss of \$32.5 million (sic) [\$34.4 million] to a loss of \$1.9 million, reflecting the improved performance of our core holdings and lower investor activism costs.

I should point out that our bottom-line performance for the period would have been stronger if not for the \$1.6 million of Part VI.1 tax expense on our preferred share dividends and the \$2 million settlement payment made to Mithaq.

What's important to take away from our consolidated results for Q3 is that our efforts are working to improve our financial results and reduce holdco costs.

Looking at the performance of our subsidiaries more closely, starting with Bozzetto on Slide 12. The results of our specialty chemical business were solid again in Q3 when compared to its performance in the preceding quarters.

In Q3 '24, Bozzetto generated revenue of \$86 million, up 13 percent from the same period last year.

The year-over-year growth was largely driven by contributions from StarChem, which was acquired in January '24. Bozzetto's revenue growth in Q3 '24 was also due to strong performance of its textile solutions group, which experienced strong demand in Asia.

This revenue growth was offset by declines experienced in its dispersion solutions and water solutions groups, with each experiencing softer customer demand and increased competition in local markets.

In Q3 '24, Bozzetto generated adjusted EBIT of \$14.5 million, which represents a margin of 16.9 percent. In the same period last year, Bozzetto generated adjusted EBITDA of \$11.7 million and gross margin of 15.4 percent.

The year-over-year improvement reflects contributions from StarChem and the positive impact of lower raw material costs.

The results of Cortland International for Q3 are presented on Slide 13. Cortland made progress in Q3 to several of its key metrics despite the persistence of global shipping disruptions that contributed to higher shipping costs and reduced availability of shipping containers.

Cortland grew in Q3 '24 by 12 percent ... grew revenue from last year to \$43.1 million. The growth was driven by strong sales in North America, particularly among its customers in the oil and gas industry, and netting solutions in the aquaculture industry.

Cortland sales were offset, however, by softer conditions in India, due to logistic issues in the Red Sea affecting customer deliveries, and by adverse conditions created by this year's monsoon season that hurt domestic sales primarily in the fishing industry.

Cortland's adjusted EBITDA declined in Q3 '24 by \$300,000 relative to the same period last year, primarily due to \$1 million of advisory fees incurred in the current quarter for a business transformation initiative aimed at accelerating Cortland's growth.

Excluding these project costs, adjusted EBITDA would have been \$6.4 million, or \$700,000 higher.

This business transformation initiative led to the strategic roadmap to build market share, strengthen its sales force, and improve its operational performance. The benefits of this new strategic roadmap are expected over the coming quarters.

Turning to the performance of our noncore assets on Slide 14. There were several important developments in Q3 worth noting.

At Clear Media, China's largest operator of bus shelter advertising panels, Q3 saw continued soft demand for its advertising displays due to the slow recovery of the Chinese economy. Clear Media sales are expected to improve in the coming quarters based on the long-term outlook for the China economy.

At Capital A, we effectively monetized all our investment in the company, crystallizing almost \$26 million from the sale of shares and warrants this year. As of September 30th, we no longer hold any common shares in Capital A and hold less than 7 million warrants.

Kognitiv continues to face financing challenges as it builds its Software-as-a-Service model. As such, we filed a notice of default to demand payment for the \$7.9 million promissory notes plus accrued interest due to Aimia. As a result of these developments, we recorded a \$2.2 million provision for an expected credit loss in Q3 '24.

With the formation of the strategic review committee, crystallizing the value of our noncore holdings remains a priority. We expect to provide updates on this front in the coming periods.

Turning to our liquidity. We ended Q3 with \$120.6 million in consolidated cash. This marked an increase of \$7.8 million in our liquidity from our cash position at the end of Q2 '24.

The major impacts of our liquidity are presented in the waterfall slide on Slide 15.

Chief among the inflows included \$22.6 million of proceeds from a new financing arrangement secured by Bozzetto at an attractive cost of financing.

Our liquidity also benefitted from \$1.3 million of cash flow from operating activities, despite being impacted by \$6.4 million of costs related to shareholder activism and payments related to departures of former executives.

Among the major outflows included \$3.9 million of preferred shares dividends, \$5 million towards the buyback of Aimia common shares from our NCIB program, and \$3.3 million towards property, plant, and equipment investments.

Looking ahead, we anticipate our cash position to decline through the balance of '24, largely because Bozzetto plans to make loan repayments in the amount of \$36 million, including interest in Q4. As a result, managing costs and preserving liquidity will be key priorities for us.

In Q1, we provided guidance as a result of our improved performance as we got increased visibility on our future results.

As a reminder, we forecasted adjusted EBITDA for fiscal year '24 for Bozzetto and Cortland to be in the range of \$80 million to \$85 million on a combined basis, albeit at the lower end of the range.

Holdco costs we expected, excluding activism-related expenditures, to be approximately \$13 million. Based on the performance to date, we are on track to meet our guidance targets for the year.

Our tracking against our forecast is indicative of the progress we have made in our operational performance since the start of the year.

On Slide 17, we received positive feedback from investors in providing valuation metrics that we shared last quarter and we thought it would be helpful to update them here on this slide for Q3.

Further details on these financial metrics are available in our disclosure materials on SEDAR+ and on our website. This information is presented here on a simplified manner to help investors with their modelling.

To recap, Aimia made progress on a number of fronts in Q3, effectively sustaining the momentum we established at the start of the year.

With a settlement agreement with our largest investor now in hand, we expect to build on this momentum by earmarking all our efforts on the growing performance of our core holdings and accelerating the efforts of our strategic review committee. We look forward to providing updates on the progress of our strategic review process, particularly as we achieve key milestones.

I would like to also take the opportunity to thank all our employees, both at the corporate level at Aimia, as well as Bozzetto and Cortland for delivering a strong quarter.

That concludes my remarks. Thank you for taking the time to listen to our update.

And we will now take questions from research analysts on the call.

Q&A

Operator

Thank you. And, ladies and gentlemen, we will now begin the question-and-answer session.

To ask a question, you may press *, followed by the number 1 on your telephone keypad.

To withdraw your question, please press *, followed by the number 2.

One moment, please, for your first question.

And your first question comes from the line of Andrew Lopez with TD Cowen. Please go ahead.

Andrew Lopez — TD Securities

Hey. Good morning, Tom and Steve. Congratulations on the solid results. Just want to start with Cortland here. Where are you in terms of hitting an inflection point with this business? Because I'm noticing you're maintaining your full year outlook, so it would imply some improvement on the EBITDA margin front. So what is driving that improvement?

And if you could just provide a little bit more colour on those strategic initiatives to provide growth in Q4.

Steve Leonard

Yeah. Andrew, I'll start and I'll leave it to Tom, he can add in. I mean, with Cortland, we kind of got out of the gate in '23 a little bit behind where we wanted to be. And that was mainly due to some challenges of acquiring two businesses and integrating, and also putting in a management team.

Since the end of last year, we have a management team. We invested some advisory support to help the management team build the roadmap. And we're starting to see the benefits of those initiatives coming through in this recent quarter. But we believe there's still more to do with the management team and with the business.

And we're looking for further opportunities for growth. Where they would be, it would be mainly, I think, what we said in the past on two main elements. One is on the high-performance synthetic rope and the other in the aquaculture industry.

In both of those, we have plans that we're working on both on the sales front and on the operations side. I'll give you an example on the operations side.

I think we mentioned when we acquired the Indian business, Tufropes, that we had a lot of capacity. And the facilities, I think we've said in the past, were Western standard.

And what the team's been doing there is working on formulating and rolling out the high-performance ropes out of India. And that started in the third quarter. And we expect that to further take off going into the fourth quarter and next year.

And on the aquaculture industry, you saw in my prepared remarks we also had some positive signs in the quarter. We're making headway with that business.

So those are things that we've seen initial improvements, but we expect to see much more going into '25.

Tom Finke

Yeah. I'll just add to that. Part of why we did this sprint with the investors, in my experience from doing a lot of mergers, I often found once you bring a company together and you get everybody under one roof, it kind of helps to move beyond the initial rationales and really focus in on what are our priorities.

And I think this has helped what is a relatively new team together move from not just integration, but as Steve said, where are we going to focus our energies going into '25 to accelerate growth, if you will.

Andrew Lopez

Okay. Yeah. That's helpful. And then just so turning on to your agreement with your major shareholder, and congratulations on reaching that settlement. Sounds as though you're aligned, but do you foresee any strategic changes with the change in the board members? Or is that too early to decipher at this point?

Tom Finke

Well, in terms of—I'll say a couple things. My first discussion with Mithaq really came last January and, obviously, I'm not going to rehash history. Our largest shareholder in Aimia were in very different places in terms of their views of going forward.

As I said in my comments, as we made a lot of changes as Aimia this year, not the least of which is our strategic focus and the review to unlock shareholder value, we became frankly more aligned where I think Mithaq has been in this process.

So the good news is by having Asif and Rhys on the board, we're all together at the table as we continue through the strategic review and in making the decisions on the best way to unlock value.

So I think it really now also obviously takes away the need to focus on disagreements and more on the shared vision that we have and work together, if you will, on the future.

Andrew Lopez

Okay. And that's a pretty good segue for my next question here is just on the Clear Media in terms of unlocking value there with the Chinese economic environment kind of continuing to underperform. Do you see this delaying the process of a potential monetization event of your 10 percent equity interest there? And does it make sense if your target audience is limited to your other current equity holders?

Tom Finke

Yeah. I would say this. We're not going to wait forever for China to turn around and I'm not going to prognosticate on how quickly consumer spending will come back there.

Our hope is as we work through all the components of our strategy that we'll see improvement in Clear Media's operating results, which will enhance our value. But we have to look at that in the context of our other decisions.

And frankly, there's not so much we can do there. It's an investment. Our focus is obviously on Bozzetto and Cortland where those are our core drivers of value.

Andrew Lopez

Okay. No, that's understood. And I guess just one more for me just on the proceeds on the financing within Bozzetto. What are the potential uses there? Is that more operational? Or?

Steve Leonard

On the financing, they took advantage of financing that was available in Italy. It's a quasi-government backed and it provided a low cost of financing near almost 300 basis points lower than the senior facility. So it was just an example of this management team's strength of looking for opportunities to improve costs.

And we're looking for, as I mentioned in my prepared remarks, some principal repayments.

Operator

Thank you. And your next question comes from the line of Surinder Thind with Jefferies. Please go ahead.

Surinder Thind — Jefferies

Thank you. Just revisiting the Mithaq agreement here, when we look forward, has there been any kind of change in the strategy? The timing? I guess, what was kind of the trade-off of getting to an agreement?

Tom Finke

Sure. Good question. I would say this. I joined the board a year ago, and I would argue that Aimia's strategy at that time is very different than it is today. And arguably, I'm sure that's what not only Mithaq, but other shareholders as we moved into 2024 thought is that the right strategy.

We've come a long way from there. It really, in many ways, through the discussions in the spring and going into the summer and as we articulate a new strategy, quite frankly, at the AGM to do the strategic review, to unlock shareholder value for all shareholders, that's essentially what brought us more in line.

And I think now that we're together and we have our largest shareholder represented at the table, we're all motivated to work to unlock that value and do it in an expedient manner.

Surinder Thind

That's helpful. And then when you think about executing against that strategy, shifting more towards an operating company, are there any considerations here that maybe make one business more attractive than the other when I think about Bozzetto versus Cortland in the sense that do you have a preference for a higher-growth business that maybe needs a bit more cleanup and has a longer return horizon versus maybe a lower-growth business that's just producing better immediate cash flows?

Just any considerations there? Or is it just simply a matter of valuation of whichever one you can get better value for in the near term is the one that sets the strategy?

Tom Finke

Right. No, no, it's a very good question. Where we stand now, we're looking at all those angles. And as we said, including what's the right structure here in terms of a holding company over top of two operating companies, foreign operating companies at the end of the day.

I think the decisions will really be made obviously on, one, what's the optimal structure that unlocks that value for shareholders going forward; and then two, you will obviously look at, as we said, the potential for one or both of them to realize values on those sooner than later.

So I don't think that we can say here today it's going to be X or Y, but we are very focused on moving forward very quickly in '25 and not waiting years down the road for something.

Surinder Thind

That's helpful. And then the final question here, how quickly or aggressive can you execute against your NCIB? Or your willingness to?

Tom Finke

Go ahead. Steve, do you want to take that?

Steve Leonard

Yeah. Hi, Surinder. Yeah. I mean, you've seen, I think we've got about a third of our NCIB covered, 2.4 out of 7. We were in a dark, quiet period. So we had an automated program going for a number of days. We'll be coming out of that. We'll look at opportunities if they arise on accelerating.

Right now, we've basically been hitting our daily volume, which is 11,800 pretty much every day. Some days where volume was a little softer, we may not have hit. But overall, we've averaged.

And yeah, we're still in the market and we'll continue to take advantage of the low price of the stock.

Surinder Thind

Thanks, Steve. That's it for me, Tom and Steve.

Tom Finke

Thanks, Surinder.

Operator

Thank you. We have—

Joe Racanelli

Thank you, everyone, for joining us. We appreciate the time.

And as mentioned at the start, we will be available for any follow-up questions. Please reach out to us. And we'll provide updates as we go forward on our strategic review process. And as well, we'll report our Q4 results next year.

Have a good day, everyone.

Operator

Thank you, presenters.

And, ladies and gentlemen, this concludes today's conference call. Thank you, all, for participating. You may now disconnect.