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With Aeroplan back under Air Canada's wing, Aimia's future is up in the air

With five-million-member points program gone as of June 2020, Aimia is a shell of itself with no discernible flight plan for the future

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Big promises were made when the company now known as Aimia Inc. announced in 2007 that it had acquired Nectar, the U.K.'s biggest customer loyalty program.

"We at Aeroplan are entering the next phase of our business cycle to become a global leader in loyalty management," Rupert Duchesne, then chief executive, told reporters on a conference call. He said the company, then called Aeroplan Income Trust, was looking at acquiring loyalty programs in Europe, South America and Asia, and he believed it "could have a significant role" to play with programs in the U.S.

Last February, the plans derailed. Aimia sold Nectar and related assets to U.K.-based J Sainsbury PLC for $105 million, and it also had to transfer $183 million to cover the loyalty program's redemption liability. Aimia's net proceeds were expected to be $34 million — a fraction of the $755 million it paid in 2007.

The sale also meant that Aimia was failing to substantially diversify its revenue streams away from Aeroplan. Thirteen years after being spun off from Air Canada, the loyalty program partnership with Canada's largest airline was still its largest source of revenues.

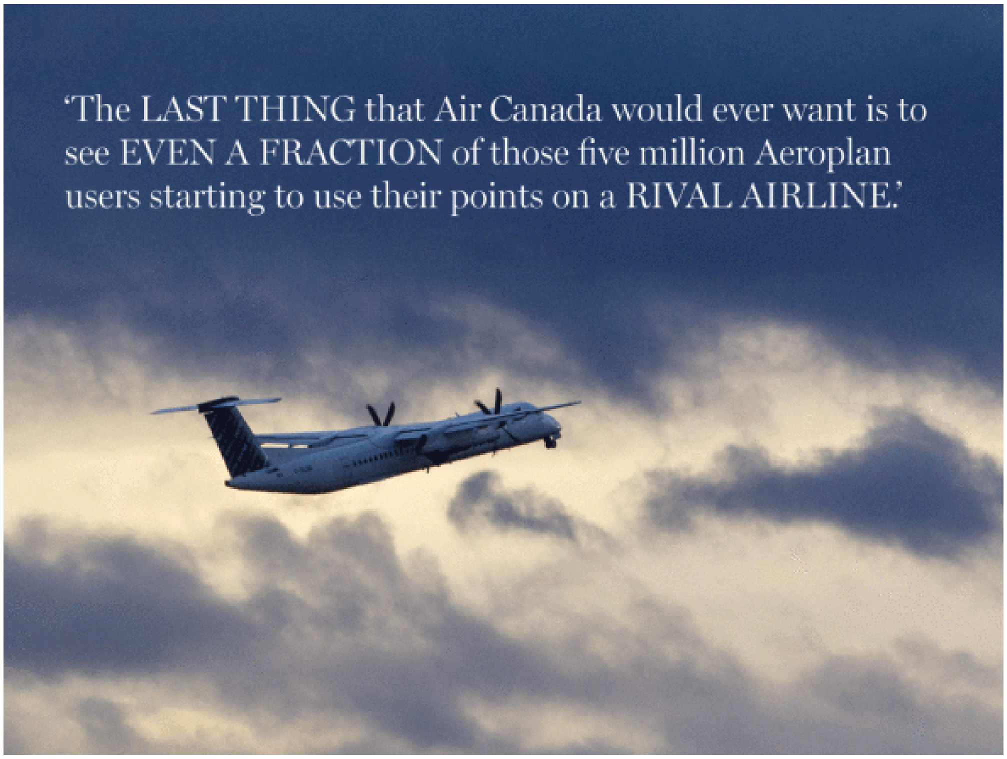
Unfortunately, that partnership was set to expire in June 2020 and the airline announced last year that it wouldn't be renewing, putting Aimia's future viability at stake and leaving Aeroplan members wondering what would happen to their points.

For the past year, Aimia has sought and found some new Aeroplan partners, including Air Canada rival Porter Airlines, but earlier this week it decided to sell the loyalty program to a consortium — one led by Air Canada. Now, Aeroplan's future seems secure, but Aimia's has only become cloudier.

"When a business loses its biggest client, you're at a fork in the road," said Tony Chapman, a marketing expert and chief executive of Toronto-based Tony Chapman Reactions. "You have to decide: Am I going to make things happen, reinvest in my business, take what I know and go elsewhere with it? Or am I going to pull up the tent? I think that's a decision that's going to be made at the boardroom table."

That decision will have to made soon. Air Canada, along with Canadian Imperial Bank of Commerce, Toronto-Dominion Bank and Visa Canada, announced on Tuesday that they will pay $450 million in cash for Aeroplan and assume approximately $1.9 billion in points liability.

Aimia's largest shareholder, Mittleman Brothers LLC, is in support of the agreement and has agreed to vote in favour of the proposed deal, which follows an earlier $250-million bid (plus a $2-billion assumption in points liability) that was rejected in July.



Aimia negotiated deals with smaller airlines including Toronto-based Porter. Chris Young/The Canadian Press

Should the deal, expected to close in the fall, go through, Aimia's business will be considerably smaller.

Its Coalitions business, which includes Aeroplan, brought in $712.6 million in revenues during the first half of the year, representing 91 per cent of Aimia's total revenues. That segment's operating income was $28.9 million in the same period.

Meanwhile, the Insights and Loyalty Solutions (ILS) segment, which offers loyalty program strategy, design, analytics and platforms, accounted for $69.3 million in revenues in the first half of 2018 and reported an operating loss of $32.7 million.

Without Aeroplan, the Coalitions segment would consist of a 48.9-per-cent stake in PLM's Club Premier, a frequent flier program that serves Mexico's largest airline, Aeromexico, and a 20-per-cent stake in Think Big, the owner and operator of AirAsia's loyalty program.

But Aeromexico seems eager to reduce Aimia's stake.

Shortly after Air Canada's initial offer for Aeroplan, Aeromexico swooped in with a US$180-million offer for Aimia's stake in PLM's Club Premier. Aimia swiftly rejected the offer, saying it believed the stake is worth "significantly more than the offer price."

Kathleen Wong, an analyst at ***Veritas Investment Research*** who currently has a sell rating on Aimia, said Aeromexico's offer was reasonable based on valuations of other public loyalty programs.

Wong also believes that it could spell the end of Aimia if it ever agrees to sell its Club Premier stake.

"What's left after Club Premier? They have some loyalty marketing business, but it's very small, and some small joint-venture interests," she said. "There's not much left after that at Aimia."

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Robert Kokonis, AirTrav Inc.

But Robert Kokonis, president of Toronto-based aviation consulting firm AirTrav Inc., said he still sees potential opportunities ahead for Aimia.

"One thing that's for sure in this world: Canadians love loyalty cards and points regimes," he said. "Aimia has a good reputation in this country. Some of its staff will stick with Aeroplan and go back to Air Canada, but Aimia will still have a strong core of data analytics experts that hopefully they can retain. They may have the capability of launching something new."

That potential capability has shown up over the past year since Air Canada announced it was leaving Aeroplan, and even more so after Aimia rejected Air Canada's initial offer for the program. Aimia over the past few weeks has announced a flurry of agreements with smaller Canadian airlines, including Porter Airlines, Air Transat and Flair Airlines.

Aimia's chief executive Jeremy Rabe also told analysts on a conference call earlier this month that it was holding discussions with Oneworld, an airline alliance that rivals StarAlliance, in which Air Canada is a member. Oneworld members include American Airlines, British Airways and Cathay Pacific.

Chapman dismissed those potential partnerships as a savvy negotiating tactic.

Rupert Duchesne, now the former CEO of Aimia, hinted at several expansion plans that included Asia and then the U.S. though nothing was ever launched. Duchesne left Aimia in January 2017. Michelle Siu for National Post

"They were pawns in the negotiation," he said, adding that he believes the smaller airlines that signed letters of intent with Aimia will be compensated through a break-up fee.

"I think Aimia did a brilliant negotiation. They really didn't have a lot to play with," Chapman said. "The last thing that Air Canada would ever want is to see even a fraction of those five million Aeroplan users starting to use their points on a rival airline."

Wong believes Aimia's discussions with Oneworld and the smaller Canadian airlines were part of a backup plan in case the Air Canada deal fell through. She is also skeptical of Aimia being able to launch another airline loyalty program in Canada.

"Without Air Canada, I don't think it's going to be that easy," ***Wong*** said, pointing to Aimia's credit-card partnerships with CIBC and TD, which are expected to be part of Air Canada's new loyalty program once the deal is finalized.

"If Aeroplan wants to restart with another program, they need to find new credit card partners. But if you look at the competitive landscape, there are (limited options.)"

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Starting and maintaining a loyalty card business can be cash intensive and Aimia had approximately $329 million in debt as of the second quarter. Though it had $249 million in cash and $260 million in corporate bonds, its debt includes $250 million in senior secured notes due May 2019, according to credit-rating agency DBRS Ltd.

DBRS estimates the company would have $720 million in cash and $260 million in bond investments after the Air Canada deal goes through, which would be enough to repay its outstanding debt and leave enough to invest in existing or new businesses.

But it's not as if Aimia hasn't tried to reduce its reliance on Aeroplan in the past. For example, the company in 2011, then known as Groupe Aeroplan, renamed itself Aimia and started emphasizing its international services.

"As competitors try to position themselves to take advantage of the burgeoning international market for loyalty management services, we are already well positioned as the established experts," then-chief executive Rupert Duchesne said in a 2011 news release. "A single, explicit global brand clearly reaffirms this privileged position."

In a 2014 interview with the Financial Post, Duchesne said the company saw growth opportunity in Asia. Five months later, he was emphasizing potential expansion in the U.S.

Air Canada and its three partners will assume the Aeroplan program in 2020. Frank Rumpenhorst/dpa via AP

“There is a really big opportunity in the U.S. for a coalition like the one we have in the U.K. (with Nectar) and we’re in pretty advanced negotiations with a number of parties,” he said back then. “While we’re not saying much more than that, we would hope that sometime in the next 18 months you’ll see us launch a coalition in the U.S. market.”

That launch never happened.

“I think Aimia came in thinking they would be partners with Air Canada forever,” Chapman said, adding that a lot has changed since Aimia was spun off from Air Canada in 2005.

“Data is the new oil. I think Air Canada looked at it and thought: Am I better building this from scratch? Or should I acquire something that comes with five million members?”

Duchesne took a medical leave of absence in January 2017, and his retirement was announced four months later. He was replaced by David Johnston, but his tenure was short lived, and he was replaced by Rabe last May.

On his first conference call in August after taking over Aimia during what was clearly a tumultuous time, Rabe emphasized accelerating cost savings and an Aeroplan program that would allow customers to redeem points on any airline, at any time.

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Jeremy Rabe, Aimia CEO

Asked about what Aimia would do in a post-Aeroplan world, and a potential wind-up of the company, Rabe said there were "a number of options" available.

"When you look across our assets and what the balance sheet would look like, there would be a great deal of flexibility with how to deploy those assets going forward," he said.

"When you look across the Aimia senior management level, there is a good deal of bench strength around how to deploy capital successfully in this space, so I think that would be something that we would develop in a more fulsome manner."

Tammy Smitham, Aimia's vice-president of communications and public affairs, said in a statement that should a definitive agreement with Air Canada be reached, the company "will articulate our plans for the remaining business and the assets we will retain at that time."

Until the deal closes, she said, it's business as usual. But afterward, it could be anything but.

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