



This Company May Invest \$600 Million to Become Profitable by 2020

Description

Betting on turnaround stocks is tricky business. Usually, these are old legacy companies with declining fortunes. But new leaders and a fresh strategy could turn the sinking ship around and create immense value for shareholders.

BlackBerry Ltd. ([TSX:BB](#))([NYSE:BB](#)) is the best example of a [lucrative turnaround stock](#). While it may not be the mobile device giant it once was, it's a profitable company with recurring revenue and a strong balance sheet.

Montreal-based **Aimia Inc.** ([TSX:AIM](#)) is attempting a similar turnaround for its operations. The data-driven marketing and loyalty analytics company has had a tumultuous few years. The stock is down a jaw-dropping 83% since 2007. A series of failures and macroeconomic factors over the past decade have eroded the company's underlying value.

The problems started with the global financial crisis in 2008-09. As consumer spending declined and the entire planet faced a liquidity crunch, Aimia's stock was viciously punished in the public market.

Right before the crisis, the company deployed \$755 million to buy Nectar, a U.K. loyalty program. However, the Brexit crisis weighed on this asset as well and Aimia sold the program to British retailer **Sainsbury** for \$105-million last year.

In other bad news, **Air Canada** decided to end the Aeroplan loyalty program it was running with Aimia in 2017. The stock immediately plunged from \$9.14 to \$1.50.

Now, the stock trades at \$3.92. Aeroplan was successfully sold to Air Canada for \$497 million. The company now has an estimated \$600 million in cash, cash equivalents, and marketable securities on its book.

The entire leadership team has also been replaced since 2017. The company now has a new chief executive officer (Jeremy Rabe), chairman of the board (Bill McEwan), and chief financial officer (Steven Leonard).

Together, the new leadership team have announced a plan to drive shareholder value through organic growth and acquisitions. In other words, the \$600 million windfall will be used to bolster the core

business and buy several smaller loyalty programs spread across the world.

Loyalty programs are big business. According to data published by LoyaltyOne, North American consumers collectively hold nearly 4 billion loyalty memberships. According to Accuray's Loyalty Landscape report, the total industry is worth \$2 billion and is highly fragmented.

Micro, small, and medium-sized enterprises dominate the sector with programs of varying sizes and margins. Aimia intends to consolidate the sector and gobble up a number of small players to create a market leader. According to the company's public statements, this strategy could make operations profitable as early as next year.

It's too early to say whether this ambitious strategy will be successful, but shareholders must consider the fact that the new leadership team has already met its first year's guidance. Gross billings, free cash flow, and gross margins were all in line with management's expectations for 2018.

For now, I believe shareholders should keep an eye out for major acquisitions and investments in the loyalty and travel sector. Management's strategy for a turnaround looks good on paper and is definitely viable, but only time will tell what the real impact is.

Bottom line

Shareholders should keep an eye on Aimia for signs of a turnaround. If management can diligently invest the company's cash hoard, shareholders could start seeing value in the stock again.

CATEGORY

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2. Tech Stocks

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