# Consumers hoarding Aeroplan points

***Brent Jang, Globe and Mail***
Friday February 27, 2009

**Groupe Aeroplan Inc.,** once viewed as recession-proof, lost more than $1-billion in the fourth quarter as thrifty consumers lured by slump-driven ticket markdowns chose to hoard their points.

The popular customer loyalty plan said Friday that it wrote down $1.16-billion on its books to reflect the impaired value of goodwill and intangible assets on its balance sheet.

Most of the fourth-quarter charge is related to Aeroplan's spinoff from ACE Aviation Holdings Inc., the parent company of Air Canada, while a smaller portion is for a major foreign acquisition.

In late 2007, Aeroplan paid $755-million to acquire the operator of Britain's Nectar rewards program – a price tag that would be rich in today's tough times.

Tough times have forced carriers to reduce airfares, prompting travellers to jump at the savings and pay for discounted flights instead of relinquishing their points, says Aeroplan CEO Rupert Duchesne

**Groupe Aeroplan**

But Aeroplan's loss is compounded by an unusual twist in consumer behaviour that is cutting into the volume of rewards redeemed.

Avid collectors of Aeroplan miles are starting to save up their points during the recession because they can instead take advantage of cheap fares.

“I don't think any business is recession-proof, but we feel our business model is still recession-resistant,” Aeroplan chief executive officer Rupert Duchesne said in an interview.

In early 2008, Aeroplan had a stock market value exceeding $5-billion. But Montreal-based Aeroplan's capitalization has tumbled by 62 per cent since then to $1.86-billion, dragged down by the recession, financial troubles at Air Canada and consumer belt-tightening.

Mr. Duchesne played down the writedown as historical bookkeeping, noting that “analysts don't regard it as relevant” because investors will look beyond the past and focus on Aeroplan's future ability to persuade CIBC, Air Canada, American Express and other companies to buy points as part of their promotional campaigns.

ACE sold its remaining stake in Aeroplan in May, 2008, but the holding company still owns 75 per cent of Air Canada and 27.8 per cent of aircraft repair firm Aveos Fleet Performance Inc., whose book value has been written down to zero amid a slump in the plane maintenance sector.

Despite the sharp drop in Aeroplan's stock value, it is still worth 20 times more than Air Canada, which has a market capitalization of $91-million. Even Jazz Air Income Fund, the Halifax-based regional carrier and former ACE division, carries a higher stock market value at $520-million.

Air Canada is facing a host of problems, including a $3.2-billion pension fund solvency deficit, debt repayments and labour contracts that expire midyear. “The Air Canada situation has been a drag on our stock because investors have concerns about its liquidity,” Mr. Duchesne said. But he's optimistic that the country's largest airline will find a way through the recession, helped by Aeroplan's decision to accelerate funds paid out to secure seats for frequent fliers.

On the redemption side, there is a bright spot for Aeroplan because consumers are warming up to cashing in some of their points for non-air rewards such as electronics, which costs Aeroplan less money to give out than an Air Canada flight, said Neil Linsdell, an analyst at Versant Partners Inc., which has a 52-week price target of $9 on Aeroplan.

***Veritas Investment Research*** analyst ***Asha Soares*** initiated her coverage this week, setting a 52-week price target of between $13 and $13.50.

While some industry observers predicted that recession-weary consumers would increasingly dip into their Aeroplan accounts to pay for trips, Mr. Duchesne said tough times have led Air Canada to reduce airfares, prompting travellers to jump at the savings and pay for discounted flights instead of relinquishing their points. In the last quarter, there were 14.5 billion Aeroplan miles redeemed, down 5.8 per cent from 15.4 billion miles redeemed in the fourth quarter of 2007.

Mr. Duchesne said it comes as a surprise that many consumers are choosing to pay for cheaper fares with cash or credit cards, rather than spending their Aeroplan points. “It's counterintuitive,” he said. “There hasn't been a rush to redeem. There are airline seat sales on and people are hoarding the miles.”

Companies such as CIBC and Air Canada buy points from Aeroplan and distribute them to consumers. Aeroplan officials say the rewards program benefits when members “burn” their miles because they would then be motivated to “earn” more points to replenish their accounts.

Aeroplan posted a $1.07-billion loss for the three months ended Dec. 31, 2008, compared with a $51.7-million profit in the same period in 2007. Mr. Duchesne emphasized that Aeroplan's operating profit rose to $85.3-million from $28.2-million, saying the business remains sound.

Aeroplan shares went on a wild ride Friday, falling 10 per cent in the morning before staging a late rally to close up 3.6 per cent. Air Canada shares fell Friday to a record low.