FINAL TRANSCRIPT

Chorus Aviation Inc.

Fourth Quarter and Year-End 2018 Earnings Analyst Call

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PRESENTATION

Operator

Good morning. My name is Sheryl (phon), and I will be your conference Operator today. At this time, I would like to welcome everyone to the Chorus Aviation Inc. Fourth Quarter and Year-End 2018 Earnings Analysts Call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. If you would to ask a question at that time, simply press *, then the number 1 on your telephone keypad. If you would like to withdraw your question, press the # key. Thank you.

Ms. Nathalie Megann, Vice President, Investor Relations and Corporate Affairs, you may begin your conference.

Nathalie Megann — Vice President, Investor Relations and Corporate Affairs, Chorus Aviation Inc.

Thank you, Operator. Hello and thank you for joining us today for our fourth quarter and year-end 2018 conference call and audio webcast. With me today from Chorus are Joe Randell, President and Chief Executive Officer; and Jolene Mahody, Executive Vice President and Chief Financial Officer.

We'll start by giving a brief overview of the results and then go on to questions from the analyst community.

Because some of the discussion in this call may be forward-looking, I direct your attention to the caution regarding forward-looking statements and information which are subject to various risks, uncertainties, and assumptions that are included or referenced on Page 55 of our Management's Discussion and Analysis of the results and operations of Chorus Aviation Inc. for the period ended December 31, 2018, the Outlook section and other sections of our MD&A where such statements appear.

In addition, some of the following discussion involves certain non-GAAP financial measures, including references to EBITDA, adjusted EBITDA, and adjusted net income. Please refer to Section 18 of our MD&A for a discussion related to the use of such non-GAAP measures.

I'll now turn the call over to Joe Randell.

Joe Randell — President and Chief Executive Officer, Chorus Aviation Inc.

Thank you, Nathalie. Good morning, everyone, and thank you for joining us. I am tremendously pleased with how we ended 2018 and with our start to 2019.

On total revenues of 1.5 billion, we generated adjusted EBITDA of 343 million in 2018, a 19.4 percent increase over 2017. Each of our operations performed well and reached important milestones that strengthen our company. These successes help advance our vision to transform into a worldwide provider of regional aviation services.

In January, we announced we had successfully negotiated an amendment and extension to the capacity purchase agreement, revitalizing our strategic partnership with Air Canada and marking a pivotal development in our transformation.

The change has secured Jazz' place in Air Canada's regional network, extending our relationship under the agreement by an additional 10 years out to 2035, and enhancing our relevance to Air Canada as they consolidate more of their overall regional capacity into Jazz.

This is the longest term strategic partnership between Jazz and Air Canada thus far and one of the longest CPAs in the industry, providing long-term certainty for our employees, investors, and other stakeholders.

The economics of the agreement are strong for Chorus with incremental commitments in fixed fees and aircraft leasing revenue of 940 million and operating fleet commitments that create additional future leasing opportunity post 2025.

In total, the 17-year contract will provide a minimum of 2.5 billion in contracted revenues, of which 1.6 billion will be generated from aircraft leasing. For Chorus, the amended CPA and investment by Air Canada supports the continued transformation of our business by migrating CPA earnings to aircraft leasing.

The $97.26 million equity investment from Air Canada will help us modernize the Jazz fleet with larger aircraft, which lowers per-seat operating costs and addresses a growing trend in the industry.

We will use approximately 60 percent of the investment proceeds to purchase nine new, larger gauge CRJ900 aircraft, which in turn will generate additional lease revenue under the CPA. These new aircraft will be delivered in 2020 and will be equipped with Bombardier's new Atmosphere cabin, which features a larger passenger living space, increased overhead bin capacity, more spacious lavatories, and overall improved aesthetic details to enhance the passenger experience.

With the modernization and simplification of the Jazz fleet, we anticipate conducting up to 60 aircraft transitions over the next two years. We plan to induct five CRJ900s this year, which will be sourced by Air Canada. We will also add CRJ200s, which are currently operated by Air Georgian.

The Dash 8–100 aircraft will be exiting the CPA-covered fleet earlier than planned, and we will be pursuing various alternatives for this equipment which is owned by Chorus. Once the fleet transitions are completed, we anticipate operating close to 80 percent of the Air Canada Express network capacity, and we are well positioned for future growth.

As a reminder, an important aspect of the CPA amendment is the introduction of an annual cap on potential controllable cost overruns. Annually, a comparison will be made between the actual costs incurred and the controllable revenue. If overall, actual controllable costs incurred are more or less than $2 million as compared to the controllable revenue, a true-up will be made. This significantly reduces our margin risk, providing much improved fixed fee earning stability.

This amended contract would not have been possible without the Jazz pilots, and I commend them for recognizing and seizing this opportunity. The unprecedented term extension of their collective agreement to 2035 and the enhanced pilot mobility with Air Canada provide both labour stability and improved cost competitiveness. As Air Canada’s preferred regional partner, we’ve become an employer of choice, given the career growth opportunities under the CPA.

Now turning to our growing leasing business. Yesterday, we announced an agreement to acquire a portfolio of six regional aircraft with leases attached. The portfolio consists of two ATR 72–600s on lease to Azul of Brazil and four Q400s on lease with two of our existing customers, that remain subject to customary closing conditions.

In just over two years, Chorus Aviation Capital has grown its portfolio to 40 aircraft valued at approximately US$850 million, with approximately US$655 million in future contract lease revenue. This includes pending acquisitions and lease commitments for future aircraft deliveries.

The portfolio is well diversified, consisting of both turboprops and regional jets from all three regional aircraft equipment manufacturers and placed with 12 customers based on six continents. When you factor in the aircraft leased under the CPA, including those CRJ900 aircraft to be delivered in 2020, we currently have 107 aircraft under lease contract, valued at approximately C$2.3 billion.

We’re maturing and building scale as a worldwide lessor. Since the start of 2017, we’ve raised net proceeds of C$401 million for equity investment in aircraft which is levered at a ratio of 3:1, yields approximately C$1.6 billion in investment capital. With the establishment of our new $300 million warehouse facility and the cash we have on hand, I’m confident the momentum achieved in our growth strategy will continue to build.

The combination of being a highly experienced regional operator, and our ability to manage every stage of aircraft life, from origination to disposition, is a strength that differentiates us from our competition. We can provide a wide range of services and can leverage the synergies across our organization to support our lessees.

The addition of Q400 spare parts to our supply chain sales inventory in 2018 was another step in that direction. This was our first part of an in-production aircraft and is an aircraft type that is highly utilized around the world.

We will continue to work on expanding our capabilities and services. We made progress in these areas when we received Transport Canada certification to conduct heavy maintenance on Embraer 135 and 145 regional jets and welcomed our first international customer to Jazz Technical Services, airBaltic of Latvia, to conduct airframe heavy maintenance on 12 Q400s. These accomplishments help build on our vision.

Looking ahead to the balance of this year, our focus will be on operationalizing the amendments of the CPA and building our regional aircraft leasing segment. I’m very optimistic about the future, and we will build more value for our stakeholders. I congratulate the Chorus team for delivering another standout year and look forward to our future accomplishments together.

Before passing the call over to Jolene, I'd like to say, we were very pleased to welcome Mike Rousseau, who is Air Canada's Deputy Chief Executive Officer and CFO, to our board meeting yesterday. His insight and expertise will certainly contribute to our future success. Having Air Canada as a shareholder of Chorus further strengthens and aligns our two companies, and their investment is a strong endorsement of the Chorus strategy.

So with that, I'll now turn the call over to Jolene to take you through the fourth quarter financial results.

Jolene Mahody — Executive Vice President and Chief Financial Officer, Chorus Aviation Inc.

Thank you, Joe, and good morning, everyone. I'd also like to thank and congratulate our team for our successes in 2018, and so far this year. Together, we've built a great foundation from which to further grow and strengthen our organization.

In the fourth quarter of 2018, we generated total revenue of 359 million versus 356 million in the same period of 2017.

Adjusted EBITDA was 92 million, an increase of almost 10 million, primarily due to growth in regional aircraft leasing. Quarter over quarter, our third-party leasing revenue grew by 10.4 million, as we had the equivalent of 27 aircraft earning lease revenue for the quarter, as compared to 18 aircraft in the fourth quarter of 2017.

Leasing revenue under the CPA increased by 2.4 million, related to the additional Dash 8–300 aircraft that have completed their extension life program and are now earning lease revenue and changes in foreign exchange. These increases were offset, in part, by declines in performance incentives and other revenue, and increases in certain operating costs.

Adjusted net income grew by 11.5 million over the period to 35 million, mainly due to the increased adjusted EBITDA I spoke about, and lower foreign exchange losses on working capital that amounted to 4.7 million, and a $400,000 decrease in depreciation. These were offset by increases of 1.2 million in interest costs, related to debt on new aircraft and income tax expense increases of 2.1 million, respectively.

Unrealized foreign exchange losses on long-term debt of 30.5 million had the impact of decreasing net income by 18 million over the same period in 2017, bringing it to 2 million. This unrealized loss was offset by the 11.5 million increase in adjusted net income and decreased employee separation costs of 1 million.

As a reminder, our aircraft-related debt is denominated predominantly in US dollars. We convert the debt associated with the aircraft leased under the CPA each quarter to Canadian currency, thereby resulting in unrealized foreign exchange gains or losses. Further, debt payments are made in US dollars, and the corresponding lease revenue was earned in US dollars, which helps mitigate the impact on cash flow.

For the year ended December 31, 2018, we grew adjusted EBITDA by 19.4 percent to 343 million. This growth was generated by a 47.3 million increase in the regional aviation leasing segment, as we had the equivalent of 24 aircraft earning lease revenue compared to 9 for the year 2017.

Increased earnings in regional aviation services of 8.5 million also contributed to this growth. This was generated primarily by aircraft leasing income under the CPA, associated with the completion of ESPs on Dash 8–300 aircraft, and the annualization of the leasing revenue on five CRJ900 aircraft that began earning lease revenue in the second quarter of 2017.

Adjusted net income was 121.8 million for the year, an increase from 2017 of 6.4 million or 5.5 percent. And this was due to: the 55.8 million increase in adjusted EBITDA previously described; lower foreign exchange losses on working capital, which amounted to 1.6 million, offset by increased income taxes of 20.5 million; an additional 17.4 million in depreciation, primarily related to new aircraft; an increase in interest cost of 12.8 million related to additional aircraft debt in convertible units; and an increase in other expenses of 0.3 million.

Net income was 67 million for the year, a decrease of 100.3 million for the same period of 2017. This decrease was primarily due to year-over-year changes in unrealized foreign exchange losses on long-term debt of 110.4 million and foreign exchange gain on cash held for deposits of 1.6 million. And these were offset by decreased employee separation program costs of 5.3 million and the previously noted 6.4 million increase in the adjusted net income.

Looking ahead to the balance of this year, capital expenditures for 2019, excluding those for the acquisition of aircraft and the ESP, and including capitalized major maintenance overhauls, are expected to be between 36 million and 42 million. Capital expenditure for ESP and aircraft acquisitions are expected to be between 299 million and 302 million in 2019, and this does not include capital for future to-be-announced aircraft acquisitions.

Given the fleet transitions to occur as we implement the amended CPA, and the fact that block hours do not impact compensation, we will not provide billable block hour guidance, go forward. The amended CPA further simplifies the fee structure, as we now have only a fixed-fee margin for the range of operational services we provide under the Air Canada Express banner. As such, for each of 2019 and 2020, we anticipate earning 75.5 million in fixed fees per year as compared to 111.3 million in 2019.

It is also worth noting that the maximum future available performance incentives reduce from 23.4 million in 2019 and 2020, to an annual average maximum available of 3.4 million for the term of the CPA. The near-term reductions are more than offset over the term of the CPA by incremental contracted revenue secured with the extension of the agreement, including both fixed fees and aircraft leasing.

As of today, approximately three-quarters of the total net proceeds of the 401 million raised to grow the leasing business has been committed, and this includes deposits on future commitments and the investment in nine CRJ900s that will be leased into the CPA operation. We anticipate investing the balance by early 2020, in new to mid-life aircraft with long-term leases, to a diverse group of high-quality customers around the world.

For additional information supporting our projected guidance for the balance of this year, I'll refer you to Section 4 of the 2019 Outlook section of our MD&A for the year ended December 31, 2018.

In addition, we continue to evaluate the impact of the new standard for IFRS 16 and that would—which would—for IFRS 16, which will have on the consolidated financial statements, and also the transition approach that will be applied.

We anticipate an increase in both total assets and total liabilities of approximately 10 million to 15 million as at January 1, 2019. Please see Note 3 of our 2018 financial statement for further information.

Given our new segmented reporting format, I'll direct you to Section 21 of the MD&A for a breakdown of revenue in the regional aviation services segment, and to Section 22 for the consolidated statements of income.

And that concludes my commentary. Thank you for listening. Operator, we can now open the call for questions from the analyst community.

Q&A

Operator

Thank you. If you would like to ask a question at this time, please press *, then the number 1 on your telephone handset.

Our first question comes from Walter Spracklin, RBC Capital Markets. Your line is opened.

Walter Spracklin — RBC Capital Markets

Yeah. Thanks very much. Good morning, everyone.

Joe Randell

Good morning.

Jolene Mahody

Good morning.

Walter Spracklin

So Joe, leasing is—you're pretty much three-quarters, you mentioned, through your 1.6 billion in committed capital. What percent do you like to go to, or do you feel comfortable going to, before you start looking at the new avenues of reloading on that?

And given you've tried a few different avenues, can you talk a bit about some of the alternatives? Are you looking at one of the avenues that you've done before? Or could there be other opportunities now? Obviously, Air Canada's in the mix—just curious, your thoughts on your opportunities there?

Joe Randell

Yeah. Well, Walter, we're always looking at, going forward, how we fund our growth, and we look at the opportunities that are there. And frankly, we're finding that as we grow, our opportunities widen, in terms of how we finance the growth. I think the achievement of the warehouse was a significant milestone for us. And our equity is expensive, and the yield is high, and that creates a challenge for us. But we are looking at a combination of things. And of course, when you're in the leasing business, it is very much capital intensive and et cetera.

So we are evaluating a lot of alternatives. We're looking ahead now. We've said that the capital that we have will allow us to move into 2020. And the pipeline actually looks very good. The opportunities are certainly there. And as we see our share price change as well, that changes our outlook as well, so we'll be looking at a number of alternatives.

Walter Spracklin

Okay. Next question's on Air Georgia (sic) [Georgian]. Obviously, that contract with Air Canada is completed or terminated. Can you give any comment as to whether—I mean, it seems that you're set up nicely for that. Any comments there?

Joe Randell

Yeah. No. Air Georgian has approximately 14 CRJ200s, so we will be seeing some of those airplanes come over. We also will be welcoming their pilots and those that would like to come over, so that disruption is minimized from an employee point of view. We already have CRJ200s in our fleet, and this will increase the number that we operate for Air Canada. And the CRJ operation and all the Bombardier fleet now will be consolidated within Jazz.

And I made a comment there in the script that our footprint is increasing. We've been at about 70 percent, and that's sort of measured on a seat basis of the Air Canada Express network. And this—and with this change will move us up to about 70 percent. And this will give us, I think, a lot more flexibility in terms of the movement of fleet for Air Canada, being able to deploy fleet in various operating environments, et cetera.

And it's a significant transition. There's a lot of growth going on and a lot of changes, et cetera. And our focus, certainly, within Jazz over the next number of months will be managing that transition in a seamless way. So that's what we see happening now. So it's very busy, but it's exciting to be able to do this and to play a greater role in the Air Canada network.

Walter Spracklin

Okay. And then Air Canada also announced a little bit of a reorganization of its domestic flying, some up-gauging into Rouge on eastern routes, I guess redeployment on the Q in the West. So net of Air Georgian, net of all of that, do you see yourself as doing net more, less, or roughly the same level of block hours for Air Canada on a go-forward basis?

Joe Randell

Well, I tend to look at it more in terms of fleet and that sort of thing. And I think the fleet is looking to be higher than it was under our original CPA. There's a lot of transition going on. I think the big change is the early retirement of the Dash 8–100s. There are 15 of those that we have been operating in the fleet but, of course, we're bringing in the 900s, et cetera. So we're going to have, from a fleet point of view, a very large footprint in the Air Canada network.

Beyond 2025 in the agreement, there's a minimum of 80, 75, or 76-seat aircraft. And of course, that's a big up-gauge too, from a lot of the aircraft that we presently operate. The movement of Rouge on some of these flights and the consolidation makes a lot of sense.

I think we're seeing, though, the redeployment of the Q400s in roles that are probably a little more suitable because the Q400 was operating on some stage lengths that were particularly long, 800 miles, et cetera. And I think it puts Air Canada in a stronger competitive position there.

And we're seeing our equipment deployed in a combination of new routes, replacing Dash 8–100s and, of course then, the growth that comes from consolidating Air Georgian into—a lot of the Air Georgian fleet into Jazz.

Walter Spracklin

Okay. Last question here. Sky Regional; can you update us on when their contract with Air Canada ends? And whether you'll be a bidder on that—would that be an avenue for you to further expand your integration with Air Canada if that were to—

Joe Randell

Yes.

Walter Spracklin

—to come up?

Joe Randell

Well, I can't comment on the Air—on the—sorry, the Sky Regional contract, but we will be looking at opportunities in the 50-seat-and-under side. I think that's part of our agreement with Air Canada here. And going forward, we're going to continue to work with Air Canada to seize any opportunity that may be there for us.

But I think Air Canada has a strong relationship with Sky Regional, and it's there for some time. So we'll work with Air Canada, and we will, with Sky Regional, be providing Air Canada with its Express network.

Walter Spracklin

Okay. That's all my questions. Appreciate it.

Operator

Thank you. Our next question comes from Doug Taylor, Canaccord Genuity. Your line is opened.

Doug Taylor — Canaccord Genuity

Thank you. Good morning. I'd like to talk about the third-party leasing business. First of all, yields have moved around quite a bit here in the last few months. I wonder if you'll comment on the pricing environment? And the lease factors you're seeing with the—within the regional aircraft leasing market?

Joe Randell

Yeah. We're seeing, as I mentioned, Doug—we've got a good pipeline of opportunities. This latest one was a portfolio buy, and it's competitive. It's not a lot different than it was, really, a couple of months ago. As a matter of fact, I think the pipeline is probably a little more robust than it was last year.

So we're optimistic on it. It is competitive, and so I don't really say that the yields have decreased significantly in this area. I think it has—they have probably, more on the narrow-body side and the wide-body side. We're seeing some—from what I understand, some significant compression there, but we have not witnessed that in our segment of the business.

Jolene Mahody

And we're still pretty pleased, Doug, with what we're seeing. And it's still in the range of what we expect and what we kind of started with in our original business plan.

Doug Taylor

Okay. And so, a transaction like the one you announced yesterday, I mean, should we think that the lease factor that—I would assume that some of the aircraft are, perhaps, a little approaching midlife, and that's filling out that kind of side of your portfolio. Can you talk to the lease factors on transactions like that, relative to a new or near-new aircraft?

Jolene Mahody

Well, I'm not going to kind of provide an indication of those specifics on this deal. But when you look at a portfolio acquisition you're looking at a value of, kind of the asset value, and in combination you're buying a lease attached as well, right? So that kind of goes with the economics of the entire transaction.

But with portfolio acquisitions—and we've done some in the past. We've done some back in 2017, and we've started in with this one. The LRS will be different, based on the age of the aircraft, but I can say they're still in our zone, right? We had indicated a 0.8 to 1 percent monthly lease rate factor is kind of the zone that we expect to see, and we continue to see those.

Joe Randell

Yeah. And the average age of the aircraft in this portfolio is between three and four years. And I think I've mentioned previously on calls that midlife is actually quite interesting to us, though, because we see some opportunities in the midlife aircraft side out there.

And when we look at those, in terms of residual value and looking at opportunities for that aircraft—for that age of aircraft, we're now in the part-out parts business. And we look at that, the residual value, both in terms of re-lease or sale, but also in terms of the asset and the economics it would deliver in a part-out. So it makes a lot of sense. That will have the impact of increasing our average age as we move forward, but the returns are actually quite good. And I think we've got a good amount of comfort in terms of residual value.

Doug Taylor

So that leads me to my next question. I mean, the option overlooked other businesses, which is MRO, the contract flying, the part-out. The financials show a little bit of a decline, still. Can you talk a little bit about the outlook there?

And then as a second part, with some of the aircraft that are exiting the fleet related to the CPA, I mean, is there an opportunity for a little extra growth there? Is that where we would see it? Is that going to be material? And is the capital that you expect to recover from some of those aircraft meaningful in any way, relative to the CapEx and as a source of CapEx?

Joe Randell

Right. Right. So a very good question. So with respect to the other revenues there, I think we've mentioned previously that we've seen some decline in some of the contract revenue, in particular that Voyageur has been doing. It still has a very good footprint there, but we have seen some decline there.

With regard to the MRO side, JTS has been very busy with the third party, et cetera. We do have more capacity in North Bay that we intend on focusing on more, now that we've gotten our Air Canada relationship set up. And now we're—we've got the leasing really coming on to its own, so. And it will be more of a focus for us, certainly, going forward.

And with these assets, though, in North Bay, we've been quite busy with these older assets. So some of them, the ones that we've already taken out—and we can expect the ones to be taken out, we'd be pursuing more of these options. We've leased two other parties. In some cases, we parted them out.

We're on our third freighter conversion of a Dash 8–100, and we think there are opportunities there. And some of the early Dash 8s that we took out, frankly, were starting to run up close to their 80,000 cycles, whereas now the Dash 8s that we will be taking out of the Jazz fleet have more life. So that gives us even more opportunities, I think, with those aircraft to pursue things.

So again, we don't have a specific plan there that's included in our—on our projections, but it's going to be a focus, and North Bay will play a pretty significant role on those.

Doug Taylor

So the—should we assume any material amount of capital recovered from the aircraft exiting? Or would you suggest that we treat that as upside if and when you do achieve that?

Jolene Mahody

Yeah. I think I would just treat it as upside because the other thing we—we don't really have nailed down, the actual fleet transition plan yet, as to when those Dashes are coming out. So there's still a lot of work to be done on the details, so for your modeling, I would just treat it as it comes.

Doug Taylor

Yeah. That's great. I'll pass the line.

Jolene Mahody

Thank you.

Operator

Thank you. Our next question comes from Cameron Doerksen, National Bank Financial. Your line is open.

Cameron Doerksen — National Bank Financial

Yeah. Thanks. Good morning. I guess a couple questions from me just, I guess, with regards to some financing decisions. I mean, I would guess first thing I just wanted to clarify, and then sort of notice, is that the interest rate that you're paying on the leases in the CPA versus that aircraft financed in the third-party leasing business, there's about 100-basis-point difference between the interest rate on, I guess, the debt that's associated with those aircraft. I'm just wondering if you can comment on why there's a pretty big discrepancy there?

Jolene Mahody

So, Cameron, I think it mostly has to do with timing. Like, if you look at the aircraft leased under the CPA, a lot of that debt would have been secured back in 2011, I think, when we started an initial kind of modernization campaign on the fleet. The increase in rates that would have occurred more recently would be averaged out in some of those numbers that you're seeing under the CPA, whereas the CAC debt is all relatively new within the last two years. So that's driving the predominant difference in the average debt numbers you're seeing there.

Cameron Doerksen

Okay. So if we think about these CRJ900s that are coming in, in 2020, is it probably more likely to be kind of at the rate that you're seeing in the CAC debt, that we would expect for those aircraft?

Jolene Mahody

Yeah. It all kind of depends on kind of the nature of the actual deal and everything. But they will be a little bit higher than what we've seen historically, so you'll have to bump it up a little by some basis points.

Cameron Doerksen

Okay. And I guess a couple questions just on, I guess, capital. I mean, you mentioned that you've got probably more avenues available for you to raise capital to continue to grow the CAC business. I'm just—and we definitely think, I guess, is that we're just—there's a—the change with the regulations with regards to foreign ownership limits going higher. I'm just wondering if that was ever an impediment in the past to raising capital, the fact that there was an ownership limit set lower than what the new limit's going to be?

Joe Randell

Yeah. We’ve not really run into that up to now, but certainly as we grow the business, and we get more interest from people outside of Canada and that sort of thing, it may provide us with more flexibility.

Cameron Doerksen

Okay. And then maybe just one final thing from me, just on the DRIP. I mean, it wasn’t, I guess, huge dilution; 1.7 million shares in 2018 were issued through the DRIP. But just wondering if you really need to have that anymore? You’ve got the $300 million in revolver. I’m just wondering if you really need cash? And whether it makes more sense to not have the DRIP?

Jolene Mahody

Yeah. I mean, we don’t see the dilution as hugely significant, as you pointed out. And we do have a fairly high participation rate in the DRIP program. It’s up in the 20 percent range. So we’re delivering back some good cash to the organization that we are deploying into the leasing business. And we see a better use of that money, kind of, in the growth opportunity on the leasing side.

Cameron Doerksen

Okay. Fair enough. That’s all I had. Thanks very much.

Operator

Thank you. Our next question comes from Turan Quettawala from Scotiabank. Your line is opened.

Turan Quettawala — Scotiabank

Yeah. Hi. Good morning. Thank you for taking my questions. I guess, first one, I just wanted to—was hoping you could help us understand a little bit in terms of the planes that are coming in on the CAC side? So you have six more ATRs—sorry, six more planes total—two ATRs, 4Qs coming in in Q1 of '19. Can you give us a sense of, like, what the timing is on that?

Jolene Mahody

Sure. So in total we have nine aircraft that are under—I guess due to be yet completed, right? So the announcement that we did yesterday, the six portfolio acquisitions, you can kind of assume for purpose of their modeling that those will be all done and in play for, I'd say the 1st of March or in and about there. And we have announced, previously, a couple of aircraft with Jambojet that were to occur in 2019, so those are going to be the tail end of this year.

Turan Quettawala

Okay.

Jolene Mahody

We also have three Lion Air aircraft. If you recall, last year we announced the Lion Air deal for four aircraft in total. We had one of—

Turan Quettawala

Yes.

Jolene Mahody

—those aircraft come in, in 2018. The remaining three, we're planning for 2019. We're actually working on some tentative dates now. So for your modeling, I would—until we kind of nail down those dates, I would push them more towards the end of the year.

Turan Quettawala

So end of the year or—okay.

Jolene Mahody

Yeah.

Turan Quettawala

So like Q3, Q4?

Jolene Mahody

Yeah, exactly. Yeah.

Turan Quettawala

Okay. Thank you very much. That's helpful. And then, I guess, just wondering based on—so the decline that you're going to see in 2019 on the CPA revenue, as well as the incentive revenue, I guess it's about 46 million, $47 million of a decline on a year-over-year basis. Is it fair to assume that, based on all these contracts that you've signed on the leasing side right now, that you should be able to make up all of that?

Jolene Mahody

Sorry. I missed the first part of your question, Turan.

Turan Quettawala

So if you look at the CPA revenue, so you're seeing a decline of about $35 million or so, I think, from the 111 million to the 75 million or something, right, for—

Jolene Mahody

Yes.

Turan Quettawala

—on the CPA side? And then there's another $11 million or so because you earned about 14 million or so of incentive revenue this year, and you're only going to earn max of 3.5 million in 2019, right?

Jolene Mahody

Yeah.

Turan Quettawala

So I'm looking at the total revenue of what, 46 million, $47 million, I think, that you're not going to see from the CPA?

Jolene Mahody

Yeah. So you're looking at it from a revenue perspective only? Or from a bottom-line perspective?

Turan Quettawala

Well, either/or. I mean, I guess, maybe you can just help us—provide like just—

Jolene Mahody

Yeah. So—

Turan Quettawala

—give us some sense of—

Jolene Mahody

—I mean, when you look at the CPA, you can quarterize the impact there, the reduction that we're seeing on the fixed fees. And the performance incentives don't drive a whole lot of impact on the bottom line, as we communicated before, because a lot of that—

Turan Quettawala

Right.

Jolene Mahody

—gets paid out in variable compensation. So I would look at the fixed fee only portion of it as far as bottom line impact.

And from the leasing that were generated, a lot of the benefits that we're seeing as a result of the CPA doesn't start to come due until 2020, as you know, when we take delivery of those CRJ900s. So we will see a net reduction, year over year and quarter over quarter for 2019, until we start to build out those CRJ900s.

Turan Quettawala

No. But I guess—sorry, Jolene. What I meant to say was all these deals that you find on the third-party leasing side presumably you can offset most of this from that, is that right? Or not?

Jolene Mahody

They do provide an offset, although—

Turan Quettawala

But not completely?

Jolene Mahody

—it's not a clear offset—yeah.

Turan Quettawala

Okay. Thank you.

Jolene Mahody

And some of the timing of those is later on as well.

Joe Randell

Yeah. And the revenue from the leasing segment doesn't fall to the bottom line the same as the fixed fee because, of course, the leasing segment is—we have interest expenses, et cetera, so those are things that you would have to factor in.

Jolene Mahody

Mm-hmm.

Turan Quettawala

No, of course, that's great. Thank you. And then just one last one from me in terms of the incentive revenue—so I guess the incentive revenue is now quite low on the MAC side from Air Canada under the new agreement. Is there some other mechanism to provide you with an incentive on the operational side at all?

Jolene Mahody

No. Nope. There's nothing in the amended CPA that addresses that.

Turan Quettawala

Okay. Thank you very much.

Jolene Mahody

You're welcome.

Joe Randell

Yep.

Operator

Thank you. Our next question comes from David Ocampo, Cormark Securities. Your line is opened.

David Ocampo — Cormark Securities

Good morning and thank you for taking my questions. You touched on this a little bit earlier, but can you further explain what the rationale is, why the regional leasing market is more attractive than the narrow-body and wide-body markets?

Joe Randell

Yeah. Well, first of all, we haven't seen such an overflow of capital into the narrow—into the regional leasing side as you've seen within the narrow-body and wide-body side. In the case of the larger aircraft, we've seen a lot of Asian capital, and particularly Chinese investments in some of the leasing companies, et cetera. And that has resulted in surplus capital, and when you have that type of situation, yields tend to decline, lease rate factors tend to decline.

And we have many competitors in the—institutions that compete within the narrow-body and wide-body side, so. And generally, these competitors in those segments tend not to focus on a regional side. They've historically taken a negative view because the argument is then, it costs the same to do a transaction of an A330 as it does a Q400, so we're better off focusing on that particular segment.

And it's like anything—it's like the major airline business. There are very few airlines at work that operate everything from small regional aircraft to wide-bodies. People focus where they are. They know the products, and they have a critical mass of lessors that they can really deal with, so.

And we haven't seen that in the regional side. We haven't seen an overflow of capital coming in. There are not a lot of competitors, as many as you find in the narrow-body side. And of course you've seen GECAS start to pull back in the regional business, and GECAS has been historically a very major player in the regional side.

And when you're dealing with a different customer base quite often, et cetera—so there are a number of factors there. And historically, leasing has not been really penetrated within the regional business. And, of course, we're seeing that increase now, but fortunately we've not seen a lot of new competitors.

We've got one or two that recently have come in the market, but at the same time, we're seeing some of the narrow-body lessors looking to dispose of some of their regional portfolios, as they focus more and sort of double down on the regional—on the narrow-body side. So those are some of the factors that I'd say influence—where we've already indicated there's a difference between the regional and the larger aircraft market.

David Ocampo

Right. And you mentioned players exiting the market, so Avalon is one that comes to mind, built 49 aircraft—

Joe Randell

Mm-hmm.

David Ocampo

—last year. Is there a specific reason why they exited? Or is it simply because they're primarily owned by a Chinese company?

Joe Randell

Well, I think that indicates that Avalon—from what I see, if you look at their portfolio—they just made a decision to focus more on narrow- and wide-bodies, and they took that total portfolio and put it out in the marketplace. And you had another regional lessor pick it up, which was Falko, in that case.

So I think that was a perfect example of what I talked about earlier, where you see these larger lessors packaging up these portfolios and putting them out to the market because they just want to—they just want to simplify their business and have more of a critical mass and more capital that's available, in order to compete in their prime markets.

David Ocampo

Right. And do you intend to participate in acquiring these larger portfolio of assets in the future?

Joe Randell

Well, we will look at any portfolio, and as I said, we have a—we've a good pipeline, et cetera. But all of these portfolios have their positives, and they have their challenges, et cetera. That's why, quite often, they're sold. But we take a lot of time to evaluate the portfolio, the credit risk, the fleet that's there. So we'll continue to look for opportunities from around the world.

David Ocampo

That's great to hear—

Joe Randell

And also, you also see some other regional lessors looking to sell the portfolio because this portfolio we've purchased from another regional—primarily regional lessor. And a lot of it is, they look at their balance sheet, they look at their debt, their own situation, and decide that there's a certain part of the fleet that they'd like to dispose of, in order to shore up their own business.

So it isn't only the larger, narrow-body lessors that we're seeing the opportunities from. And some of the portfolios that we've already purchased—for instance we purchased from Avation in Singapore, way back, a fleet of six aircraft, et cetera. So it's a combination of things. Yep.

David Ocampo

Great. That's all for me.

Joe Randell

Thanks, David.

Operator

Thank you. And again, if you would like to ask a question, please press *, 1.

Our next question comes from Kevin Chiang from CIBC. Your line is open.

Kevin Chiang — CIBC

Hey. Thanks for taking my question—just a couple from me here. When you look at your covered fleet with Air Canada, just thoughts on—or have you had any discussions about diversifying outside of primarily a Bombardier fleet there? Like when I look at Sky Regional, it's primarily an Embraer—I think it's only an Embraer fleet. Like has there been any conversations on your end? Or any desire to diversify your covered fleet from outside of Bombardier with Air Canada?

Joe Randell

We would certainly be open to any diversification of the fleet outside of Bombardier fleet with Air Canada. I think, as you look out to 2035, which is how long the CPA goes, there will be fleet decisions that will have to be made with respect to the fleet mix, et cetera.

And we believe there are good possibilities on those 80 airplanes that are beyond 2025. The majority of them have not—are not presently under lease, and we will work with Air Canada and pursue any opportunity to take advantage of any changes in the fleet, fleet mix, et cetera. I think it could present a very good opportunity for Chorus.

Kevin Chiang

And then when I think of the leasing you do on behalf of, or as part of the CPA, you're obviously leasing aircraft that you'll fly as part of your service. They're going to bring on A220s. I think you've talked about that aircraft being of interest? Or potentially something you'd fold into the type of aircraft you could look at leasing as part of Chorus Aviation Capital? Just thoughts on leasing to Air Canada outside of the CPA, is that—one, is the A220 is still a viable plane for you? And two, is that an opportunity that you're exploring as well?

Joe Randell

Well, first of all, on the A220, I think we've said before it's an aircraft of interest to us. That aircraft is really starting to gain traction around the world, and we see that as a positive. And we will pursue opportunities, if we are competitive, to look at that fleet. I think it's potentially a very good investment, as long as you achieve the right economics.

And with respect to Air Canada, we have a number of airplanes that will be coming off lease as well, through the CPA. But as those airplanes come off lease, they will be debt-free, and we will be pursuing opportunities then with Air Canada to further extend the leases on those aircraft. Or, of course, we have the opportunities to put those aircraft out to others at that time, should it not be in Air Canada's interest to negotiate an arrangement at that time.

So I think we've got a lot of opportunities and a lot of flexibility, and I think we've got a pretty wide scope when it comes to looking at the opportunities there.

Kevin Chiang

Okay. And just maybe last one from me—it sounds like there's definitely a growing opportunity from parting out aircraft. You had mentioned that in your prepared remarks, I believe. And correct me if I'm wrong here, I think when you typically part out an aircraft, you get roughly 15 percent—something like mid-teens return on invested capital. Given you're pulling this from your leased fleet, are the returns better for you when you part out than when you just buy an old aircraft that has no more green miles on it, and parting out that kind of aircraft? Are the returns better—the lifecycle returns better for you when you're pulling it from your leased fleet?

Joe Randell

No. Well, potentially, and actually, we're just in the process of acquiring a second Q400 to part out, actually. And these airplanes, some of them have life left in them, but when you look at, in particular, the engines and the components, et cetera, it isn't necessarily that the aircraft is at its total end of life. It's a factor as to how strong the market is for the components, the engines, et cetera, so.

And we search for, and we've acquired now a number of aircraft outside of our own fleet for part-out while we parted out some of our own. We've acquired CRJ200s. We've acquired a 300. So we're going to continue to do that, and the returns are good in that segment.

Kevin Chiang

Perfect. That's it for me. Thank you very much.

Jolene Mahody

Thank you.

Operator

Thank you. And that concludes the questions in the queue today. I'll turn the call back to Ms. Megann for final comments.

Nathalie Megann

Thank you very much, Operator, and thank you all for joining us today. We wish you a great rest of the day and weekend.

Operator

Thank you very much, ladies and gentlemen. This concludes today's call. You may now disconnect.