FINAL TRANSCRIPT

Chorus Aviation Inc.

First Quarter 2022 Financial Results Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Chorus Aviation Inc. First Quarter 2022 Financial 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 star zero for the operator. This call is being recorded on Friday, May 6, 2022.

I would now like to turn the conference over to Nathalie Megann. Please go ahead.

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

Thank you, operator. Hello and thank you for joining us today for our first quarter 2022 conference call and audio webcast. With me today from Chorus are Joe Randell, President and Chief Executive Officer, and Gary Osborne, 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 information and statements, which are subject to various risks, uncertainties, and assumptions that are included or referenced in our Management's Discussion and Analysis of the results and operations of Chorus Aviation Inc. for the three months ended March 31, 2022, the outlook section, and other sections of our MD&A where such statements appear.

In addition, some of the following discussions involve certain non-GAAP financial measures, including references to EBITDA, adjusted EBITDA, adjusted EBT, and adjusted net income. Please refer to 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 & Chief Executive Officer, Chorus Aviation Inc.

Thank you, Natalie, and good morning, everyone.

There were significant accomplishments in our first quarter and we once again delivered positive financial results. The past two years have been difficult; however, it now seems the worst is behind us. Globally, passenger demand for air travel is rebounding and the regional sector is leading the way. Our Jazz operation is ramping up for the summer peak period and we are hiring new employees across the organization. As Air Canada shared in their first quarter report out, they are experiencing steady increases in key metrics such as revenue and passenger load factor to the point where they've been exceeding 100,000 customers per day. Lease collections are steadily increasing. First quarter lease revenue recognized and collected by Chorus Aviation Capital grew to approximately 92% from 83% in the previous quarter and the portfolio utilization is now operating at approximately 95% of pre-pandemic levels. And as more aircraft return to the skies, there's growing demand for our parts provisioning business at Voyageur where we're hitting record sales. And we are expanding our aircraft parts offerings, now moving into the ATR product. All are positive indications that the passenger aviation business is on the path to recovery.

Of course, the greatest accomplishment so far this year is our acquisition of Falko, a market-leading aircraft asset management company with an excellent history and tremendous growth opportunities. We are now the world's largest aircraft lessor focused solely on investing in the regional aircraft leasing space and a leader in all aspects of regional aviation. The addition of an asset management platform and the equity interest in 123 owned and managed aircraft creates scale and a differentiated business model. Our customer base has increased from 19 to 32 airlines, expanding our geographical reach from 16 to 23 countries, and increasing the value of assets under management to approximately US$4.5 billion with a total fleet of 353 regional aircraft inclusive of the beneficial interest in five aircraft trusts which we expect to close by the end of the second quarter.

With the addition of Falko's asset management platform, we will grow our leasing business through an asset-light model, which significantly increases cash flow generation, improves return on invested capital, and facilitates the pursuit of larger deals with more efficient access to equity capital. Growth through third-party capital in various funds reduces balance sheet exposure, lowering debt and residual value asset risk while enhancing stability and diversity of earnings through asset management fees. This acquisition is truly transformative for Chorus, significantly advancing our growth and diversification strategy. With the addition of Falko, in 2022 we expect to derive 50% of our earnings from non-CPA-related operations.

Our immediate priority is to integrate operations and execute on the opportunities this transaction brings, including plans to launch a new fund this year. The Falko management team has a successful track record of raising and deploying capital. Since 2011, Falko, through its managed funds and affiliates, has acquired over 320 regional aircraft, regional and turboprop aircraft, and since 2015 has raised over US$1.1 billion in equity capital. We believe the timing of this acquisition is opportune, as global air travel returns and grows and demand for regional aircraft leasing increases. This combined with our extremely strong and experienced team positions us well to capitalize on the current environment and to generate attractive returns for investors.

We have no doubt that we're in the right sector of the aviation business. The growing demand for regional aircraft is balanced by a supply of new aircraft as most deliveries are made to order by the manufacturer. There is little overhang from new aircraft orders, allowing for redeployment of idle aircraft. As the pandemic abates, airlines are looking to curb costs by right-sizing their fleets with aircraft financed off balance sheet. Regional lessors will continue to be an indispensable component of the aircraft financing industry and, with recent market dislocation and a changing competitive landscape, we are well positioned to capitalize on growth opportunities.

There are only a handful of operating lessors of scale with regional portfolios. The majority of the world's regional fleet is managed by three operating lessors, of which Chorus is one. Of the remaining two, one has signalled a shift in strategy to include narrow body aircraft. The other already has a significantly larger portfolio of wide and narrow body aircraft in addition to its regional fleet. The remaining operating lessors focused solely on the regional aircraft segment have smaller portfolios than the combined Chorus-Falko platform. Some of these smaller players are capital constrained or focused purely on turboprops.

In addition to larger scale, the Chorus-Falko combined leasing platform has a broadened market opportunity that covers the full age spectrum of regional aircraft from new deliveries to mid and end-of-life aircraft. Our access to capital through third-party equity funds is unique in the regional space. Finally, Chorus' technical skills and capabilities, including aircraft repurposing, end-of-life disassembly, and parts provisioning and sales, provide multiple opportunities to maximize returns on aircraft assets.

With fewer than 25% of the world's regional aircraft fleet being leased, there's plenty of room to grow and we see substantial opportunity to place regional aircraft this year. The pandemic has opened new opportunities for us. With airlines expected to seek liquidity through sale and leaseback transactions, we have many new prospects and have numerous transactions under evaluation.

Like the rest of the world, we're watching developments in Eastern Europe. We do not have any aircraft in Russia and do not foresee this terrible conflict affecting the growth of our leasing business, as there is opportunity for growth in the other jurisdictions.

We continue to make progress on the implementation of our ESG strategy and intend to publish our 2021 report in advance of our June AGM. To further formalize our ESG strategy, we recently completed a materiality assessment to identify and prioritize the ESG topics that are most important to Chorus and our stakeholders. This comprehensive process involved consultations with numerous stakeholders, including shareholders, customers, employees, suppliers, and lenders. The assessment provides the basis for determining the high-priority focus areas of our ESG roadmap and we will be sharing more detail on this in our upcoming sustainability report.

We are committed to doing our part to improve the environment and, as such, we are setting an ambitious target to strive for net zero greenhouse gas emissions within our operations by 2050. We were very proud to participate in Air Canada's celebration of Earth Day when we flew a CRJ900 from San

Francisco to Calgary using sustainable aviation fuel as part of Air Canada's Leave Less Travel Program. We were one of four flights Air Canada operated. The use of sustainable aviation fuel on these flights reduced greenhouse gas emissions by approximately 39 tonnes of carbon dioxide compared with the use of conventional fossil jet fuel. There are many initiatives being explored in our industry to reduce emissions and we're closely watching the development of other aircraft technologies such as electric, hybrid, and hydrogen-powered aircraft.

I'm also pleased to share our commitments regarding equity, diversity, and inclusion. While we have received numerous employment awards over the years, we recognize there is still more to be done. We are committed to increasing our workplace representation by at least 10% over the next five years in each of Canada's Employment Equity Act defined designated groups, including women, visible minorities, Indigenous people, and persons with disabilities. Further, we have a goal to increase the total diversity of our leadership team to at least 50%, including a target to increase women in senior leadership roles to 30%. Jazz's recent employment awards, including Canada's best diversity employer for eleven consecutive years and one of the best places to work are a testament to our commitment to our employees for safe, equitable, and inclusive work spaces, and more work in this regard will continue.

So thank you for listening and now I'll turn the call over to Gary to take you through our first quarter financial results and to provide some more insight into how accretive the Falko acquisition is expected to be to the earnings for the balance of this year.

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Thank you, Joe, and good morning.

Before I review the quarter, I would like to say how pleased I am to welcome the Falko team to the Chorus family with the close of our acquisition on May 3rd. As I take you through the financial highlights for the first quarter, I will also review the 2022 guidance we have provided given the significance of this investment.

Here's how the first quarter of this year compares to the same quarter of 2021. We generated adjusted EBITDA of $83.3 million in the quarter, consistent with the 2021 Q1 results. The RAL segment's adjusted EBITDA increased by $2.8 million due to the recognition of an expected recovery on Chorus' claim in the Aeromexico bankruptcy, a $2.5 million decrease in the expected credit loss provision, and increased lease revenue from released aircraft, partially offset by lower lease revenue attributable to negotiated lease amendments. The RAS segment's adjusted EBITDA decreased by $3.6 million. The first quarter results were impacted by an increase in stock-based compensation expense of $3.7 million due to the change in share price inclusive of the change in fair value of the total return swap and an increase in general and administrative expenses attributable to increased operations, partially offset by an increase in other revenue due to an increase in part sales, partially offset by a decrease in third-party MRO activity in contract flying and an increase in capitalization of major maintenance overhauls on owned aircraft of $1.4 million.

Adjusted net income was $17.7 million for the quarter, an increase of $2 million over the first quarter of 2021 at $0.10 per basic share due to a decrease in net interest costs of $4.8 million and a decrease in depreciation expense of $1.1 million, partially offset by a $0.8 million decrease in adjusted EBITDA as previously described, an increase of $2.2 million income tax expense on adjusted items, and an increase of $1 million primarily due to unrealized foreign exchange losses on working capital.

Net income increased $61 million over the first quarter of 2021 due to the previously noted increase in adjusted net income of $2 million, a decrease in one-time restructuring costs of $81.8 million related to the 2021 CPA amendment, partially offset by a decrease in income tax recoveries on adjusted items of $21.5 million and strategic advisory fees related to the Falko acquisition of $2.7 million.

Now turning to liquidity, as of March 31, 2022, Chorus' liquidity was $199.7 million, including cash of $110 million and $89.7 million of available room on its operating credit facility. Liquidity increased from the fourth quarter of 2021 by $11.2 million, primarily due to the increased cash flow from operations of $41.5 million and an increase in committed operating credit facility of $25 million, offset by scheduled payments on long-term debt of $44.6 million and capital expenditures of $11.6 million.

During the quarter Chorus generated cash flow from operations of $41.5 million. Other key liquidity changes during the quarter were as follows: increased cash of $10.3 million due to a decrease in restricted cash, decreased cash by $14.1 million due to an increase of working capital driven by an increase in the receivable from Air Canada, decreased cash by $7.2 million due to a decrease in security deposits and maintenance reserves.

Leverage decreased from the fourth quarter due to an overall reduction in net debt of approximately $61 million. Net debt to adjusted EBITDA ratio continued its decline going from 5.4 at the end of 2021 to 5.2 as at March 31, 2022.

On May 3, 2022 we completed the Falko acquisition and expect to close the acquisition of trust interest on the five aircraft shortly. Concurrent with the closing of the Falko acquisition we completed a private placement with Brookfield whereby they subscribed for US$300 million of preferred shares and US$74 million of common shares. In addition, on May 2, 2022 we entered into a new US$30 million unsecured revolving operating credit facility with a nine-month term maturing in February 2023. Taking into account the draws under our credit facilities and the payment of consideration for the Falko acquisition, we anticipate having total liquidity in excess of $100 million for the remainder of 2022 with approximately half of such liquidity consisting of cash and the remainder consisting of available credit.

Given the Falko acquisition, we've provided earnings guidance in the outlook section of this quarter's MD&A. Key highlights of the guidance include: consolidated revenue to range from $1.57 billion to $1.81 billion with between $260 million and $275 million in the RAL segment. The RAS segment, excluding pass-through and controllable revenue, is expected to have between $310 million and $330 million in revenue. Pass-through and controllable cost revenues are expected to be between $1 billion and $1.2 billion. Adjusted EBITDA for the RAL segment is expected to be between $215 million and $235 million and the RAS segment between $205 million and $220 million. Adjusted EBT for the RAL segment is expected to be between $75 million and $90 million and the RAS segment between $74 million and $84 million. Adjusted net income available to common shareholders, which deducts the dividend paid to preferred shareholders and the minority interest acquired in the (inaudible) Holdings LP, to be between $93 million and $108 million and adjusted EPS available to common shareholders is expected to be between $0.48 and $0.56. Net debt to adjusted EBITDA is expected to be between 4.7 and 5.0 at the end of this year. Return on invested capital is expected to be between 7% and 7.9%. And lastly, cash flow from operations and net changes in non-cash working capital is expected to be between $270 million and $320 million.

Key assumptions related to this forecast are included in the outlook section of the MD&A and include the launch in the second quarter of 2022 a new investment fund managed by Falko with a minimum of US$500 million in capital commitments with management fees and terms commensurate with those in Falko's prior funds. Revenue is based on current contracted lease revenue and forecasted revenues for leased aircraft and asset management fees. Aircraft leasing revenue under the CPA and fixed margin revenue is expected to be US$114.7 million and C$66.3 million, respectively, in 2022. A combined weighted average statutory tax rates for each of the individual entities based on the jurisdiction in which they are taxable. No disposals in 2022 of aircraft leased under the CPA or in the RAL segment. And a foreign exchange rate of 1.25 to translate US to Canadian revenue and expenses.

The forecast also excludes the impact of the purchase price allocation or PPA adjustments for the Falko acquisition, as required under IFRS 3 Business Combinations. Our preliminary PPA assessment will be completed for Q2 report out and we expect to have the final assessment completed by December 31, 2022.

Before turning the call back to Joe, I would like to acknowledge the continued dedication or our team, especially with respect to their outstanding efforts related to the successful close of the Falko acquisition.

So, with that, I'll turn the call back to Joe.

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

Thanks, Gary.

And I would also like to close off on the topic of our employees who remained focused and committed throughout this pandemic. They kept safety and operational integrity at the forefront and took great care of each other and our customers. It's their efforts, including the advancements made in our leasing business by the Chorus Aviation Capital team, that contributed to this transformational moment in our history. I sincerely thank all our employees for their patience and hard work. Collectively, we remain energized and are excited to welcome the Falko employees as we embark on a new era for our company that will deliver additional value to our stakeholders.

I also want to recognize Nathalie, as this is her last analyst call as she will be retiring from Chorus at the end of June. And I've had the pleasure of working with Nathalie side by side for almost 25 years and today's call marks our 65th quarterly analyst together. So we'll definitely miss you, Nathalie, and we wish you well in your next chapter. And Tyrone Cotie, who is with us here in this room, will be assuming responsibility for investor relations effective July 1st.

So, thank you for listening, operator, and we can now open the call for questions.

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press star followed by one on your touchtone phone. You will hear a three-tone prompt acknowledging your request and your questions will be polled in the order they are received. Should you wish to decline from the polling process, please press star followed by two. If you are using a speakerphone, please lift the handset before pressing any keys.

Your first question comes from Kevin Chiang, CIBC. Kevin, please go ahead.

Kevin Chiang — Analyst, CIBC Capital Markets

Thanks for taking my question and I echo the congratulations, Nathalie. Best of luck in your retirement and thank you for all of your help the past decade, as I've covered the stock at least.

Maybe just turning to how your risk management processes might have changed, given what's happened to the leasing world since the onset of the Russia and Ukraine conflict and as you look to (inaudible) of capital through this asset management business, have you changed like the jurisdictions you're not willing to enter into? Has there been a change in how you think of the lease rates you want to put out there to cover off some of this risk? I would be interested in hearing how your risk management processes might have changed over the past two months or so.

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

Yeah, our risk management view hasn't changed very significantly from what it was previously. We spent a lot of time looking at jurisdictional risk, political risk in each of the transactions we did, and working with Falko now, I think they've taken very much the same approach. As I mentioned, we do not have any exposure in Russia, et cetera. There will be some degree of worldwide risk no matter what, but we feel that the jurisdictions that we're in, we're quite comfortable with them, and with the carriers that we have as customers. You know, we've not seen any impact or any particular impact on lease rates or lease rate factors as a result of this. Obviously, there are a lot of aircraft that have been dislocated in Russia. There are a lot of larger lessors that have had a significant impact as a result of the sanctions, et cetera. But the regional business itself and the assets that are in the segment are not widely used in Russia either and some of these other jurisdictions, even including the Ukraine. So we're not seeing really at this point much of an impact. We're not seeing really much of a change in terms of pricing approach, et cetera. But we will continue to be very cautious on the jurisdictions and the political risk that we take with any of our new, any new customers.

Kevin Chiang — Analyst, CIBC Capital Markets

Okay, that's helpful. And if I could ask on the fund that Falko will be issuing, this new investment of $500 million, historically, prior to this asset management business coming to your (inaudible) with this Falko deal, I think you had previously indicated about $100 million of internally-generated cash flow would be used to acquire planes and you'd lever that up kind of three to one. With this more asset-light approach, I guess, first, is that they way we should be thinking about, that $100 million now goes into the fund? Is that kind of the reallocation of that capital? Or is that $100 million not the right bogey to use anymore? And then two, it seems like, given this is assets-light, that the return on invested capital should be better than what you would have gotten when you were levering up the equity you're putting in. Just wondering what you see the incremental ROIC being as you continue to expand your fleet indirectly through this asset management business.

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Kevin, it's Gary here. So, on the asset management side, we will continue to grow those funds and we will be a participant in those funds, so from that perspective, yes, we will certainly see some growth in there. As far as the on balance sheet, you know, anything that will make its way to the balance sheet, it would be limited, certainly, moving ahead. But we're working through a lot of that with the Falko team. But, nonetheless, I think you can see us co-investing or investing in those funds alongside and, yes, as we move ahead we expect returns to get better, especially as we direct more into the asset management side, because the leverage ratios and that should continue to go down.

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

Our focus on growth will certainly be through that approach.

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

The funds will be our primary growth vehicle on the leasing side.

Kevin Chiang — Analyst, CIBC Capital Markets

Okay. And maybe just last one for me here, again, with this asset-light approach, does that change how you think about a dividend? Is that still something you'd like to bring back? You know, your collection rates are almost back to where they were pre-pandemic, at least for your (inaudible), utilization rates are higher, the CPA is proving to be resilient, it feels like we're in a sustained recovery here and, again, you have an asset-light vehicle to grow RAL. I guess when you put that all in a blender, like where does a dividend stack up here in terms of reintroducing some sort of payout?

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

Obviously, by changing our business model, it changes our leverages, it changes projected cash flows and things of that nature, but we have a lot to consider here in terms of the balance sheet going forward and we want to make sure that it is robust. So we have more work to do on our capital structure, I'd say, with respect to the use of cash in future investment. So, what this does, I think, is it gives us far more flexibility in terms of what we do, but at this point, you know, we understand the importance of the dividend, et cetera, to shareholders, but at this point I think it'd be premature to make any type of commitment. We need a little more time.

Kevin Chiang — Analyst, CIBC Capital Markets

That's it for me. Thank you very much. Have a great weekend, everybody.

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Thank you, Kevin.

Operator

Thank you. Your next question comes from Walter Spracklin, RBC Capital Markets. Walter, please go ahead.

Walter Spracklin — Analyst, RBC Capital Markets

Thanks very much. Good morning, everyone.

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

Good morning.

Walter Spracklin — Analyst, RBC Capital Markets

And Nathalie, best of luck to you, as always. It was great working with you and I wish you all the best for sure.

Starting, I guess, the first question here is on the integration. And I know this is a very large transaction for your Company and your management team. I'm just curious as to what you're looking for. I know it's early days, but can you give us an indication of whether there's been any surprises? Are there any KPIs that you're looking to to assess that we can follow as you integrate that acquisition? And how long a process do you think the overall integration will take?

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

It's still early days but, you know, obviously we've started working with the Falko team now. We spent a lot of time on this from a due diligence process prior to making the commitment, et cetera, and the more we look at it I think the happier we are about the commonalities between, and I think not only on the assets but even on the cultural side, et cetera, between Falko and Chorus. I think the team together is very, very strong. We cover so many aspects of regional aviation and a lot of history here, a lot of experience, et cetera. And if anything, I think it's been reassuring then in terms of the strength of the team and the strength of the plan. So that's not really a surprise, I guess, but it's a reassurance. And we've seen nothing that we would say, oh, this is something we should have looked at or we're concerned about, et cetera. We're really focused now, as we've said, on launching this new fund, and our organization will probably be more involved in the trading side of the business as well. But I think it's, you know, all indications for us right now are extremely positive.

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Walter, it's Gary here. I'd reiterate that and just say we have been very pleased with the acquisition thus far and, as you can see in our outlook section, it's coming in where we expect.

Walter Spracklin — Analyst, RBC Capital Markets

That's great. Okay. Joe, last quarter you gave us an indication with your booking curve as to where you were trending one quarter ahead on capacity as a percentage of 2019. How far out can you look now and, obviously, coming up on the important summer months, have there been any major changes that have been surprising in terms of the speed or the overall speed of the recovery? I know we did hear from Air Canada, but just curious to hear, from a regional perspective, your view on the pace of that recovery and whether it's meeting, you know, whatever expectations you might have before, whether it's meeting or exceeding those.

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

Yeah, well, I think the pace of the recovery is extremely strong. People are anxious to get back up in the air, et cetera. I think some of the airports are struggling a little in terms of handling some of the security side and that sort of thing.

But from a Jazz point of view, when we look at the utilization of our fleet, our aircraft will be very fully utilized over the summer period. So I don't have the exact number and the comparison is a little different, because in 2019 we had a different fleet than we have now, because during the pandemic we transitioned over the 175s, we moved out of the Dash 8-300s. So it isn't a total apples-to-apples comparison, but what I can tell you is that we're going to be pretty full up this season coming up and it's all go.

Walter Spracklin — Analyst, RBC Capital Markets

That's fantastic. Any colour, and I know it's hard to gauge this, but it's an important consideration for the airline industry in Canada as whole, and that is business travel, and like I said, I know it's hard to judge whether a ticket is a business travel ticket or not, but I know you and Air Canada have some fairly sophisticated algorithms that can decipher somewhat, what's your view on the comeback of business travel? I would say that friends and family travel is perhaps filling a lot of that summer activity that you're describing, Joe, but curious to hear your view on the pickup in business travel at least starting with the regional side.

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

Yeah, I don't have any algorithms or whatever. I think that would probably be more a question for Air Canada. But all I can tell you is sort of anecdotally that I see all kinds of signs of business travel picking up. We had our board meeting here yesterday with folks from Ireland and California, et cetera. Everybody is travelling, travelled here for this meeting. The hotel here was pretty full. And a lot of that and what I've seen is business related. But again, I can't tell you what percentage or anything like that. But again, I think people are anxious to get back meeting face to face, et cetera. And it's like us now with the integration of the Falko team. We've been back and forth to the UK, to Dublin. As a matter of fact, we're leaving again on Sunday night. And that's all the return of business travel really post-pandemic, although I guess we're not totally through it, but all signs are very positive.

Walter Spracklin — Analyst, RBC Capital Markets

That's fantastic. Appreciate the colour and again, Nathalie, best of luck. Cheers. Thank you.

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

Thank you.

Operator

Thank you. Your next question comes from Matthew Lee, Canaccord Genuity. Matthew, please go ahead.

Matthew Lee — Analyst, Canaccord Genuity

Hi. Good morning, everyone, and congratulations, Nathalie. Maybe just to start with a house-keeping question, in terms of your plans to report the Falko division, are you going to split out management fee and leasing returns? And if so, can you kind of give us some colour right now as to what the current split is?

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

Sorry, could you repeat that? It was a little garbled.

Matthew Lee — Analyst, Canaccord Genuity

Yeah, so most of my questions have been answered, but in terms of the way that you report the Falko division, are you planning to split out management fee and leasing returns? And then can you maybe give us some colour as to the current split?

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

Okay, sorry, with the management fee and the leasing returns. So yes, they'll be in the RAL division. We're still working through the disclosure. We'll certainly give some colour on various aspects of it, but we've still got to work through that here in Q2, Matt.

Matthew Lee — Analyst, Canaccord Genuity

Great. And then you kind of discussed some of the technical skills that Chorus is bringing to the partnership. Was Falko previously outsourcing those skills or is this kind of the new method of value creation for the business?

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

Generally a lot of the services that now we can provide in terms of the total platform Falko was outsourcing before. For instance, we see this fleet now, including the Falko fleet, as feeding our parts business, as an example, aircraft repurposing, et cetera, and those were more unique on the Chorus side of the equation. So, again, very complementary in terms of the skills that are at Chorus and what Falko had previously been farming out.

Matthew Lee — Analyst, Canaccord Genuity

Okay. Thanks, guys. That's it for me.

Operator

Thank you. Your next question comes from Cameron Doerksen, National Bank Financial. Cameron, please go ahead.

Cameron Doerksen — Analyst, National Bank Financial

Thanks very much. Good morning and also congratulations, Nathalie. It's been a pleasure working with you over the years.

I guess I had a couple of sort of more modelling questions here. I appreciate you're still kind of working through some of the disclosures you're going to have with the Falko acquisition, but is it safe to say that basically all the revenue and I guess maybe EBITDA is going to be consolidated with Chorus, even the stuff where you've got, I guess, not a full ownership of the, you know, things in the funds? Maybe you can just talk a little bit about how, I guess, the consolidation is going to work.

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Cam, it's Gary. In our MD&A we've disclosed the three companies or interests that we have the majority ownership in, so all of those would be consolidated, and one of the funds where we own, I think it's something just less than 4% or so, that would not be consolidated. So where we own the majority, those would be the one that come in. So the ones we've disclosed in the MD&A there, that's what you should focus in on.

Cameron Doerksen — Analyst, National Bank Financial

Okay. And how about the debt that was associated with the purchase? Is 100% of that going to be on your balance sheet?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

That is correct. All those funds that we list there, including the one with the minority interest (inaudible) Holdings, 100% of that debt will be on our statements, yeah.

Cameron Doerksen — Analyst, National Bank Financial

Okay. So we should think about that sort of US$400 million plus debt sort of being added to the balance sheet. And if that's the case…

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Sorry, yeah, so the US$400, we disclosed $405 million as being the rough debt numbers that would come across and that's what you can expect to see come across.

Operator

Okay, it looks like your questioner has dropped from the line. Your next question comes from Miguel Ladeira, Cormark. Miguel, please go ahead.

Miguel Ladeira — Analyst, Cormark Securities

Good morning, everyone. So you noted that you'll be a participant in the funds, but can you disclose the expected split between internal versus third-party capital invested?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

The split between the internal versus… We're still working through that. We will be a minority owner in those funds, so we'll be less than 20%, so we don't expect being above 20% at any point in time in any of the new funds that we're establishing. And then if you go to the MD&A, the 100% in the 64.2% companies that we purchased, you can see them there, and then the other funds we have a minority interest and it's pretty minor.

Miguel Ladeira — Analyst, Cormark Securities

And just a follow up there on the $500 million fund, how fast do you think you can deploy the capital once it is raised? Do you already have a sufficient pipeline or does that still need to be developed?

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

I think, from a pipeline perspective, there's a lot of opportunities out there. From our side we've been modelling anywhere from two and half to three years to be fully deployed, as it makes its way out, but commitments will be a bit, you know, they'll be lumpy, but conceptually it's about two and a half to three years.

Miguel Ladeira — Analyst, Cormark Securities

That's all for me. Thanks, guys.

Operator

Thank you. Your next question comes from Tim James, TD Securities. Tim, please go ahead.

Tim James — Analyst, TD Securities

Thank you. Good morning, everyone. Congratulations, Nathalie. It's been a pleasure. All the best for the future.

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

Thank you.

Tim James — Analyst, TD Securities

I guess just one question, and I don't know to what extent you can comment, but I'm wondering if you can characterize the proportion of your lease agreements where you have renegotiated lease rates. And I guess the follow up to that is, you know, if you can kind of comment on lease rate factors and where they stand relative to sort of pre-pandemic.

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

So, lease rate factors, certainly in this market, you know, we haven't seen a major change in how you determine them as far as that goes. They're still (inaudible) as the interest rates and other things make their way through. We expect those things to adjust. As far as the revenue we're booking, it's, you know, (inaudible) and the lease rate amounts you see there are certainly making their way through (inaudible).

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

Yeah, the lease rates for the aircraft that are grounded here as the industry picks up the surplus obviously are still lower than we would hope. They are recovering. There are signs that, with respect to the valuations that are put on the fleet and the corresponding lease rate factors, we see that improving as the surplus is absorbed. There's not a lot of new equipment being manufactured out there. As you know, the 400s are not being manufactured, there are no more CRJs, and there are a limited number of ATRs, so the fact that there is no overhang from a lot of new manufacture and misplaced or not placed new equipment, I think, will help boost the lease rates on the fleet that has been grounded as a result of the pandemic. As you know, we've had one of the major competitors in the industry that have had, they've had a lot of distress with respect to that, and that's created a bit of a surplus.

But I think a lot of the types of arrangement that we are looking at here with respect to sale and leasebacks or other opportunities here are not subject to the same downward pressure as you have on that surplus fleet, because a lot of this is sale and leasebacks of aircraft that are already on balance sheet or are committed in terms of purchase. And then as well, of course, there is also potential for purchase of portfolio assets, which can produce a good return. So I think we're seeing returns and we're targeting returns that were as they were pre-pandemic, but each transaction will be different, but in the long run and, I guess, in the medium run really, we're looking at getting back to returns that we were targeting prior to the pandemic.

Tim James — Analyst, TD Securities

That's helpful. And maybe just sort of a follow-on question to that. Of course, throughout the pandemic you had leasing customers, some of which you repossessed aircraft and remarketed those, and then at the other end of the spectrum you had customers that, because of their own liquidity and financial situation, were able to continue lease payments, I believe, without any interruption. Do those customers that have kind of made it through this in one piece without interruption to their ability to make payment on their leases, are those leases or have those leases been subject to any rate pressure just because of broader conditions? Or is it only those aircraft that maybe have been repossessed and remarketed at sort of lower rates and maybe those aircraft where you renegotiated with a customer because they've been in creditor protection? Or is it sort of more across the board or is it very customer specific, I guess, is another way of asking it.

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

It's very customer specific. Obviously, if a customer was restructured or had significant liquidity issues, et cetera, we work with the customers. I think we've been straightforward with respect to our credit loss, expected credit loss with respect to our financial reporting, our receivables, et cetera. The other customers, those leases remain in full effect and we're looking to renew a lot of them. Obviously, when you renew leases on older aircraft it's at a lower lease rate because it reflects the reduced value of the asset. And we see, as I said, that market becoming stronger now with time and, as more aircraft get back up in the air, there's more demand for capacity, that will start rising the lease rates on those assets.

Tim James — Analyst, TD Securities

Okay. That's very helpful. Thank you.

Operator

Thank you. Your next question comes from Konark Gupta, Scotiabank. Konark, please go ahead.

Konark Gupta — Analyst, Scotiabank

Thanks and good morning, everyone. Congrats, Nathalie, for your retirement and thanks for all the help.

So, maybe the first question is on the guidance. I'm just trying to figure out what's included and not included in the guidance. I mean how much contribution do you expect in the guidance from the new $500 million fund that you're launching?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

It's Gary here. So, in the guidance, we expect that fund to be launched later this quarter, and so certainly it'd start to take traction in the back half of this year. So that's included in the guidance. And then obviously it's the values of the acquired assets that we've outlined in there from the Falko transaction and included some minority interest or some revenue from minority interest in other funds. But when you look at the new asset management piece, the $500 million-plus facility, which is the minimum size, we hope to be higher than that, we don't expect to really have that fully launched until the second half and it'll get announced here shortly.

Konark Gupta — Analyst, Scotiabank

Thanks, Gary. Does that mean that the full return from that $500 million fund will annualize some time in Q4 of this year? Or could that be some time in 2023?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

So you go back to the deployment schedule. We'll launch the fund, the Falko team will begin to manage that fund and start to earn some fees as we go through the course of this year, and then as the assets are deployed then you'll start to get returns on the fund. So returns are going to kind of, if you go and you were modelling it, it should be over that two-and-a-half to three-year period that it gets fully deployed and then you can start (inaudible) the returns.

Konark Gupta — Analyst, Scotiabank

That's great, thanks. And then with respect to your growth ambitions, obviously the whole growth profile will change with Falko, so the kind of guidance you provided for this year, that's sort of (inaudible). What kind of growth in EBITDA or earnings are you expecting, let's say, over the next couple of years or so? How should we think about it?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Yeah, so what we've given you is some good short-term guidance here for 2022. We do plan on doing an investor day in the latter part of this year with the dates to be announced and that's where we'll unveil a lot of those longer-term growth plans and other things like that. But certainly that fund, this new fund with a minimum of $500 million that we're going to launch here shortly, will be the biggest part of the growth avenue. We'll have a minority interest in it, less than 20%, so it won't be consolidated in our statements, but that's where a lot of our growth is going to come from.

Konark Gupta — Analyst, Scotiabank

Okay. That makes sense. And then if I can just follow up on the combined business, CAC and Falko, is there going to be any major changes with respect to branding or back office or front office management or things like that?

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

The entire fleet, including the fleet under the funds and other aircraft, including the Chorus Aviation Capital aircraft, will be managed by Falko. So we will continue with that brand and it's being all consolidated under the management of Falko.

Konark Gupta — Analyst, Scotiabank

Okay, that's great. And the final one for me before I turn it over, you mentioned or you disclosed ROIC for the entire Company I think at 7% to 8% this year. Can you provide some colour where the ROIC is for, roughly speaking, maybe for Falko versus your existing CAC business and CPA? How do we compare those?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Sorry, we're not disclosing those at this point in time, but we're doing an overall company metric. And the reason we focus on that is, you know, we look to optimize the Company assets, the Company capital structure amongst the various units, so that's why we focus at that level.

Konark Gupta — Analyst, Scotiabank

That makes sense. Thanks again.

Operator

Thank you. Ladies and gentlemen, as a reminder, should you have a question, please press star one on your touchtone phone.

Your next question comes from Fadi Chamoun, BMO. Fadi, please go ahead.

Fadi Chamoun — Analyst, BMO Capital Markets

Thank you for squeezing me in and congrats on the retirement, Nathalie, and thanks a lot for your help, obviously, in the last couple of years.

I wanted to understand one thing about the structure of the funds. Do these funds typically have a duration consistent with the lease terms? Is that the right way to think about these funds?

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

So the funds generally are around ten years in terms of life is the way that they're structured. You know, the $500 million is the capital that we're looking to commit this year. The last fund was $650 million. So, that's the duration of the fund generally, so then there can be trading within the fund, et cetera, but it does have a finite life.

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

And Fadi, it's Gary here. You launch the fund for $500 million plus, and the last one was $650 million, then the leverage in the funds onto those assets, and then it basically, back to Joe's point, has a ten-year life.

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

And the leverage that's added in the fund generally has no recourse to us but is related to the fund investment, to the fund investors.

Fadi Chamoun — Analyst, BMO Capital Markets

Okay. And this might be a very basic question. I'm just trying to understand how you earn money with these funds. So (inaudible) you invest in the fund as well and you obviously make a return on your own investment, but how does the fee structure of the fund work in terms of you managing the assets on behalf of third party?

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

So, you are paid fees for managing the capital that is committed in the fund and there are other transactional fees, et cetera. Often there are incentives within the fund, once you achieve certain hurdles, that are paid. The expenses generally of the trades are covered by the fund itself. So really though it's primarily the fees, the management fees, some transactional fees, incentives, and of course then our own participation as an investor in the fund.

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Fadi, it's Gary here. So back to when we announced the transaction, back to what Joe said, we get fees from the fund in managing the fund through the various sources Joe indicated. We also get our return from the fund, our proportion of what we own of the fund, and then there's the potential for incentives if the fund outperforms certain investment targets that get crystallized in there. So that's the three ways that we essentially earn.

Fadi Chamoun — Analyst, BMO Capital Markets

Okay. And you start to earn the fees when the fund is completely deployed? Because now you're doing the funding, the $500 million, then you have to go and invest those funds, obviously, which will take some time. Like how does that work?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Yeah, when the fund gets launched and you start to manage the capital, there are fees that would apply then. So there are fees almost, if you want to call it, from day one, that go into the fund. So it's not just based on deployment.

Fadi Chamoun — Analyst, BMO Capital Markets

Okay. And I mean the balance sheet is okay. Would you, from this point on, favour placing your investment in those funds or would you do transactions on your own like you have in the past with your own balance sheet?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

The preference is to go fund first for sure and then the balance sheet would be secondary. So we see growing through the funds as being the primary growth piece and we don't see a lot compared to that going on the balance sheet.

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

And this is how it really is transforming our growth within the leasing business is to move more into an asset-light fund type of structure that will clearly be our focus.

Fadi Chamoun — Analyst, BMO Capital Markets

Okay. Okay, great. Thanks for the colour.

Operator

Thank you. There are no further questions at this time. Please proceed.

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

Thank you, operator, and thank you, everyone, for being present on this call. I've enjoyed working with many of you and wish you all the best. Thank you.

Operator

Thank you. Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.