

**Chorus Aviation Inc.**

**Third Quarter 2022 Financial Results Conference Call**

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## **CORPORATE PARTICIPANTS**

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### **Joe Randell**

*Chorus Aviation Inc. — President & Chief Executive Officer*

### **Colin Copp**

*Chorus Aviation Inc. — Chief Operating Officer & Chorus Aviation Services — President*

### **Gary Osborne**

*Chorus Aviation Inc. — Chief Financial Officer*

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### **Konark Gupta**

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### **Adam McBain**

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### **Renato Monzon**

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## PRESENTATION

### Operator

Good morning, ladies and gentlemen, and welcome to the Chorus Aviation Inc. Third Quarter 2022 Financial Results Conference Call. At this time, all lines are in listen-only mode and 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 November 10, 2022.

I would now like to turn the conference call over to Vice President, Treasury and Investor Relations, Mr. Tyrone Cotie. Please go ahead.

**Tyrone Cotie** — Vice President, Treasury & Investor Relations, Chorus Aviation Inc.

Thank you, Kelsey. Hello and thank you for joining us today for our third quarter 2022 conference call and audio webcast. With me today from Chorus are Joe Randell, President and Chief Executive Officer; Gary Osborne, Chief Financial Officer; and Colin Copp, Chief Operating Officer, Chorus Aviation and President, Chorus Aviation Services. 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 in our Management's Discussion and

Analysis of the results and operations of Chorus Aviation Inc. for the three months ended September 30, 2022, 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, adjusted EBT, and adjusted net income. Please refer to our MD&A for a discussion relating 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, Tyrone, and good morning, everyone.

This past quarter marked our first full quarter since the Falko acquisition. I'm pleased to report the continued seamless integration of the Falko business into the Chorus group of companies and that our investment in Falko is delivering the expected financial performance. The Falko team continues to demonstrate its extensive track record of opportunistically selling aircraft, allowing the business to maximize the value of its owned assets and assets under management. In August 2022 we announced the completion of agreements to sell eight fully-owned aircraft that had previously been on lease, enabling a significant reduction in our leverage level. As we continue to transition to an asset-light leasing model, these opportunistic asset sales will continue to reduce our leverage.

The Jazz operation has moved past the wider industry issues experienced in the second quarter and continues to deliver a world-class service, having recently been named one of Canada's safest

employers, winning the public transportation category. And our Voyager operations had a great quarter with increased part sales and the sale of four Dash 8-100s for a gain of \$2.2 million.

One topic that is being discussed with greater frequency lately is pilots, so I thought it would be useful to provide some context. The Canadian aviation industry is expected to experience increasing demand for pilots; however, Jazz is well positioned to attract and retain pilots with its pilot flow agreement to Air Canada and with Jazz and Air Canada teams working together to ensure a coordinated and smooth pilot flow process. We believe these agreements and processes will continue to allow us to proactively and effectively manage pilot recruitment.

Looking at the regional aviation industry as a whole, the recovery is showing no signs of slowing down with passenger numbers remaining strong, reflecting the pent-up demand in the market. Domestic operations in North America, Europe, and Latin America are back to pre-pandemic levels, while the Middle East, Africa, and Asia are at 80% to 90%. With roughly 50% of world flights being less than 500 miles and 45% of all world airports serviced by regional aircraft only, the regional sector continues to be an indispensable component of the industry. Recent industry publications report that there's been a recovery in the domestic market and demand has picked up. As a result, most regional assets have seen improvements in value and lease rates from mid-2021 and both are trending in the right direction.

We are pleased with our third quarter leasing activity, which supports the demand the sector is seeing overall. During the quarter, Falko has 28 transactions, including additions, sales, and lease extensions broadly across all regional aircraft types with most increased volume with regional jet

products. In addition, under the CPA with Air Canada, we recently extended leases on three Dash 8-400 aircraft to the end of 2025 that had previously been scheduled for lease expiry in 2023.

I'd like to provide an update on Falko's launch of Fund III. Interest in Fund III has been robust and we continue to hold discussions with several significant anchor investors, including investors in existing funds, and we continue to make progress. Given the current market volatility and the proximity to the end of the year, we now anticipate, subject to market conditions, an initial closing of Fund III in the first half of 2023. Furthermore, to help put this in context, it's important to understand that when we invested in Falko we knew the timing of the launch of Fund III and asset sales were tied to market conditions, making it hard to determine the exact timing. Industry market conditions are certainly improving. While Fund III may be slightly delayed, we are very pleased with the pace of asset sales, which are ahead of our expectations in terms of timing and allowing us to generate a substantial amount of cash in a relatively short period of time and de-lever more quickly than originally planned. Finally, we are confident that, once market conditions settled, we will launch Fund III. Fund II continues and provides good insight into Falko's proven and successful asset management practices and why investors are interested and why interest is high in Fund III. Fund II was launched in 2019 and currently holds 59 aircraft with an appraised value of over US\$750 million. Chorus owns 3.85% of Fund II, which is on track to meet its targeted rate of return. We believe Fund II's performance continues to drive interest in Fund III.

In September, I announced my planned retirement that will take place in the first quarter of 2023. Joining us on today's call is Colin Copp, our incoming President and Chief Executive Officer. As I mentioned before, Colin has been an integral member of the Chorus leadership team for over two

decades and his depth of knowledge across all aspects of our business will serve him well as he heads and leads Chorus through 2023 and beyond. With Colin's leadership, I am confident that we are very well positioned to execute our new growth opportunities that will deliver positive returns to our shareholders and fund investors and make Chorus an even more attractive company for customers, partners, and employees.

Now I will ask Colin to introduce himself.

**Colin Copp** — Chief Operating Officer, Chorus Aviation Inc. & President, Chorus Aviation Services

Thank you, Joe.

It's a pleasure to be here on the call today. Joe and I have been working closely together to ensure a smooth transition of responsibilities and, since the announcement, I've had an opportunity to meet with many of the stakeholders and analysts and I look forward to meeting more of you over the coming months.

As Joe mentioned earlier, we've been working hard to reposition Chorus and Falko in its new role as an asset-light company with stronger cash flows, lower leverage, and resulting lower balance sheet risk. We have an incredible team at Chorus group of companies and we are very well positioned for the future.

I'll now turn the call over to Gary to take you through some of the highlights of our third quarter financial results.

**Gary Osborne** — Chief Financial Officer, Chorus Aviation Inc.

Thank you, Colin, and good morning.

Chorus generated \$100.9 million of cash during the third quarter of 2022, largely due to proceeds on asset sales net of debt repayments and the release of security over previously restricted cash. Chorus had cash flows from operations of \$91.3 million in the third quarter, an increase of \$8.5 million over the third quarter of 2021. We repaid \$219.7 million of debt in the third quarter of 2022, which included scheduled repayments of \$81.1 million, \$112 million of repayments on loans related to the eight CRJ900s sold, and a \$26.6 million discretionary payment on the operating credit facility. Just after quarter end we also repaid the remaining balance on our operating credit facility of US\$19 million. As a result of increased earnings and significantly lower debt balances, our leverage ratio of net debt to the trailing 12 months adjusted EBITDA improved significantly to 5.1 from 6.4 at the end of Q2 2022.

Turning to earnings, in the third quarter of 2022, Chorus reported adjusted EBITDA of \$123.4 million, an increase of \$45.3 million over the third quarter of 2021. The RAL segment's adjusted EBITDA increased by \$43.7 million due to the inclusion of Falko's earnings, recovered claims from the Virgin Australia bankruptcy, a gain on sale of aircraft, as well as increased lease revenue from CACIL's re-leased aircraft. The RAS segment's adjusted EBITDA increased by \$1.6 million due to an increase in other revenue from the sale of four Dash 8-100s and an increase in part sales and contract flying, partially offset by a decrease in third-party MRO activity, and an increase in aircraft leasing revenue under the CPA of \$1.2 million, primarily due to a higher US dollar exchange rate, offset by an increase in stock-based compensation of \$1.8 million, a decrease in capitalization of major maintenance overhauls on



owned aircraft of \$2.2 million, and an increase in general and administrative expenses attributable to increased operations.

Adjusted net income was \$41.7 million for the quarter, an increase of \$26.4 million over the third quarter of 2021, due to a \$45.3 million increase in adjusted EBITDA, as previously described, partially offset by an increase in depreciation expense of \$12.5 million, primarily attributable to Falko; an increase of \$2.7 million in income tax expense; and an increase in net interest costs of \$4 million, primarily related to interest on long-term debt assumed as part of the Falko acquisition.

Net income increased \$37.6 million over the third quarter of 2021 due to the previously noted adjusted net income of \$26.4 million, a decrease in net unrealized foreign exchange losses of \$10.4 million, and a decrease in impairment provision of \$6.3 million, partially offset by an increase in lease repossession costs of \$4.9 million.

Now turning to liquidity, as of September 30, 2022 our liquidity was \$276.3 million, including cash of \$171.6 million and \$104.7 million of available credit facilities. Liquidity increased from the second quarter of 2022 by \$127.7 million due to the strong cash flow from operations, asset sales, and the release of restricted cash.

And now on to outlook. As you know, we completed the Falko acquisition in the second quarter of 2022, which has created new opportunities for growth through increased access to third-party growth capital and a differentiated business model to maximize return on aircraft assets. Our annual 2022 forecast is unchanged with the exception of an improvement in our expected leverage ratio to 4.5 to the 4.9 range. We expect our 2022 adjusted net income available to common shareholders to be between

\$88 million and \$103 million and adjusted EPS available to common shareholders to between \$0.45 and \$0.53. Other key elements of our guidance for 2022 are contained in the outlook section of the MD&A.

With that, I'll now turn the call back to Joe.

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

Thank you, Gary.

So, with our voting shares trading at historically low prices, we've announced a normal course issuer bid for up to \$15.9 million of our voting shares, representing 10% of the public float. This reflects our belief that the market price of our voting shares during the bid period may not, from time to time, fully reflect their value. As such, purchasing our shares for cancellation may be in the best interests of Chorus and an appropriate use of corporate funds in light of potential benefits to remaining shareholders. Purchases may commence on November 14, 2022 and will conclude on the earlier of the date on which Chorus has purchased the maximum number of shares permitted under the NCIB and November 13, 2023. We refer you to our press release for further details.

Finally, as always, I'd like to take the time to thank our employees for their tireless efforts. It really can't be understated what a great team can achieve. We needed everyone to step up over a time in aviation that hasn't been easy and the way in which our people have responded is remarkable. Looking ahead, the entire Chorus organization remains energized and excited about the future and look forward to delivering additional value to all our stakeholders.

So thank you for listening, operator, and we can now open the call to 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 the star followed by the one on your touchtone phone. You will hear a three-tone prompt acknowledging your request and your questions will be polled in the order that they are received. Should you wish to decline from the polling process, please press the star followed by the two. If you are using a speakerphone, please lift the handset before pressing any keys. One moment please for your first question.

Your first question comes from Walter Spracklin from RBC Capital Markets. Please go ahead.

**Angela** — Analyst, RBC Capital Markets

Hi. This is Angela on for Walter. How are you guys doing today?

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

Fine, thank you. How are you?

**Angela** — Analyst, RBC Capital Markets

Good. So my question is: does further delaying of the Fund launch to 2023 add any incremental risk in achieving guidance?

**Gary Osborne** — Chief Financial Officer, Chorus Aviation Inc.

It's Gary here. No, it does not impact our guidance at all for 2022.

**Angela** — Analyst, RBC Capital Markets

Okay. Thank you. And just a follow up, do sustained higher fuel prices increase the carrier's incentives to reduce regional capacity given the regional aircraft are less efficient?

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

No. As a matter of fact, the regional airplanes are operating full with fares, certainly are accommodating the increased fuel prices, et cetera. The demand remains very high. There's a demand for all equipment. As you know, when the market increases as well, there's increased demand out of regional markets, which cannot sustain the larger aircraft, so we don't see the impact being at all material on the demand for regional aviation and regional aircraft.

**Angela** — Analyst, RBC Capital Markets

Okay. Thank you. That's all the questions I had. I'll turn the line over. Thank you.

**Operator**

Thank you. And your question comes from Konark Gupta from Scotiabank. Please go ahead.

**Konark Gupta** — Analyst, Scotiabank

Hello? Can you hear me?

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

Hello?

**Konark Gupta** — Analyst, Scotiabank

Yes, I wanted to ask about the leverage ratio. What's driving the improvement?

**Gary Osborne** — Chief Financial Officer, Chorus Aviation Inc.

It's Gary here. What's driving the improvement is the increased earnings from Falko. If you recall, we had two months of earnings from Falko in Q2. We've had a full three month. Plus, what we've also been able to achieve is some strong asset sales, as noted in our MD&A, with the sale of eight aircraft for about US\$55 million. So those two things have combined to reduce our leverage and, as we continue forward, we expect to pursue opportunistic asset sales that hopefully will continue that trend.

**Konark Gupta** — Analyst, Scotiabank

Thank you. I don't have any other questions.

**Operator**

And your next question comes from Adam McBain from Cormark Securities Inc. Please go ahead.

**Adam McBain** — Analyst, Cormark Securities

Hi there. Good morning. Can you hear me?

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

Yes. Good morning.

**Adam McBain** — Analyst, Cormark Securities

Perfect. My first question is on the \$45.6 million provision you booked last quarter. I think that was for an expected repossession. Is there any update on this?

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

No. There has not been really a repossession and we're working through still with the affected parties to find a resolution.

**Adam McBain** — Analyst, Cormark Securities

Okay. Perfect. That's helpful. Secondly, maybe can you comment on your appetite for new regional aircraft leases? And is the spread larger or smaller given the higher interest rate environment?

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

So, generally speaking, although there's a bit of a lag, as interest rates go up, lease rates go up, because it's part of the cost of the financing, and it doesn't matter whether the carrier acquires the

aircraft through a lease or purchases the asset, it's still affected by the higher interest rates. So we see and believe that there will be a continued appetite for new aircraft, but existing aircraft as well.

In terms of new aircraft, you know, in terms of the regional base, we're not seeing the manufacture of any new Dash 8 equipment. ATR manufacturing rates have been lowered as a result of the pandemic, but they're up and going and demand is strong, but it's taking a while for new aircraft to get back into production. Of course, the CRJs are not being manufactured anymore, but we are seeing increased demand for Embraer B2s, which is good. The A220s, which we have in our portfolio as well, demand is very strong but, again, there are limitations in terms of the number of aircraft being manufactured in the near term. But just to say, though, that these lower new manufacturing levels that are coming out or new equipment that's being produced is actually having a good effect on the demand for used equipment. And through the pandemic there was a lot of the used equipment that was taken out and we're seeing good demand for getting this equipment back up, especially with the reduced production levels that exists for new aircraft. And the older equipment are efficient broadly as the newer equipment in terms of turboprops in particular and turboprops remain amongst the most fuel-efficient aircraft in the air these days. So I think that's a broader answer to your question, but it's really reflective of the market conditions that we see right now.

**Adam McBain** — Analyst, Cormark Securities

Perfect. That's very helpful. Last one for me here. Has there been any change in your ability to tap debt markets for aircraft leases?

**Gary Osborne** — Chief Financial Officer, Chorus Aviation Inc.

Sorry, it's Gary here. I think the debt markets have been fluid, but they're available, and I think that's the way to look at them. And we continue to be able to market and our Falko folks, with their fundraising and debt raising activities, have been talking to a lot of those folks, but it's still available.

**Adam McBain** — Analyst, Cormark Securities

Okay. Perfect. That's it for me. Thank you very much for answering my questions. I'll hand it back over to the operator.

**Operator**

Thank you. Ladies and gentlemen, as a reminder, should you have a question, please press the star followed by the one.

And your next question comes from Renato Monzon from BMO Capital Markets. Please go ahead.

**Renato Monzon** — Analyst, BMO Capital Markets

Good morning, everyone. Thank you for taking my question. I think my first question is around (inaudible) recovery related to Virgin Australia recorded in the quarter. I was wondering if you could provide maybe some colour on the recovery, if you could quantify the amount as well. And my second question is more related to the closing of Fund III. If you guys could provide some colour on the existing interest from investors as of today given the market conditions. Probably my third and last question is



related to the Fund as well is whether you foresee any type of further postponement in the closing of the Fund if market conditions persist going forward. Thank you.

**Gary Osborne** — Chief Financial Officer, Chorus Aviation Inc.

It's Gary here. I'll talk about the Virgin Australian bankruptcy. So, as part of any bankruptcy, there's claims that arise from those bankruptcies, and what you've seen is the settlement of those claims. And if you look at our MD&A, we had in total just under \$8 million, I think it's around \$7.9 million, between the two entities that were affected, CACIL and Falko. So it's just a claim against them for future earnings and whatnot. So that's what you saw come through there.

And I'll let Joe speak in a minute on Fund III, but we're very confident in that closing and we don't expect any further delays as with our guidance there. And the market is just, you know, it is what it is. It's let's, say, volatile, but we're fully expecting the Fund III and the activity to culminate here in the new year.

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

I think the only colour that I can add is that all investors these days are generally focused perhaps more on liquidity given the volatility in the market, et cetera, and looking for things to settle out a little bit in terms of that area. And as the market settles, I think people will be more aggressive with respect to finding value in the market as the market recovers. The good news is that this aviation market is recovering very, very well. There's a lot of demand, aircraft are getting back up in the air, regional aircraft, our segment is very resilient anyway, and the fact is is that Falko now and we have a track

record in terms of producing the expected returns on the various funds and we know that Fund II existed even over the pandemic period. So we're seeing a lot of interest from investors that are already invested in funds. The discussions have gone extremely well. We're very optimistic that they will be re-upping. And also, we are having discussions with new investors. So, we do not anticipate significant issues at all with respect to the launch of the fund. It is more a matter of exactly when the timing settles where you're going to, you know, this increased interest and liquidity starts to turn into more of a solid interest in terms of investing. And we think that we're going to be leading in that regard in the aviation segment, as I've said. So, always hard to predict. Now we are moving into the Christmas period, et cetera, and year end and we were hopeful that we would have gotten it done, but it's really a delay that is not concerning us though in terms of the achievability of getting Fund III launched. It is really just a matter of a slight delay in our view.

**Renato Monzon** — Analyst, BMO Capital Markets

Okay, great. Thank you for the colour.

**Operator**

And your last question comes from Kevin Chiang from CIBC World Markets. Please go ahead.

**Jessica** — Analyst, CIBC World Markets

Good morning, everyone. This is Jessica filling in for Kevin. I just wanted to get a sense of free cash flow priorities. I know you announced that NCIB. Is there any appetite, and I know you're deleveraging further, is there any appetite for maybe looking at a dividend possibly in the future?

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

Well, clearly, all of these uses of capital are in our scope. I think we are not looking out too far here. We're basically saying what is achievable now, what is in the best interest of shareholders, and we believe an NCIB is clearly of interest given where our share price has been trading. I think we do have certain debt obligations that we have to look at and our focus will continue to be on deleveraging for sure, because I think that adds value in terms of eliminating risk, et cetera, and helps facilitate our movement into a new business model, but as we do this then, of course, how this is returned to shareholders and shareholders receive value, it's certainly on the list. We know it's important and can be a great use of capital. So I can't say any more than that, because our focus right now is a little more on the nearer term in terms of the use of this cash that we've developed and we're producing as a result of some of the trading activity that's happened in our leasing business.

**Jessica** — Analyst, CIBC World Markets

Perfect. Thank you for the colour. Have a good one.

**Operator**

Thank you. There are no further questions at this time. Mr. Cotie, you may proceed.

**Tyrone Cotie** — Vice President, Treasury & Investor Relations, Chorus Aviation Inc.

Well, thank you, Kelsey, and thank you, everyone, for taking part in today's call. Have a good day.

## **Operator**

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