Chorus Aviation Inc.

Fourth Quarter & Year End 2022 Financial Results Conference Call

February 16, 2023 — 10:00 a.m. A.T.

Length: 44 minutes

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Chorus Aviation Inc. Fourth Quarter and Year End 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 Thursday, February 16, 2023.

I would now like to turn the call over to Tyrone Cotie. Please go ahead.

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

Thank you, Michele. Hello and thank you for joining us today for our fourth quarter 2022 conference call and audio webcast. With me today from Chorus are Joe Randell, President and Chief Executive Officer; Colin Copp, Incoming President and Chief Executive Officer; and Gary Osborne, Chief Financial Officer. We'll start today 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 that is included and referenced in our MD&A.

In addition, some of the following discussion involves non-GAAP financial measures, including references to adjusted net income, adjusted EBT, adjusted EBITDA, net debt to adjusted EBITDA, and free cash flows, formerly adjusted cash flow provided by operating activities. 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.

So, 2022 was truly transformational for Chorus. With the acquisition of Falko, Chorus became the world's largest aircraft lessor focused on regional aviation and we further diversified earnings through the addition of asset management services. This includes fund management on behalf of third-party investors. Fund management is a far more efficient approach for our leasing business and allows Chorus to deleverage its balance sheet and free up embedded capital, thereby improving shareholder returns. In addition, Falko does provide a proven aircraft trading platform, which enables us to more readily monetize our on balance sheet assets. Finally, the investment by Brookfield in Chorus is an endorsement of our strategy by an experienced and sophisticated investor.

Our transition to an asset light leasing model continued in the fourth quarter as we executed on several opportunistic aircraft sales. The incremental cash flows generated from the aircraft dispositions allowed us to complete the early redemption of $115 million in the 6% debentures to accelerate our deleveraging. We also announced a normal course issuer bid in the fourth quarter, allowing the purchase for cancellation of up to 10% of the public float of common shares with over 1.7 million shares being purchased and cancelled by year end.

The aviation industry recovery is evident and continuing, as we see the return of strong travel demand worldwide. The Chorus Group of Companies are all performing well. Jazz continues to successfully operate on behalf of Air Canada and received yet another recognition as Canada's safest employer in the public transportation category. Voyageur continued to grow its specialty aviation offerings and had a record year in sales. Falko did an exemplary job capitalizing on the strengthening environment to place aircraft and trade assets. All in all, we have a great team of industry-leading professionals. Our team has delivered and our culture is strong.

Today's call marks, for me, the completion of over 70 analysts calls since the Company went public in 2006 and also marks the end of my time at Chorus after over 37 years at the helm. I'm very pleased to hand it to Colin Copp, whom I've worked with for over 22 years. We've been working closely through the transition over the past few months and I am more impressed than ever with Colin's talent and capabilities. He possesses a depth of knowledge across all aspects of our business. This will serve him well as he leads Chorus through 2023 and beyond. I also offer my sincerest appreciation to all employees for their continued hard work and dedication. Chorus is extremely well positioned for the future.

And with that, I'd now like to turn the call over to Colin Copp.

Colin Copp — Incoming President & Chief Executive Officer, Chorus Aviation Inc.

Thank you, Joe, and good morning, everyone. I'd like to start today by commenting on our strategy going forward.

Chorus is a global leader in regional aviation and specialty Solutions. Our industry-leading expertise and complementary business capabilities combine to build shareholder value. With our recently completed Falko acquisition in the second quarter of 2022, we are transitioning our regional aircraft leasing business to an asset light model where we invest alongside third parties in aircraft funds and earn asset management fees and incentives from managing third-party capital.

In addition to growing Falko's funds business, we have significant value in our wholly-owned or majority-owned aviation assets and are working to opportunistically monetize these assets to reduce debt, return capital to common shareholders and generate future growth through accretive investments. Our strong and predictable core earnings from the RAS segment provide us the opportunity and the ability to grow and expand into new complementary businesses with our industry-leading specialty aviation expertise.

Turning to Falko's Fund III, interest continues to be robust and we have continued to hold discussions with significant anchor investors, including investors in existing funds. Financial markets have shown some signs of improvement and we still expect an initial closing of Fund III in the first half of 2023.

On the topic of pilots, the industry is expecting a high demand and experiencing a high demand of airline pilots and we expect the demand to continue in the years ahead. Jazz is well positioned as a very attractive employer for airline pilots with a pilot flow agreement between Jazz and Air Canada and is successfully filling all training classes with qualified airline pilot candidates. We have the resources in place and we expect to complete a significant amount of training in this upcoming year given the flow of pilots to Air Canada and the training required to accommodate those pilot movements.

Lastly, I'd like to confirm that we will be doing our first ever investor day in Toronto on March 29th, presenting the Chorus growth strategy and vision moving forward, and I look forward to an opportunity to talk with many of you then.

I'll now turn the call over to Gary to take you through the highlights of our fourth quarter financial results and outlook for 2023.

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Thank you, Colin, and good morning.

Chorus reported fourth quarter 2022 adjusted EBITDA of $129.5 million, an increase of $39.1 million over the fourth quarter of 2021. The RAL segment's adjusted EBITDA was $67.5 million, an increase of $36.3 million, primarily due to the inclusion of earnings from Falko inclusive of a net gain on asset sales as well as increased lease revenue from CACIL's re-leased aircraft.

In the fourth quarter of 2022 we began disclosing corporate head office expenses separate from RAS, enabling a clearer assessment of RAS's operating performance. The RAS segment's adjusted EBITDA was $67.5 million, an increase of $4.6 million. Fourth quarter results were impacted by an increase in other revenue of $5.5 million due to 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 $2.7 million, primarily due to a higher US dollar exchange rate offset by a decrease in capitalization of major maintenance overhauls and an increase in general and administrative expenses attributable to increased operations.

Adjusted net income was $31.8 million for the quarter, an increase of $10.4 million over the fourth quarter of 2021, primarily due to the $39.1 million increase in adjusted EBITDA I previously described, partially offset by an increase in depreciation expense of $14.9 million primarily attributable to Falko, an increase of $7.4 million in income tax expense, and increase in net interest costs of $4.2 million. Net income increased $35.7 million over the fourth quarter of 2021, primarily due to the previously noted increase in adjusted net income of $10.4 million, an increase in net unrealized foreign exchange gains of $14.6 million, and a decrease in impairment provisions of $14.6 million.

This fourth quarter contributed to strong annual results for Chorus, as disclosed in our news release and MD&A. In 2022, Chorus generated free cash flow of $371.3 million, an increase of $208.6 million from the prior year, primarily related to strong operating cash flows, the inclusion of earnings from Falko, and an improvement in RAS's operating income as well as net proceeds on asset sales partially offset by capital expenditures. To December 31, 2022 we have repurchased and cancelled 1.7 million common shares under Chorus' normal course issuer bid, which commenced on November 14, 2022. Finally, our leverage improved to 4.4 at December 31, 2022 from 5.4 at December 31, 2021, our second consecutive quarter of improvement, which is reflective of our strategy to move to an asset light leasing model.

And now on to our outlook, Joe and Colin spoke earlier about our transition to an asset light model and how Chorus has the key elements to execute on its strategy. As part of this asset light transformation, we are targeting asset sales, including opportunistically trading RAL's wholly-owned or majority-owned aircraft inclusive of the expected windup of our 67.45% ownership in Ravelin Holdings LP by its tenth anniversary in 2025. For the 2023 year we are targeting between US$50 million and US$100 million to generate between US$25 million and US$50 million in free cash flow. We are also targeting to reduce the leverage ratio for net debt to adjusted EBITDA to 2.5 to 3.5, which we expect to achieve by December 31, 2024. Given the variability in asset sales, the amount of deleveraging will vary from quarter to quarter. Finally, we are targeting growth, including the expansion of Falko's managed funds and the RAS business into adjacent and complementary specialty aviation business lines.

In the fiscal year 2023 we expect on a consolidated basis, revenue between $1.5 billion and $1.7 billion, adjusted EBITDA of between $410 million and $450 million, adjusted EBT of between $135 million and $165 million, net debt to adjusted EBITDA of between 3.6 and 4, and finally, free cash flow of between $260 million and $330 million. Other key elements of our guidance for 2023 are contained in the outlook section of the MD&A. Finally, we plan to review these and other measures in more detail on our investor day on Wednesday, March 29th.

We are now ready to take 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. 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.

The first question comes from Hillary Cacanando of Deutsche Bank. Please go ahead.

Hillary Cacanando — Analyst, Deutsche Bank

Hi. Thanks for the time. So it looks like you're still on track to launch the new investment fund managed by Falko in the first half of the year. What would be the gating factors that that would impact your ability to meet that timeline?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Sorry, it's Gary here. Thanks, Hillary. I think it's really, you know, the target for the fund is institutional-type investors, pension funds, large pension funds, high net worth individuals. So what's happening right now is the markets have settled down a bit, everybody is looking at their capital allocations and I think things are looking better, and I think that's what Colin was alluding to earlier. So I think those are really the factors, which are the capital allocations of those particular individuals, and we do see the first half of this year it settling down and people moving ahead.

Hillary Cacanando — Analyst, Deutsche Bank

Got it. Thank you. And then if I could just ask another question. So, in terms of selling assets opportunistically, could you just kind of go over like what determines, I guess, the asset mix? I think, you know, I guess, ATR 72s make up the largest component of your leasing portfolio, it looks like in general

Dash 8s are facing some challenges in the market. Like do you consider like market demand in terms of selling in your determination or is it based on something else? What ultimately, I guess, determines the asset mix?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

It's Gary here again. There are a few things that determine it. Obviously, the demand in the market from both the lessees, and if you look at this year, the aircraft we sold were back to lessees. There's also demand in the market with other lessors and other investors. So, on the demand side, we look at that. The other piece that we do look at is the return. We did have some gains, as you note, this year on aircraft sales. That is one thing we look at. We also look at the returns we expect or how it will impact our return on equity and our free cash flow in the year. So there are a number of factors, but one is demand and secondly is to make sure that the return we're receiving is good.

Hillary Cacanando — Analyst, Deutsche Bank

Got it. Thank you so much.

Operator

Thank you. The next question comes from David Ocampo of Cormark Securities. Please go ahead.

David Ocampo — Analyst, Cormark Securities

Thanks. Good morning, everyone.

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

Good morning.

David Ocampo — Analyst, Cormark Securities

Gary or Colin, or even Joe, I was wondering if you can comment on the current lease rate environment. We've seen articles and data out there that lease rates have gone up significantly from the pandemic lows, particularly for some of the larger aircraft, but curious how that lease rate environment is looking for the regional aircraft as well.

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

Hi, David. It's Joe. Certainly the market is firming up, there's no question about that as demand comes back, so we are seeing some increase, with that demand of course, increased lease factors, especially for newer aircraft that were grounded during the pandemic and are being renewed, et cetera. So there is no question that it's heading upward. It's somewhat tempered in some cases by pilot availability, but that pilot availability issue only exists in a couple of jurisdictions, more in North America than elsewhere, but generally firming up and generally an increase in lease rate factors.

Colin Copp — Incoming President & Chief Executive Officer, Chorus Aviation Inc.

I can add—it's Colin, David—that when we look at the older fleet or the middle-life fleet, we're seeing, coming out of COVID, some really good strong returns there, especially on lease rates, if we just think about rates. So there's definitely an improvement when we look at kind of the midlife side of the aircraft fleet for sure.

David Ocampo — Analyst, Cormark Securities

And how does that compare to pre-pandemic levels or maybe even in context to where interest rates are today? Is the spread still kind of a mid-teens IRR total return?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Yeah, sorry, it's Gary here. We still target that mid-teens IRR within our business model and we're sticking firm with that. And as I said on other calls and that, we have levers to pull on it, lease rate factor is one, return conditions are another, security around the asset is also another piece. So when we put it all together, we target that mid-teens return.

Back to what Joe and Colin said, lease rate factors are improving. I think when you look at, ah, I have to separate two fleet types, new and used, if you want to call it that, new aircraft are going to be factoring in the interest rate environment and the asset value, so those lease rate returns are back to those mid teens. You've got to target that, otherwise it doesn't make any sense to do the deal and we won't. And then on the older assets, they have started to recover. Would I say they're at the 2019 levels? I don't think so at this stage. But they have been recovering as the used inventory or the surplus inventory has been used up and we're starting to see some improvements.

David Ocampo — Analyst, Cormark Securities

Got it. And then the last one for me: How are you guys debating internally between keeping the assets and selling the assets outright for gain, because essentially you're losing future lease revenue, but I guess what's your thought process there on how you're managing that in terms of your IRRs and potentially reducing leverage?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

No, it's a great question. So, we are focused on a number of things. One is the deleveraging process. As you saw in our outlook, we're targeting 2.5 to 3.5 net debt to adjusted EBITDA. So we're marching towards that and we're very focused on getting that down to a nice level. We feel that's a great level for us moving ahead. It certainly will de-risk and deleverage the balance sheet.

The next part that we look at, and it's back to an earlier question, we look at the demand in the market when we start to target our free cash flow. Return on equity is a big one. We've added that, if you noted, in the statement, so we're very much focused on that piece moving ahead. And just remember, when you do sell an aircraft, what you're doing is you're harvesting that IRR or that return earlier. So what you're trying to do is better your IRR or your forecasted IRR or bring it forward. And that's what we're attempting to do with the sales and that's what we are going to do.

David Ocampo — Analyst, Cormark Securities

Okay. That's helpful. I'll hop back in queue. Thanks, everyone.

Operator

Thank you. The next question comes from Matthew Lee of Canaccord Genuity. Please go ahead.

Matthew Lee — Analyst, Canaccord Genuity

Good morning, guys, and thanks for everything, Joe. Just in your press release you mentioned the idea of RAS expanding into adjacent and complementary specialty aviation businesses. Can you maybe give us a bit of colour as to what areas in particular interest you and whether it be organic growth or something done via acquisition?

Colin Copp — Incoming President & Chief Executive Officer, Chorus Aviation Inc.

Hi, Matthew. It's Colin. Certainly. When we talk about expansion and we're looking at opportunities, we're looking at businesses that align with us and that are adjacent to us, essentially different disciplines. So when you look across North America today you could think about aerial firefighting, you could think about parts, you could think about air ambulance specialty-type aviation, special mission. Those are generally the type of areas that we're focused on today.

Matthew Lee — Analyst, Canaccord Genuity

Got it. And then just maybe on the guidance and how the numbers break down, particularly on the RAL side, if I think about the revenue run rate, excluding the gain in Q4, you're at like $75 million, and that implies revenues of $300 million for F23. So I know you're selling potentially US$100 million of aircraft in 2023 and you've sold $80 million in Q4. Does that bring the revenue down by that $30 million to $40 million or are there other factors that we need to consider relative to your guidance?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

It's Gary again. Yeah, we have factored in aircraft sales, but it also takes into account what's transpired here just in the last eight months since we've purchased Falko as an investment. We have sold off some assets. It reflects that. We also have assets that will come back in some cases and get sold off over the next bit. So it reflects a lot of movement and that's why you're seeing that guidance that we have there. So it was a way to start to at least give some fence posts around where we see this playing out in 2023. But it takes into account what's happened in 2022 and what's anticipated in 2023 based on that (inaudible).

Matthew Lee — Analyst, Canaccord Genuity

And if I could just sneak one last one in, are the assets you're selling, the lease factors or the lease rates on them, around 10%? Or how should we think about the revenue impact of selling $100 million of aircraft?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

I think when you move forward I would just look at the averages we have there. So look at the net book value, look at the average, you know, take the revenue over the average net book value and use that as a proxy. That's going to be roughly in the range. It will be plus or minus based on the asset that we have at that point in time, but it would be your best proxy.

Matthew Lee — Analyst, Canaccord Genuity

All right. Thanks so much.

Colin Copp — Incoming President & Chief Executive Officer, Chorus Aviation Inc.

Matthew, just one more comment. I didn't mention on your first question there was another area that we are heavily focused on and working on with Voyager is the defence area. So that's another one for your list.

Matthew Lee — Analyst, Canaccord Genuity

Perfect. Thank you.

Operator

Thank you. The next question comes from Tim James of TD Securities. Please go ahead.

Tim James — Analyst, TD Securities

Thank you for your time. Good morning, everyone. My first question, I just want to return to the discussion around the asset sales. There's a comment in the report that says if material asset sales are executed in 2023 this may reduce expected revenue in RAL. Does that indicate if there are asset sales above and beyond the $50 million to $100 million that you discussed or indicated that there would obviously be additional downside pressure on revenues or is that a reflection of the $50 million to $100 million that you've already talked? I guess my question should be is the $50 million to $100 million, do you already remove some revenue from your 2023 guidance related to that $50 million to $100 million in revenue, sorry, in asset sales?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

It's Gary here. So, our outlook reflects that expectation of $50 million to $100 million in asset sales, so you could take that as being included in there. I guess the next piece would be, look, if we are able to sell assets faster than that, and depending on the timing and the quantum and whatnot, it could impact that forecast. As we move ahead, we are monetizing assets, and right now the market is good and we're looking at it. So the reality is, if we're able to achieve faster asset sales, faster deleveraging, which is really our key, and improve the quality of our earnings and free cash flows, we're going to take opportunity to do that. Provided it's accretive to our shareholders, it produces returns on equity and free cash flow, we will take that opportunity. So that type of situation could impact that guidance. So that's what we're pointing to. If it's faster, obviously it could have an impact.

Tim James — Analyst, TD Securities

Okay. Okay. That's perfect. That's helpful. Thank you. Now RAL revenue overall, even if you deduct out the $8.2 million, I think it was, in asset sales in Q4, RAL revenue for the year was still a touch higher than the top end of your guidance range. Maybe I'm reading too much into it, but was there anything that you would point to that was actually a little bit better than expected over the course of the year and then maybe Q4 in particular, I guess, since you were maintaining that guidance heading into Q4? Was there anything in particular that you would point to that caused surprising strength, if I can call it that?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

A little bit on the foreign exchange rate. We're a Canadian-denominated company and these are US lease rates for the most part, so there's a little bit in there. We also had a good, here with the Falko acquisition, we bought them in May, we had eight months. There's a little bit of lumpiness in some of the fees we got, maybe $1 million or $2 million for the year that was in there that may not repeat necessarily moving ahead on a monthly, quarterly basis, with the exception of when Fund III comes in, we expect some new fees from that. So there's a little bit of lumpiness there, but it was really not a lot different than those two items that I talked about. It's producing well.

Tim James — Analyst, TD Securities

Okay. Thank you. And then my last question, just returning to the discussion around lease rates and the firming up of the market and the way forward, is it possible to sort of help us think about how much of the firming and increasing lease rates is a function of the interest rate environment versus demand? I mean you mentioned with new aircraft, obviously, interest rates come into play, but what's the more important factor there in your mind? Or is it possible even for you to kind of tell which is a bigger driver of the rising lease rate factors?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

So I guess back to the point, if you look at new aircraft, the interest rate has a direct impact to it, because when you put the lease rate factor together there's a direct relationship with that. It is an actual input into the rate. So I'd say on new aircraft, that's a primary piece. Also, you've got to remember new aircraft are seeing some inflationary pressure given what we've seen out there. So a combination of the metal value and the lease rate factor are certainly pushing them up. And then you have less equality, that can have some impact to it, but generally those two factors would be quite significant.

On the used market, the lease rate, what we're seeing is a lot of the surplus aircraft are being used up, so that's helping firm that piece up from a lease rate factor side. We're also seeing the inflationary environment. As those new aircraft go up in value, the relative value of a used aircraft looks a little better. So it's kind of an indirect exposure that way.

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

The only thing I'd add to what Gary said there, Tim, is that financing costs are going up generally, of course, because of the higher interest rate, so when airlines look to finance it itself or through other types of financing, generally those costs have increased, so therefore you can expect that lease rates as well would go more or less in tandem with those increase in costs.

Tim James — Analyst, TD Securities

Okay. That's very helpful. Thank you very much.

Operator

Thank you. The next question comes from Konark Gupta of Scotiabank. Please go ahead.

Konark Gupta — Analyst, Scotiabank

Thanks, operator, and good morning, everyone.

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

Good morning.

Konark Gupta — Analyst, Scotiabank

So my first question is just a clarification on the guidance. So, if I look at the guidance, it implies relatively stable or a slight decline in adjusted EBIT in 2023 versus 2022. How should we think about the interest cost and taxes to get to the EPS?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

It's Gary here. On the interest cost, certainly the direct asset-related costs, you can look back at our disclosure and you can probably use a good proxy from that. We give the average interest rates and we do break it out by division, or a segment, so you can look at that. And then as far as corporately goes, we did pay off the Fairfax debenture at the end of the year, so that had a 6% coupon on it, so you could factor that piece in. So that's how you can certainly model the interest. And I think if you go back to the taxes you can look at where we ended up for the end of the year, but also if you go back to last year, our disclosure around the taxes, you can get some rough proxies from the outlook section there that we provided by division. So that'll give you a pretty good idea.

Konark Gupta — Analyst, Scotiabank

Thanks, Gary. And then are you also assuming any share buybacks in 2023?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

We have an active NCIB program, as you know. We've announced that back in November. We purchased 1.7 million shares at the end of the year. And that program is still there. So we're not commenting on what we've allocated, but if you look at our disclosure, I think there was another million shares that were repurchased since the end of the year, if you just look at the average shares outstanding in the MD&A.

Konark Gupta — Analyst, Scotiabank

Great. And in terms of asset sales that you anticipate in 2023, what would be kind of a good proxy for gain on those asset sales in this guidance?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

We have not put any material gain or loss in with those asset sales in our guidance, so that's the best way to put it. We'll see where we end up as we transact, but we are looking for return to our shareholders, free cash flow, and whatnot.

Konark Gupta — Analyst, Scotiabank

Great. And last one for me, it’s kind of like a high level, broad-based question. In terms of our asset light strategy, the sales that you’re expecting, the asset sales you’re expecting through 2025 to kind of reach your targeted leverage ratio, is that intended to kind of reach to a certain level on leverage ratio before you stabilize and grow the asset base and, hence, the earnings?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

So, our plan is to get to our leverage target by the end of 2024 and we hope, with any luck, a bit earlier, but by the end of 2024 the latest. And then as we continue on this path of deleveraging, we are going to look at accretive investment opportunities, as Colin and Joe alluded to earlier. And we don’t have to be exactly in that range before we do it, but certainly approaching it is where we would see it, and we’re going to go back to more of a growth path once we get to that stage.

Konark Gupta — Analyst, Scotiabank

That’s great. And all the best to Joe and Colin for their respective roles. Thank you.

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

Thank you, Konark.

Operator

The next question comes from Cameron Doerksen of National Bank Financial. Please go ahead.

Cameron Doerksen — Analyst, National Bank Financial

Thanks very much and, yeah, congratulations, Joe, on not having to deal with the analysts anymore. So I'm sure you'll be happy about that.

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

It's always been a pleasure, Cameron.

Cameron Doerksen — Analyst, National Bank Financial

So I guess just a couple of questions from me. Maybe just thinking about, again, the transition to kind of the asset light model, I mean just wondering if it ultimately makes sense here to in the, I guess, legacy Chorus Aviation Capital business, to ultimately kind of roll that and those assets into the asset light model and is that a potential, I guess, potential assets that might get rolled into the new fund. Just wondering what your thoughts are around that.

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

On the previous CACIL assets that we had on the balance sheet, we're certainly in our monetization mode and those are certainly assets that are available for that. As far as transferring them to the funds, I'd say it's a very remote possibility, generally speaking, only because of the nature of the fund and the fact that we are custodians, through Falko, of those funds and whatnot. It's not impossible, but I wouldn't factor that into a lot of the analysis you're doing. I think the funds will be the funds and we are going to grow them, we're going to grow through third-party capital, through assets in the marketplace. If there was an opportunity to put it in there, that's fine, but I think it's remote and I don't think we should be assuming that at this stage. But we are very confident of Fund III and certainly filling up that pipeline.

Cameron Doerksen — Analyst, National Bank Financial

Okay. No, that's helpful. And just on, I guess, your equity component into the Fund III, just wondering how you would expect to finance that contribution.

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

It's Gary again. We finance that through cash flows from operations and I think one thing to note with Fund III and all the funds, the capital commitments come over a period of time. They're not immediate. They take anywhere from one to three years to really go through. And the way the funds work, they typically usually come in with some type of subscription line upfront so that the equity draws for a lot of the folks that are on the low end to start, but then they accelerate. So it'll take anywhere from one to three years before you fully go through. You draw more likely in the back end of that two to three years. So we'll finance that through cash from operations and our free cash flow.

Cameron Doerksen — Analyst, National Bank Financial

Okay. That makes sense. I believe those were all the questions I had, so thanks very much.

Operator

Thank you. The next question comes from Kevin Chiang of CIBC. Please go ahead.

Jessica — Analyst, CIBC World Markets

Good morning, guys. This is Jessica, filling in for Kevin. I guess just one for me, I know there's been a lot of leverage questions, but I was wondering, you know, you anticipate getting leverage ratio getting to 2.5, 3.5 by end of 2024. Is that where you want to settle out eventually or do you have an even lower leverage target? And I guess the other one is, is there any trigger for, let's say, by the time you get to 3x, would you be open to re-evaluating reinserting a dividend?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Okay. So it's Gary here. We expect our targeted range to be 2.5 to 3.5 that we'll operate within. I think if you look at where we're going and how we can get there, we certainly, through the high amortizing debt that we have and some opportunistic monetization of assets, we certainly can get within that range in the next couple of years and we expect to operate within it. As we continue to pay down our debt, we will see some deleveraging naturally. We're just leaving room for accretive investments and indicating to the market we plan, as a group, to operate within that range.

On the dividend, we believe a return of capital to shareholders is an important part of our value proposition. We've started that already with the NCIB program, buying back 1.7 million shares at the end of last year, and we believe, at this point in time, it's the best return for our shareholders. In the future, when considering a dividend, we would expect the board to contemplate it as we make progress towards the targeted leverage levels. Any dividend would take into account our stock price and be set at something that is sustainable based on the expected future free cash flows and allow for continued investment and growth of the Company.

Jessica — Analyst, CIBC World Markets

Okay, perfect. That's helpful. And I guess another one for me. So the guidance of the $50 million to $100 million in asset sales, should we see this as a good annual run rate in the future? And do you have any visibility on completing these asset sales? Or is this just an assumption as a function of historical trends that you're seeing? Like do you have active discussions right now?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

It's a good question. I think it's a good proxy for this year. If you look at Fund I though, that we've given some guidance on, that's got about $400 million in assets. So the reality is we're guiding to $50 million to $100 million this year. We would expect, over the next two to three years, hopefully, to accelerate that a little bit, but certainly for this year that's the guidance.

Jessica — Analyst, CIBC World Markets

Okay. Perfect. And just last one for me. I know you guys introduced the new corporate segment. Is 2022 a good run rate for looking at the corporate cost?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

It's Gary here. I think if you look at it, there's a couple of things. If you look at the interest, the interest is going to come down for sure. That's given, given paying off the Fairfax debt, and we're focused on deleveraging, so I think you can factor in the Fairfax debt at the very least. Secondly, we did have some costs in there this year, if you look through the disclosure, as we took Falko onboard and that, so we’d expect it to come down a bit. And if you just look through disclosure, you’ll probably get a decent proxy of some reduction.

Jessica — Analyst, CIBC World Markets

Okay. Perfect. Thank you so much. That was all the questions for me.

Operator

Thank you. Once again, ladies and gentlemen, if you do have a question, please press star one at this time.

The next question comes from Renato Monzon of BMO Capital Markets. Please go ahead.

Renato Monzon — Analyst, BMO Capital Markets

Good morning and thank you for taking my question. Joe, congratulations. What a great journey. And Colin, congratulations as well on the new role.

I guess my first question is probably related to earlier questions, but I was wondering whether you could provide more colour. In 2022 you made $441 million in adjusted EBITDA and now the midpoint of the guidance is around $430 million. What does the EBITDA bridge between those two numbers look like? It seems we can expect an acceleration in aircraft sales in 2023, which could be one of the important drivers for a slightly lower EBITDA next year, but I suppose, as you said earlier, this should be motivated also by lower leverage ratios. But if you could provide more colour on how that EBITDA bridge would look like, that will be great.

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

It's Gary here. I think it's reflective of the asset sales. Remember, we did have some asset sales in the RAL division this year, so it reflects some of that. The other thing to keep in mind is when you start to bridge it, we did use a 130 foreign exchange rate and this year I think, I don't have it in front of me, but it's been a bit higher than that, particularly in the back half of the year. So if you look at those two things, those are probably your biggest bridges that you would see.

Renato Monzon — Analyst, BMO Capital Markets

Okay, great. And on 2024 you are targeting a leverage ratio between 2.5, 2.3, but what would be the levers to achieve a ratio of 2.5? Are we talking about maybe a step up in adjusted EBITDA in 2024 compared to 2023?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

It's Gary again. On that, there's a few things. Obviously, asset sales, they are going to be lumpy as we move ahead, and we've disclosed that in the outlook section. So, depending on the timing and when it happens, you could see those ratios moving on the lower end. And then as time moves on it's a range and we expect the Company to be within that range and it gives an idea of where the risk tolerance is and where we see our leverage. But as we sell down our assets on the RAL side, monetizing those and taking the funds to pay down debt, we are, as we said earlier, going to return back to accretive growth here as we approach our debt targets, and what we're intimating to everybody is that we expect to operate in this range as a group of companies, which will include future growth in adjacent industries and specialty aviation.

Renato Monzon — Analyst, BMO Capital Markets

Okay, great. Thank you, Gary.

Operator

Thank you. There are no further questions at this time. I'll turn the call back to you for closing remarks.

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

Thank you, Michele, and thank you, everyone, for taking part in today's call. Have a nice day.

Operator

Ladies and gentlemen, this does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your lines.