Chorus Aviation, Inc.

First Quarter 2023 Financial Results Analyst Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Chorus Aviation First Quarter 2023 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. (Operator Instructions)

This call is being recorded on Tuesday, May 9, 2023.

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

Tyrone Cotie — Vice President, Treasury, Chorus Aviation, Inc.

Thank you, Jenny.

Hello, and thank you for joining us today for our First Quarter 2023 Conference Call and Audio Webcast.

With me today from Chorus are Colin Copp, President and Chief Executive Officer, and Gary Osborne, Chief Financial Officer. We'll start today's call by giving a brief overview of the results and then go to questions from the analyst community.

Because some of the discussions 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, with respect to the results and operations of Chorus Aviation, Inc. for the three months ended March 31, 2023, the Outlook section, and other sections of our MD&A, where such statements appear.

In addition, some of the following discussion involves non-GAAP financial measures, including references to adjusted net income, Adjusted EBT, Adjusted EBITDA, leverage ratio and free cash flows. 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 Colin Copp.

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

Thank you, Tyrone, and good morning, everyone. This marks my first analyst call as CEO, and I'm very pleased to be here speaking with you today about our first quarter results and outlook.

We delivered a strong quarter, which was very much in line with our expectations, and our results demonstrate the execution of our strategy that we outlined during our Investor Day held in Toronto in March.

In the quarter, we produced free cash flow of $73.1 million and adjusted earnings available to common shareholders of $0.11 per common share, representing increases of 51 percent and 10 percent, respectively.

We continue our transition towards an asset-light leasing model that will reduce our leverage, de risk the business and provide a higher quality of earnings as we execute on asset sales, allow us to grow and invest in our fund management business at Falko, provide future opportunities to invest in accretive transactions in adjacent and complementary business lines, and provide an opportunity for us to improve shareholder returns and allow for the return of capital to our shareholders.

To that end, we continue to pay down the debt and further reduce our leverage during the quarter, resulting in a 9 percent improvement in our leverage ratio, bringing it down to 4.0, which is closer to our targeted range of 2.5 to 3.5 net debt to EBITDA.

We continue to see encouraging signs of increasing demand in the regional aviation sector, with improvements in aircraft rental rates and market values. as published by the various industry publications, such as Ishka. During the quarter, Falko announced transactions relating to 24 aircraft, including lease extensions on six aircraft, predominantly related to the regional jet sector and European market.

On the fundraising side, we have experienced good engagement and steady progress and, continue to anticipate the first close of Fund III by the end of Q2 2023. We were also very pleased to see an upgrade by Kroll KBRA of Falko's Fund I ABS facility, moving from a BBB to an A-. The upgrade is driven by the overall performance of the transaction, where, since closing, the loans have received all scheduled interest and principal payments, demonstrating Falko's strength in managing its portfolio.

For the first time in history, Voyageur earned $30 million in quarterly revenue, driven mainly by improved part sales, while maintaining its EBITDA margins.

Lastly, we are very pleased to announce the establishment of our new pilot academy, Cygnet Aviation. Cygnet is the first-of-its-kind academy in the Canadian market, offering leading-edge flight training that provides direct access to airline pilot careers. Cygnet has partnered with CAE to deliver a truly unique offering that will provide a new source of highly trained airline-ready pilots for our operating business units and the wider industry. Last month, we celebrated the launch of the new academy with the gathering at the Cygnet training facility in Kingston, Ontario, which was extremely well attended by local government, key community officials, current and future pilot cadets, the media, and several representatives from CAE and the airline industry.

I'll now pass it over to Gary to take you through our financials.

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

Thank you, Colin, and good morning.

In the first quarter of 2023, Chorus reported earnings and free cash flows that were in line with our expectations, with adjusted net income available to common shareholders of $0.11 per common share, an increase of $0.01 from Q1 2022, Adjusted EBITDA of $118.1 million, an increase of $34.8 million over the first quarter of 2022, and free cash flow was $73.1 million, an increase of $24.7 million from Q1 2022.

As we look at our performance, the RAL segment's Adjusted EBITDA was $61.6 million, a quarter-over-quarter increase of $29.9 million, primarily due to the inclusion of earnings from Falko, and the RAS segment's Adjusted EBITDA was $63.9 million, an increase of $6.5 million over the first quarter of 2022. First quarter results in RAS were primarily impacted by an increase in other revenue of $6.7 million related to an increase in parts sales of Voyageur, an increase in aircraft leasing revenue under the CPA of

$2.4 million, primarily due to higher U.S. dollar exchange rates, offset by an increase in general and administrative expenses attributable to increased operations. Corporate Adjusted EBITDA, or net expenses, at $7.4 million were higher than the first quarter of 2022 by $1.6 million due to an increase in general administrative expenses.

Adjusted net income was $30.8 million for the quarter, an increase of $13.1 million over the first quarter of 2022, due to the increase in Adjusted EBITDA, previously described, and an improvement in the change in net foreign exchange of $2.1 million, partially offset by an increase in depreciation expense of $13 million, primarily attributable to Falko and capital expenditures in 2022, an increase of $5.4 million in income tax expense, and an increase in net interest cost of $5.4 million, primarily related to the interest on long-term debt assumed as part of the Falko acquisition.

Net income increased $9.1 million over the first quarter of 2022, primarily due to the previously noted increase in adjusted net income, notwithstanding offsetting changes in certain expenses, and a decrease in net unrealized foreign exchange gains of $2.5 million.

We continue to pay down our debt as expected, ending the quarter with a leverage ratio of 4.0, an improvement of 0.4 percent from December 2022, due to debt repayments and an increase in Adjusted EBITDA, primarily related to the inclusion of earnings from the Falko acquisition. We continue making progress towards our target of 2.5 to 3.5 by Q4 2024.

During the quarter, we drew on our operating credit facility to fund investments in working capital. We have expanded our credit facility from $100 million to $150 million, starting in Q2 2022, subject to a borrowing base. We expect to support any periodic working capital requirements through this facility.

Based on our Q1 2023 results and our forecast for the remainder of the year, the guidance previously provided remains unchanged. The key elements of our guidance for 2023 are contained in the outlook section of the MD&A.

We are now ready to take questions.

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions)

Your first question is from Hillary Cacanando from Deutsche Bank. Please ask your question.

Hillary Cacanando — Analyst, Deutsche Bank

Thanks for taking my questions. I just wanted to get a better understanding of the Cygnet Aviation Academy. I guess increase the graduating pilots into Jazz and ultimately to Air Canada, but is this something where you could work with other airlines, other than Air Canada, to place the graduating pilots? Is this considered a business unit that you actually make a margin on, or do you just consider this more of an internal program to enhance your talent pool.

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

Good morning, Hillary. It's Colin. Yes, great question.

Hillary Cacanando — Analyst, Deutsche Bank

Hi, Colin.

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

Yes, the design of Cygnet is really an industry business, it's not specific to Jazz or to Voyageur or any of our internal businesses. Obviously, they're going to have a priority and their own focus on what their needs are, so we've started the business that way, but there are several other airlines that we're working with to start to transition pilots through. So, yes, it's definitely for the broader spectrum.

As far as the profitability or the financial side of that business, it is a standalone independent business, and the goal that we have in the plan is for it to be profitable and accretive to Chorus, for sure.

Hillary Cacanando — Analyst, Deutsche Bank

Oh, okay. So, will it be rolled out into part of RAS, I guess, or …

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

Yes, it will be rolled out into RAS. It is, yes. Absolutely, yes, as a standalone.

Hillary Cacanando — Analyst, Deutsche Bank

As a standalone, okay. Okay. So, we'll see a separate line attributed to that academy?

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

No, I don’t think you’ll see—I wouldn't expect a separate line, Hillary. We expect the earnings to be modest as it grows. It's probably going to have 120 to 140 pilots at its peak, at least as currently staffed and the infrastructure put in place, so it will be modest, but it will be accretive or will produce a bottom line.

Hillary Cacanando — Analyst, Deutsche Bank

Okay, got it, got it. Then, I guess, just regarding Fund III, Jeremy has said that, I guess, the plan is to invest about 100, 120 aircraft into the fund. Do you have a target composition in terms of which aircraft you're targeting to have in the portfolio and the age group?

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

It's Gary here. I wouldn't say there's a target per se. When they construct a fund, they go out to market, they have concentration limits on particular lessees, geographic limits, they look at the creditworthiness of the various lessees, that's probably the biggest piece, and then you move into the aircraft itself, and whatnot. Certainly, what you see in the market, there's E2s as far as new aircraft, there's certainly ATRs and others. I think at this stage, though, I would say lessee quality and the quality of the airline probably weighs more than the aircraft when they're constructing.

Hillary Cacanando — Analyst, Deutsche Bank

Got it. Great. Thank you so much.

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

Thanks, Hillary.

Operator

Thank you. Your next question is from Kevin Chiang from CIBC. Please ask your question.

Kevin Chiang — Analyst, CIBC World Markets

Thanks for taking my question, and good morning, everybody. Maybe just on the wind-up of the Ravelin portfolio, that you noted in your MD&A, it looks like you'll have this completed over the next couple of years here. I guess, one, I suspect some of this is opportunistic, but do you have a sense of how we should think about those asset sales over the next couple of years; and then, secondly, how we should be thinking about the EBITDA or maybe the net income contribution today versus maybe what comes out of the earnings stream as you divest of those and eventually have to redeploy that capital?

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

Kevin, it's Gary here. On the Ravelin portfolio, when we look at the Fund I, that Fund I, it's certainly due to be wound up by the end of ’25. We would hope to have it done by then or earlier. So, I think, when you look at the asset sales, they will be lumpy, I think we've kind of said that. Even for this year, it's going to be towards the back end of our year or the second half of our year. We didn't really anticipate that much in the first part. So, you can expect it to be lumpy.

Then, back to what we talked about on our Investor Day, as we start to fill up those assets, harvest the equity in that, we'll certainly look at our capital allocation priorities, including debt reduction and return of capital to shareholders and reinvestment in the business and make the appropriate decision at that point in time. So, that's how the asset sales will work on Fund I, and I see the upgrade on the debt facility by KBRA there as being a good thing, that it shows that the portfolio is doing well.

Kevin Chiang — Analyst, CIBC World Markets

Okay. I took it simplistically and said you had a target return metric, and you talked about kind of mid-teens ROE. If I just apply that to the book value, is that kind of a good run rate to think of the earnings—I don't want to call it a headwind, but essentially the earnings adjustments we should be thinking of making as you sell down Ravelin over the next couple of years, or is that too punitive (phon) of a way to look at it?

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

It's a reasonable way. You could also go back to some of the disclosure we gave last year, where we broke out the Falko assets because they're under the Falko wing, and you could look at that as being kind of the adjustment that would happen within it, to use that average. That would be another way to go at it.

Kevin Chiang — Analyst, CIBC World Markets

Okay, that’s helpful, and maybe just my second to last question here, just on the training program, the facility you're opening up here. You noted 120 to 140 pilots. Is that what the threshold would be? I just want to confirm that. Then, secondly, I guess, how many pilots do you normally flow through to Air Canada? Just trying to get a sense of if you're training 120 to 140, what percentage of that you'd likely keep in-house, just given your own natural turnover through the flow-through program versus maybe excess training slots that you could obviously sell to other airlines.

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

Hi, Kevin. It's Colin. Yes, the way we designed the Cygnet organization is to scale, and in the short term, Gary is right, it's in that 140 range in a very, very short term. A little bit longer, we're well over 200, and we're working on a plan to build that out to kind of 200-plus with CAE. So, there's lots of opportunity there, and we see that growing very, very quickly. We've had incredible uptake there, not only from interested students, but also the industry, as far as other airlines. So, that's pretty much the growth, is up to 200 in the near term.

As far as the flow to Air Canada goes, there is no number I can give you that's real, because it is all over the map, and it really depends on Air Canada's needs and their plans. We've had years that have been several hundred, a few hundred pilots flowing in a given year, and we've had years where there is no flow. So, it's very much all over the map, and it's really dependent on Air Canada's needs and what they're doing, what their retirements look like, what’s their growth in fleet, what's going on with their transition in fleet, so on and so forth.

We don't see 100 percent of our pilot needs coming from the flight school or integrated ATPL. We also have—Jazz has multiple other sources of pilots that they're attracting talent from across the industry and various other flight schools, so they've got a very broad brush to be able to kind of look at the industry and attract talent, and they've been very successful, all of their training classes are full. They have no shortage of ability to get people in the door from a pilot perspective.

What Cygnet does is it really helps support that flow to support the needs of Jazz and Voyageur, as well as the broader industry, which is really one of the big things when we looked at doing this, given that it was such a shift in our thinking around the type of training that we do, the quality of training, that it would allow us to really provide a kind of a boost to the industry as we go forward here for pilots.

Hopefully, I've answered your question to some degree.

Kevin Chiang — Analyst, CIBC World Markets

No, that’s very, very helpful. Thank you very much. I’ll leave it there. Thanks, Gary and Colin. That’s very insightful.

Operator

Thank you. The next question is from Walter Spracklin from RBC Capital Markets. Please ask your question.

Walter Spracklin — Analyst, RBC Capital Markets

Thanks very much. Good morning, everyone.

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

Good morning.

Walter Spracklin — Analyst, RBC Capital Markets

The Cygnet is very interesting. I think it's a great way again to help diversify your business, and congratulations on entering that line. Just curious as to, Collin, is this something you're focused on in terms of further diversifying your model, and are there other opportunities that you see out there that will allow you to kind of drive revenue in different places? How far field do you have to go, though? Like, how far are you willing to go? There's a few other companies that kind of are also in regional airline, but they've really gone along a different tact of being more like a holding company of a number of very different businesses. Are you willing to go that far or do you want to kind of keep within your wheelhouse of along the lines of aviation as you are right now?

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

Yes, I'll tackle the first question on Cygnet and its growth and relationships there. Absolutely, the real big thing with Cygnet is our relationship with CAE. Fundamentally, that gives you a very broad spectrum and scope in the industry. It also comes with great credibility. I mean, we, at our organization, bring a ton of credibility kind of from the training in the industry and the operating side, and, as you know, CAE brings a ton of credibility from the flight training side as far as airline business goes. So, it's a great combination. We see a ton of opportunity there to grow that business, kind of expand it out and move it into other areas.

As far as the broader picture of Chorus and our plans and big picture, we see ourselves sticking in aviation. We don't see ourselves today moving outside of aviation or aerospace, and we think there's lots of opportunity in there. The strength that we bring to the table is really our expertise in-house.

There's nobody else really like us that has, at our level, the Chorus level, the aviation strength that we bring to the table. So, we see that as quite valuable.

As we look at opportunities across the spectrum, and we're out speaking to companies and looking at these various companies, the thing that we always get from these folks is that they would love to work with us and be owned by us, a company like us that understands the business, and that's one of our leverage points, versus going to a pure financial model from a holding co. So, we see that as leverage and we're going to continue to stick with that, but there's lots of verticals outside of what we're in today that work well with our current book of business.

Walter Spracklin — Analyst, RBC Capital Markets

Okay, that’s really encouraging. Moving over to your leasing side, you were seeing OEMs having bigger backlogs, longer lead times, some delays and so forth. Is that resulting in a pickup or increased demand for aircraft leasing, and, as well, for your MRO and part provisioning business, as some of these delays and longer lead times come from the OEMs?

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

Yes, absolutely. I think, when you look at the Falko side of the business and the leasing side of the business, what we're seeing is really strong demand, especially for regional jets. If you have an aircraft today that doesn't need maintenance and that's available, and it's an Embraer product or a CRJ900, or something like that, it's pretty much guaranteed you got a spot to place that airplane, there's no question about that. So, the demand is extremely strong from that perspective.

On the MRO side, what we're seeing is all of our facilities are full. We have no space, no white space left. Everything is chockablock full. Jazz, their JTS MRO business is looking at new opportunities to find ways to expand or do additional work, looking for space to do work. Voyageur, all of our 200,000 square feet is full, there's no room there at all. So, really strong demand. Used parts, the USM parts side of the business growing very rapidly as we expand that. As you can see from the results—I think Gary spoke to it a little bit, certainly, I commented on it there—some of our result performance is related to that USM growth for sure.

Walter Spracklin — Analyst, RBC Capital Markets

That’s great. I guess that offsets the question I had about risk. We've seen in the news some airlines hitting some liquidity issues and just I was going to ask whether you're seeing any resurgence in delinquencies or among your leasing clients, particularly on the low-cost carrier side, but it sounds like, given the picture you painted on demand, it sounds like if there was a delinquency, that spot would be filled up pretty quickly.

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

Yes, absolutely.

Walter Spracklin — Analyst, RBC Capital Markets

Okay, that’s it, that’s all my questions, and I appreciate the time.

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

Thank you.

Operator

Thank you. The next one is from David Ocampo from Cormark Securities. Please ask your question.

David Ocampo — Analyst, Cormark Securities

Thanks. Good morning, everyone.

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

Good morning.

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

Good morning.

David Ocampo — Analyst, Cormark Securities

I just wanted to follow up on Walter's last two line of questions. I mean, if I take a look at the amount of lease revenue that you collected in the quarter, it was at 84 percent, and if I compare that to Q4, it was 88 percent, and then Q3 was 91 percent, so I was just curious if you can comment on what's driving that? Is it concentrated to one counterparty or is this something that you're seeing throughout your portfolio?

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

Yes. Sorry, it's Gary here. What we're seeing, it's really just a handful of airlines we work with, it's pretty consistent quarter-over-quarter as far as that group, and we're pretty comfortable with where things are. It's just you're going to see some movement in those numbers from time to time, but we're not seeing anything that's alarming at this stage.

David Ocampo — Analyst, Cormark Securities

How should we see that trending throughout the year? Should that 84 number gravitate higher into kind of that 90 percent range?

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

Yes, we would hope it will gravitate higher as the year goes on. We continue to work with our lessees, what I'm talking about there, but it's something that we're still comfortable with the risk and the lessees (phon) behind it.

David Ocampo – Analyst, Cormark Securities

Got it. Then, just on the fund, I mean, it's been pretty well telegraphed in the market that you're going to launch this, and it does seem like there's a lot of demand out there, so I'm just curious if you've already had discussions with airlines, even though the fund hasn't launched yet, and can we expect a faster deployment of capital than we've seen at the previous two funds?

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

It's Gary here. I don't know if you would see a faster deployment of capital, you would always hope to, but I think the first thing is to get the fund launched, then you get through that piece, and then you start moving along. Just to remind, Fund II is still active, they're still placing aircraft, that's going through the balance of this year, and then you're going to start to move yourself into the Fund III piece. Typically, you launch your new fund once you get at least to 75 percent of the commitments in your previous fund, say, Fund II. So, I would say I don't think you're going to see as fast or faster deployment of the capital, I'd say it's probably going to be very similar, at least at this stage.

David Ocampo — Analyst, Cormark Securities

I guess how are you guys balancing that, if you still have dry powder available in Fund II? Is it you need Fund II to fully fill up before you can start deploying capital on Fund III?

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

No, that's not the way it works. You get to about 75 percent and then you start working on your third fund. Typically, I think Fund II is pretty much—it's going to be fully deployed here in the not-too-distant future, so yes, we don't see any hindrance from that into Fund III.

David Ocampo — Analyst, Cormark Securities

Okay, that's it, that's all the questions I had. Thanks a lot, guys.

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

Thank you.

Operator

Thank you. The next one is from Tim James from TD Securities. Please ask your question.

Tim James — Analyst, TD Securities

Thanks very much. Good morning, everyone. I just want to return to Voyageur for a moment. I think there was a comment about the margin performance being relatively steady. I assume that means year-over-year, but maybe you can just help me understand that. Then just thinking about that business, revenue growth was very strong. You mentioned about a mix change. Can you talk a little bit about the moving parts that we should think of for Voyageur margins going forward and as you work your way towards your longer-term target of $150 million in annualized revenue. I guess where I'm going with this is do you feel margin is kind of at a healthy sustainable rate and maybe there's not a lot of upside there right now, it's really kind of revenue driven, the dollars of upside, or is there the potential for more margin expansion?

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

It's Gary here. I'll take the first part. On the margin, the EBITDA margin, it's consistent with what we gave out on Investor Day, so that's what we're referencing, that's the point. It was in the 24 percent, 25 percent range as we listed there. So, from that perspective, we're feeling very good about where Voyageur is going. They're maintaining their margins, while expanding their revenue base.

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

Yes, I'll try to give you some color on the rest. We've refocused Voyageur in the last—as we came out of COVID there, and the challenges with that couple of years that we all had, and, fortunately, we had that time to kind of refocus them on this USM and defense side of the business, and that's been a big part of their growth, and we see continued growth, strong growth in that area. That's where most of the growth is going to come from over the next short period of time. Both those areas—as Gary alluded to and we talked to during the Investor Day—both those areas have very strong margins. So, we continue to see Voyageur growing from a top line perspective quite well over the next period of time, as well as producing strong margins on a bigger part of their business, for sure.

Tim James — Analyst, TD Securities

Great, thank you. Then, moving on, and this ties into Cygnet, I suppose, but maybe more broadly speaking about Jazz, have you been restricted or limited at all recently in your ability to increase block hours and flying for Air Canada due to the availability of pilots?

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

Yes, I mean, that's a good question. The pilot flow, as we move pilots around the system, it does give some ups and downs in our ability to provide block hours. It's really principally controlled by the flow and the decisions that Air Canada makes on how many pilots they want to take and when they want to take those pilots. Our job is really—and what we do within Jazz—is to provide that backfill of the pilots as required, and it does take a little bit of time to get those pilots through training and get them up to speed and back in those seats and transitioning, but there's really no significant impact to our ability to deliver on the long term on flight hours. It's more just around the timing of as you move these pilots around the system. It does create some reductions, plus and minuses in the block hours for sure.

The training classes are all full. We have no problems attracting pilots. We've been very successful at getting qualified candidates in the door and in our training classes.

Tim James — Analyst, TD Securities

Okay, thank you, and then I guess just my final question. I'm just wondering if you can provide any more details or insights around what CAE and Chorus bring to Cygnet. I'm thinking in terms of what assets each contributes, what employees each contributes, just any sort of additional color you can provide there would be helpful.

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

Sure. It's a standalone business, Cygnet Aviation Academy, based in Kingston, Ontario. It is a Chorus-owned company. The Chorus side of the business contributes all of the ab initio training, the flight school, the aircraft. We do basically everything. Where CAE's relationship with us comes in is really on the initial screening side. CAE brings a great deal of expertise to the screening of talent as you look at new pilots, and so we utilize a lot of their support and their tools to help us with determining the quality of candidates and selection of candidates.

That's also where the other airline institutions come in. As the airlines start to look at students, they're part of that process as we select pilots, and then they also—CAE would also be there when you get to the type endorsement. So, as the individual finishes up their flight training, they get their integrated ATPL, they will be going on to CAE to do the final endorsement training on whatever aircraft type that might be, depending on the airline's choice. That could be a CRJ, that could be a Q400, that could be a 737. It really depends on the airline.

The concept is you've got an airline, you've got a great flight training and operating business that knows the industry, and you've got CAE, who's one of the top leading training institutions in the world, all working together to produce an individual as a pilot from day one right through until they get in that seat within the airline.

Tim James — Analyst, TD Securities

Okay, that’s helpful. Thank you very much.

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

You’re welcome.

Operator

Thank you. The next one is from Cameron Doerksen from National Bank Financial. Please ask your question.

Cameron Doerksen — Analyst, National Bank Financial

Yes, thanks. Good morning. Just back to Fund III for a second. Just wondering if you can give us an update on the capital raising efforts here. I mean, it sounded at the Investor Day like you were pretty confident in raising at least the minimum. Just wondering if you can provide any, I guess, additional information on what commitments you've had so far and, I guess, on your confidence in getting to that $500 million-plus mark?

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

Hi, Cameron. It's Colin. I can't give you any specifics here, but we've been making great progress. Falko has done an excellent job of engaging the key LPs. Lots of progress has been made. We still feel very comfortable with seeing kind of the first close prior to or around the end of Q2, and we've had lots of interest. If we were really concerned about it, we'd probably be talking about that, but we feel very comfortable and we see it pretty much on track.

Cameron Doerksen — Analyst, National Bank Financial

Okay, so that's good to hear. I guess maybe a question on the asset management fees. I know you've talked about this in the past, but there's variability quarter-to-quarter, and I just wondered if you can just remind us what would drive that variability. I mean, if it's based on committed capital, I would think it'd be a little more steady quarter-to-quarter. So just maybe just a reminder for me, just what drives that kind of variability in the asset management fee revenue line item from quarter-to-quarter?

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

Yes, it's Gary here. Typically, as we've said, the asset management fees are 1 percent to 1.5 percent. I think if you look at this quarter, it's in line with the average of last year. So, from that perspective, it's good. But, there are some fees that make their way through from time to time, whether they're selling assets or replacing them, that can sometimes give it some lumpiness. I think what you do is you just stick with that average and that 1 percent to 1.5 percent, and it gives you a pretty good proxy for where things are. But, that's what leads to some of the lumpiness in there.

Cameron Doerksen — Analyst, National Bank Financial

Okay. The committed capital that drives the fees, that includes the capital in Fund I, correct? I mean, I know that the Fund I is consolidated on the balance sheet, but the asset management fee component of that, that's included in the revenue line item, correct?

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

No, Fund I does not have any asset management fees we recognize, because we consolidate it, where we own the majority of that fund. It only relates to Fund II, in the managed assets that we have on the books. So, it's really related to that.

Cameron Doerksen — Analyst, National Bank Financial

Okay. No, that's great, that clarifies that, and maybe just one other quick accounting question. Just in the cash flow statement, there is an investment in funds line item. I mean, I forget what number was, $1.9 million or something like that. I'm just wondering what that's related to in Q1.

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

We sometimes have to invest in Fund II and others. Remember, we have the 3.85 percent that we own of that, so there's an amount of money that goes back and forth here and there. So, yes, that's what that relates to.

Cameron Doerksen — Analyst, National Bank Financial

Okay. So, I guess there's no way for us to kind of model that quarter-to-quarter.

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

No, it’s very difficult, Cameron. It really just comes down to when they need the money in the fund related to asset deployment. So, you just have to look at the commitments we make, and it will be—it's not going to be linear. It's going to be based on demand and need. It's not just a straight amort schedule.

Cameron Doerksen — Analyst, National Bank Financial

Right. Okay, fair enough. That was all I had. Thanks very much.

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

Yes.

Operator

Thank you. The next one is from Konark Gupta from Scotiabank. Please ask your question.

Konark Gupta — Analyst, Scotiabank

Thanks, Operator. Good morning, everyone, and congrats on a good quarter.

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

Thank you.

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

Thanks, Konark.

Konark Gupta — Analyst, Scotiabank

Great. My first question—I think you guys mentioned the asset sales you're expecting this year are more skewed towards the second half. Do you still have a good visibility on the $50 million to $100 million value that you provided earlier?

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

Hi, it's Gary here. Yes, we certainly see the second half of the year. It's traditionally been where we've seen asset sales, anyway, in the regional space, so that's certainly why we expect it there. We do have an asset trading desk at Falko, so that's been set up and they've had a lot of—they're in the market now, as we speak, putting aircraft out there. So, from that perspective, we're starting to get visibility and we're getting feedback from the market, and we're still anticipating hitting that $50 million to $100 million in the second half of this year.

Konark Gupta — Analyst, Scotiabank

Okay, that's great, Gary, thank you, and are those asset sales expected entirely to be driven by the Ravelin wind-down, or would the other funds or even Castle (phon) would be involved?

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

It is a mix. It includes Fund I. It includes assets at Castle. It includes assets that we acquired as a result of the Falko acquisition that came across. It is a mix of assets.

Konark Gupta — Analyst, Scotiabank

Okay, that's great, thanks. In the existing Castle business, I'm just wondering, it seems like SpiceJet returned about five Q400s, they are off-lease now. Plus, you already had about, I think, one Q400 from Philippines. Do you intend to remarket all these six Q400s or would they be monetized as well?

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

We'll look to do what's best for us. If it's monetize them, sell them, we'll do that. If it's to re-lease them to a client, we're going to do that. So, we're out remarketing them as we speak. And yes, we did take back the five or in the process of taking back those five aircraft which we provided for last year.

Konark Gupta — Analyst, Scotiabank

Okay, makes sense, thanks. Then, if you look at—I think in the disclosures, there was $6.7 million figure for the end of lease maintenance reserve. Is that SpiceJet related, or is that something else?

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

I can say it's not SpiceJet related, so it is something else. These things will come up from time to time in our leasing business, even though it may be specific to a client, so it's really one time to the client, but as we start to take back aircraft, re-lease them and whatnot, you're going to see these releases from time to time. But, anyway, it did not relate to SpiceJet.

Konark Gupta — Analyst, Scotiabank

Makes sense, thanks. Last one for me. For the Fund III, I know you're confident in closing the first tranche pretty soon here in the second quarter. Have you seen or have you noticed any kind of probably volatility or any kind of change in interest, given what we have seen in the U.S. regional bank market lately, or that has nothing to do with the Fund III?

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

Hi, Konark. It's Colin. That's a common question we get, we've gotten that question quite a bit. We've spent a lot of time looking at this and working with Falko closely on this, and the LPs, and the answer is, no, there hasn't been a lot of—there's certainly been questions, but there hasn't been any lack of interest or change in focus or interest in Fund III. It continues to track as planned. Like we said earlier, we kind of anticipate things to come together with the first close here as we get close to the end of Q2.

Konark Gupta — Analyst, Scotiabank

That’s pretty comforting. Thanks so much, Colin, and thanks, Gary.

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

Thank you.

Operator

Thank you. The next one is from Matthew Lee from Canaccord Genuity. Please ask your question.

Matthew Lee — Analyst, Canaccord Genuity

Hi, good morning, and thanks for taking my question. Most of my queries are answered, but maybe just a housekeeping question here. On the collection side, your receivables is at $110 million gross, with the expectation of a decrease of $100 million by the end of the year. Can you maybe just talk about how confident you are in the ability to collect those receivables, and do you maybe have a target as to where you'd like that balance to go over the longer term?

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

It's Gary here. We're confident in collecting the receivables. Otherwise, we wouldn't leave them on the books the way they sit. Ideally, we want it to be zero, but it will take time to do that. Some of these receivables will take a number of years to extinguish, but we're confident at this stage.

Matthew Lee — Analyst, Canaccord Genuity

Okay, great. Then, in terms of sales, just given your earlier comments on the demand of aircraft, is it fair to assume you're still seeing the opportunities to sell your aircraft at book value or better, and could you potentially accelerate those sales in ’23, if the opportunity arises?

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

Right now, we're in the market. We're still confident in our book value. We're still moving around to get that demand. If we have an opportunity to transact earlier, we are absolutely going to do it, but it's opportunistic sales, in the sense of we want to make sure we optimize our value here.

Matthew Lee — Analyst, Canaccord Genuity

All right, thanks. I appreciate it.

Operator

Thank you. The next one is from Tim James from TD Securities. Please ask your question.

Tim James – Analyst, TD Securities

Thank you. It was just a follow up, and, actually, it was addressed by a recent comment, so thank you, anyways.

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

Thanks, Tim.

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

Thanks, Tim.

Operator

(Operator Instructions)

There are no further questions at this time. Please continue.

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

Okay. Well, thank you, Jenny, and thank you, everyone, for taking part in today's call. Have a nice day.

Operator

Thank you. Ladies and gentlemen, the conference has now ended. Thank you all for participating and you may all disconnect.