FINAL TRANSCRIPT

Chorus Aviation Inc.

Fourth Quarter and Year End 2023 Financial Results

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Chorus Aviation Inc. Fourth Quarter and Year End 2023 Financial Results Conference Call.

(Operator Instructions)

This call is being recorded on Friday, February 23, 2024.

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

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

Thank you, Julie.

Hello, and thank you for joining us today for our fourth quarter and year end 2023 conference call and audio webcast.

With me today from Chorus are Colin Copp, our President and Chief Executive Officer; and Gary Osborne, our Chief Financial Officer.

We will begin today's call with a brief summary of the results, followed by questions from the analyst community.

This call covers the results and operations of Chorus Aviation for the three months and year ended December 31, 2023, as well as the outlook section and other sections of the MD&A where such statements appear. As there may be forward-looking discussion during the call, I ask that you refer to the caution regarding forward-looking information found in our MD&A.

In addition, some of the following discussion involves non-GAAP financial measures or non-GAAP ratios, including references to adjusted net income, adjusted EBT, Adjusted EBITDA, leverage ratio, and free cash flow. Please refer to the MD&A for a discussion relating to the use of such non-GAAP measures or non-GAAP ratios.

I'll now turn the call over to Colin Copp.

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

Good morning, everyone, and thank you, Tyrone.

Today marks my fourth analyst call, nearly a year since I took on the role of President and CEO of Chorus, and throughout 2023, the teams remained focused and disciplined on achieving our key targets and strategic goals. When you combine our progress with the improving macroeconomic outlook, stronger global airline traffic demand, and much improved airline credit environment, we are well-positioned moving forward.

Let me touch on a few of the financial highlights.

First, despite the challenging macroeconomic environment for most of last year, we met our financial guidance for 2023, while at the same time significantly strengthening our balance sheet.

Chorus saw Adjusted EBITDA increase from $441 million in 2022 to $458.7 million in 2023. Gary will provide some further details on this in the financial update.

We saw a continued and strong generation of free cash flow of $331.4 million in 2023, a key pillar of our strategic plan. These cash flows were primarily driven from operating cash flows, and notably, we achieved our leverage target for 2023, with our leverage ratio improving from 4.4 at December 31, 2022 to 3.6 at December 31, 2023.

Strong performance in all these areas is essential to the long-term value creation for our shareholders and continued success of the business. At the heart of this was the hard work and focus demonstrated by all of our businesses and the representative teams during the quarter and the year.

Jazz continued to generate predictable earnings and cash flows under its long-term contract with Air Canada. To help address the changing wage environment, enhanced pilot capacity, Jazz successfully entered into a new agreement with its pilot group represented by ALPA and continues to recruit pilots and fill its training classes.

Voyageur had its best year so far, with strong growth in part sales and specialty MRO and defense, while securing long-term contracts for defense and air ambulance services. Voyageur has seen record years of growth for the last two consecutive years. Voyageur is continuing to enhance its capabilities in both the targeted high-margin growth areas of parts and defense to help fuel further growth going forward. They have good momentum now and we're excited about the potential ahead.

Turning to the leasing side, aircraft OEM production rates continue to lag. That has been welcome news for Falko, as airlines look to secure available aircraft and extend expiring leases for longer periods. Falko successfully concluded 57 aircraft transactions in 2023 including new leases, lease extensions, and using third-party capital to purchase of aircraft with leases attached. Additionally, it has signed letters of intent for a further 30 aircraft transactions going forward.

The transaction activity for 2023 and for the last few months demonstrates that the regional leasing market is active and doing well. Falko continues to be the market leader in regional aircraft leasing and the asset management business. In support of our asset-light strategy post year end, Falko also completed the sale of two A220 aircraft on lease to airBaltic, delivering net proceeds of $21.9 million in January of 2024.

As always, in advancing our asset-light strategy, we closely watch market conditions, staying focused on unlocking embedded equity value, and we will continue our deleveraging efforts by selling down our on-balance-sheet assets where and when it makes sense for us to optimize value. Additionally, the interest rate and inflationary outlook is promising. That will only assist discussions that we are having with our fund investors on Fund III.

Now, turning to Cygnet, our pilot training academy which was announced on March 28, 2023 and held its official launch event in April in Kingston, Ontario, it is executing very well and growing at a straight steady rate, while contributing to the overall pilot supply, as it offers industry-leading pilot training with state-of-the-art instruction. We are very pleased to be working with CAE and the many industry partners on this important initiative.

In November, we renewed our normal course issuer bid for common shares reflecting 10 percent of the public float. As at December 31, 2023, Chorus had purchased and canceled 9,623,451 common shares since the start of the NCIB in November of 2022 and we will prudently explore opportunities ahead to make further purchases under our NCIB.

As we speak of initiatives like the NCIB and our continued focus on cash generation, I recognize that opportunities for returning capital are on our investors' minds. We've now reported over multiple quarters that we are making strong progress in our deleveraging goals. As we transition the business, we will see stronger quality of earnings and strength in cash generation and we will continue to evaluate all return of capital opportunities going forward.

In closing, this past year, I have had the great privilege of spending time with our leaders and our various businesses, our employees, and our leadership teams, and their hard work are core to these outcomes. Their focus on the execution of our strategy and a deep commitment to safety and service delivery drives this success. My many thanks to everyone who's contributed to these outcomes, and finally, I want to thank our investors for their continued support and reiterate our commitment to creating value and achieving sustained success for our business. Thank you.

I'll now pass it over to Gary to go through the financials.

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Thank you, Colin, and good morning, everyone.

I want to start by reiterating Colin's earlier statement on guidance. We delivered on our 2023 published guidance, either meeting or beating the target ranges.

We reduced our leverage ratio by almost a full turn largely through long-term debt repayments of $341 million. We ended the year with a leverage ratio of 3.6, down from 4.4 compared to December 31, 2022.

We increased Adjusted EBITDA to $458.7 million for the year, up $17.6 million from last year and ahead of our guidance.

We generated strong free cash flow of $331.4 million during the year. This was down from the $371.3 million the year before due to the significant aircraft sales in 2022 and the sale of the two A220 aircraft for US$21.9 million, which was planned in ‘23, but actually closed in January of this year.

Colin's remarks focused more on the full year of 2023, and I would like to drag your attention to some specifics on the quarter.

Our businesses performed well in the quarter, with the RAS segment, being primarily Jazz and Voyageur, delivering Adjusted EBITDA of $61.3 million and the leasing segment producing a solid $62.1 million.

We are pleased to see positive changes in the airline credit market also with the improvement in credit ratings on certain of our leasing customers, which resulted in an $8.6 million reduction in the allowances for expected credit losses in the quarter.

In addition, we expect very shortly to sign agreement with Azul, which restructures our aircraft lease arrangements to provide for the recovery of all past, present, and future obligations under our original leases. As mentioned in the outlook section of the MD&A, Azul has been paying under this planned arrangement, and if we take this into account, our collection rate on revenue build in the fourth quarter would have been 97 percent.

I would like to turn to the future and provide some commentary on 2024 and beyond.

As you have seen, our cash flow generation and debt reduction was strong in 2023, and we see this trend continuing for this year, consistent with our Investor Day strategy we outlined last year. We are providing the following consolidated guidance for 2024.

We expect our leverage ratio to be between 3.1 and 3.5 by the end of 2024, largely in line with our Investor Day target range of 2.5 to 3.5.

We expect Adjusted EBITDA to be between $300 million and $400 million or $350 million and $400 million, and we expect free cash flow to be between $290 million and $340 million. Consistent with our transition to the asset-light model and our previous indications, we are forecasting lower Adjusted EBITDA in 2024 versus 2023, but we see the quality of earnings being enhanced. More importantly, we also are forecasting continued strong free cash flows and further strengthening of our balance sheet.

I would like to highlight a couple items in our guidance for 2024.

Firstly, we clarified the Jazz fixed margin and the cash generated from aircraft leased under the CPA. The information shows the combination of fixed margin and aircraft leasing revenue under the CPA, less principal and interest payments on the aircraft debt, generated $88.5 million in 2023 and is expected to be $94.7 million in 2024. The increase in cash generated in 2024 is due to aircraft moving to their second leases within the CPA. The second lease generates less revenue or Adjusted EBITDA, but generates more cash given the aircraft are debt free. This trend is important to highlight. Older aircraft on the second lease generate less revenue, but provide similar or better cash flows.

The second item relates to the guidance on the RAL segment. Consistent with our asset-light leasing strategy, we expect revenue to decrease in the RAL segment in 2024, as we execute on asset sales to unlock the embedded equity, lease renewals that come in at lower lease rates than the original leases, and the expected completion of the restructuring agreement with Azul.

On the aircraft sales side, we expect to generate net proceeds on asset sales of between $30 million and $52.5 million in 2024. This is based on our current expectations around the current trading environment, which has been improving. The revenue reduction in our RAL segment is partially offset by the reduced aircraft depreciation and interest expense, along with the increase in the gains on the fair value of investments in our managed funds. If you look at the revenue net of depreciation, interest expense, and gain on fair value of assets, you will see a similar percentage margin in 2024 versus 2023.

We also continue to target the wind up of the Fund I assets in 2025, which currently have a net value of assets less secure debt of $193.8 million.

We expect SG&A in the RAL segment to be consistent year-over-year.

With respect to Fund III, we expect to close this by the end of 2024 and are encouraged by the improving macroeconomic conditions. Key assumptions for the 2024 guidance are outlined in the Outlook section of our MD&A.

As I close, I would like to thank our employees for delivering on these results this year, and we could not have done it without them.

We're now ready to take questions from the analyst community.

Q & A

Operator

Thank you.

(Operator Instructions)

Your first question comes from Tim James from TD Cowen. Please go ahead.

Tim James — Analyst, TD Cowen

Hi. Thanks very much. Good morning, everyone.

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

Good morning.

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Good morning, Tim.

Tim James — Analyst, TD Cowen

My first question, just want to—looking at the asset management revenue, it looks—now we've got a few quarters to observe this with the Falko business. Am I correct that there seems to be a fairly strong kind of seasonal influence? The revenue jumped up significantly in the fourth quarter relative to the third quarter, and I noticed you had this similar dynamic last year. Could you just talk about what causes sort of seasonal fluctuations in asset management revenue?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Yes, Tim, it's Gary. It's sometimes just the way that the funds work as far as how they calibrate the amount of fees that are due to us by quarter, so you're going to see a little bit of fluctuation, but what I would do is I would just say, look, we had about $16 million for the year that—and if you look at the quarter, we're about $4.2 million. That's kind of the run rate that you'd expect to see, around that $4 million or so, but there is some fluctuations just when they do their valuations and how it works with the fees.

Tim James — Analyst, TD Cowen

Okay, so I think in the third quarter it was $1.7 million or something, and then jumped up to that $4.2 million, but you're saying that kind of volatility, probably shouldn't think about going forward. Just more take your $16 million annual run rate and think about it that way.

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Yes, I think that's what you should do, Tim, is just take the $16 million and run it. There could be the odd increase or decrease versus that trend rate in the quarter, but that's the best way to model it.

Tim James — Analyst, TD Cowen

Okay. Okay. My second question, related to the Azul agreement, I'm sure you're limited on what you can say there, but is it possible just to confirm at least—I think that that relates to four aircraft, is that right? A couple of 195s and two ETRs? Have I got that correct?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

No, that agreement actually goes across the entire Company. We have assets sitting in Fund I. We have assets in Fund II, which is not really an issue for our consolidated statements. We also have assets that were in the old Castle portfolio, the 62 we had on balance sheet, and we also acquired some as part of the Falko transaction, so it's a very significant transaction for us, and that's why we're disclosing it right now, is it is a positive in our mind. We are getting every past, present, and future dollar recovered under that program. It's very consistent with what other lessors have got to. We can't get into details at this stage. We're waiting to sign it, but there is a lot of literature out there on their particular restructuring down at Azul.

Tim James — Analyst, TD Cowen

Okay. That’s great. Thank you very much.

Operator

Your next question comes from Kevin Chiang from CIBC. Please go ahead.

Kevin Chiang — Analyst, CIBC

Hey. Thanks for taking my question. I was wondering, I know you're being opportunistic and looking to maximize value, but do you have a sense of the timeline you want to work with in terms of, I guess, moving fully to an asset-light model within RAL? Is that something you want to do within three years, five years as you sell off some of these owned aircraft and more fully transition to this portfolio management revenue stream?

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

Hi, Kevin. It's Colin. Look, I can't really give you a timeline, but you know that we're working pretty diligently and making some progress here on the launch of Fund III. I can see us hopefully achieving something in the next short period of time. I think Gary gives some perspective on that as we move into this year. That's the best I can give you, but there's no question, we’re very focused on it. We're trying to work with the environment that we've got today. It’s certainly slowed us down a little bit, but our goal is to continue to stay focused on it and grow it.

Kevin Chiang — Analyst, CIBC

Okay. I appreciate the colour there, and then just on Fund III, it sounds like you expect to close this, or in the disclosure, you expect to get this across the finish line by the end of this year. Just wondering the visibility on that timeline given we've seen this—the situation's been a little bit fluid over the past six to nine months, and in the backdrop of obviously a pretty large transaction, CDPQ and SMBC, it does feel like there's strong demand for aircraft leasing investments. Just wondering why maybe this is taking a little bit longer than you anticipated given some of the excitement around this alternative investment vehicle?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Yes, Kevin, it's Gary here. I think you can see some players coming in. That's for sure. They're mainly focused on the narrow-body gain, so they're a little bit different I think of the ones you looked at there, but we've had positive and continue to have positive discussions with the target groups that Falko and Jeremy Barnes have been working with. It really is, as we've talked about, is larger U.S. Pension funds and family housing, things like that, and over the past bit, they still like the space. They're certainly interested in it. I think the conditions have come around or starting to come around in Q4 and into this year with the drop in interest rates.

The inflationary environment's starting to back off a bit, talking about some reduction in forward interest rates through the U.S. Fed and maybe in Bank of Canada, but more importantly, the Fed, so I think things are starting to come around, and as I've said before, we have a pension fund. We have alternative investments. This type of product fits well into it. It's just more of—I think it's just waiting for the industry to come around or those that want to invest in it, and I think the conditions are starting to get there, so I wouldn't read as much into some of these other ones because they are focused on a different set of aircraft.

Kevin Chiang — Analyst, CIBC

Okay. That's fair enough. Maybe more of a strategic question, you obviously have a lot of stuff on the go here, but if you look at your share price performance, and especially versus other aircraft leasing public entities, and I appreciate they traffic in a different kind of aircraft than you do, but the relative underperformance of Chorus Aviation is pretty significant. Your price to book value is, at least as of this morning, below 0.4 times. Just wondering how you think about that in terms of trying to narrow that discount, which I presume you feel there is between the intrinsic value of the assets you have versus what the market’s attributing today to those assets. It does feel like, obviously, a pretty big discount here. Just wondering how you think about narrowing that gap, I guess relative to the long-term strategy you have here.

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Yes. It's Gary here, Kevin. It is perplexing to us where we trade. I think you nailed it right. When you look at the trading price versus the inherent value of the Company, it is perplexing. What we need to do and we are continuing to do is execute on what we outlined earlier last year at Investor Day. We met our guidance for 2023. We put out guidance that's within the bounds of that for ‘24. We continue to execute on the plan.

I think what I would do is—I think for a lot of folks, it's just focus on the core message, which is we are generating good free cash flow. If you look at the free cash flow we generated, it was quite good in the year. If you look at next year, EBITDA is down, but I think what I would caution everybody is that EBITDA, when you look at aircraft leasing, is essentially revenue minus some SG&A, and as I alluded to earlier today, as we go to second leases, as we sell off aircraft, that revenue line will come down, but what's happening, two things.

One is the earnings we see within RAL, the margin percentages are consistent year-over-year, generally speaking, so we're seeing good, healthy margins on the revenue that remains. Secondly, if you look at the free cash flow that we're generating versus EBITDA, it's actually improving. If you take a ratio of that, you can see the improvement, so the quality of the earnings, the quality of the cash flows are improving, and I think one thing I would say to those that model (inaudible) is the free cash flow and the cash generation is really what we're focused on, and that is the core to the value proposition for our shareholders, and we're going to continue to execute on that, but as far as the stock price goes, we don't like where it's at. I think we alluded to some of the issues around it, and we have almost doubled that as far as assets on the balance sheet, quality assets, strong customer with Air Canada, strong counterparty risk within our lessee environment, so it is perplexing to us, but it's just, I think, hopefully a matter of time until the market catches up.

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

Kevin, I'll just add, when you think about the strategic side, really the—we outlined this in the Investor Day, and really the plan was—that we put out there was to transition to asset-light. What does that do? That sells down the on-balance-sheet side and really turns the asset-light business more into a cash flow business and really changes us from the standpoint of the challenge we have today with being heavily on balance sheet, and you're seeing us make progress there.

We've been kind of hung up a little bit on this Fund III timing, which has certainly not helped us. Pretty frustrated with the stock price, there's no question about that, but the long term, if you look at the business, it's really about transitioning the leasing business to more of a cash flow business than anything, which better aligns with kind of where we are with the rest of the businesses, so I think that is really—the speed at which we've moved there has probably been some of the challenge we've had. There's no question. We're frustrated where the price is and we're looking at everything we possibly can to kind of move ourselves quicker in that direction, for sure.

Kevin Chiang — Analyst, CIBC

I appreciate the colour there, Colin. Hope you feel better as you get past this cold. Thanks, and have a weekend.

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Thank you.

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

Thanks.

Operator

Your next question comes from Walter Spracklin from RBC capital markets. Please go ahead.

Walter Spracklin — Analyst, RBC Capital Markets

Yes. Thanks very much. Good morning, everyone.

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

Good morning.

Walter Spracklin — Analyst, RBC Capital Markets

Yes, I just want to zero in on the pilot contract that—now that you've got that behind you is—how has that helped you in terms of easing some of your constraints, improving your visibility, and attracting, retaining new pilots, if you could give any colour there, and, of course, Air Canada's having its own pilot negotiation with a new—with ALPA being a new counterparty there. Do you see any risks there at all? I'm trying to think scope clause changes or anything like that, given that this is kind of the—almost going to be a much more significant labour contract that Air Canada's negotiating compared to prior ones. Is there any risk to you that you see emanating from that contract or if you're in a position to be able to even opine on that?

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

Yes, sure. Good question, Walter. The pilot deal that Jazz was able to put together with ALPA has significantly improved the retention and attraction of new candidates. Training classes continue to be full. They're busy. It's the whole industry right now, especially in the smaller gauge equipment, is busy training, searching for pilots. That whole human capital side of the North American industry is very, very, very busy, so Jazz is no different in a lot of ways. I think Jazz has got a lot of good things, and relating to its flow agreement with Air Canada, relating to the wages now, the contract, the type of contract we offer, the benefits, so recruitment and retention is improved radically, but it doesn't mean that we won't be flowing pilots to Air Canada. There's no question about that. We're going to continue to flow based on what their needs are, and they'll balance that flow of pilots based on where they want equipment and what routes they want flowing with what equipment, so capacity-wise, to some degree, it's up to Air Canada, and we work closely with them to manage that, but we're training full bore, no problems recruiting or attracting.

On the labour side, ALPA’s the largest pilot union, as you know; pretty sophisticated, and we've worked with them for many years, had no problems. You always have your normal challenges, but we've had no major problems. We always find solutions with them, so I suspect Air Canada will find a solution and work through their challenges that they have and getting an agreement, and we don't see any threat from it. There could be quite well some good things come out of it that further facilitate the way the two pilot groups work together or the two companies work together. No question about that. We're seeing that in the U.S. where flow agreements become more precise or concise, more structured, those type of things, but yes, look, I have great confidence that this thing will get sorted out and that things will continue to improve as we move forward here on the pilot side.

Walter Spracklin — Analyst, RBC Capital Markets

Okay, that's great. Second question here now is on the lease revenue from the CPA. You noted some changes in the lease rates coming down a bit. Just curious if you could give a bit more colour on that, but also, as Air Canada grows its A220 fleet, do you see any risk there that they need fewer regional aircraft and if that's going to impact Jazz's revenue profile going forward. Just a little bit more colour on that would be great.

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

Yes, I don't see any impact coming to us on the aircraft side. As you know, we've got a threshold in there of 80 aircraft minimum. What we see is from Air Canada's continuous demand for us to continue to fly more and do more with what we have, so I don't—there's nothing in the near future that shows that in any shape or form. Yes, the A220 has certainly been put on routes that we have flown in the past. No question about it, but traffic’s increased, and where you see smaller markets that make sense or time of day markets that make sense to do that, I think, obviously, that's the right thing to do, but it gives them opportunities for us to redeploy, and you can see where we've been redeployed in a lot of cases, and we're agnostic to where we go right? At the end of the day, we don't have ownership necessarily to airports or destinations, per se. We're really focused just on operating the aircraft, so it's pretty straightforward for us, so yes, we don't see any reduction there and our agreement really speaks to (inaudible) aircraft anyway, so there's not a lot of change to come there for us.

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Walter, it's Gary here. Just on the revenue piece, those are—just as we see the revenue come down, I'd just remind everybody that the aircraft that we originally purchased with through EDC and as a financier and whatnot are fully amortized at the end of the first lease, and what you're seeing is they're moving to the second lease, so that's why you're seeing these reductions in the revenues, so it's really just netback, but there's no debt on these aircraft as it sits today, so they're generating really good free cash flow, and you look at the table also, we kind of remind everybody the aircraft that are coming off lease or potentially off lease with Air Canada, there is potential to put them back in the CPA, put them elsewhere or whatever, so there's some upside to that fleet, but yes, the profile is still very good on this fleet.

Walter Spracklin — Analyst, RBC Capital Markets

That's great, and last question here is on Voyageur. Can you talk a bit about the contract pipeline there? I know you added a couple. Can you confirm the air ambulance, if that was a new or renewed contract, and yes, just talk a bit about the pipeline for new contracts on the Voyageur side of your business would be great?

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

Yes. It's been good. They're continuing to expand their air ambulance business. The one I referenced is not new. It came out a little while ago in our lease, but they've been successful year-over-year to consecutively grow top-line, bottom-line; doing a great job there. They're very focused now on where their growth verticals are and slowly moving out of that commoditized business that they were in before, which is the MRO, and there's often a lot of confusion around what an MRO business is or isn't. Voyageur is very much in the specialty MRO side and defense side, so that business is growing well. The (inaudible) business is growing well, and they've got a lot of opportunities on the horizon that they're working through, so we're pretty excited about them. We think right now with the portfolio that we do have, they certainly are starting to show some pretty positive results, and we expect that continue to in the years ahead here.

Walter Spracklin — Analyst, RBC Capital Markets

That's great. Okay, that's all my questions. Thanks for the time.

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Thanks, Walter

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

Thank you.

Operator

Your next question comes from Konark Gupta from Scotiabank. Please go ahead.

Eli — Analyst, Scotiabank

Hi, good morning. This is Eli (phon) filling in for Konark today.

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

Good morning.

Eli — Analyst, Scotiabank

Yes. This is Eli filling in for Konark today. Thank you for taking my questions. My first question is on the gap between Adjusted EBITDA and adjusted net income. Similar to last quarter, the gap was wider than normal. It seems the adjusted tax rates was even higher this time at about 40 percent, but income attributable to non-controlling interest was also substantially higher at about $2.4 million. Can you shed some light on what drove those two items and how we should think about them in 2024?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

It's Gary here. I think that the biggest thing to focus on maybe is the tax piece. This year we saw—if you go to Note 14 in the financial statements, there's a couple items in other in the allowance for the per tax assets. Those would be non-recurring in our mind. They were something we saw this year, so going forward, we wouldn't see those, so if you start to normalize the tax rate, you're going to get back into more of the 25 percent plus or minus range, and I think that's more where it's at, and that's really the biggest piece that I think you're seeing as far as the translation goes, and anyway, we don't see that moving forward.

Eli — Analyst, Scotiabank

All right. Thanks. That's helpful, and maybe a second question on your RAL outlook. You expect net proceeds from asset sales this year to be between 30 percent to 35 percent of gross proceeds, whereas both figures were similar in 2023. Does that mean loan to value on assets to be sold this year is higher than 50 percent, or is there some other accounting elements?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

No, I think that's correct. We are looking at our entire portfolio. There would be some other assets in there where we would like to transact on that. The loan to value would be higher, say, so that's what you're seeing in that forecast.

Eli — Analyst, Scotiabank

Okay. Thank you. I appreciate the time. That's all my questions.

Operator

Your next question comes from David Ocampo from Cormark Securities. Please go ahead.

David Ocampo — Analyst, Cormark Securities

Thanks. Good morning, everyone.

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

Good morning, David.

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Hi, David.

David Ocampo — Analyst, Cormark Securities

I really appreciate the colour that you guys gave on the CPA with Air Canada going out to 2026. Just a couple questions on that. First one, is the fixed fee plus leasing revenue your expectation for EBITDA from the CPA?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Yes, so if you look at the fixed fee, there are a few expenses that come out of that, but the bulk of it makes its way through, for sure, the vast majority, and the revenue under the CPA is EBITDA, so when you look at it, because it's all within the CPA, the aircraft, there's no real administration expense associated with it, so yes, you're seeing a drop off in EBITDA and revenue under the CPA, and that's what we're trying to highlight, but yet the cash generation is still very, very strong.

David Ocampo — Analyst, Cormark Securities

Yes, that makes sense, and maybe you guys can perhaps walk us through your ability to backfill that decline in the CPA even though the cash flow looks good, because it does seem like not just EBITDA is going to go down, but maybe even EPS over the next three years. Is that a fair statement?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Yes, I think it's potential for everything to—as you bring down your revenue and whatnot, certainly, that line can be impacted also. Our ability to certainly reconstitute and put back into the Company is really dependent on bringing down our leverage and getting to a point where we're starting to generate positive free cash flows in the sense that we have extra amounts to put into growth CapEx, and that's what we're doing here right now with the strategy we've put in place. We are de-leveraging.

We're producing good, strong free cash flow. We're creating room in order to start to reinvest in the Company.

David Ocampo — Analyst, Cormark Securities

Sorry, Gary, is your expectation for 2024 EPS to decline on a year-over-year basis based on that comment?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

No, we're not giving anything on that side, on the EPS line, but you've got the EBITDA line, the revenue come down. I think if you look at modeling the rest of it, you can make your own decisions on that piece.

David Ocampo — Analyst, Cormark Securities

Okay. That makes sense, and then just on your comments there on reaccelerating maybe growth CapEx, at what level of leverage are you guys comfortable ramping that back up since you guys are comfortably in that range that you laid out on your Investor Day?

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

Well, we've given a long-term range of 2.5 to 3.5, so I think that's certainly where we would start to try and turn this going into growth CapEx. I think we've got a big year this year. If you look at it, we will have our unsecured revolver paid off with EDC. There was about US$25 billion left on that. We have a Series A that we're dealing with this year. I think we'll be well-positioned post this year to start that trend.

David Ocampo — Analyst, Cormark Securities

Okay, that's all the questions for me. Thanks a lot.

Operator

(Operator Instructions) Your next question comes from Matthew Lee from Canaccord. Please go ahead.

Matthew Lee — Analyst, Canaccord Genuity

Hey. The morning, guys. I wanted to touch on guidance quickly, so obviously part of the reduction EBITDA for F '24 is related to aircraft sales, but just are there any other factors causing some reduction in those numbers whether it be renewals or utilization?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Yes. Its, Gary here, Matt, I think there's a couple things I think we should take into account. One is the sale of the two airBaltic aircraft. That does have an impact for next year. We've had some lease renewals during the course of this year. If you take Q4, it's a run rate and multiply it by four, it gives you probably the right starting point. Start to take out something on the—with the airBaltic sale, and also with Azul, it's in the same neighbourhood as far as impact. We have a reduction in revenue, but yet we're collecting all of the same amounts of payments. It's just where the buckets hit, so what we're trying to show is that, look, the revenue will come down, but overall, our cash generation is still quite good.

Matthew Lee — Analyst, Canaccord Genuity

Right. That's great, and then maybe in terms of aircraft sales, it looks like you—the airBaltic sale already gets you close to the low end of your net sales guidance for 2024, and looking at your footnotes or looking at the remainder of your guidance is made up primarily of CRJ engine. Just thinking about like, are you holding the remainder of your Ravelin aircraft we saw in 2025 and maybe the rationale behind that?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Yes, so if you look at the forecast we've given, there was a question earlier just on the net proceeds on the asset sales. We're certainly targeting some higher loan to value aircraft, so that's why you're seeing maybe the net generation down a bit, but the sales number up. On Ravelin, yes, we're still targeting 2025 for that piece to wrap it up. You may see the odd aircraft in the interim or a few aircraft in the interim, but it's a wrap up in '25, so that's a big piece of the puzzle.

Matthew Lee — Analyst, Canaccord Genuity

All right. That's fantastic. Thanks, guys.

Operator

There are no further questions at this time. I will turn the call back over to Tyrone for closing remarks.

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

Thank you, Julie, and thank you, everyone, for taking part in this call during a very busy week for reporting. Have a good day, everyone.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for joining and you may now disconnect your lines. Thank you.