

Chorus Aviation Inc.

First Quarter 2024 Financial Results

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Chorus First Quarter 2024 Financial Results Conference Call.

At this time, all lines are on listen only mode. Following the presentation, we will conduct a question-and-answer session. If at any time during this call you need assistance, please press star zero for the Operator. This call is being recorded on Tuesday May 7, 2024.

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

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

Thank you, Joanna.

Hello, and thank you for joining us today for our first quarter 2024 conference call and audio webcast.

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

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

As there may be some forward-looking discussion during the call, I ask that you refer to the caution regarding forward-looking statements and information found in the MD&A. This pertains specifically to the results and operations of Chorus Aviation Inc. for the three months ended March 31, 2024, as well as the outlook section and other sections of our MD&A Day 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 flow. Please, refer to our MD&A for discussion related 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.

Good morning, everyone, and thank you, Tyrone.

This quarter was marked by solid progress on our plan and key metrics, leading to meaningful improvements on our deleveraging goals and generation of strong cash flows.

Before I get into the first quarter highlights, I want to acknowledge that we are not satisfied where our share price is trading today, and we recognize that the transition of the leasing business to an asset light model has been slower than we had planned. This is a top priority for us and we're very focused on improving value for our shareholders. We're working hard to optimize returns while accelerating and monetizing assets in our Falko leasing business.

I am happy to report that since the last quarter, the leasing business has continued to strengthen. Over the past few months, we've seen improvements in both lease renewal rates on key assets and an increase in asset sale opportunities. We remain very confident in the regional leasing space and in our ability to optimize the value of the over 100 owned or majority owned assets under management by Falko.

At the same time, we've been active with our NCIB and have cancelled over 5 percent of our shares since its launch in 2022, including over 900,000 shares this last quarter, and we will continue with our NCIB.

Now turning back to the first quarter results. Throughout the first quarter, we performed well and met our financial targets. As I mentioned earlier this led to solid outcomes on our debt reduction goals and generation of cash flows from operations and asset sales. Gary will speak to those details in his update.

This continued progress of strengthening our balance sheet, reducing our debt servicing costs, and generating solid free cash flows will position us for future growth and underscores our absolute determination to drive shareholder value.

Throughout the quarter, all of our businesses rolled up their sleeves to contribute to these results. Jazz generated solid earnings and cash flows under its long-term capacity purchase agreement with Air Canada. Throughout the quarter, Jazz saw pilot recruitment strengthen with the intake for its pilot classes several months in advance. Randolph and his team at Jazz have demonstrated exceptional operational performance in Q1 with notable year-over-year improvements in almost all metrics.

Falko executed well on trading activity with Jeremy and the team concluding 23 aircraft transactions, including the sale of three aircrafts and two engines in support of our asset light strategy, and they executed on a sale and purchase agreement with Nordic Aviation Capital to acquire a portfolio of 24 Embraer aircraft on behalf of Fund II.

Voyageur continued to execute on the growth plan with Corey and team pursuing several new business development opportunities, making strong progress in key areas of specialty flying, MRL and USM.

Additionally, we're very pleased to announce that Voyageur purchased the King Air 350 in the first quarter and leased it to the Canadian Department of National Defense. This represents an expansion of Voyageur's existing in-service support contract for the manned airborne intelligence surveillance and reconnaissance program (MAISR).

Given the strong performance of our operating business, today, I'm pleased to report that we are increasing our 2024 guidance for consolidated Adjusted EBITDA and free cash flow, as well as the majority of guidance for RAL, including net proceeds from asset sales.

In conclusion, I'd like to reiterate the fundamentals of our business are strong, and that we will continue to improve them. Chorus has the right elements and the right blend of capabilities to be an industry leader within the regional aviation space and to deliver great value to our shareholders. The Chorus team represents the best talent our industry has to offer, and I want to thank each one of them for their focus and contributions throughout the quarter.

Finally, I want to express my thanks to our investors for their ongoing support as I reiterate our commitment to value creation and to building a resilient industry-leading business. Thank you.

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

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Thank you, Colin, and good morning.

Our first quarter results are in line with our targets. As Colin mentioned, we are increasing our guidance for the remainder of 2024, primarily reflecting our strengthening asset sales pipeline. As we look at our results for Q1 2024, our Adjusted EBITDA came in at \$109.2 million with our Jazz and Voyageur businesses combining to deliver Adjusted EBITDA of \$62.4 million and Falko delivering \$55 million.

Our free cash flow was \$102.1 million during the quarter primarily derived from strong operating cash flows and net proceeds of \$38 million primarily related to the sale of two A220s. Our leverage ratio was 3.4 at the end of the order down from 3.6 at December 31, 2023, and down a full turn from 4.4 at the end of December 31, 2022.

This has been accomplished largely through long-term debt reduction, including approximately \$594 million of long-term debt repayments in the past 18 months. We also allocated capital to retire about \$10.5 million shares since Q4 2022 for approximately \$33 million.

As mentioned last quarter, we are pleased to continue positive change, or we see continuing positive changes in the airline credit environment. During the quarter, we signed an agreement with Azul which restructured their aircraft lease arrangements to provide for the recovery of all contracted amounts owed.

Looking to the remainder of 2024, we have increased our consolidated guidance as follows. Increased Adjusted EBITDA guidance by \$10 million to \$360 million to \$410 million; increased free cash flow guidance by 10 million to \$300 million to \$350 million; increased expected net proceeds from asset sales guidance by \$30 million to \$60 million to \$80 million. Segment guidance for both RAS and RAL have been updated to support these changes.

With respect to Fund III, we continue to anticipate closing it by the end of 2024. Finally, we remain active in our NCIB, purchasing 938,000 shares in the quarter. At our current market price, we intend to continue to be active in our NCIB throughout the balance of the year.

As Colin noted, with continued improvement in our key metrics and an increase in our financial targets, we are demonstrating progress, both in strengthening our balance sheet and putting us on a path to value creation.

We are now ready to take your questions.

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. If you are using a speaker phone, please lift the handset before pressing any keys. One moment please for your first question.

First question comes from James McGarragle from RBC. Please, go ahead.

James McGarragle — Analyst, RBC Capital Market.

Hey, thanks for taking my question and congrats on a good quarter.

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

Thank you.

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Thanks.

James McGarragle — Analyst, RBC Capital Market.

I just wanted to get a little bit more color on what's driving the acceleration in asset sales. You mentioned that the market's picking up in terms of rates, aircraft values. I need you to provide a little bit more color there and how you see the market evolving during the remainder of the year.

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

Yes. I can give you, my perspective. James and Gary may jump in with his as well but what we've seen in the last a while is a lot more interest in trading activity and most specifically on the sales side at reasonable values. We're pretty excited about that. These type of things take a long time and they're never super quick. There's kind of always a bit of a tail to this stuff but we've certainly seen a good improvement the last several months, as we come out of the last year there where it was a little bit sluggish, we're pretty encouraged by all that and we're encouraged by some of the lease rates we're seeing on key assets improving. Generally seeing an incline out, an improvement in all aspects.

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Yeah. I think Colin hit it. We see a good pipeline moving ahead. We've got a lot of an interest in asset sales. We have a trading desk over at Falko that is very active in the market. We're feeling very confident in that. Back to Colin's point, the rates that we've been renewing aircraft at have been slightly better than planned.

James McGarragle — Analyst, RBC Capital Market.

I appreciate the color and wanted to ask another question on the Brookfield and the Castle Lake acquisition. Have you spoken to Brookfield at all on that? Just trying to get any color on the impact that might have on your relationship with them and any potential impact on Fund III.

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

I can talk just very high level to the fact that Brookfield's very close to us. This did not come as a surprise to us and there's absolutely no impact to us in any way. We're not in any way affected by this.

This is a transaction that has really nothing to do with us on the aviation side, and Brookfield, as you know, is on our Board. Fully supportive. They talk to us about this. There's absolutely no issues there at all. It's not really tied in any way to anything for us.

James McGarragle — Analyst, RBC Capital Market.

I appreciate the color, and I'll turn the line over. Thank you.

Operator

Thank you. Next question comes from Kevin Chiang at CIBC. Please, go ahead.

Kevin Chiang — Analyst, CIBC

Good morning. Thanks for taking my questions here. Maybe if I just look at it simplistically, I know a lot of moving parts here, and as you sell assets and transition to your asset light model and you're still getting Fund III ready to go here, there's a little bit of noise and earnings. I guess if I look at it simplistically, if I look at the midpoint of your full year guide and I back out what you did in Q1, it implies a decent sequential decline in the run rate EBITDA from 109 to 92. Maybe just if you could provide some color as to the cadence of EBITDA through the year.

Do you think you're tracking towards the upper end of that range just given how you performed in Q1 and there's some conservatism in your guidance? Are there other puts and takes we should be thinking about just giving the asset sales and the impact that has on the P&L?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Yes, Kevin, it's Gary here. I think on the EBITDA, it's going to be fairly straight throughout the balance of the year. We do have some lease renewals, but there's not a lot of those coming up, but there are a few. As far as the range goes, we have the range there where we're tracking within it, obviously, but it's going to be a pretty steady year we would hope.

On the Falko side, the renewals are coming in at a slightly better than planned. We're comfortable with where we're at on the guidance. But as you renew aircraft, they do come down a bit in the revenue as we talked about in the last call, and that's reflective in the ranges we gave you.

Kevin Chiang — Analyst, CIBC

Okay. Just in terms of some of the commentary around increased transactions. It sounds like lease rates are coming a little bit better for the aircraft that you traffic in which is primarily regional jets. Just wondering, just given some of the issues in the broader narrow body space, whether it's a 737 or some of the engine issues with the 321, is that driving some of the increased activity you're seeing in the regional jet market? Is it taking longer for airlines to maybe replace their fleet or routes that airlines thought they would high grade maybe to a larger aircraft, they're now looking at maintaining using a regional jet given some of the issues in the narrow body space? Just wondering if you're seeing any of that play out given some of the activities you saw in the first quarter here.

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

Hi Kevin. Yes, it's Colin. I think you're probably seeing some impact from that. There's no question about that. Yes, that space is tight, and they do have several issues there, so there's probably

some residual impact. But we're also seeing good renewals with existing operators on aircraft as well, which as Gary said, we're seeing good, improved lease rates. Let's put it that way. I think it's probably a combination certainly, but there's obviously going to be some impact from the fact that they're tight on narrow body for sure.

Kevin Chiang — Analyst, CIBC

Okay. Just last one for me, sounds like the pilot situation or cadet situation has gotten a little bit better here. How much of this might be due to links shutting down and maybe that creating supply or a slowdown on the demand side is maybe helping rebalance the pilot shortage issue. Just any color there would be helpful.

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

I think in the U.S, the main lines have seen a bit of a surplus. I wouldn't call it a surplus, but certainly some extra pilots sitting there on the mainline side due to the recent changes in the industry. That's going to take some of the pressure off the regionals across everywhere. We are seeing, as a result of several of those things, we're seeing good improvements on the pilot side. We're getting better higher time candidates. Our classes are all full three months in advance. There is absolutely no issues with us from a hiring perspective. We've got lots of throughput and it's just a matter now of starting to regrow and get things back to a little bit larger size than we were this last year.

Kevin Chiang — Analyst, CIBC

Perfect. Thank you for taking my question this morning.

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

You bet. Thanks Kevin.

Operator

Thank you. The next question comes from Hillary Cacanando at Deutsche Bank. Please, go ahead.

Hillary Cacanando — Analyst, Deutsche Bank

Hi. Thank you for taking my question. You mentioned some new business development opportunity on the Voyageur side with MRO. I was wondering if you could just provide a little more color there given the huge demand for MRO and engine maintenance work these days, I was wondering if you have any plans to kind of expand the Voyageur side of the business even more. Any additional color would be appreciated.

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

Sure. Hi, Hillary. It's Colin. The Voyageur book of business I think we've talked about a little bit; they basically have a growth plan that we've built into our business plan going forward and they've been hitting that. They've been successfully hitting that the last year, this year. They're very much on track for hitting some decent growth year-over year again.

The areas of growth that they've seen this last little while have really been those core areas we focused them on as they exited, as we came out of COVID or the pandemic period, and that's really on the USM side and on the maintenance and in service support side.

They've had some growth with MAISR. As we said, they've added another aircraft there which was pretty exciting for us. That was quite meaningful, and they've had a lot of maintenance growth, specialty maintenance type stuff that they've been working on new projects.

We're pretty encouraged by them and where they're headed. We will, as we move forward, think about how do we continue to push that growth and can we supercharge it with small investments of any time. We're excited for them for sure. They're doing well tracking well and I fully anticipate that we will continue to produce year-over-year growth for the next several years.

Hillary Cacanando — Analyst, Deutsche Bank

Got it. Thank you. Just one follow up about the purchase of portfolio of Embraer aircraft from NAC for Fund II. I was just wondering if you can—if you're seeing a lot of opportunity for additional portfolio acquisition this year and just a competitive landscape with NAC selling off their aircraft. Are you seeing any new players coming into the regional space or are you seeing more getting out of the regional space just what you're seeing there in terms of competitive landscape?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Hillary, it's Gary here. I think there's certainly opportunities to transact out there. I think the aircraft that Falko picked up for Fund II kind of demonstrate that. There's certainly activity out there. As far as the aircraft leasing space, I think Nordic has had its plans and I think it's well known where they're focused, they haven't really been that active in the market except we're selling. As far as the landscape

goes, it's been fairly stable generally speaking. We haven't really seen any real dramatic changes or significant changes within it, it's pretty stable.

Hillary Cacanando — Analyst, Deutsche Bank

Got it. Thank you so much.

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Thanks.

Operator

Thank you. The next question comes from Cameron Doerksen at National Bank Financial. Please, go ahead.

Cameron Doerksen — Analyst, National Bank Financial

Yes, thanks. Good morning. Just a question on the Fund III. It sounds like you're still feeling confident about getting something closed by the end of the year here. Just given what you described earlier as a more positive environment, as far as lease rate renewals and things like that, and more trading activity, has the nature of the conversations with potential investors in Fund III changed? Is it things getting more serious? Just any update on what you're seeing out there.

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

Yes. I can give you my views, Cameron. I don't think anything has really significantly changed from the investors that we've been talking to. We're still the same key people that we've been communicating and working with. It's like anything, we remain pretty confident that we will get Fund III there with a bit of time. Unfortunately, it's been a little bit slower than we had originally planned given the environment we've been in. But we're seeing, not only in the leasing side but in all sides really, an improving trend there, which in the long run kind of puts focus on. At some point we're going to get this done here fairly soon, so it's still in the hopper. Still moving ahead. Not a lot of changes really with who we're talking to.

Cameron Doerksen — Analyst, National Bank Financial

Okay. That's helpful. Maybe just second question, just trying to understand the accounts receivable line item, and the potential cash being generated from that. You got this as you're restructuring. Maybe you can just go into a little bit of detail on how you can or how the timing of how that turns into cash for you ultimately and then as well as the other cash collections from accounts receivable. Just trying to understand what the potential positive cash impact might be in 2024 and heading into 2025.

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

No, that's good question, Cam. The receivables have certain time frames associated with them obviously. If you look at Azul, there's been a restructuring there that they've gone through and what you're seeing is essentially we've got two elements. One is a longer-term note. One's a shorter-term piece. Basically, that'll get collected over the next two to three years conceptually, maybe a bit longer

than that, I think, with the timing of one of the instruments. It'll come in gradually over the course of time.

Our other receivables have different dates associated with them, some shorter term, some longer term. There's certainly some upside as we see it in the cash going forward as we collect those receivables, but the timing, it takes a little bit to mature through the statements.

Cameron Doerksen — Analyst, National Bank Financial

Okay, all right. That was all for me. Thanks very much.

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

Thank you.

Operator

Thank you. Our next question comes from Tim James at D Powen. Please, go ahead.

Tim James — Analyst, D Powen

Thanks very much. Good morning. Just want to turn back to the lease rate environment for a moment in RAL. In the first quarter, the decrease in lease revenue was primarily due to lower market rates on released aircraft. Am I correct that is a reflection of simply older aircraft as obviously they've aged from the original contract term and because they're older now, you're securing or contracting at lower lease rates and that's not a function of the market per se?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Yes. Tim, it's Gary here. Two things happened in the quarter. One is you did have—we did have some asset sales. You had the two A220s and another aircraft, those did reflect in the revenue during the quarter. But back to your point, as they renew in the second lease, they come down in value but yet they're still producing. That's what you'll start to see moving ahead in there. When you look at the quarter, those are two fairly significant items bringing out the A220s and the Air Austral aircraft.

Tim James — Analyst, D Powen

Okay. Then you commented earlier that lease rates are perking up a little stronger than expected. Does this mean you're actually seeing them increase on a year-over-year basis or are they just not as weak or appear stronger than expected? Again, I'm thinking now, I want to think on an apples to apples, so a given aircraft at a given age, I just want to think common comparison.

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

Tim, what we're looking at there is when we look at our aircraft lease renewals, the ones that are coming up, they're coming in slightly better than where we planned, which is good news from that. We've seen a bit of an uptick in some of the lease rates. It's modest but it's certainly a little bit better.

Tim James — Analyst, D Powen

Do you feel then for—pick any given aircraft, is the lease rate that can be secured today higher than the lease rate that could be secured 12 months ago?

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

I'd say generally yes. The market has been improving. I think you can look at a lot of the industry publications, Ishka and others, that the rates have been coming up in general. We're starting to see that in some of the renewals. Yes, I think generally speaking, the market is getting better. I think there was a question earlier about the tightness in the market. There's no question that the manufacturing effects at Airbus or sorry at Boeing and others on the narrow body side has had an impact in the sense that airlines out there are trying to secure lift. They're trying to secure lift with aircraft that are coming up for lease renewals including the E190s and others. You're seeing some demand there and that's having a bit of an impact on the lease rates.

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

A lot of the demand is being tightened up by the fact that these aircraft that were sitting as we came out of the pandemic are being picked up right. They are getting picked up and bought up. The surpluses are drying up, especially if you start to look at the Q400 and we're seeing some improvements there for sure. There's no question about that if you look at light aircraft same time frame renewals. It's really, it's as we've come out of this last year or so, we're really seeing things start to tighten slowly.

Tim James — Analyst, D Powen

Okay, thank you. Then my last question, there was a significant Improvement or step up in the revenue build that was collected in the first quarter versus Q4. Was there a particular driver of that? I think it went up 10 percentage points if I'm not mistaken or roughly that from Q4 to Q1. Is that just sort

of the normal recovery and the other factors that we've been talking about, or was there a particular driver of that improvement?

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

The particular driver was signing the Azul agreement in February. That's been picked over and that's where most of that difference was.

Tim James — Analyst, D Powen

I see. Perfect. Okay. Thank you very much.

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

Thank you.

Operator

Thank you. Next question comes from Konark Gupta at Scotia Bank. Please, go ahead.

Konark Gupta — Analyst, Scotiabank

Thanks, and good morning. My congratulations to the quarter. If I can ask you on the rail segment first. The gain on asset sales, do you expect that line item to continue producing revenue for the remaining three quarters? It was I think \$3 million in Q1.

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Yes. It's Gary here. I'm not predicting that at this stage. Those things do come and go but right now, we're predicting zero, basically break even. Hopefully, we'll see something from it.

Konark Gupta — Analyst, Scotiabank

It's not in the plan basically, right?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

No, it isn't. If you look at the disclosure in the outlook section, Konark, we said when you go back to last year, we didn't put anything in that particular line. It's upside.

Konark Gupta — Analyst, Scotiabank

Okay, makes sense. Thank you. Then the asset management fee line item seems a little bit volatile quarter-to-quarter. Q1 obviously was down from last year's Q1 a little bit, and then also down slightly from Q4 last year. How should we model it before the Fund III comes up?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Yes. I would model it for the rest of the quarters very similar to what you see in Q1. What you're seeing there Konark is really I think the majority of it relates to Fund II. It's now moving to capital deployed versus committed capital. It's now at the five-year mark. That's when it tips over and that's what you're seeing. It's just a simple function of how the math works.

Konark Gupta — Analyst, Scotiabank

I see. Okay, perfect. Then Fund III will obviously have an impact on this line item as you go forward?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

That's right. Once Fund III gets solved and we get that across the line, then you'll see the fees come in for that.

Konark Gupta — Analyst, Scotiabank

Right. Makes sense. Thank you. Okay. Moving on the CPA side, can you remind us why in your outlook for 2025 and '26, the leasing revenue under CPA is going down in '26 versus '25. However, the number of aircraft and the lease is same at I think 39.

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

It's Gary here again. In 2026 we have a group of 12 aircraft that are extended under the CPA with different lease rates starting in 2026. That's what you're seeing. There's a tranche of 12 Q400s, and that's what you're seeing the step down for.

Konark Gupta — Analyst, Scotiabank

I see, okay. I think you probably noted before historically, that even with these new lease rates or decline in lease rates, these RYC on these things is still seem similar or better maybe because you're paying down debt.

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Yes. Those aircraft have no debt on them.

Konark Gupta — Analyst, Scotiabank

Right, okay. Makes sense. Thanks. Last one for me before I turn over, on the debt side I think you have some \$400 million plus of debt coming due in the next 12 months or so. Any sense on how do you plan to repay? You have some cash generation, that's pretty good here. Solid, obviously. But is there any financing opportunity you see as well?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Yes. I think the biggest piece within there if you look at it, Konark, is really the Series A debentures that come to at the end of the year. They're current and that's what you're picking up. We have a \$50 million facility with bank Nova Scotia that will enable us to pay 50 of the 86 and then the remainder will pay out of cash by the end of the year. That's the big piece that you're seeing within that current portion. The rest of it is generally amortizing debt.

Konark Gupta — Analyst, Scotiabank

Makes sense. Thanks so much, Gary. Thank you.

Operator

Thank you. Next question comes from Betty Yang at Canaccord Genuity. Please, go ahead.

Betty Yang — Analyst, Canaccord Genuity

Hi, this is Betty on the call for Matt Lee. Just in terms of the aircraft that were coming out of the CPA in 2025, what would be the plan for those? Are they expected to be moved into a Falco (inaudible) or leased to another customer at the parent (inaudible)? just trying to get understanding of the expectation around them? Thanks

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Yes, it's Gary here. Right now, we're working through the expectations around those. They could be sold. They could be re-leased. We could move them into some other type of activity. We're still working through that. It's about a year and a half out, that's when you start to work on it. But conceptually, we'll do something with the asset, yes.

Betty Yang — Analyst, Canaccord Genuity

Thank you. Another question I have is on the guidance. Just wanted to consider the EBITDA and free cash flow guidance rates in unison. It sounds like you're looking at selling more aircraft in the air, but also perhaps showing higher EBITDA. Can you walk through how that works?

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

When we sell the aircraft, generally speaking, you would reduce your revenue or your EBITDA moving ahead, but you get the free cash flow after proceeds. That's what you're seeing reflective. One is our revenues, or the EBITDA is coming in a bit stronger than we expected. Secondly, we're expecting 60

million to 80 million in net proceeds going through the free cashflow line this year versus what we had published earlier. Those are the two factors that are making their way through.

Betty Yang — Analyst, Canaccord Genuity

Awesome. Thank you very much.

Operator

Thank you, ladies and gentlemen. As a reminder, should you have any questions, please press star one.

Next question comes from David Ocampo at Cormark Securities. Please, go ahead.

David Ocampo — Analyst, Cormark Securities

Thank you. Just a couple follow-up questions. The first one is on Kevin's line of questioning about the cadence of profitability for 2024. I did want to focus a little bit more on the EPS line since there is a bunch of moving parts there. How should we expect that is it a sequential step down as we move through the years or does the debt reductions from lower interest payments offset that the declining EBITDA?

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

As you go through the course of the year, as I said earlier, once you take out the one timers and that, we're pretty flat. I think that's probably how you should look at it. Generally speaking, David, it's pretty flat through the rest of the year.

David Ocampo — Analyst, Cormark Securities

I'm sorry. That's flat versus the Q1?

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

Yes, that's right. Yes. Similar range.

David Ocampo — Analyst, Cormark Securities

Okay. When we think about the improvement in lease rates on the renewals that you guys are seeing, are you guys thinking about that as levels consistent with hitting your IR targets? I think it was a mid-low teens type return that you guys were targeting.

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

Yes. I think everything's been as we expected. The rates have gone up on the leases, we're seeing some improvements there. If you look at the funds in particular, those two pieces, Fund I was a pre-COVID fund, so it's a bit different. It's more of a small return. In the IRR side, as we've talked about before, Fund II right now, is still hitting its return targets. I say generally speaking everything's lining up for these lease renewals as expected.

David Ocampo — Analyst, Cormark Securities

Yes, perfect. Then last one for me, take a look at Fund I, there's still around I think \$375 million of aircraft on the books and the funds 10-year target date is 2025. Should we expect all these aircraft to be sold by 2025 or is there an ability for the fund to be extended beyond 2025?

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

The fund has the option for two, one-year extensions. That's possible depending on where it's at. We're still targeting to wind it up in 2025. The other side too is there are e-notes within the ABS structure or the Fund I structure which are basically the equity instruments and those are an opportunity to sell too. There's a couple different ways you can sell aircraft and you can also sell the e-notes. That's another way to do it.

David Ocampo — Analyst, Cormark Securities

Does extending Fund I have any impact on your ability to close Fund III?

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

No, they're independent.

David Ocampo — Analyst, Cormark Securities

Okay. That's all the questions I have. Thank you.

Operator

Thank you. We have no further questions. I will turn the call back over for closing comments.

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

Thank you, Joanna, and thank you all for taking part in today's call. Have a good day.

Operator

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