FINAL TRANSCRIPT

Chorus Aviation Inc.

Third Quarter 2024 Financial Results

Event Date/Time: November 7, 2024 — 9:00 a.m. E.T.

Length: 25 minutes

CORPORATE PARTICIPANTS

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

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

Gary Osborne
Chorus Aviation Inc. — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Hillary Cacanando
Deutsche Bank — Analyst

David Ocampo
Cormark Securities — Analyst

Tim James
TD Cowen — Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Chorus Third Quarter of (sic) [2024] Financial Results Conference Call. At this time, all lines are in listen-only mode.

Following the presentation, we will conduct a question-and-answer session.

If at any time during this call you require immediate assistance, please press *, 0 for the Operator.

This call is being recorded on Thursday, November 7, 2024.

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

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

Thank you, Elle (phon). Hello and thank you for joining us today for our third quarter 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 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 our MD&A. This pertains specifically to the results and operations of Chorus Aviation Inc. for the three months ended September 30, 2024, as well as the Outlook section and other sections of the MD&A where such statements appear.

As a result of the agreement to sell Chorus Regional Aviation (sic) [Aircraft] Leasing, RAL segment, the RAL segment has been reclassified to discontinued operations. And our Regional Aviation

Services segment, together with corporate, is now referred to as continuing operations. Assuming the closing of the RAL sale, Chorus will have one reportable operating segment and will no longer disclose its results on a segmented basis.

Finally, 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. This quarter, we have also provided certain of these measures on a pro forma basis to illustrate the financial impact of the disposition of the RAL segment. Please refer to our MD&A for further information relating to the use of such non-GAAP measures and pro forma figures.

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. Our third quarter results are reflective of Chorus's strengthening balance sheet and financial metrics. As well, they highlight the reliable earnings power of the aviation services business.

Over the third quarter, we continued to execute on the plan, making significant progress towards the previously announced sale of our Leasing segment. Last month, we were pleased to announce the fulfillment of all regulatory conditions for the completion of the transaction. Transaction remains on track, and we expect it to close by the end of 2024.

As the Leasing transaction comes to a close, we're turning our focus to our share price, shareholder returns, and to strengthening our existing businesses. Just yesterday, we announced a renewal of our normal course issuer bid, NCIB, for our shares. This reflects the fact that Chorus' shares remain undervalued, offering a strong return for shareholders and a good use of available funds.

On the financial side, let me touch on a couple of key points before I pass it over to Gary to provide you the details.

At the end of the third quarter, we continued to improve our leverage ratio to 3.0, which has come down from 3.3 at the beginning of the year, and we will see our leverage ratio continue to improve following the close of the transaction, positioning us well for the future with low debt levels and debt-servicing costs.

Additionally, we continue to execute well on the free cash flow side, generating over $32 million this quarter.

Our adjusted EBITDA came in at almost $54 million for the quarter and $159 million year to date.

Randolph and the Jazz team continues to execute very well, delivering consistent, strong, contracted earnings from the CPA with Air Canada and notable year-over-year improvements in almost all Q3 operational performance metrics.

The strong performance is attributable to a combination of factors, which include the team's deep industry expertise and knowledge, capability in resource planning, and a strong focus on hub and network-related performance.

Our relationship with our key customer, Air Canada, has never been stronger, and I'm pleased to report that this quarter, we've extended six of our Q400 CPA aircraft leases with Air Canada out to 2026, which were set to expire next year.

On the pilot recruitment side, things are progressing very nicely, with Jazz welcoming its first class of new-hire pilots from our airline pilot training academy, Cygnet Aviation, in October.

Adding capacity using Cygnet pilot training capabilities is yet another key milestone for us. Having the capabilities to train airline-ready pilots from the ground up, with the latest technologies, training simulators, and aircraft, ensures a solid flow of airline-ready first officers going forward.

Finally, Jazz has recently been recognized as an Award of Excellence winner, its eighth consecutive year accepting an award as part of Canada's Safest Employers.

Cory and the team at Voyageur continue to execute very well with revenues increasing quarter over quarter, generating record parts sales during the quarter and demonstrating their success in pursuing and realizing emerging opportunities.

Voyageur continued the expansion of their air ambulance operations at Grand Manan Island over the quarter as part of the Ambulance New Brunswick's Provincial Air Ambulance program.

They continue to build out their special mission support contract with the Department of National Defence and manned airborne intelligence, surveillance and reconnaissance project, MAISR, and have now completed staffing and recruitment for the support of the fleet in Trenton.

Lynne and the team at Cygnet are growing the business well with the launch of their sixth cohort of future airline pilots who started in August. They've also recently started an inaugural Free Agent Program where graduating students will be referred to key partner airlines, providing them a broad set of options. They're also working on an academy partnership with other Canadian airlines to continue to grow enrollment.

In conclusion, as Chorus continues to execute on our plan and we move towards closing the sale transaction, we're focused on a return-of-capital program for shareholders, strengthening our businesses, and prudently managing down our corporate costs. I'm very confident in the strong future for Chorus, one that will allow us to continue to build on our history as an industry leader.

I'd like to close by thanking our employees across all our businesses for their dedication, focus, and commitment to hard work, and to thank our shareholders and Board of Directors for their support.

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

Gary Osborne — Chief Financial Officer, Chorus Aviation Inc.

Thank you, Colin, and good morning.

Our third quarter results for our continuing operations were in line with our expectations and the guidance provided for the Jazz CPA capital expenditures in the Outlook section of the MD&A.

As we look at the results for our continuing operations for Q3 2024, our adjusted EBITDA came in at $54 million, in line with our expectations.

Our free cash flow was $32 million for the quarter, primarily derived from operating cash flows.

Our leverage ratio was 3.0 at the end of the quarter, down from 3.3 at December 31, 2023. This has been accomplished primarily through long-term debt repayments of $94 million since December 31, '23.

Our adjusted earnings available to common shareholders, per common share from continuing operations, was $0.06.

As previously mentioned, after closing, which is expected before the end of the year, the sale of the RAL segment will allow us to eliminate $1.7 billion in financings, including all RAL aircraft-related debt, substantially all of Chorus' corporate debt, and the US$300 million in preferred shares, along with the MOIC of US$63.3 million.

If we look at this quarter and overlay the effect of those on a pro forma basis, we see pro forma adjusted earnings available to common shareholders, per common share from continuing operations, of

$0.08 and $0.25 for the three and nine months ended September 30, 2024. This is a significant increase when compared to the current figures of $0.06 and $0.09 for the quarter and year to date respectively.

Our pro forma leverage ratio was 1.5 at September 30, 2024, which is half of the current actual leverage of 3.0 and demonstrates the significant financial flexibility we will have moving forward.

And pro forma free cash flow of $37 million and $104 million for the three and nine months ended September 30, 2024, up approximately 16 percent and 14 percent from the $32 million and $91 million reported. This demonstrates our strong cash flows that will support future return to capital, shareholders, and measured growth.

Sale of the RAL segment will allow us to make changes to our capital structure that will result in a substantially strengthened and simplified balance sheet. Changes in capital structure will drive improved profitability, primarily driven from the reduced debt servicing costs, and by eliminating preferred share dividends, which more than offset the earnings foregone from the RAL sale.

We have also provided information in our expected fleet of 80 aircraft in the Jazz CPA to 2026, which shows that, excluding the nine Q400s, so their planned exit, the current aircraft leased under the CPA are needed to fulfill the 80-aircraft minimum at this point.

We continue to see growth at Voyageur with its revenue year to date of $90 million, up 16 percent from the $77 million last year, with EBITDA margins remaining in the 23 percent to 25 percent range.

We are encouraged by this increase in Voyageur's revenue, primarily attributed this quarter to growth in its parts sales business. We expect this trend line to continue through Q4 and into 2025, as we have discussed at our prior Investor Day conference.

We recognize it will take some time for the true value of our business to be fully reflected in our share price. We take the recent movement in the share price as a positive indication. With that in mind, we have renewed our normal course issuer bid, which will give us the ability to purchase, for cancellation, up to 14.8 million shares.

We are now ready to take your questions.

Q&A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the *, followed by the number 1 on your touch-tone phone. You will hear a prompt that your hand has been raised. Should you wish to decline from the polling process, please press the *, followed by the number 2. If you are using a speakerphone, please lift the handset before pressing any keys.

One moment, please, for your first question.

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

Hillary Cacanando — Deutsche Bank

(unintelligible) I have a question for Gary. In the third quarter, the aircraft maintenance materials, supplies, and services line seemed—you know, it's down sequentially, and it's been down—it's down compared to couple of quarters. It's been trending down. I was wondering if there's like seasonality involved, or if there's any read-through for that number.

Gary Osborne

Sorry, Hillary. Can you repeat that question? We had a hard time hearing it.

Hillary Cacanando

Sure. I was just saying in the third quarter, in the financials, the aircraft maintenance materials, supplies, and services number is down this quarter, compared to last quarter and has been trending down. I was wondering if there's any kind of, like, read-through for that number or if there's seasonality, anything to read into that.

Gary Osborne

I'm—yeah. Sorry. It's Gary here. Yeah.

There's really—I mean, generally speaking, it's been trending down just in general, but there's really nothing to report there. Those are the aircraft maintenance expenses we have under the CPA. They're driven by engines, heavy checks, and whatnot. So I wouldn't say there's any seasonality into it but, generally speaking, those are the costs of the fleet covered under the CPA.

Hillary Cacanando

Okay. Got it.

And then you mentioned the Free Agent Program and the academy partnership program at the Cygnet unit. How is that different from—could you just a little more detailed, I guess—how is that different from like the current—I guess, the current path that the pilots have?

Colin Copp

Hi, Hillary. It's Colin.

Yeah. The current path is really the cadet program style, which you really have a partner airline that signs up, and the students are locked into that hiring program from day one. So they come into the program, they get screened, selected, going into the program with, already, a plan and a commitment to go to an airline of choice. That's really the one design of the program, which is kind of like a cadet program.

And then this other one, which is more of a free agent program, is where individuals come in, and they have a breadth of selection as to where they go with various airlines that have committed to have a look at the students and, basically, will place an individual based on the needs of those airlines. So it's kind of—it's a bit more flexible, but it also allows airlines to kind of manage the volumes that they need when they're looking at new-hire students—or new-hire pilots coming in.

Hillary Cacanando

Got it. Great. Thank you very much.

Operator

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

David Ocampo — Cormark Securities

Thanks. Good morning, everyone.

Colin Copp

Good morning.

David Ocampo

You guys touched a little bit on Voyageur in your prepared remarks, but if we take a look at the growth, it is quite impressive. And I think the target that you guys laid out at your investor day is $150 million and perhaps on a 25 percent EBITDA margin. I was hoping you could spend a little bit more time there, talk about where the growth is coming from, and if you see growth kind of continuing at the same run rate into 2026.

Colin Copp

Yeah. Hi, David.

Yeah. Absolutely. Our plan—obviously, we haven't given any guidance or anything on it, but our plan does show growth—well, well beyond 2026 and going forward. We've had a lot of success in repositioning Voyageur in kind of two verticals that they're very good at, and they have the internal strength and capability and knowledge and experience for, and that's really the USM side of the business, the parts side.

And the other's kind of this—there's a large grouping of it, but it's kind of an in-service support/maintenance specialty engineering for defence and specialty-type contracts. And a lot of the work that's being done up there is related to agencies in some way, whether it's the MAISR program, where we're in Trenton and we're supporting a fleet of special mission aircraft, or it's designing and building that, and kind of modifying, doing STCs for aircraft, whether it's a Transport Canada airplane or it's an aerial surveillance aircraft, putting OEMs on big camera systems on board aircraft. Integrating technologies is another big piece that they're doing up there.

So a lot of the work flow has shifted in those areas. And that was our plan design a few years back, as we came out of COVID there, to really focus in there on those areas of defence in particular.

David Ocampo

Yep. That makes a lot of sense, Colin.

But maybe you could touch on the capital intensity of that growth? Is it going to require much CapEx outside of what we've seen over the last few years?

Colin Copp

Yeah. Gary?

Gary Osborne

Yeah. David, it's Gary here.

We’re not seeing a lot of CapEx required at this stage. If you look at the parts sales and you go through the working capital, it’s been fairly steady. There might be a little bit in there, but there’s nothing of a big intensity that you should expect.

David Ocampo

Right. Sounds like a pretty good return initiative then. And then just my last one’s just on the Leasing business with Air Canada.

I mean, you guys did lay out when things are expiring in greater detail, and it was good to see the renewal of the Q400s out to 2026. I look at the aircraft that you guys own that are under the CPA, and it does still feel fairly young. So I’m just curious how your discussions are with Air Canada right now in terms of other lease renewals.

And in the event that AC does go in a different direction, would you guys still be willing to do third-party leases since you just got rid of that business?

Colin Copp

Yeah. I mean, let me take a shot at that.

Look, third-party leasing is not in our portfolio. Like we’re not in the business to do that. There’s no question we do a bit of it in Voyageur, and it’s more around the specialty side of things. But our focus really is on growing out that regional business. We’re staying very focused in kind of the two business segments. I guess it’s three, if you want to call flight training one, but it’s a pretty small piece for sure.

But the two big ones, which are the regional flying segment and looking at opportunities there, how we continue to grow that out with time, it may be different forms. It may come in different forms. It doesn’t always have to be just at the CPA level. But the regional flying book of business and then the Voyageur book of business, and that’s really been where we’ve been core.

But I think Gary would say—I'm putting words in his mouth—we're always looking to do the best absolute thing we can financially from the perspective of that fleet. As it comes out, if it does come out, we're going to make the best financial decision. I wouldn't say definitively we won't ever lease another airplane, but that's not in the plan.

Gary Osborne

Yeah. So, David, it's Gary here. So our preference is to sell the aircraft, obviously. But back to Colin's point, I wouldn't rule out a lease or two here or there just to migrate them to sell them. But our plans are to sell them.

David Ocampo

Okay. Do you guys have a sense on the book value of that aircraft? Because it is quite a bit that's expiring here under your leases with Air Canada.

Gary Osborne

What was that question, David? Sorry?

David Ocampo

Just the book value and if you could expect to get book if—

Gary Osborne

Yeah. That's our—

David Ocampo

—if it came to selling it—

Gary Osborne

—our expectation is book value for sure. And, yeah, we've been—if you remember, too, we've had these aircraft for essentially 12-plus years under the leases. So they've been with us for a while.

David Ocampo

Okay. Sounds good. Thanks a lot, guys. We appreciate it.

Colin Copp

Thank you.

Operator

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

Tim James — TD Cowen

Thanks very much and good morning.

I'm just wondering, Colin, if you could explore a little more and provide some detail on the nature of the contract durations in Voyageur. What is the profile? And I realize you were talking about sort of different businesses, so I'm sure there's a variety. But can you just kind of give us a bit of a sense for how much are really almost like short-term purchase orders versus multiyear contracts? And how we should think about that?

Colin Copp

Sorry. This is Tim?

Tim James

Yes.

Colin Copp

Yeah. Sorry, just having a little hard to hear you. You're just asking about the MAISR contract and kind of more details around it, is what I picked up.

Tim James

Well, it's—

Colin Copp

I—

Tim James

To really have a sense for the duration of the contracts. And I'm just trying to get at a sense for the visibility in that business over the longer term.

Colin Copp

I mean, it's—look, I'm not 100 percent sure. I got to go back and look and see what we put in the press release. I mean, the challenge with dealing with some of this is that, typically, we're not in a position to disclose a lot of information around it.

It is a long-term contract—I can clearly say that to you—with firm commitments. It would be what you would see in any kind of most typical government defence contracts, so long term, quite sticky, very much focused on execution and making sure that that we, as a provider, are executing strong. And in those cases where you're doing that, you see growth in those contracts quite often.

We did add an additional aircraft, as we said, just a little while ago. We announced that and put that in there. So we built out a training program for them as well with that airplane. So it's a program that we plan to have around for a very long time.

And we just recently—as I said in my speech there, my update, we've just recently finished the full kind of recruitment for everybody in there. So we got a full complement of employees that's really starting to spool up now and really start to move. The aircraft are there. So we're seeing—we're going to see some good growth there from that contract for sure and, like I said, it's several years.

Tim James

Okay. Great. Thank you. My second question, I'm just wondering if you could expand.

Colin, you mentioned exploring regional flying in, I believe you said, different forms. Could you give us a bit of a sense on what you mean by that? Or some examples of what might be different forms?

Colin Copp

Yeah. That's from my earlier comment, I guess.

And look, the reality is, look, we're focused on that segment, the regional aviation flying segment in Canada. And we're going to continue to focus on that in every way we need to. We just recently renewed these aircraft with Air Canada, pushed them out another year, which is great. And we're going to continue to do that.

So right now, it's really about focusing on our existing businesses and strengthening them in every way we can. And I don't think there's any real limitations to that as far as scope goes. For us, it's very much about building out that business.

Tim James

Great. Thanks very much, Colin.

Colin Copp

Okay. Thank you.

Operator

There are no further questions at this time. Please continue, Mr. Tyrone Cotie.

Tyrone Cotie

Yeah. Thank you, Elle. And thank you, everyone, for taking part in this morning's call.

Have a good day.

Operator

Ladies and gentlemen, this concludes today’s conference call. Thank you for your participation. You may now disconnect.