Chorus Aviation Announces Agreement to Sell its Regional Aircraft Leasing Segment

Transaction to unlock significant embedded equity value for common shareholders[1] and position Chorus for the future

- Sale price of $1.9 billion to unlock embedded equity value in the Regional Aircraft Leasing ("**RAL**") segment, with net proceeds of $814 million.
- Transaction to eliminate $1.7 billion in financings, including all RAL segment aircraft-related debt, substantially all Chorus corporate debt, and US$300 million in Series 1 Preferred Shares.[2]
- Pro forma Leverage Ratio[3] as at the end of 2023 would decrease to 1.8x from 3.6x, with substantially all remaining debt relating to aircraft operated by Jazz Aviation under the Capacity Purchase Agreement (the "**CPA**") with Air Canada and supported by fixed payments under the CPA.
- Pro forma Free Cash Flow[3] after debt payments as at the end of 2023 is higher by 29%.
- Post-closing, Chorus to produce higher Free Cash Flow after debt repayments and have significant liquidity to both enable growth in aviation services and accelerate the return of capital to common shareholders.
- Brookfield Asset Management Ltd. (NYSE: BAM, TSX: BAM) through its Special Investments program, and Air Canada (TSX: AC), Chorus' two largest common shareholders[4], endorse the transaction.

HALIFAX, NS, July 30, 2024 /CNW/ - Chorus Aviation Inc. ("**Chorus**" or the "**Company**") (TSX: CHR) announced today that it has entered into an agreement to sell all assets in its RAL segment, including Falko Regional Aircraft Limited ("**Falko**") and Chorus' equity interests in the aircraft investment funds managed by Falko and its affiliates to affiliates of investment funds managed by HPS Investment Partners, LLC (the "**Transaction**"). The aggregate consideration for the Transaction is approximately $1.9 billion, of which $814 million is in the form of cash (net of estimated transaction expenses) and $1.1 billion is in the form of aircraft debt to be assumed or prepaid by the buyers at closing and the value of the non-controlling interest.[5]

"We are pleased to announce this transaction, which is a catalyst for unlocking the embedded equity value in our RAL segment," stated Colin Copp, President and Chief Executive Officer, Chorus. "This is a compelling transaction for shareholders with net proceeds representing a significant premium to the implied market value of the segment[6] and at a price consistent with the trading multiples of our aircraft leasing peers.[7]"

"This transaction will allow us to significantly reduce our debt and corporate financings, leaving Chorus with strong and predictable free cash flows from our long-term contracts. That will enable us to implement a sustainable return of capital program for our common shareholders and invest in future growth," said Mr. Copp. "We will leverage our deep operational expertise and capabilities to focus our growth on aviation services, as demonstrated by recent growth in Voyageur's business."

"This decision follows rigorous analysis and a sharp focus on accelerating value creation for shareholders. With the macro-economic environment, it became apparent that the transition to an asset light leasing model would take longer than originally anticipated," said Paul Rivett, Chair, Board of Directors, Chorus. "Shareholders expected a strong, near-term catalyst for value creation. After evaluating various options, we determined that a sale of the RAL segment would give us the flexibility to pursue future growth and return capital to our shareholders faster."

"We support the decision to sell the RAL segment, which allows the company to execute on its strategic plans, and we appreciate management's efforts in negotiating a favorable transaction for Chorus," said Frank Yu, a Managing Partner in Brookfield's Special Investments program.

Brookfield holds approximately 13.2% of Chorus' outstanding common shares, and Air Canada holds approximately 8.1% of Chorus' outstanding common shares. Both shareholders have signed voting support agreements with the buyers pursuant to which they have agreed to vote in favour of the approval of the Transaction and are expected to maintain representation on the Company's board of directors following completion of the Transaction. Chorus and Air Canada have also agreed to amend and restate the investor rights agreement between them to, among other changes, reinstate Air Canada's pro rata pre-emptive rights and reduce the ownership threshold applicable to Air Canada's director nomination right. A copy of the amended and restated investor rights agreement will be filed under the Company's profile on SEDAR+ at www.sedarplus.ca on or before the filing of the Company's Material Change Report.

The Transaction is expected to close by the end of this year.

Immediate Value Realization

The $1.9 billion sale consideration nets $814 million in proceeds, which represents approximately 0.84x of the RAL segment's book value and is consistent with trading multiples of public company lessors[5,7]. Based on Chorus' current share price, the net proceeds from the Transaction represent a premium to the implied market value of the RAL segment[6]. The Transaction will unlock value for common shareholders.

Significant Improvement in Capital Structure

The proceeds from the Transaction are expected to be used to pay down or redeem the Company's corporate financings, including the Series 1 Preferred Shares and all of the Debentures[8], as well as pay all related transaction expenses and early redemption amounts (including the multiple on invested capital payable upon the redemption of the Series 1 Preferred Shares). Following the closing of the Transaction, Chorus will exercise its rights to redeem or make an offer to redeem (as applicable) the Debentures in accordance with the terms of the relevant indentures.

Importantly, following the closing of the Transaction, and the application of the proceeds therefrom, substantially all of the Company's remaining debt is expected to consist of amortizing term debt relating to aircraft operated by Jazz Aviation under the CPA with Air Canada, which is fully supported by the CPA out to 2035, and a revolving operating credit facility that can be drawn from time to time.

Following closing, the Transaction is expected to significantly strengthen the Company's balance sheet with a pro-forma Leverage Ratio[3] of 1.8x at December 31, 2023.

Bolsters Ability to Return Capital to Shareholders

The substantial improvement in Chorus' capital structure will enhance the Company's financial flexibility and support its ability to implement a sustainable return of capital program for common shareholders.

Other

Chorus and its subsidiary, Chorus Aviation Capital Corp., have entered into a binding sale and purchase agreement ("**SPA**") in respect of the Transaction with affiliates of investment funds managed by HPS Investment Partners, LLC. Pursuant to the SPA, the Transaction is subject to approval by Chorus's common shareholders, regulatory approvals and other customary conditions to closing. Completion of the Transaction is not conditional on financing.

The SPA permits Chorus' board of directors to consider an unsolicited superior proposal (including a proposal for the acquisition of Chorus) which is received after the date of the SPA and before the approval of the Transaction by shareholders. The buyers will have the right to match a superior proposal for the RAL segment. Chorus has agreed to pay the buyers a break fee of USD $25 million in the event that the Chorus board withdraws or otherwise changes its recommendation in favour of the Transaction after receiving a superior proposal and subsequently terminates the SPA to accept the superior proposal.

The net sale price, representing 0.84x of the RAL segment's book value, is expected to result in an impairment on discontinued operations of $187 million as at June 30, 2024.[9] A copy of the SPA will be filed under the Company's profile on SEDAR+ at www.sedarplus.ca on or before the filing of the Company's Material Change Report.

The guidance for Chorus' Regional Aviation Services segment contained in the Outlook section of Chorus' First Quarter 2024 Management's Discussion and Analysis of Results of Operations and Financial Condition remains unchanged. The guidance in that section relating to Chorus consolidated and the RAL segment is withdrawn in light of the expected closing of the Transaction by year end.

Shareholder Approval

The Transaction is subject to the approval of at least two thirds (66 2/3%) of the votes cast by Chorus' common shareholders. The Company will seek approval of the Transaction by its shareholders at a special meeting of shareholders to be called in due course (the "**Meeting**"). The Chorus board has unanimously determined that the Transaction is in the best interest of Chorus and will unanimously recommend that shareholders vote in favour of the Transaction. Brookfield and Air Canada, the Company's largest shareholders[4], have both signed agreements to vote in favour of the Transaction at the Meeting.

Goldman Sachs International provided an opinion to the Chorus board that, as of the date thereof and subject to the assumptions, limitations and qualifications set forth therein, the consideration to be received by Chorus pursuant to the Transaction was fair, from a financial point of view, to Chorus. The full text of such fairness opinion, which sets forth the assumptions made, procedures followed, matters considered and qualifications and limitations on the review undertaken in connection with such opinion, will be available in the management proxy circular that will be prepared for the Meeting. The opinion of Goldman Sachs International is not a recommendation as to whether or not any shareholder of Chorus should vote with respect to the Transaction or any other matter.

Further information regarding the Transaction will be included in the management proxy circular that will be prepared for the Meeting. The description of the Transaction in this news release does not purport to be complete and is subject to, and qualified in its entirety by reference to, the contents of the management proxy circular. Shareholders are encouraged to carefully review the management proxy circular when it becomes available.

Transaction Advisors to Chorus

Goldman Sachs International acted as lead financial advisor to the Company. Scotiabank also acted as financial advisor to the Company.

Chorus is advised by Milbank LLP as lead transaction counsel and Osler, Hoskin & Harcourt LLP as Canadian corporate counsel.

Investor Conference Call / Audio Webcast

Chorus will hold a conference call at 10:30 EST on Tuesday, July 30th to discuss the Transaction. The call may be accessed by dialing 1-888-664-6392. The call will be simultaneously audio webcast via: https://app.webinar.net/Vbgzpx6DxZ3.

The conference call will be available for analysts' questions. Media may access this call on a listen-in basis.

The conference call webcast will be archived on Chorus' website at www.chorusaviation.com under Investors > Reports. A playback of the call can also be accessed until midnight ET, August 6, 2024, by dialing toll-free 1-888-390-0541 and using passcode 231996 # (pound key).

Non-GAAP Financial Measures

This news release references "Leverage Ratio", "Free Cash Flow" and "Adjusted EBITDA", which are non-GAAP financial ratios and measures that are not recognized for financial presentation under GAAP. As such, they do not have standardized meanings, may not be comparable to similar measures presented by other issuers and should not be considered a substitute for or superior to GAAP results.

Leverage Ratio is used by Chorus as a means to measure financial leverage. Leverage Ratio is calculated by dividing Net debt by trailing 12-month Adjusted EBITDA[10]. Management believes Leverage Ratio to be a useful ratio when monitoring and managing debt levels. In addition, as leverage is a measure frequently analyzed for public companies, Chorus has calculated the amount to assist readers in this review. Leverage Ratio should not be construed as a measure of cash flows. Net debt is a key component of capital management for Chorus and provides management with a measure of its net indebtedness.

Free Cash Flow is used by Chorus as an indicator of financial strength and performance. Chorus believes that this measurement is useful as an indicator of its ability to service its debt, meet other ongoing obligations and reinvest in the Company and return capital to common shareholders. Free Cash Flow does not represent residual cash flow available for discretionary expenditures. Free Cash Flow is defined as cash provided by operating activities less net changes in non-cash balances related to operations, capital expenditures excluding aircraft acquisitions and improvements plus net proceeds on asset sales (proceeds on disposal of property and equipment less the related debt repayments for the assets sold). Free Cash Flow After Debt Repayments is defined as Free Cash Flow less repayment of long-term borrowings excluding the Unsecured Credit Facility.

EBITDA is defined as earnings before net interest expense, income taxes, depreciation and amortization and impairment and is a non-GAAP financial measure that is used frequently by companies in the aviation industry as a measure of performance. Adjusted EBITDA[10] (EBITDA before employee separation program costs, strategic advisory fees, impairment provisions, lease repossession costs net of security packages realized, restructuring ECL provision, Defined Benefit Pension Revenue and other items such as foreign exchange gains or losses) is a non-GAAP financial measure used by Chorus as a supplemental financial measure of operational performance. Management believes Adjusted EBITDA assists investors in comparing Chorus' performance by excluding items, which it does not believe will re-occur over the longer-term (such as employee separation program costs, impairment provisions, lease repossession costs net of security packages realized, restructuring ECL provision, Defined Benefit Pension Revenue and strategic advisory fees) as well as items that are non-cash in nature such as foreign exchange gains and losses. Adjusted EBITDA should not be used as an exclusive measure of cash flow because it does not account for the impact of working capital growth, capital expenditures, debt repayments and other sources and uses of cash, which are disclosed in the statements of cash flows, forming part of Chorus' financial statements.

	December 31, 2023				
(expressed in thousands of Canadian dollars)	As Reported	Discontinued operations	Continuing operations	Redemption/ Repayment Series A, Series B and Series C Debentures and Operating Credit Facility and Cash retained[11]	Pro Forma
Long-term debt (including current portion)	1,755,580	986,921	768,659	297,434	471,225
Less: Cash	(85,985)	(55,432)	(30,553)	49,109	(79,662)
Net debt	**1,669,595**	**931,489**	**738,106**	**346,542**	**391,563**
Operating Income	**231,766**	**73,236**	**158,530**	**-**	**158,530**
Adjusted EBITDA[10]	**458,666**	**237,130**	**221,536**	**-**	**221,536**
Leverage Ratio[3]	**3.6**	**3.9**	**3.3**	**-**	**1.8**

	Year Ended December 31, 2023				
(expressed in thousands of Canadian dollars)	As Reported	Discontinued operations	Continuing operations	Redemption/ Repayment Series A, Series B and Series C Debentures and Operating Credit Facility and Cash retained	Pro Forma
Cash provided by operating activities	**299,675**	**94,045**	**205,630**	**16,777**	**222,407**
Add (deduct)					
Net Changes in non-cash balances	62,055	71,608	(9,553)	-	(9,553)
Capital expenditures, excluding aircraft acquisitions	(15,251)	(876)	(14,375)	-	(14,375)
Heavy checks	(15,776)	-	(15,776)	-	(15,776)
	330,703	164,777	165,927	16,777	182,703
Net proceeds on asset sales	720	720	-	-	-
Free Cash Flow	**331,423**	**165,497**	**165,926**	**16,777**	**182,703**
Repayment of long-term borrowings					
Repayment of long-term borrowings	341,234	165,246	175,988	-	175,988
Repayment of Unsecured Credit Facility	67,480	-	67,480	-	67,480
Repayment of long-term borrowings excluding Unsecured Credit Facility	273,754	165,246	108,508	-	108,508
Free Cash Flow After Debt Repayment	**57,669**	**251**	**57,418**	**16,777**	**74,195**

For further information, please refer to Chorus' Management's Discussion and Analysis of Results of Operations and Financial Condition dated February 22, 2024, which is available under Chorus' profile on SEDAR+ at www.sedarplus.ca

Forward Looking Statements

This news release includes forward-looking information and statements (collectively, "forward looking information") within the meaning of applicable securities laws. Forward-looking information may be identified by the use of terms and phrases such as "anticipate", "believe", "can", "could", "estimate", "expect", "future", "intend", "make", "may", "plan", "potential", "predict", "project", "will", "would", and similar terms and phrases, including negative versions thereof and other similar expressions. All information and statements other than statements of historical fact are forward-looking and, by their nature, are based on various underlying assumptions and expectations that are subject to known and unknown risks, uncertainties and other factors that may cause actual future results, performance or achievements to differ materially from those indicated in forward-looking information. As a result, there can be no assurance that the forward-looking information included in this news release will prove to be accurate or correct.

Actual results may differ materially from those anticipated in forward-looking information for a number of reasons, including: whether Chorus' shareholders approve the Transaction; whether all conditions precedent, including all necessary regulatory approvals, to the Transaction are satisfied; Chorus' ability to realize the anticipated benefits of the Transaction, including the implementation of any capital return program for shareholders; the anticipated net proceeds from the Transaction, the anticipated use of proceeds from the Transaction, the potential impact of the announcement or completion of the Transaction on relationships, including with employees, suppliers, customers, investors and other providers of capital; changes in the aviation industry and general economic conditions; and the risk factors in Chorus' most recent Annual Information Form and in its public disclosure record available under its profile on SEDAR+ at www.sedarplus.ca. Forward-looking information and statements contained in this news release represent Chorus' expectations as of the date of this news release (or as of the date they are otherwise stated to be made) and are subject to change after such date. Chorus disclaims any intention or obligation to update or revise such information or statements to reflect new information, subsequent events or otherwise, except as required by applicable securities laws. Readers are cautioned that the foregoing factors and risks are not exhaustive.

About Chorus Aviation

Chorus is a global aviation solutions provider and asset manager, focused on regional aviation. Our principal subsidiaries are: Falko Regional Aircraft, the leading pure play regional aircraft asset manager and lessor, managing investments on behalf of third-party fund investors; Jazz Aviation, the largest regional operator in Canada and provider of regional air services under the Air Canada Express brand; Voyageur Aviation, a leading provider of specialty charter, aircraft modifications, parts provisioning and in-service support services; and Cygnet Aviation Academy, an industry leading accredited training academy preparing pilots for direct entry into airlines. Together, Chorus' subsidiaries provide services that encompass every stage of a regional aircraft's lifecycle, including: aircraft acquisition and leasing; aircraft refurbishment, engineering, modification, repurposing and transition; contract flying; aircraft and component maintenance, disassembly, and parts provisioning; and pilot training.

Chorus Class A Variable Voting Shares and Class B Voting Shares trade on the Toronto Stock Exchange under the trading symbol 'CHR'. Chorus 5.75% Senior Unsecured Debentures due December 31, 2024, 6.00% Convertible Senior Unsecured Debentures due June 30, 2026, and 5.75% Senior Unsecured Debentures due June 30, 2027 trade on the Toronto Stock Exchange under the trading symbols 'CHR.DB.A', 'CHR.DB.B', and 'CHR.DB.C', respectively. www.chorusaviation.com.

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Endnotes

[1] "Common shareholders" and "shareholders" refers to the holders of Chorus' Class A Variable Voting Shares and Class B Voting Shares.
[2] Elimination of $1.7 billion in financings (pro forma at December 31, 2023) consists of $987.0 million of RAL segment aircraft-related debt, $297.0 million of Series A, B, and C Debentures net of deferred financing fees (assuming all are redeemed), US $300.0 million of Series 1 Preferred Shares (excluding multiple on invested capital payable upon redemption), and reduction of the balance outstanding under Chorus' operating credit facility at June 30, 2024.

[3] "Leverage Ratio", "Free Cash Flow", and "Adjusted EBITDA" are non-GAAP financial measures that are not recognized measures for financial presentation under GAAP. For further information, please refer to the section of this news release titled "Non-GAAP Financial Measures".
[4] Based on the knowledge of Chorus' directors and executive officers and on publicly available early warning reports and insider reports.
[5] Aggregate consideration has been converted from U.S. Dollars to Canadian Dollars using an exchange rate of 1.3500.
[6] Common share price is based on the closing price of the common shares on the Toronto Stock Exchange on July 26, 2024.
[7] As compared to peers on a price-to-book basis. Price-to-book value is a common valuation metric used to measure a company's equity value in relation to its book value per share. For comparison of price-to-book value, peers are Air Lease Corporation, BOC Aviation Limited, and Aercap Holdings N.V. Peer comparison price-to-book values are the 2024 year-to-date averages per FactSet as of July 17, 2024. Please reference slide four of the Investor Relations Presentation dated July 30, 2024.
[8] "Debentures" refers to Chorus' 5.75% senior unsecured debentures due December 31, 2024 which trade on the Toronto Stock Exchange under the symbol 'CHR.DB.A'; Chorus' 6.00% convertible senior unsecured debentures due June 30, 2026 which trade on the Toronto Stock Exchange under the symbol 'CHR.DB.B'; and Chorus' 5.75% senior unsecured debentures due June 30, 2027 which trade on the Toronto Stock Exchange under the symbol 'CHR.DB.C'.
[9] Impairment on discontinued operations of $187 million as at June 30, 2024 calculated using U.S. Dollar to Canadian Dollar exchange rate of 1.3687.
[10] "Adjusted EBITDA" is a non-GAAP financial measure that is not a recognized measure for financial presentation under GAAP. For further information, please refer to the section of this news release titled "Non-GAAP Financial Measures".
[11] Includes repayment of a balance of $60 million as at June 30, 2024 under Chorus' operating credit facility.