CNW
A PR NEWSWIRE COMPANY

FINAL TRANSCRIPT

Chorus Aviation Inc.

Third Quarter Results Conference Call

Event Date/Time: November 8, 2017 — 8:30 a.m. E.T.

Length: 48 minutes

CORPORATE PARTICIPANTS

Nathalie Megann
Chorus Aviation Inc. — Vice President, Investor Relations and Corporate Affairs

Joe Randell
Chorus Aviation Inc. — President and Chief Executive Officer

Jolene Mahody
Chorus Aviation Inc. — Executive Vice President and Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Turan Quettawala
Scotiabank — Analyst

Kevin Chiang
CIBC — Analyst

Tim James
TD Securities — Analyst

Walter Spracklin
RBC Capital Markets — Analyst

Cameron Doerksen
National Bank Financial — Analyst

Doug Taylor
Canaccord Genuity — Analyst

David Tyerman
Cormark Securities — Analyst

PRESENTATION

Operator

Good morning. My name is Lisa, and I will be your conference Operator today. At this time, I would like to welcome everyone to the Chorus Aviation Incorporated Third Quarter Results Conference Call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time simply press *, then the number 1 on your telephone keypad. If you would like to withdraw your question, press the # key. Thank you.

Nathalie Megann, Vice President of Investor Relations, you may begin you conference.

Nathalie Megann — Vice President, Investor Relations, and Corporate Affairs, Chorus Aviation Inc.

Thank you, Lisa. Thank you, and welcome. And thank you for joining us this morning for our third quarter 2017 conference call and audio webcast. With me today from Chorus are Joe Randell, President and Chief Executive Officer, and Jolene Mahody, Executive Vice President and Chief Financial Officer.

We'll start by giving a brief overview of the results, and then go on to questions from the analyst community.

Because some of the discussion in this call may be forward looking, I direct your attention to the caution regarding forward-looking statements and information which are subject to various risks, uncertainties, and assumptions that are included or referenced on Pages 6 and 7 of our

Management's Discussion and Analysis of the results and operations of Chorus Aviation Inc. for the period ended September 30, 2017, the Outlook section and other sections of our MD&A where such statements appear.

In addition, some of the following discussion involves certain non-GAAP measures, including references to EBITDA, adjusted EBITDA, and adjusted net income. Please refer to section 17 of our MD&A for a discussion relating to the use of such non-GAAP measures.

I'll now turn the call over to Joe Randell.

Joe Randell — President and Chief Executive Officer, Chorus Aviation Inc.

Thank you, Nathalie, and good morning, everyone, and thank you for joining us. I am pleased to again report strong financial performance in the third quarter.

Our core business delivered consistent, predictable performance, and we expanded our growing regional aircraft business with the addition of new customers.

Quarter over quarter we generated increases in key financial metrics, including growth in adjusted EBITDA and adjusted net earnings of 19.2 percent and 68.9 percent, respectively, over the same period in 2016.

We are executing on our diversification plans, as evidenced by the growing level of non-CPA generated revenue accounting for 10 percent of overall revenues in the third quarter versus 5 percent in the same period of 2016.

The third quarter was primarily focused on ramping up Chorus Aviation Capital, or CAC. We opened and staffed our office in Ireland, and added seven individuals to CAC's management team who each have over 20 years commercial aircraft experience.

In a short period of time we have consummated significant transactions around the world, establishing a strong market position in the regional aircraft leasing sector.

Aside from the 41 regional aircraft under lease in the CPA, we have completed or announced the acquisition of an additional 19 aircraft that have an average age of less than three years. These new leasing transactions are producing the economics we had anticipated, and have an average leasing term greater than seven years.

Upon closing all announced transactions, we will have 60 regional aircraft on lease valued at over $1 billion. We are making progress towards our goal of becoming one of the largest global players focused on regional aircraft.

Regional aircraft leasing is a $10 billion a year market in terms of aircraft being manufactured and delivered. There are approximately 6,000 regional aircraft around the world.

Historical and projected deliveries by the manufacturers have been stable at approximately 250 aircraft per year. In fact, of the regional aircraft produced, approximately 20 to 25 percent of them are leased. We believe there's opportunity for this to grow, as more airlines are opting for operating leases versus aircraft acquisitions.

To date, we have committed financing for all 19 new aircraft, whether acquired or pending, with an average loan to value of the portfolio of approximately 75 percent, or a debt to equity ratio of approximately 3:1. We anticipate acquiring an additional 15 aircraft utilizing the capital raised with Fairfax by mid-2018, building the CAC new fleet to approximately 34 regional aircraft.

We continue to review options for financing growth in the leasing business to ensure the business has sufficient capital to continue its growth trajectory. We are taking a phased approach. Our plan will involve balancing leverage with market norms and maintaining long-term financial flexibility.

Now turning to recent developments at Jazz. We were honoured to be the recipient of three prestigious awards: Number one, the 2017 Canada's Safest Employers Award, Jazz being the gold winner in the transportation category—quite an accomplishment; the Employment Equity Achievement Award presented by Workforce Development and Labour Canada in recognition of our employment equity programs and support; and recognition as an outstanding organization at the sixth Nova Scotia Psychologically Healthy Workplace Awards. I congratulate all Jazz employees for these outstanding achievements, and thank you.

Unfortunately, operational challenges continued in the third quarter at the main hub airports. Very heavy passenger loads, tight flight schedules, extraordinary weather events here at home and in the US, as well as forest fires in Western Canada contributed to the decline in our operational performance in the quarter. There have been improvements in our operation in the fourth quarter, and it is more representative of the operational performance we've achieved historically.

To date, Jazz Technical Services, or JTS, has completed the extended service program, or ESP, on 3 of 19 Dash 8–300 aircraft, and we have a fourth underway. The program extends the service life by approximately 15 years at a cost of approximately 3 million to 3.4 million per aircraft, and is a very good investment, given there isn't a viable replacement for this capacity currently in the market.

The current plan for the ESP is to complete four aircraft by the end of this year, five in 2018, and eight in 2019. Post-ESP, the aircraft begin to generate lease revenue under the CPA.

Turning now to the Voyageur operation. In the third quarter, Voyageur achieved—also delivered solid results. Two in-housed designed and engineered Dash 8–100s have been converted to package freighters, and have been delivered to Wasaya Airways. In addition, we recently delivered a second leased Dash 8–100 passenger aircraft to Wasaya.

Voyageur Airways recently commenced new contracted flying missions in Aruba and Maui, and provided Hurricane Irma relief flights to Saint Maarten from Curacao for the Dutch with a CRJ-200. The Aerotech division completed prepurchase inspections on two Embraer 190s for CAC, a great example of the synergies we can leverage.

Our Avparts unit acquired additional CRJ-200 aircraft for part out, and parted out the fourth former CPA Dash 8–100 in the quarter and continues to see strong demand for parts sales.

Looking ahead, we remain focused on creating additional long-term shareholder value by strengthening the foundational CPA business, growing and diversifying aircraft leasing revenue, and pursuing additional growth opportunities.

I congratulate the Chorus team for delivering another positive quarter, and look forward to our future accomplishments together.

I'll now turn the call over to Jolene, and she will take you through our third quarter financial results.

Jolene Mahody — Executive Vice President and Chief Financial Officer, Chorus Aviation Inc.

Thank you, Joe, and good morning, everyone. Our third quarter financial performance was within our expectations, and I am pleased with our results. Here's the breakdown of the third quarter compared to the same period in 2016.

We reported adjusted EBITDA of 83.4 million versus 70 million in 2016, an increase of 13.4 million or 19.2 percent. The 13.4 million increase in adjusted EBITDA was primarily driven by a 10.9 million increase related to incremental margin mainly attributed to non-CPA aircraft leasing.

Our third-party leasing business is contributing more over time as a percentage of our consolidated revenue, earnings, and net cash flows, a trend we expect to exhilarate (sic) [accelerate] in the future.

Further changes in adjusted EBITDA were due to increased aircraft leasing under the CPA with Air Canada of 3.5 million; additional income from international contracted flying in the Voyageur operation contributing 0.7 million; and a reduction in other expenses of 1.9 million, which includes a 1.5 million amount related to a reduction in contingent consideration payable.

These increases were partially offset by a decline of 2.2 million in CPA performance incentive revenue and an increase of 1.4 million in stock-based compensation expense.

Adjusted net income was 48.6 million or $0.39 per basic share, an increase from the third quarter of 2016 of 19.8 million or 68.9 percent. The change was a result of the 13.4 million increase in adjusted EBITDA previously described, plus a 15.2 million decrease in income taxes. And this was partially offset by a 5.9 million of additional depreciation, primarily related to new aircraft; 5.9 million of interest costs related to increased aircraft debt and the convertible units; and 3 million of foreign exchange gains related to working capital.

Net income was 79.1 million or $0.64 per basic share, an increase of 59 million from the third quarter of 2016. The increase was primarily due to the previously noted 19.8 million increase in adjusted net income, plus an increase of 39.6 million in unrealized foreign exchange gains on long-term debt.

While Billable Block Hours no longer direct affect our compensation, they are relevant to the rate-setting process on controllable costs and in determining controllable revenue. The controllable revenue rates are designed to deliver the fixed fee and infrastructure margin over an annual period if we manage our costs consistent with those assumed in the rate-setting exercise.

Based on updated planning assumptions from Air Canada, Billable Block Hours for 2017 are expected to range between 358,000 and 363,000 hours based on 117 covered aircraft as at December 31, 2017. The actual number of Billable Block Hours for the remainder of this year may vary from this anticipated range due to several factors.

Our capital expenditure guidance for 2017, excluding those for the acquisition of aircraft and the extended service program on the Dash 8–300s, and including capitalized heavy checks is anticipated to range between 47 million and 56 million.

Currently, 2017 expenditures for aircraft-related acquisitions and the ESP are expected to range between 490 million and 510 million. This includes the acquisition of two CRJ1000s, six ATR 72–600s, four Embraer 190s, two Embraer 195s, three Q400s, and the ESP. It excludes additional spend for CAC aircraft acquisitions beyond what has been announced.

For additional information supporting our projected guidance for the balance of this year, I’ll refer you to section 8 of the 2017 Outlook section of our MD&A for the period ended September 30, 2017.

That concludes my commentary. Thank you for listening and, Operator, we can now open the call to questions from the analyst community. Thank you.

Q&A

Operator

At this time, I would like to remind everyone in order to ask a question, press *, then the number 1 on your telephone keypad. We'll pause for just a moment to compile a Q&A roster.

Our first question comes from the line of Turan Quettawala from Scotiabank. Your line is open.

Turan Quettawala — Scotiabank

Yes. Good morning. Thank you for taking my questions. I guess maybe if I can just start off with can you give me a sense, Jolene, of the timing of the aircraft that got into the lease portfolio? I'm just trying to understand how many of these 17 planes were actually sort of producing EBITDA in the quarter.

Jolene Mahody

Sure. Yeah. The Q3—it goes into the other revenue account, as you know, Turan—so it reflects the equivalent of I'd say almost 12 aircraft earning revenue for the full quarter based on the timing of transaction. So although we have 19 announced, 17 have been closed. And of those, 12 would have been kind of the full-time equivalent earning amount for the third quarter. The next—

Turan Quettawala

And these—sorry. Go ahead.

Jolene Mahody

—two, the next two E 190s that are to close really imminently, I think you can factor in the fourth quarter for say half the fourth quarter.

Turan Quettawala

Got it. That's helpful. Thank you very much. And I guess just going back to the Q3 numbers. In terms of the reduction in the CPA performance revenue, is that just sort of all these weather events and the airport stuff that you talked about with the operational performance?

Joe Randell

Yeah. We were certainly impacted by the events that I mentioned in the … earlier on. And we're really heading back now to the type of standard that we've achieved previously. So we believe that was more frankly a blip and we're really focused on getting things back online, and we're being successful in doing that.

Turan Quettawala

Perfect. That's helpful. Thank you. And then I guess last question maybe for you, Joe. Just looking at the return on invested capital, it has been coming down. I guess it's probably partly to do with the fact that you're just sort of still investing in the leasing business. But can you give us some sense of whether going forward here do you expect that to ramp back up again as all these planes start producing revenue on the leasing side? Or is there just going to be a little bit of lower ROIC because of the mix of the business changing?

Jolene Mahody

Yeah. I can take that, Turan. Yeah. I mean it has been coming down. And you're exactly right. It's related to the aircraft leasing strategy, and we've added a lot of aircraft. The EBITDA that generates from that is trailing, so that will be kind of building as we go.

But I also think your second point there is valid that the organization is transitioning and it's changing. And so as we move forward here in measuring kind of the leasing portion of our business, an ROE-type of return is probably more appropriate.

Turan Quettawala

Great. Thank you very much.

Jolene Mahody

Okay.

Operator

Our next question comes from the line of Kevin Chiang from CIBC. Your line is open.

Kevin Chiang — CIBC

Hi. Thanks for taking my question here. Good morning. Just a couple of housekeeping ones for me. Just firstly given the capital expenditures, can you provide any, call it, medium-term guidance around taxes how we should be thinking about cash taxes and the deferred tax line as you complete these investments here?

Jolene Mahody

Yeah. Sure. So first of all for the quarter, we did have an adjustment to our taxes of a pretty substantial amount that drove a change of about 15 million or so that we called out, Kevin. And really, we did change the jurisdiction of one of our subs, resulting in a tax expense reduction in the current quarter, which was really applicable back to January of this year, so really a full three-quarter adjustment. So it drove the reduction.

So go forward, we are changing the nature of our overall effective tax rate as we establish the leasing platform. And I think right now, we're probably around a 24 percent effective tax rate for the next little bit, but as we continue to grow the leasing portion of the business that will certainly decline, given that the Irish regime is a 12.5 percent tax rate.

Kevin Chiang

That's helpful.

Jolene Mahody

And from a cash tax perspective, from 2017 we'll probably see a couple million dollars in cash taxes, which will be fairly consistent with 2018, a couple million.

Kevin Chiang

Perfect. Thank you. And then I know you spoke about the robustness of the opportunities within Chorus Aviation Capital, but as you get to mid-2018 and you've fully deployed this Fairfax capital, can you speak to or maybe any update on how you think about growing this portfolio moving forward in terms of deploying more capital as internally generated free cash flow? Or other opportunities?

Joe Randell

Yeah. We're very pleased with what we see happening in the market and the opportunities that are there. And we're looking at now our next stage of growth, and we're looking at the various alternatives in terms of how we finance that growth.

We can certainly—I think we've been successful in leveraging so far, as I mentioned, about 3:1. So the additional capital now we're looking at how we would fund that. And within the standards, we have to ensure that our debt level is reasonable, within norms, et cetera. So we're right in that process. And as we said, this capital now we expect to have it expended by mid-next year. So we're on the way to looking at how we finance our next phase.

We do produce reasonable cash flow, but of course we do see a drop-off coming in the next couple of years through the CPA. But for us, it's really looking at sourcing this capital externally.

Kevin Chiang

That's great. And maybe just last one for me. I saw yesterday Sky Regional and Air Canada renewed their agreement for 10 years. Just wondering if there's any implications for you as you see your partnership with Air Canada over the next remaining eight years, I guess, under the existing CPA?

Joe Randell

Well, not at all. I don’t think it changes anything from our point of view. They have now, I guess, a longer-term CPA, as we have. And we continue to have discussions with Air Canada about opportunities, et cetera, and the relationship is very good.

Our costs are coming down, as we had anticipated, and I think we’re in a very good place. So we just did our 10-year deal a couple of years before Sky Regional did theirs. And I guess given the fact that there’s a bit of a staggering in the end of the deal that I don’t think has any implication for us.

Kevin Chiang

Perfect. Thank you.

Joe Randell

Okay.

Operator

Our next question comes from the line of Tim James from TD Securities. Your line is open.

Tim James — TD Securities

Thanks. Good morning. Given all the progress to date in all business lines, really, I’m just wondering if you could talk about how you view the dividend here thinking about it longer term? And whether there’s a financial measure that we should watch in order to forecast any changes that might come to the dividend in the coming years?

Joe Randell

Yeah. We have no targets with respect to that. I think our dividend, as we've said, is very sustainable, et cetera. Our view is that the capital that we are generating is best reinvested in the business opportunities that we have. And that's where the shareholders will see the greatest benefit in terms of the growth in share price.

And I think we're seeing that now because we've been trading at really 10-year highs, et cetera. So I think the strategy is working. I think the dividend, there's still a very healthy yield on the stock. So for us, really, our focus is on where we get the biggest return for our shareholders, and I think that's clearly in some of these growth opportunities we're pursuing.

Tim James

Okay. So looking forward then, if the share price continues to do well; the dividend yield comes down; the payout ratio declines to whatever level. At this point, given the growth opportunities that you see, there's no particular mandate or sense of urgency to keep the dividend yield at a particular level? Or keep the payout ratio at a particular level?

Joe Randell

No. We have no targets. And I think we will assess going forward as we see an appreciation in the share price and we look at our cash flows and where best we can invest our cash and that sort of thing that we will look at it, obviously, and review it. But we have no targets or no near-term plans.

Tim James

Okay. My second question, I guess probably for Jolene here, just wondering what is the difference between the $191 million in CapEx reported in the third quarter that was cited in the text and shows on the cash flow statement, and then the $276 million that shows in the table on Page 27? It looks like it has to do with the structure of the purchases of some aircraft. But I'm just trying to understand why there wouldn't be sort of a cash influence that gets reflected in the cash flow statement from that?

Jolene Mahody

Yeah. So yeah, it's a good question. It relates to the purchase of the three Q400 aircraft that we purchased through the Falcon transaction that was really in effect a purchase of shares—an acquisition of shares versus aircraft. I mean, we in effect acquire the aircraft through the acquisition of the shares and the corresponding debt, and so the difference there is really the cash deposit that was laid out for the aircraft acquisition, the equity portion.

Tim James

So there was no cash component to that purchase then?

Jolene Mahody

There was a cash component, that $30 million or so cash component for shares.

Tim James

Okay. And in the cash flow statement, where is that? Is that—forgive me, I don't have it in front of me, but I know it's not included or I don't believe it's included in the investing section. Is it—where is it showing, then, in the cash flow statement?

Jolene Mahody

Just a second, Tim. Let me take a look at the cash.

Tim James

We can take it off-line if you like, Jolene. I'm probably getting into more minutia than appropriate for a conference call.

Joe Randell

The cash flow statement.

Jolene Mahody

Yeah. Tim, it's in the—I think it flows through the piece … the property, plant, and equipment section of the cash flow statement. But I can take you—

Tim James

Okay.

Jolene Mahody

—through it off-line for sure.

Tim James

Okay. Yeah. Let's take a closer look at it then—

Jolene Mahody

Yeah.

Tim James

Okay. Then just my last question, I'm just wondering if you could talk in general about any changes you're seeing in the competitive environment for regional aircraft leasing, pricing trends, et cetera? And in addition what you're seeing that's giving you confidence to suggest—as you did, Jo, in your commentary—that that portion of the regional aircraft market that's going to be operating lease-financed going forward is increasing? I think you mentioned it's 20 to 25 percent currently, and you expect that to go up. What are you seeing out there that's indicating that that will take place?

Joe Randell

Well, I guess first of all, we're seeing a lot of activity. We're seeing both equipment orders that have been announced by the manufacturers where there are opportunities for sale and leasebacks, Bombardier, Embraer, ATR, et cetera. So we're seeing quite a few of those. And we're seeing carriers around the world looking for operating leases.

And so I think the source looks robust, and we have actually looked at and evaluated a lot of transactions that we felt were not right. In some cases there were transactions where other lessors were more aggressive. And it is more competitive; there's no question about it.

I think the good news is the amount of activity that's there, the number of new airplanes that are coming out, the fact that generally airlines look for more flexibility these days in terms of having operating leases rather than actually purchasing and owning the aircraft themselves, and they look for a mix of operating leases and ownership. And a lot of these orders for regional airplanes as well are being made by carriers that also have narrow-body operations. So the same sort of, I think, ratios would apply in those cases in terms of aircraft that they're looking to have an operating lease on.

I think in the narrow-body side, the percentage of aircraft under operating lease is just under 50 percent, so you can see there's a fair gap between regional and narrow-body aircraft. And that's starting to close, but was historically high because the regional aircraft generally were financed by ECAs, et cetera, and the leasing companies could not compete in that market.

The other thing that we're actually seeing is a number of larger lessors with portfolios of regional aircraft that are interested in divesting those. And of course, some of the transactions we've done have been along those lines. And there are a number of opportunities out there right now in that regard, so.

And we do have in some cases with some of the leasing companies there's private equity investment, and they have various horizons, et cetera, that then actually create opportunities in terms of portfolios that become available.

So there are a number of things that are influencing it, and I think one of the good things is that air travel demand continues to be robust. It continues to be robust around the world. Especially in Asia and Southeast Asia we're seeing double-digit increases in demand. So that in itself creates a lot of opportunity.

Tim James

Okay. That's great. Thanks very much.

Joe Randell

You're welcome.

Operator

Our next question comes from the line of Walter Spracklin from RBC. Your line is open.

Walter Spracklin — RBC Capital Markets

Thanks very much. Good morning, everyone.

Joe Randell

Good morning, Walter.

Jolene Mahody

Good morning.

Walter Spracklin

So my—just to start out, I don't know if it's easier … easy answer to kind of back into, but the 490 to 510 that you have targeted for 2017, how much is left? In other words, how much is not include—if I exclude all the planned or the announced or existing transactions, what would be left of that balance?

Jolene Mahody

So we, Walter, have about half of the amount left for deployment. And—

Walter Spracklin

And so that'll be done—yeah. So—

Jolene Mahody

—and we're estimating by mid-next year that we will have deployed that amount.

Walter Spracklin

Right. And so mid-next year is your deployment target. My question there is, Jo, maybe … or, Jolene, lead time. At what point, let's just say hypothetically you're having trouble finding finance—I'm not saying you are—but if you did, at what point does that difficulty impede your ability to drive new business? In other words, after June 30th, can you be out there looking and effect something without the—it seems that you'd be kind of not able to effect the financing if you don't—or effect a transaction if you don't have the financing, so at what point does—is the availability of financing impeding your ability to get new transactions?

Joe Randell

Well, I think if we're unsuccessful in terms of future financing it sort of caps out, and then you generate cash that you reinvest. But that's not the scenario that we are planning for. We're looking to continue to grow, and that's why there is a lead time associated with it. And we're now looking in this area in terms of how we raise the capital, the interest that's there, and that sort of thing. And we anticipate being successful in that regard.

I think there's a lot of interest in the aircraft leasing business by a lot of various entities. And it's seen as a form of infrastructure, and of course, we're a little different in that we know these assets, we understand these assets, et cetera. So I think what you're talking about there is a very not-so-great scenario, but we don't really see that happening. There's no indication—

Walter Spracklin

So is it—is the lead time then like three months? Like do you need to have it by end of Q1 so that you can go out and book business beyond Q2? Or is it—

Jolene Mahody

Yeah. I mean—

Walter Spracklin

—three weeks? Or …

Jolene Mahody

Yeah. I think what we've said, Walter, is we're in the process of examining options and looking to see what we do for the next phase of the growth here. And so rather than kind of, I guess, triggering a specific time line for it, our intention, our objective is to make sure that we have the funds available so that we can continue to grow at the pace that we want without having a stall period.

Joe Randell

Yeah. All I can say as well is that our experience here the last time we did it did not take a long time from the time that we set out to do this until we were able to do the arrangement.

Walter Spracklin

Right.

Joe Randell

So our experience is actually very good in that regard.

Walter Spracklin

And has here been any—

Jolene Mahody

And our cost of capital has decreased as we've gone on here and continues to decrease, so.

Walter Spracklin

And that was my question. If investors now are going to start building out the assumption that you will get financing and that that financing will be deployed as opposed to last time where obviously the share price reaction upon the announcement of your financing indicates that investors were not assuming that, is there any reason we should put a better term, worse term, or effectively the same in both cost and size if we're going to start kind of modelling this expectation out? Is it roughly the best thing to do is just assume the same size of deal—

Jolene Mahody

Yeah.

Walter Spracklin

—at the same terms?

Jolene Mahody

Yeah. I think that's a fair assumption to assume similar size, similar cost. I mean our cost of equity have certainly decreased since we—

Walter Spracklin

Yeah.

Jolene Mahody

—did the convertible debentures last fall. But I think for your modelling purposes, that's fair: similar size, similar cost.

Joe Randell

Yeah. And as you—

Walter Spracklin

Okay.

Joe Randell

—grow the portfolio, your SG&A costs as a percentage starts to decline as well, right?

Walter Spracklin

Absolutely. Moving over to the Air Canada CPA, you mention in your outlook that the larger aircraft has allowed you to generate 8 percent more block hours than in 2017. Is it fair to say that that lift is done? In other words, we won't see a lift as a result of larger aircraft again in 2018, given you've already kind of cycled into those aircraft? Or are we lapping some period where there will still be a little bit of contribution in 2018 from the aircraft size—

Jolene Mahody

Yeah.

Walter Spracklin

—in that year?

Jolene Mahody

The last couple of years have been certainly a bit of a state of fleet transition for us. Now we are pretty much, I think, settled on the majority of what the fleet's going to look like as we move forward. The only thing I would say on the block hour question is the CRJ900s really came into play towards the latter half of the second quarter, so they don't have a full year in—

Walter Spracklin

Got it.

Jolene Mahody

—the fleet yet.

Walter Spracklin

Yeah.

Jolene Mahody

But the CRJ—or the Q400s were predominantly in for the full year.

Walter Spracklin

Okay. And then the last question, you mentioned Sky Regional and the ten-year deal. Is there—but you said there's still opportunity, Joe, with Air Canada? Are you referring to the smaller kind of Air Georgian stuff? Or is it just new routes that Air Canada might be looking at that you—what did you mean by opportunity still … there is still opportunity with Air Canada?

Joe Randell

Really opportunity to find win-win scenarios where we deliver something which is better suited to Air Canada, and it also contributes to us. So we're still focused on working with Air Canada and lowering costs because when we do that Air Canada benefits as well, and larger airplanes deliver lower per-seat costs, et cetera.

So we're—we will continue to talk and explore various scenarios with Air Canada. And our partnership is strong, and the market keeps changing going forward and Air Canada's results have actually been very, very positive. And we're looking for opportunities to play a role.

Walter Spracklin

Okay. And Sky Regional, I mean is there financing—like is there anything Air Canada can do to say, hey, Sky Regional, can you—if you're looking at leasing aircraft or whatever, is there any if you can't beat them join them kind of thing where you can support—get some leasing revenue from a competitor, given your close alliance with both of you, the end customer? Or is that not an option?

Joe Randell

Well, I believe the Sky Regional fleet, as I understand it is in place, and the head leases are with Air Canada, but we'd look for any opportunity to work together as we are with Air Georgian with doing their heavy maintenance, as an example—Air Georgian is one of the other CPA carriers—et cetera. And if it makes sense, we would look at opportunities.

Walter Spracklin

Great. Okay. All right. That's all my questions. Thank you very much.

Jolene Mahody

Thank you.

Operator

Our next question comes from the line of Cameron Doerksen from National Bank Financial. Your line is open.

Cameron Doerksen — National Bank Financial

Yeah. Good morning. I guess just a couple of sort of follow-up questions from me. First, just on the tax, you mentioned that, I guess, over the years we should expect the overall effective tax rate to kind of trend down as more aircraft are put into the Irish subsidiary. Could you just talk about what the breakdown is today? I mean are all the third-party leases in the Irish subsidiary and I guess the CPA leases in a Canadian subsidiary? Or are you—how does that break down today?

Jolene Mahody

Yeah. That’s exactly correct. Any of the new 19 aircraft that we have taken on or are about to take on will be under an Irish regime. All of the CPA-producing aircraft are Canadian-taxed.

Cameron Doerksen

Is there any reason why you can’t ship those Canadian—or the CPA aircraft into the Irish subsidiary?

Jolene Mahody

Well, no, you can’t do it. They’re earning income in Canada, so they’re taxed—

Cameron Doerksen

Okay.

Jolene Mahody

—at the Canadian rates.

Cameron Doerksen

Okay. Understood. I guess maybe a second question is just on, I guess, the growth in the leasing business. I mean there’s some news this week about GE potentially divesting its leased or—all of or a portion of its GECAS leasing portfolio. I know they’re fairly large; maybe the number two player in regional aircraft leasing. I won’t ask you if that’s something you’d be looking at, but I mean just in general terms if there was a large, I guess, portfolio of regional aircraft leases available, I mean do you have an appetite to go after something like that? Or are we too early in the kind of growth stage of Chorus Aviation Capital to maybe look at a large-sized transaction like that?

Joe Randell

Well, that's a decision we would have to make. The only thing I can tell you is that we will evaluate all these opportunities, and there are various ways of structuring and doing these things. So that was an example of something that I mentioned earlier about some of the lessors divesting of their portfolios.

And so there's opportunity for us. And there are various structures that you can use in the aircraft leasing business, so. But clearly that equipment, those leases, et cetera, are right in our sweet spot.

Cameron Doerksen

Okay. Maybe just a final question; I just maybe want to better understand the debt repayment schedule for, I guess, the owned aircraft here. I mean can you give us any kind of indication of what the full year 2017 debt repayment looks like? And what that looks like heading into 2018 based on, I guess, your current committed aircraft?

Jolene Mahody

Yeah. Maybe the best way to look at it, Cameron, would just be to model out the aircraft debt at the 75 percent loan-to-value that we've disclosed over a ten-year period amortizing it. It's all kind of amortizing debt, consistent with what we would have had under the CPA EDC debt as well.

So if you look, we've disclosed kind of the average leased term remaining on the 19 aircraft that we've acquired through CAC is about seven years. On average, those aircraft are less than three years old. So I think amortizing it over a ten-year term would make sense.

And if you look at our note disclosure—Note 6, the long-term debt disclosure—that'll kind of give you a flavour for the debt repayment schedule.

Cameron Doerksen

Okay. Great. That's all I had. Thanks very much.

Jolene Mahody

Thank you.

Operator

Our next question comes from the line of Doug Taylor from Canaccord Genuity. Your line is open.

Doug Taylor — Canaccord Genuity

Yes. Thank you. Good morning. If I could shift the lens to the Voyageur and the third-party MRO operation, it's quietly shown some pretty strong growth with some success in part-out and redeploying end-of-life aircraft from the CPA. Those kinds of things are challenging for us to model, so I was wondering if you could help us with how we should think about the growth and the margins there as we go into 2018?

Jolene Mahody

Sure. So there's two lines there I think that you're referring to. So in the other revenue section, what's going through that line on the income statement is both third-party leasing and the MRO revenue. And so MRO would include the Avparts and it would include Aerotech at Voyageur, and it would include our Jazz Technical Services that has won a few new contracts. So the majority of those at that top-line increase in the other revenue section is the third-party leasing, no question.

And so I think you probably have a pretty good handle on that. You can work into what number that represents of the overall increase kind of based on the aircraft acquisitions that we've disclosed in CapEx section and using your lease rate factor.

So anything kind of left over there is truly MRO. And consistent, I think, with what we would have seen in the first three quarters in growth in that MRO is certainly something we're going to strive to achieve on a go-forward basis. So you can roll that forward.

The charter and contract flying line in the P&L, our Jazz charter operation and our Voyageur contract flying operation—which you're right—has seen an uplift as well with the new contracts that Joe has mentioned that were added, this one it's certainly a little bit more difficult to model. A lot of these contracts are one- to two-year contracts that sometimes get renewed, sometimes they don't depending on the missions, so. But we have seen some nice growth there. It's modest relative to the overall growth that we see overall. But looking at it consistently with what we've done year to date, I think, is a fair modelling assumption, Doug.

Doug Taylor

Okay. Thank you for the colour. I'll pass the line.

Jolene Mahody

Thank you.

Operator

Again, if you'd like to ask a question, press *, and the number 1 on your telephone keypad.

Our next question comes from the line of David Tyerman from Cormark Securities. Your line is open.

David Tyerman — Cormark Securities

Yes. Good morning. I apologize if someone's asked this because I got on late because of another call. But, Jolene, your comment on the transactions in leasing, the 490 to 510, I think you went on to say you have about half left and will be deployed in mid-2018. So I'm not quite understanding the commentary there.

Jolene Mahody

Yeah. So what—

David Tyerman

Isn't it 490 to 510—sorry. Go ahead.

Jolene Mahody

Yeah. So the 490 to 510 is, yeah, aircraft acquisitions and ESP for the 2017 year, although it only reflects from an aircraft acquisition side for CAC those aircraft that we've already announced. So anything that would be new that would come from the deployment of the remainder of the funds from Fairfax are not included there.

But what I did say earlier, David, is that about half of the Fairfax funds have been deployed to date.

David Tyerman

Okay. So the 490 to 510, is that all CAC aircraft?

Jolene Mahody

Yeah. It's all CAC aircraft acquired in 2017 or to be acquired in 2017, because it does include the two E 190s that we've announced but not yet closed on. So that amount would include 17 aircraft, because remember we purchased two Nostrum aircraft last year.

David Tyerman

Yeah.

Jolene Mahody

So 17 aircraft, plus two Nostrum that we purchased last year. The other amount that's in that range is $18 million related to the extended life program on the Dash 8–300s.

David Tyerman

Okay. Okay. So that's the growth number of roughly, what, a quarter of that is financed by equity out of the Fairfax deal—

Jolene Mahody

Yeah. Exactly. Yeah. And we estimate that with the remaining funds we'll be able to acquire about 15 more aircraft.

David Tyerman

All right. Okay. Okay. That's helpful. Thank you.

Jolene Mahody

Yeah.

Operator

And again, if you'd like to ask a question, that's *, and the number 1 on your telephone keypad.

We have no further questions in queue. I'll turn the call back to the presenters.

Nathalie Megann

Thank you very much, Lisa, and thank you, all, for taking the time with us today.

Operator

This concludes today's conference call. You may now disconnect.

*****