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Chorus Aviation Inc.

Second Quarter Results Conference Call

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PRESENTATION

Operator

Good morning. My name is Lisa, and I'll be your conference Operator today. At this time, I would like to welcome everyone to the Chorus Aviation Second 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, Investor Relations and Corporate Affairs, you may begin your conference.

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

Thank you, Lisa. Hello, and thank you for joining us today for our second quarter 2018 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 and uncertainties and assumptions that are included or referenced on Page 2 of our

Management's Discussion & Analysis of the results and operations of Chorus Aviation for the period ended June 30, 2018, 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 Randall.

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

Thank you, Nathalie, and hello. Thank you, all, for joining us.

Jolene and I are dialling in from our offices in sunny Dublin, Ireland, the head office of our growing international leasing business, where we conducted our second quarter board meetings. This was a great opportunity for our Board of Directors to meet some of the newer members of the Chorus Aviation Capital team who continue to deliver.

We continue to build our regional aircraft leasing business, and we recently have executed new term sheets with various customers for the acquisition of several regional aircraft that are either currently on lease, or will be placed on lease pursuant to a sale and leaseback transaction. These term sheets remain subject to negotiation and execution of definitive agreements. Further details will follow as transactions are finalized.

The pipeline of opportunities is robust, and I'm confident in the growth prospects of our leasing business. That said, we will continue to take a conservative and prudent approach to building this business, and will not grow for the sake of growth. As an example, most of the quarter was focused on evaluating a large transaction that we eventually abandoned, as our rigorous due diligence uncovered risks that exceeded our appetite.

The evolution of our leasing business must be profitable and sustainable in the long term. We initially built our portfolio by purchasing existing aircraft already on lease with customers. We continue to pursue these types of transactions; however, we've been deepening our relationships with airlines by working with them on operating leases for their new aircraft deliveries, as well as sale and leaseback opportunities for some of their existing fleet.

Some of the transactions we are currently working on are for new originations whereby we source a new aircraft and negotiate a new leasing agreement with the customer. This provides us the opportunity to learn more about our customer's operations as we work with them on putting new leases in place. However, these transaction can take longer to execute.

Now turning to the quarter. The fundamentals of our business remain strong, as evidenced by an increase in adjusted EBITDA of 18.8 million, or 28.6 percent, and adjusted earnings per basic share of $0.21.

In the quarter, we completed our sixth extended service program on a Dash 8–300, which is now generating leasing revenue under the CPA, and we completed a seventh aircraft in July.

We won new contracted flying operations utilizing CRJ-200 aircraft in Sudan and the Democratic Republic of Congo.

We are seeing some increased competition on the international contracted flying front, and have been challenged sourcing pilots to fly some of these specialized missions. This type of work requires that pilots have an appetite for remote destinations, and have the high number of flying hours and experience required to meet contract obligations.

However, we continue to have good customer demand for our parts division we call Avparts. We recently acquired two Dash-8 300s to build our available parts inventory. We generate healthy margins on this business and we see potential for growth, and to date 10 aircraft have been parted out for sale.

Since May of this year, we successfully introduced nine new routes under the Air Canada Express brand, and we flew more Block Hours and had more departures in the second quarter of this year when compared to the same period in 2017.

Our role is to support Air Canada’s network, and we’re a very good partner because we provide great flexibility in their deployment of aircraft in their regional network. We feed passengers into all their services, and help build demand on long, thin routes. We are constantly redeploying our aircraft in support of Air Canada’s roofed profitability, and this is a normal part our business because passenger travel demand and the competitive environment changes constantly. It’s just not static.

With that said, I'm pleased with our overall performance in the second quarter, and I thank the Chorus team for their continued efforts toward our shared vision of delivering regional aviation to the world.

We are focused on creating additional long-term shareholder value by capitalizing on our industry relationships as we build our core competencies in regional aircraft leasing, contract flying operations, and MRO.

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

Thank you.

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

Thank you, Joe, and good morning, everyone. In the quarter, we generated total revenue of 378.3 million versus 332.7 million in the same period of 2017, an increase of 45.6 million or just under 14 percent.

The primary driver of this increase was our non-CPA aircraft leasing business, which increased by 17.7 million quarter over quarter.

We reported adjusted EBITDA of 84.6 million versus 65.8 million in 2017, an 18.8 million or 28.6 percent increase. The 18.8 million increase in adjusted EBITDA was primarily driven by a 14.9 million increase due to the growth in third-party regional aircraft leasing, increased aircraft leasing revenue under the CPA of 1.4 million, decreased stock-based compensation of 1.8 million, and a decrease of 0.7 million in other expenses.

Adjusted net income came in at 29.4 million for the period, an increase from 2017 of 2.5 million or 9.3 percent. The change was a result of the 18.8 million increase in adjusted EBITDA previously described and a 0.3 million increase in other income, all partially offset by an additional 7.4 million in depreciation primarily related to new aircraft, a 6.1 million increase in income taxes, and interest costs of 3.1 million related to increased aircraft debt and convertible units.

Net income was 16.2 million for the period, a decrease of 24.9 million or 60.6 percent from the same period of 2017. The decrease was primarily due to a quarter-over-quarter change in unrealized foreign exchange loss of 31.3 million, which was offset by the previously noted 2.5 million increase in adjusted net income and decreased employee separation costs of 3.9 million.

In February, we implemented a dividend reinvestment plan to help support the growth in our aircraft leasing business. The plan currently offers a discount of 4 percent from the average market price for shares purchased under the plan, and I'm very pleased with the greater than 20 percent uptake so far.

Looking ahead to the balance of this year, capital expenditures for 2018, excluding those for the acquisition of aircraft and the ESP, and including capitalized major maintenance overalls are expected to be between 44 million and 50 million. Capital expenditures for ESP and aircraft acquisitions are expected to be between 81 million and 84 million, but this does not include capital for future to-be-announced aircraft acquisitions.

Based on scheduling information from Air Canada, Billable Block Hours for 2018 are expected to be between 360,000 and 375,000 hours, and this is based on 116 covered aircraft as at December 31, 2018. The actual number of Billable Block Hours for 2018 may vary from this anticipated range due to many factors, and you can see the risk factors outlined in Section 10.

For additional information supporting our projected guidance for the balance of the year, I'll refer you to Section 4 of the 2018 Outlook section of the MD&A for the period ended June 30, 2018.

And that concludes my commentary. Thank you for listening.

And, Operator, we can now open the call to questions from the analyst community.

Q&A

Operator

Thank you. 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.

And our first question comes from the line of Walter Spracklin from RBC. Your line is open.

Walter Spracklin — RBC

Yes. Thank you very much. Good morning, everyone.

Joe Randell

Good morning, Walter.

Walter Spracklin

Hi. So just starting, Joe, you made some comments about adjusting your strategy with regards to taking on leasing and now going to new aircraft. You indicated that it would take longer. Could you talk a bit about the differences in that type of approach, particularly if there's any additional risk that you would be assuming by taking this route versus existing leased aircraft, and again, why it would take longer than normal to do it under that approach?

Joe Randell

Sure. Well, I wouldn't say it's a change in strategy. As we evolve our leasing business, initially we did just pure buying leases from other leasing companies which were already in effect and the aircraft had been placed and et cetera. So there was no real lead time involved really in that type of transaction.

In the case of the acquisition of a new aircraft, for instance, the airplane may not yet have been delivered and you make the commitment and you sign up the lease for deliveries that have not yet taken place. So there is a little more of a time lag then in terms of the requirement for the capital in terms of putting the leases in place and the definitive documents, et cetera. And that just takes a little more lead time, but generally those are new assets, those are generally sale and leasebacks, and those have always been in our target zone.

So it's a natural evolution that we have, and we have this capital now, of course, that we raised through the public offering earlier this year. And we're still … we're basically still saying that by mid next year we will have all of this capital committed, and we are making good progress. Although the first half of the year there was not a lot of announced activity, we're really seeing now a very good pipeline. And as I did mention, we have a number of term sheets now that we are looking to as we put definitive documents in place, et cetera, that we will be announcing.

Walter Spracklin

That's great. And with regards to that slowdown, and certainly that must have taken up quite a bit of your time focusing on that other transaction and probably speaks to some of the lull that you had in the last few months, if the environment were to adjust and there just weren't as many deals available to you, would you consider going into different types of aircraft outside of what you've traditionally done on the regional and turboprop side? Would you consider going up into some of the kind of C Series/narrow-body? Or are you going to stick with your regional and turboprop flying—leasing.

Joe Randell

Sure. Well, we don't really see a shortage coming up, so we've not really had to even think about that, to tell you the truth. We do see a lot of—

Walter Spracklin

Okay.

Joe Randell

—opportunities there. We had said that the C Series, or I guess it's called now the A220 or—

Walter Spracklin

Right.

Joe Randell

—et cetera, is we've said that is potentially within our scope. It's a little bit of a crossover aircraft in many ways in terms of our business, but we're certainly not looking to move up the line now. That business is very adequately served by the number of lessors that are out there, et cetera.

So we're really focused on sticking to our knitting and really focusing on the market. And we see ample opportunities there that we don't really even need to consider an alternative right now for us.

Walter Spracklin

Okay. And then just last couple questions here. We'd heard from Calin Rovinescu about the increased domestic flying on the part of Rouge. And we—and he had indicated some potential for densifying some of the routes, doing less smaller planes and more larger planes. And you cautioned that, or you indicated that you didn't think that that would be much of a risk for Chorus Aviation. From the early view, has that changed? Are you still of the view and from what evidence you've seen since then is that in line with your thinking on the domestic expansion of Rouge?

Joe Randell

No, it is still very much in line. As I mentioned in my comments there, we launched nine new routes since May. And although Rouge is now flying on some of the routes that we had been serving, et cetera, in some cases we're supplementing Rouge. And as I did mention here, our Block Hours year over year on the quarter are up.

So I think what we're seeing is a strong Air Canada. We're seeing a robust demand for our services. We see a lot of passengers on our flights. And it's part of our role, too, one of the things we do for Air Canada is they do actually place us on routes that are new to see how the market develops, et cetera. And as we've mentioned before, it doesn't matter where we fly as long as we're flying.

And we do have the commitments on the number of airplanes and things of that nature, so we're not seeing any effect certainly right now.

Walter Spracklin

And there's nothing in the new contract when it evolves over into the new contract that would allow for that to—or would suggest that that would change materially? In 2020, I mean.

Joe Randell

No.

Walter Spracklin

No? Okay. The pilot shortage is my last question ...

Joe Randell

No, no. The—

Walter Spracklin

Sorry.

Joe Randell

No, 2020 although there's a change in compensation levels as we move into 2021, the contract is essentially the same, so.

Walter Spracklin

Yeah. Okay. Okay. And just wanted to move onto pilot shortage; we're hearing more and more evidence of it. Obviously you have a bit more of a competitive advantage where you can offer pilots a little bit more of a full kind of migration and upward movement. Are you seeing the effect of the pilot shortage? Is it affecting any of your negotiations with the unions? Should we start looking at the potential for higher costs where it's associated with pilots? Any commentary on that?

Joe Randell

Yeah. No, certainly within Canada and their Jazz operation we have an ample supply of pilots. We continue to flow pilots to Air Canada. We continue to see our costs go down as we replace pilots as they leave who were here prior to 2015 with newer pilots. So that's all heading in the right direction.

We have ample supply. The pipeline is good. We're very happy with this. My comment that I made there at the beginning specifically relates to the deployment of Voyageur and Africa in particular where the requirement from our customer, the number of hours required and the experience level is quite high, and so we are seeing some challenges in that area. But that does not at all affect our Jazz operation or CPA with Air Canada whatsoever.

Walter Spracklin

Okay. Perfect. That's all my questions. Thank you very much.

Operator

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

Turan Quettawala — Scotiabank

Hi. Good morning. Thank you for taking my questions. I guess I wanted to just touch a little bit on the fact that your leasing operation didn't grow a whole lot in here in Q2. Just wondering, I know you mentioned that you do have a few term sheets there, but are you reasonably comfortable that there will be a pickup here in deals in Q3? Or do you think there's going to be more of a 2019 kind of a pickup?

Joe Randell

We do anticipate a pickup of deals for the last half of this year, clearly, and we hope to be in a position to announce the details of those transactions soon. As I mentioned, we have term sheets that we're looking to turn into definitive agreements, and while there wasn't a lot of announced activity in the first half, the year-over-year growth was substantial last year.

If you look at last year, virtually everything we did was in the latter half of the year. And it's not going to be straight line. It's going to be lumpy, and it's all about finding the right deals. And as I mentioned, Turan, we were very consumed in the first half of this year evaluating a very significant portfolio, and in the end we decided not to do that. Unfortunately, that has caused a bit of a delay in terms of some of the other transactions, but we don't see that as setting any type of a bar going forward.

For us, we're still focused on growing the business. We're not changing what we've said, which is by the middle of the next year we're looking to have the capital committed, and we're optimistically moving through that.

So I'd say, stay tuned. We are optimistic, and we hope to be in a position soon of announcing the details of the new leasing partners and aircraft.

Turan Quettawala

Perfect. Thank you very much. And just one more for me here; you did mention some new flying contracts here, I guess, in Africa. Is it possible to give a sense of how much that would be maybe in revenue terms?

Jolene Mahody

I think even though we with these contracts, Turan, with the UN and Africa are kind of turning over on a regular basis, we did see some softening certainly in the first half of this year with the Voyageur operation overseas. So we do pick up these couple of new contracts agreements, as we indicated. We have some others that expire, so it's a constantly renewing process.

I'd say for the next couple of quarters you can model revenue for that operation that would be fairly consistent with what we saw in Q2, about 12 million or so a quarter.

Turan Quettawala

Thank you very much.

Jolene Mahody

In total.

Turan Quettawala

Yes. Thank you very much. That's great.

Joe Randell

Thank you.

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. Just one question on the initiative or potential for leasing transactions for new aircraft, I'm just wondering if you could talk about if there's any kind of additional requirements in terms of cash for predelivery or deposits that would come with such transactions?

Joe Randell

Generally not.

Jolene Mahody

Yeah. Those types of predelivery deposits, I guess, would be in more of a Skyline-type of transaction, right, which is not out of the realm of our interest. We're certainly interested in those types of transactions, although we see them maybe a little bit further down the line for us, unless there was something that came across that was interesting and that we had a sourced placement for those aircraft with a lessee already set up.

But the types of portfolio acquisitions that we've done to date, or new originations with sale and leasebacks with customers already established would not generally have PDPs attached.

Joe Randell

Yeah. Generally we'd be buying the aircraft off the airline to create the lease, and generally the PDPs in the contract would have already been negotiated and entered into the commitments by the airline themself.

Tim James

Okay. That's helpful. Thank you.

Operator

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

David Tyerman — Cormark

Yes. Good morning. I was wondering if you could tell us how many aircraft and how many customers are involved in the term sheets?

Joe Randell

Yeah. We'd prefer not to do that, David, because when you're in the negotiation phases of this, it's important that we maintain the flexibility and not identify specific partners or numbers of airplane. And so we can't really go further than what we've given you.

David Tyerman

Okay. Fair enough. Just on the market conditions and leasing, can you give us any thoughts on whether there are any changes in things like lease rates, availability of aircraft, that sort of thing? Or opportunity?

Joe Randell

We've not seen a lot of change there. In terms of activity, we're obviously not seeing a lot of activity in North America; it continues to be outside where there's a lot of new operations, growth, et cetera. So we've not really seen much of a change, and we continue to focus on the core products.

I think the Q400 for us remains and the ATR 72s, et cetera, that remains quite robust. There are a lot of new orders out there, a lot of existing customers, et cetera. So we're not really seeing a lot of change, but, of course, the world these days as we look out there with respect to some of the trade uncertainty, et cetera, there's a lot of talk about that, but we've not really seen that manifest itself in terms of any significant changes in the market.

David Tyerman

Okay. That's helpful. Thank you. And then just this probably isn't too relevant right now, but just to get an idea, when do you have your first re-lease come up?

Jolene Mahody

2020? End of 2020, I think.

Joe Randell

2020/2021, I think it is. Yeah.

David Tyerman

Okay. Okay. And are there many aircraft involved there? Or ...

Joe Randell

No. And these were—I think these airplanes are a little older.

David Tyerman

Okay. Okay. So are they … would they be candidates to exit the fleet then?

Joe Randell

Oh, yes, absolutely. Whenever the leases are over, we look at whether we re-lease with the operator, which is often the preferred course, or we can sell the asset.

David Tyerman

Yeah.

Joe Randell

And in some cases, like with older assets as we look at some of the opportunities, at the end of life there may be an opportunity to part out the aircraft.

David Tyerman

Okay. So you could even do the part-out?

Joe Randell

Absolutely. We're doing those, and that business is going very well for us.

David Tyerman

Okay. But this is not the CACC aircraft I'm talking—are these in the CACC fleet? Or elsewhere?

Jolene Mahody

Yeah. Yeah. They're in—yeah.

David Tyerman

Sorry, when I mean re-lease I mean CACC, not the AC stuff.

Jolene Mahody

Yeah. You mean Chorus Aviation Capital.

David Tyerman

Yeah.

Jolene Mahody

And yeah, when Joe speaks about our ability and capabilities, I guess, to part out, that's not necessarily for those specific aircraft—

Joe Randell

No.

Jolene Mahody

—at all.

Joe Randell

Right.

Jolene Mahody

That's an option that we have available to us because we have the capabilities, but it would depend kind of on the aircraft age, the opportunity, and stuff. So most likely in this scenario we would be re-leasing or selling at an optimal time.

Joe Randell

Yeah. And one of the factors that we consider when we enter into a lease or we purchase a lease from another leasing company is the likelihood of the customer to re-lease—

David Tyerman

Right.

Joe Randell

—because some are more likely than others. And of course, that is one of the factors amongst many others that we consider when we either purchase the lease or enter into the leasing agreement.

David Tyerman

All right. Okay. Fair enough. And then just, Jolene, you mentioned the Skyline purchases. So what would get you guys to start looking at that, other than actually having customers lined up ahead of time? Is it really you need to get a much bigger fleet of aircraft under lease, I don't know, 50 or 75 or something before it becomes really the kind of risk you would be willing to take on? Or could you just give us some idea when Skyline would sort of fit into your portfolio of opportunities?

Joe Randell

It wouldn't be so much the number of airplanes. It would be the lease itself, the economics of the lease, the quality of the customer, et cetera. So those would be the prime considerations when you look to put down PDPs.

David Tyerman

Okay.

Joe Randell

So we have no specific target or benchmark in mind, but we would evaluate even now the opportunity to do an arrangement with a customer, if the customer is right, if the lease is right to make the commitment with the manufacturer.

David Tyerman

Okay. So from your comment, Joe, I take it doesn't sound like you would be willing to do unallocated Skyline purchases?

Joe Randell

Yeah. No, we're not at that point. We're still, I think, building our business based upon contracts that are in place with leases that have been negotiated, et cetera.

David Tyerman

Yeah.

Joe Randell

But as time goes on, we start to look at that more and more. But again, even in entering that there are a lot of factors to consider in terms of how long you would have to market the airplanes, what your out-costs may be, et cetera, et cetera, so. But I wouldn't envisage doing any of that in the near term.

David Tyerman

Okay. Perfect. Thank you very much.

Operator

Again, if you'd like to ask a question, that's *, 1 on your telephone keypad.

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, and good morning, everybody. Maybe just going back to that larger deal that after having, I guess, gone through an extensive due diligence didn't meet your risk parameters, does that change how you think about maybe doing larger deals? Is the preference now to maybe focus on smaller deals where you can get them across the line maybe faster and maybe leave larger deals for maybe post mid-2019, I guess, if you were to recapitalize Chorus Aviation Capital?

Joe Randell

Well, no. I think you had—and all portfolios are not created equally in size. This was a large opportunity that we evaluated. There are other opportunities that are there. There are advantages in a portfolio buy in terms of economies of scale and negotiating the deal, and that sort of thing, so we continue to look at those things.

But in the meantime, though, we've got this ongoing demand for a fewer number of airplanes, et cetera, that we will keep acting upon. And I wouldn't rule out a portfolio buy if it makes sense and it makes—we have the ability to do the deal, so no particular hard and fast rule.

Kevin Chiang

Okay. That's helpful. And then it looks like you're becoming more, I guess, maybe more positive on the parts opportunities here. Just trying to get a sense, does that change how I should think about, I guess, how working capital might work through your cash flow statement on, I guess, through the various quarters? Or how I should think about maybe your normalized CapEx? Like do you think about maybe buying more aircraft now to part out and obviously having an impact on those line items? Is that something material we should be thinking about?

Jolene Mahody

Yeah. To date, Kevin, the types of aircraft that we've been purchasing and parting out are very old kind of Dash 8, turbo-props, some CRJs that we bought without engines, so small CapEx expenditure. And we actually, we don't treat it as CapEx, right? It's more inventory.

Kevin Chiang

Okay.

Jolene Mahody

So it's not something that I think kind of falls on the radar from a significant level. Now as we grow the business, then we would like to move more towards in-production aircraft and start to part out those; that will be a bit of a cash draw for us, of course.

Kevin Chiang

Mm-hmm.

Jolene Mahody

But as far as kind of giving you some colour on what that looks like and how much, we're just going to take it as the opportunities arise, right?

Joe Randell

And in some cases when we buy these older assets you can actually presell some components, which actually lowers your requirement because those are particularly appealing to us.

Kevin Chiang

Right. I think, at least my understanding is, this parts business is typically generating, let's call it, 15 percent return on capital. Is that kind of what you're seeing as you grow this? Or are you seeing better than that? Maybe worse than that now because you're still in the growth phase?

Jolene Mahody

Yeah. No, that's kind of in the range where we see the market, as well. It depends. There's ups and downs, of course, but you're fairly in the number range there that we would be looking at.

Kevin Chiang

Okay. And just the terms sheets and the, I guess, the backlog you have in terms of potential deals for leasing transaction, are you seeing any changes in the competitive environment? I know you've spoken about how you view the regional jet leasing market as being very compelling here. Just wondering if you've seen any more new entrants looking to take advantage of some of the returns you've sighted? Or has that been pretty static?

Joe Randell

Fairly static. Occasionally we have a pop-up that we're rather surprised that that party would be there, but nothing that I would say significant. You still have the significant players, which would be the Nordics and ourselves and the Truenoords, et cetera, so nothing that I would say that would really be significant.

Kevin Chiang

Okay. And then just lastly for me, maybe just following on on David's questions about re-leasing or the opportunities to re-lease aircraft in the next few years here within Chorus Aviation Capital. My understanding is you're still fully amortizing this debt, so presumably at the time you re-lease there could be no debt attached to some of these aircraft, or maybe all of these aircraft as you re-lease them? How should we be thinking about the returns and the lease rates? Like do you still expect to generate kind of 15 percent ROE on these type of re-leased aircraft? Or is it much higher because there's no interest associated with these? Or do you adjust the lease rates to reflect that cost savings? Just trying to get a sense of how the returns look kind of in the second life of these aircraft?

Jolene Mahody

So I guess firstly when we look at kind of what we have in hand today, we have a long lead time here. Like on average we have seven years lease time. So even though we have a couple that come up in 2020, we've got some room here and we've been building it out intentionally that way.

And as we look and build the portfolio, we pay a lot of attention to liquidity of the asset and understanding kind of what's in the marketplace, what's the desire or need for the asset, and what does it look like as we project into the future so that we can gauge that probability of re-lease with the current customer or with a new customer, or also then understanding the residual value risk associated with it and the ability to optimize through a sale of the asset.

So I think it—when we price an initial deal and we value kind of the residual value piece, we're looking to cover our commitment and our outlay. And then, depending on kind of what happens as far as re-lease, yeah, it would be at market lower rates at the time, but again, all that gets factored into our investment decision of what to do with the asset at the time.

Joe Randell

Yeah. And it also winds into how we finance our business going forward because the initial approach that we've taken has been pretty conservative of having a high amortization rate, debt tied to the lease, et cetera, whereas we know these assets are longer lived. And, of course, as you look for capital to grow your business, refinancing and looking at various ways of financing the business, which is clearly in our sight right now in terms of how we do this, will give us more flexibility, et cetera.

So I think all of those things will be helpful as we continue to mature here. And we've been saying all along that we're targeting an ROE in the 15 percent range and that, and we're continuing to look to do that.

Kevin Chiang

That's it for me.

Joe Randell

But as we go forward, it's all about, too, the cost of capital, the amortization of the debt, et cetera. And we see that bringing further upside to us.

Kevin Chiang

That's very helpful. Thank you very much.

Operator

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

Nathalie Megann

Thank you, Operator. And thanks to everyone for spending the time with us this morning.

Operator

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

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