EQUITY RESEARCH

Capital Markets

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RBC Elements™: Q2/24 Flight Deck

Q2 Airlines & Aerospace Preview

Our view: In this report, we update our estimates for AC and CAE, and flag valuations across our coverage remain at the lower end of historical ranges. Our Canadian Airlines & Aerospace Heatmap powered by RBC Elements™ points to weaker leading indicators, including airfares, travel indexes, and search interest (see Exhibit 1), which aligns with commentary from Transat last month highlighting demand and yield pressure. Looking ahead, we see this as pointing to ongoing challenges for airlines stemming from downward pressure on ticket prices, in addition to upward pressure on operational expenses, particularly labor costs. Furthermore, our Business Jet Heatmap indicates a sustained uptick in usage, low pre-owned inventory, and robust wealth generation, factors we consider to be tailwinds for BBD. BBD remains our top pick within our aerospace coverage due to a robust demand outlook that we anticipate will lead to a significant positive shift in free cash flow by 2025. In addition, we highlight EIF as attractively valued and believe the growth potential from upcoming air ambulance contracts as well as from a pickup in Windows, Northern Mat, and Leasing, is not appropriately reflected in the shares (especially within the context of recent weakness).

Q2 estimate revisions

- **AC: Q2 estimate lower and below consensus; price target unchanged at $18; reaffirm Sector Perform rating.** We are decreasing our Q2/24 EBITDA estimate to $981MM (from $990MM), below consensus of $1,049MM, driven by lower expected yields offset by lower fuel prices. Our lowered 2024 estimate of $3,412MM (from $3,417MM) remains below consensus of $3,773MM and guidance of $3.75B to $4B as we see multiple headwinds facing the industry, including yield normalization, supply-chain challenges, and higher operating costs, namely labour. Our target price remains at $18 on our unchanged target multiple of 3.4x, see Exhibit 7. In addition, we introduce our estimates for 2026 and 2027 and model for a FCF inflection in 2027 due to a normalization of capex spend.
- **BBD: Q2 estimate unchanged and below consensus; price target increased to $133 (from $99); reaffirm Outperform rating.** We are maintaining our Q2/24 EBITDA estimate of $259MM, below consensus of $288MM. Our 2024 EBITDA estimate also remains unchanged at $1,322MM, a touch below consensus $1,338MM and in line with guidance of $1.30B to $1.35B. Our Q2 FCF estimate remains at -$155MM and reflects NWC investment. Our 2024 FCF estimate of $236MM is unchanged and near the midpoint of mgmt's guidance of $100MM-$400MM. Our target price moves to $133 (from $99) on our increased target multiple of 8x (from 6.5x) closer to in line with current NTM valuation (7.8x) reflecting increased visibility to delivery plans and effectiveness in mitigating risks related to supply chain challenges. BBD remains our top idea.
- **CAE: FQ1 estimate lowered and slightly below consensus; price target decreases to $30 (from $31); maintain Outperform.** Our FQ1 EBITDA estimate moves to $239MM (from $241MM) slightly below consensus $243MM. We flag risk to F25 Civil adj. operating income growth guidance of low double digits on the back of pilot hiring freezes at US airlines and supply chain issues at OEMs delaying deliveries. We therefore bring down our F25 Civil adj. operating income estimate to +10% from +11%. Our F25 EBITDA estimate moves to $1,100MM (from $1,079), in line with consensus $1,103MM as we update our depreciation assumptions partly offset by our lower civil expectations. We expect sentiment to remain weak until the company can show meaningful traction in defense margins. Target price remains to $30 (from $31) on our lower target multiple of 10.6x (from 11x). Key focus into the quarter will be on margins in Defense segment, and the impact of continuing OEM delays and hiring freezes on demand in Civil.
- **CHR: Q2 estimates unchanged and slightly above consensus; price target unchanged at $3.50; reaffirm Outperform rating.** We are keeping our Q2/24 EPS estimate unchanged at $0.06, slightly above consensus of $0.05. Our 2024 EPS remains at $0.27, above consensus at $0.22 on an improving leasing market. Key focus for the call will be on Fund III progress, FCF generation, asset sales and

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See RBC Elements page at the end of this note.

Priced as of prior trading day's market close, EST (unless otherwise noted). All values in CAD unless otherwise noted
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associated deleveraging. Target price remains at $3.50 on our unchanged target multiple of 10x.

- **EIF: Q2 estimate unchanged and a touch ahead of consensus; price target remains at $65; maintain Outperform.** Our Q2 estimate is unchanged into the quarter at $156MM, above consensus $154MM. Our 2024 estimate remains at $624MM, above consensus $615MM, in the mid to high range of 2024 guidance for EBITDA of $600MM to 635MM. Our 2025 EBITDA estimate remains at $689MM, in line with consensus of $690MM. Key into the quarter will be colour on the Manufacturing outlook, as higher rates are a drag on the Temporary Mat and Window Solutions segments, as well as the recent tuck-in deal which increases Northerns Mat's reach into the Eastern Canadian market. We continue to value the shares using a blended target multiple of 7.5x, and price target remains at $65.

Summary of ratings and price targets

Company	Ticker	New Rating	Previous Rating	Curr.	Market Cap(MM)	Price	New Price Target	Previous Price Target	% Change	Implied All-in Return %
James McGarragle										
Air Canada	AC CN	Sector Perform	Sector Perform	CAD	6,856	17.90	18.00	18.00	--	1
Bombardier Inc.	BBD/B CN	Outperform	Outperform	CAD	8,732	87.73	133.00	99.00	34	52
CAE Inc.	CAE CN	Outperform	Outperform	CAD	8,088	25.41	30.00	31.00	(3)	18
Chorus Aviation Inc.	CHR CN	Outperform	Outperform	CAD	481	2.42	3.50	3.50	--	45
Exchange Income Corporation	EIF CN	Outperform	Outperform	CAD	2,175	45.22	65.00	65.00	--	50

Source: Bloomberg and RBC Capital Markets estimates

Exhibit 1 - Canadian Airlines Heatmap powered by RBC Elements

Airlines Heat Map

	High/Low	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24
Macro Indicators Y/Y											
US GDP*		(1.6%)	(0.6%)	3.2%	2.6%	2.2%	2.1%	4.9%	3.4%	1.3%	1.6%
CAD GDP*		2.6%	3.6%	2.3%	(0.1%)	2.6%	1.4%	(0.5%)	1.0%	1.7%	1.7%
Jet Fuel		85.3%	148.9%	77.8%	55.1%	13.4%	(46.9%)	(15.6%)	(20.0%)	(17.7%)	6.3%
Returns Y/Y											
Cdn Airlines & Aerospace Index Return		14.7%	(23.7%)	(36.9%)	(3.7%)	26.8%	71.9%	52.6%	24.3%	9.5%	23.8%
North American Airlines Index return		(26.5%)	(47.6%)	(53.0%)	(40.9%)	(32.2%)	19.4%	(2.8%)	7.1%	1.4%	(21.9%)
European Airlines Index Return		(48.2%)	(55.4%)	(53.6%)	(23.2%)	(18.5%)	(14.8%)	(11.1%)	(23.1%)	(14.8%)	(6.0%)
Asian Airlines Index Return		0.3%	(12.3%)	(19.0%)	(7.4%)	(5.4%)	(6.7%)	(11.1%)	(10.7%)	(6.9%)	(11.7%)
Leading Indicators (Powered by RBC Elements)											
Fares/Pricing											
RBC Canadian Airfare Index Y/Y						(2.4%)	(3.2%)	2.2%	(1.4%)	1.4%	(0.6%)
RBC Vacation Price Index Y/Y		20.2%	16.8%	9.8%	10.4%	7.9%	(3.8%)	(3.0%)	(3.8%)	(2.5%)	(1.0%)
CAN Airfare CPI Y/Y**		7.5%	14.9%	28.7%	18.2%	9.0%	(4.2%)	(17.8%)	(15.2%)	(5.7%)	(0.1%)
US Airfare CPI Y/Y***		13.7%	35.0%	34.3%	35.7%	23.2%	(11.5%)	(15.1%)	(11.6%)	(6.6%)	(3.4%)
Travel Indexes											
RBC GOAT Index (CAN) Y/Y		107.1%	106.2%	47.0%	30.9%	30.7%	(0.3%)	(2.0%)	(2.2%)	(5.2%)	(3.2%)
RBC GOAT Index (US) Y/Y		40.1%	11.0%	14.6%	5.4%	5.2%	(2.0%)	(1.4%)	(1.2%)	(4.4%)	(3.4%)
Search Interest											
Corporate Travel Search Interest Y/Y		(25.7%)	18.7%	29.2%	(11.4%)	29.8%	(5.0%)	(9.5%)	59.1%	14.3%	3.8%
AC Travel Search Interest Y/Y		10.9%	164.9%	69.7%	42.4%	69.4%	16.2%	20.4%	15.3%	3.6%	(6.3%)
US Travel Search Interest Y/Y		(0.3%)	19.7%	25.8%	26.5%	20.3%	9.9%	3.6%	(3.5%)	(2.4%)	(1.2%)
CAN Travel Search Interest Y/Y		32.3%	196.7%	80.0%	53.5%	68.8%	17.0%	21.6%	12.0%	7.4%	1.2%
CAN Non-Mainline Search Interest Y/Y		137.1%	404.2%	193.9%	111.6%	130.7%	31.4%	35.5%	14.7%	17.8%	17.9%
Competition											
% of Cdn Non-Mainline Fleet		16.7%	15.8%	16.8%	21.3%	22.3%	23.0%	18.1%	19.1%	18.6%	19.1%
% of Cdn Non-Mainline Flights		6.9%	11.5%	13.2%	12.7%	12.9%	15.6%	16.0%	15.7%	14.3%	15.5%
Coincident Indicators											
NAV Canada Movements Y/Y		31.0%	51.3%	30.1%	9.5%	21.5%	7.5%	1.7%	3.1%	3.2%	0.3%
Canadian RPKs Y/Y**		516.6%	1,032.3%	200.2%	93.6%	108.0%	31.5%	16.3%	11.9%	15.5%	4.7%
Canadian ASKs Y/Y**		304.7%	512.5%	151.8%	60.4%	62.1%	23.0%	12.0%	10.7%	16.3%	7.5%
Canadian Load Factors**		65.9%	80.5%	85.6%	82.2%	85.2%	86.3%	88.9%	83.0%	84.6%	84.1%
North American RPKs Y/Y**		113.7%	58.0%	32.1%	23.1%	28.1%	13.6%	11.8%	10.4%	7.1%	4.2%
North American ASKs Y/Y**		58.9%	35.6%	19.8%	13.8%	18.2%	13.7%	12.5%	12.3%	6.8%	7.6%
North American Load Factors**		74.9%	87.0%	86.4%	84.6%	79.7%	86.9%	86.2%	83.1%	81.0%	83.0%
TSA Passenger Throughput Y/Y		69.1%	33.9%	18.6%	15.0%	17.7%	10.5%	12.1%	12.2%	7.1%	6.0%
CATSA Passenger Throughput Y/Y		197.2%	333.9%	183.3%	84.4%	84.6%	25.1%	23.2%	14.2%	8.2%	4.0%

* Indicates Estimates

** Data through April

*** Data through May

Source: Company Reports, FactSet, Bloomberg, RBC Elements, Company Websites, SEMRush, Google Trends, Planespotters Net

Exhibit 2 - Canadian Aerospace Heatmap

BizJet Indicators (Y/Y)	High/Low	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24
Total FAA Traffic***		25.2%	10.8%	(2.3%)	(7.0%)	(4.5%)	(6.6%)	(4.6%)	(1.4%)	(1.4%)	0.8%
Domestic FAA Traffic***		23.1%	8.3%	(3.8%)	(8.0%)	(5.5%)	(7.0%)	(4.9%)	(1.4%)	(1.9%)	1.9%
International FAA Traffic***		38.0%	28.0%	8.2%	(1.1%)	1.4%	(4.7%)	(3.0%)	(1.1%)	1.5%	(4.8%)
Global Bizjet Activity		23.8%	11.8%	2.4%	(1.6%)	1.4%	(2.6%)	0.1%	4.0%	(2.3%)	(1.3%)
Bombardier Activity		19.6%	8.6%	2.4%	(0.2%)	5.0%	(0.2%)	3.5%	9.1%	4.3%	3.9%
Gulfsteam Activity		23.1%	18.1%	5.9%	0.9%	4.2%	(4.0%)	(0.8%)	3.2%	(0.7%)	(3.7%)
Number of Billionaires		31.5%	31.5%	31.5%	31.5%	(4.2%)	(4.2%)	(4.2%)	(4.2%)	5.3%	5.3%
Total Billionaire Wealth		(3.1%)	(3.1%)	(3.1%)	(3.1%)	(3.9%)	(3.9%)	(3.9%)	(3.9%)	16.4%	16.4%
Used Inventory (% of Total)		3.0%	3.4%	3.8%	4.8%	5.0%	5.7%	6.3%	6.5%	6.8%	

*** Data through May

Source: Company Reports, FactSet, Bloomberg, RBC Elements, Company Websites, AirNav RadarBox, FAA

Click here to access the individual company pages.

Canadian Airlines & Aerospace Q2/24 preview

In this report, we overview recent share price performance, discuss relevant industry trends/themes, and update our Q2 estimates. Items of focus include:

1. The set-up: share price performance in Q2 and valuation
2. An overview of air traffic trends, pricing, and leading indicators via RBC Elements™
3. A discussion of our Q2 estimates for each company in our coverage

The set-up: Aerospace share price performance during Q2

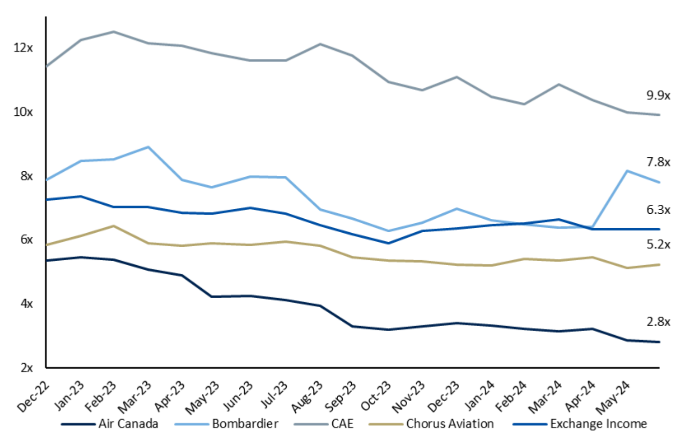
Company	Q2/24 Share Price Performance
BBD	50.9%
CHR	18.0%
S&P TSX	-1.3%
AC	-8.7%
CAE	-8.7%
EIF	-9.2%

Share prices mixed in Q2. Canadian Airlines & Aerospace share prices were mixed during the quarter, with BBD and CHR outperforming the index, up +50.9% and +18.0%, respectively. BBD's performance was driven by an investor day focused on profitable growth in aftermarket services and defense, with the company noting it will focus on an upgrade or refresh as opposed to a clean sheet until new technology justifies the investment, which was well received. CHR was up due to unconfirmed reports in the Air Finance Journal that it was exploring strategic options. AC and EIF underperformed against the index, down -8.7% and -9.2%, respectively, with AC shares down given weaker demand sentiment from airline peers and EIF on no company specific news. CAE's share price performance (-8.7%) was negatively affected by a major goodwill write down.

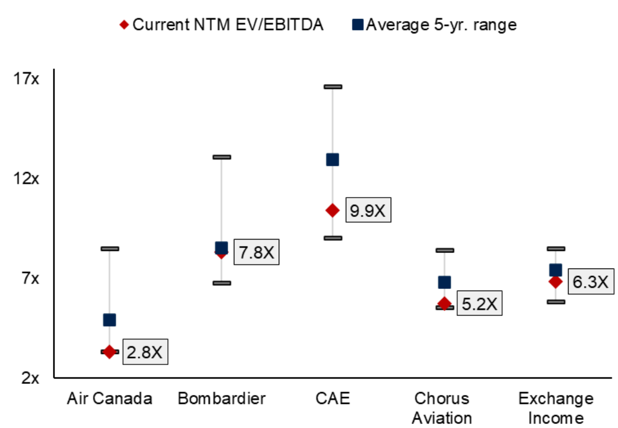
Thoughts on valuations. Referencing Exhibit 3, the bar chart below shows current valuations (red dot) relative to the 5-year range. The aerospace companies in our coverage are mostly trading below trailing 5-year averages. AC is trading below its historical average and in line with pre-pandemic levels as the industry grapples with normalizing demand, yield pressure, and higher costs. Bombardier is trading in line with its historical average (despite a recent increase in multiple following a successful investor day) and remains our top idea on the back of an upcoming FCF inflection and long-term growth in Services, Defense, and CPO longer-term. CAE is trading at the low end of its historical range due to challenges in the defense segment as is CHR driven by concerns surrounding the delay of Fund III. Finally, we flag EIF as attractively valued, with the stock price not reflecting significant upcoming growth on the back of new air ambulance contracts.

Exhibit 3 - Airlines & Aerospace shares mostly trading toward bottom of relative valuation (on consensus estimates)

Historical EV/EBITDA multiples on consensus NTM estimates



Current valuation vs. 5-year range



Source: FactSet consensus estimates. Note: Excludes pandemic impact from Jan. 2020 to Mar. 2023 for AC and BBD

Canadian Airlines & Aerospace Heatmap powered by RBC Elements™

Given the variable demand for commercial and private air travel since the pandemic, we began to track a series of travel indicators across the Airlines & Aerospace sectors quarterly. In collaboration with RBC Elements, our in-house data science team, we analyzed alternative data sets to gain insights into the forward demand and pricing environment. As part of our work with the Elements team, we built a proprietary Canadian Airfare Index that utilizes real-time ticket prices from Canadian mainline operators. We expand further on certain Elements indicators summarized in the heatmap.

Leading indicators lower in Q2. We look to RBC's proprietary Get Out and Travel (GOAT) index to gauge consumer travel demand. As seen in Exhibit 4, the Canadian GOAT index was down -3.2% y/y through Q2 and has been consistently negative since mid-June 2023. Separately, we track travel search interest changes y/y as measured by website traffic across corporate, mainline and non-mainline carriers. We flag that travel search interest (vendor data restated in Q2/24) across most segments declined in Q2. AC search interest was down -6.3%, with non-mainline search interest holding steady at +17.9% y/y. Higher corporate search interest significantly increased in Q4/23 and Q1/24, which we believe was primarily driven by market share changes across US peers after American Airlines walked back on its new distribution strategy rather than significant demand changes in the underlying market.

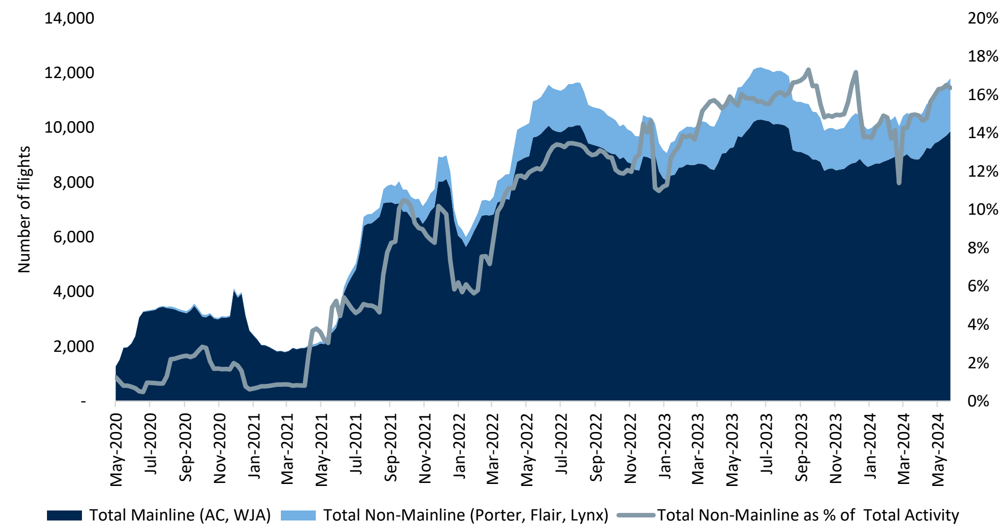
Exhibit 4 - Canadian GOAT travel indicators trending negative (Y/Y)

Source: RBC Elements, RBC Capital Markets

Airfares continue to moderate. Airfares hit a seasonal peak in the summer of 2022 and have since trended downwards. We note continued negative price growth in the past quarter, though the trend is decelerating. Canadian airfare CPI saw a decline in Q2 of -0.1%, improving from -5.7% last quarter. Data from our Canadian Airfare Index indicates a supporting directional trend, with prices down -0.6% Y/Y in Q2. We also incorporate RBC's Vacation Price Index, which is down by -1% y/y in Q2. Overall, we expect further price normalization in 2024, given our view that higher interest rates will continue to weigh on discretionary spending and similar read-throughs from peers such as Transat, highlighting continued downward pressure on unit revenues (yield) and load factors into the summer.

Non-mainline competition increases. We track non-mainline fleet activity in Canada, which has risen steadily since reopening after the pandemic. Total Non-mainline (Flair, Lynx, and Porter) as % of the total fleet (including AC and WJA) increased in Q2 to 19.1% from 18.6% last quarter. We see a similar pattern with the number of non-mainline flights, which increased to 15.5% from 14.3% of total flights in the previous quarter, see Exhibit 5. We see these increases as driven by WestJet's fleet consolidation after the Sunwing acquisition. Moreover, we continue to see Porter's expansion to Pearson with a firm order for 75 E-jets and increased collaboration with Air Transat, putting further pressure on prices looking ahead, in our view.

Exhibit 5 - Canadian GOAT travel indicators trending negative (Y/Y)



Source: RBC Elements, RBC Capital Markets

Bizjets: Above-average demand trends continue. Total bizjet traffic in the US was up +0.8% y/y through May and up 14.5% vs 2019, indicating structurally higher demand for private travel. In addition, global transponder data shows bizjet activity down -1.3% in Q2 y/y, with Bombardier jet activity +3.9% above that of Gulfstream -3.7%. As of last quarter, used inventory sits at 6.8%, well below the normal range of 11-14%, and we note the number of UHNW individuals has increased to 5.3% y/y, with total billionaire wealth up 16.4% y/y. In our view, wealth creation is a positive demand indicator for large, long-range jets. This data points to robust manufacturing and aftermarket demand, which supports our 2025E EBITDA estimates above consensus.

Q2 Estimates

We are updating our estimates for AC and CAE ahead of reporting season. Details by company are below:

- **AC: Q2 estimate lower and below consensus; price target unchanged at $18; reaffirm Sector Perform rating.** We are decreasing our Q2/24 EBITDA estimate to $981MM (from $990MM), below consensus of $1,049MM, on lower yield mostly offset by lower fuel prices. Our lowered 2024 EBITDA estimate of $3,412MM (from $3,417MM) remains below consensus of $3,773MM and guidance of $3.75B to $4B as we see multiple headwinds facing the industry, including yield normalization, supply-chain challenges, and higher operating costs, namely labour. Our 2025 estimate remains unchanged at $3,549MM vs consensus of $4,041MM. Our target price remains at $18 on our unchanged target multiple of 3.4x, see Exhibit 7. In addition, we introduce our estimates for

2026/2027 and see a FCF inflection occurring in 2027, after capex spend comes off post 2026.

- **BBD: Q2 estimate unchanged and slightly below consensus; price target increased to $133 (from $99); reaffirm Outperform rating.** We are maintaining our Q2/24 EBITDA estimate of $259MM, slightly below consensus of $288MM. We are calling for 17 Challenger and 14 Global to be delivered during the quarter. Our 2024 EBITDA estimate therefore remains unchanged at $1,322MM, a touch below consensus $1,338MM and in line with guidance of $1.30B -$1.35B. Our Q2 FCF estimate remains at -$155MM due to the ramp of Global deliveries expected next year. Therefore our 2024 FCF estimate of $236MM is unchanged and near the midpoint of management's guidance of $100MM-$400MM. Our 2025 EBITDA and FCF estimates of $1,680 and $952MM, respectively, remain unchanged and in line with the company's 2025 targets for EBITDA of >$1,625MM and FCF of >$900MM. Our target price moves to $133 (from $99) on our increased target multiple of 8x (from 6.5x) reflecting increased visibility to delivery plans and effectiveness in mitigating risks related to supply chain challenges. See Exhibit 8.
- **CAE: FQ1 estimate lowered and slightly below consensus; price target decreases to $30, from $31; maintain Outperform.** Our FQ1 EBITDA estimate moves to $239MM, slightly below consensus $243MM. Our F25 EBITDA estimate moves to $1,100MM (from $1,079), in line with consensus $1,103MM as we update our depreciation assumptions. We flag risk to F25 Civil adj. operating income growth guidance of low double digits on the back of pilot hiring freezes at US airlines and supply chain issues at OEMs delaying deliveries. We therefore bring down our F25 Civil adj. operating income growth estimate to +10% from +11%. We expect sentiment to remain weak until the company can show meaningful traction in defense margins. Target price decreases to $30 (from $31) on our lower blended target multiple of 10.6x (from 11x). Key focus into the quarter will be on margins in Defense segment, and impact of continuing OEM delays and hiring freezes on demand in Civil. See Exhibit 9.
- **CHR: Q2 estimates unchanged and slightly above consensus; price target unchanged at $3.50; reaffirm Outperform rating.** We are keeping our Q2/24 EPS estimate unchanged at $0.06 slightly above consensus of $0.05. Our 2024 EPS remains at $0.27, above consensus at $0.22 on an improving leasing market. Our 2025 EPS estimate remains at 0.34 above consensus of $0.28 due to our expectation that Fund III launches in the back half of 2024. Key focus for the call will be on Fund III progress, FCF generation, asset sales and associated deleveraging. Target price remains at $3.50 on our unchanged target multiple of 10x. See Exhibit 10.
- **EIF: Q2 estimate unchanged and in line with consensus; price target remains at $65; maintain Outperform.** Our Q2 estimate is unchanged into the quarter at $156MM, above consensus $154MM. Our 2024 estimate remains at $624MM, above consensus $615MM, in the mid to high range of 2024 guidance for EBITDA of $600–635MM. Our 2025 EBITDA estimate remains at $689MM, in line with consensus of $690MM. Key into the quarter will be colour on the Manufacturing outlook, as higher rates are a drag on the Temporary Mat and Window Solutions segments, as well as the recent tuck-in deal which increases Northerns Mat's reach into Eastern Canadian market. We continue to value the shares using a blended target multiple of 7.5x, and price target remains at $65. See Exhibit 11.

Exhibit 6 - Estimate changes ahead of the quarter

	Q2/24E EBITDA			2024E EBITDA			2025E EBITDA			Target Multiple		Price Target (CAD)			Implied
	Prior	RBC	Street	Prior	RBC	Street	Prior	RBC	Street	Old	RBC	Old	New	Rating	Return
Air Canada	$990	**$981**	$1,049	$3,417	**$3,412**	$3,773	unchg.	**$3,549**	$4,041	unchg.	**3.4x**	unchg.	**$18**	SP	+1%
Bombardier	unchg.	**U$259**	$288	unchg.	**U$1,322**	$1,338	unchg.	**U$1,680**	$1,588	6.5x	**8.0x**	$99	**$133**	O	+52%
CAE[1]	$241	**$239**	$243	$1,079	**$1,100**	$1,103	$1,149	**$1,175**	$1,197	11.0x	**10.6x**	$31	**$30**	O	+18%
Exchange Income	unchg.	**$156**	$154	unchg.	**$624**	$615	unchg.	**$689**	$690	unchg.	**7.5x**	unchg.	**$65**	O	+50%

1. CAE estimates are for FQ1/25, F2025, and F2026, respectively

	Q2/24E EPS			2024E EPS			2025E EPS			Target Multiple		Price Target (CAD)			
	Prior	RBC	Street	Prior	RBC	Street	Prior	RBC	Street	Old	RBC	Old	New		
Chorus Aviation	unchg.	**$0.06**	$0.05	unchg.	**$0.27**	$0.22	unchg.	**$0.36**	$0.28	unchg.	**10.0x**	unchg.	**$3.50**	O	+45%

Source: RBC Capital Markets estimates, FactSet for consensus. Note: Priced as of market close June 28, 2024

Exhibit 7 - Air Canada estimate revisions detail

	Q2/24E			2024E			2025E			2026E	2027E
(C$MM's unless specified)	Old	New	% Δ	Old	New	% Δ	Old	Cur	% Δ	Cur	Cur
Operating Metrics											
Traffic: RPMs (% chg)	5.4%	5.4%	0bp	5.5%	5.5%	0bp	5.6%	5.0%	-57bp	5.0%	4.0%
Capacity: ASMs (% chg)	7.0%	7.0%	0bp	7.0%	7.0%	0bp	7.0%	6.0%	-100bp	6.0%	5.3%
Load Factor (%pts)	86.5%	86.5%	0bp	85.4%	85.4%	0bp	84.3%	84.6%	33bp	83.8%	82.8%
Yield (% chg)	-2.4%	-2.8%	-37bp	-2.5%	-2.5%	-9bp	0.0%	0.5%	50bp	2.0%	2.0%
RASM (% chg)	-3.7%	-4.1%	-37bp	-3.9%	-4.0%	-9bp	-1.3%	-0.4%	87bp	1.0%	0.8%
Adj. CASM ex fuel+other (% chg)	2.5%	2.7%	15bp	3.6%	3.2%	-32bp	0.6%	1.4%	83bp	2.3%	1.5%
Avg Jet Fuel Price: ($C/Ltr)	$1.05	$1.01	-3.3%	$1.03	$1.01	-1.4%	$0.97	$0.96	-0.5%	$0.94	$0.93
Revenue	$5,627	$5,608	-0.3%	$22,483	$22,464	-0.1%	$23,659	$23,626	-0.1%	$25,172	$26,595
Expenses	$4,637	$4,627	-0.2%	$19,066	$19,051	-0.1%	$20,110	$20,077	-0.2%	$21,252	$22,231
EBITDA	**$990**	**$981**	**-0.9%**	**$3,417**	**$3,412**	**-0.1%**	**$3,549**	**$3,549**	**0.0%**	**$3,920**	**$4,363**
EBITDA Margin	17.6%	17.5%	-10bp	15.2%	15.2%	-1bp	15.0%	15.0%	2bp	15.6%	16.4%
EPS ex-one time items ($)	$1.10	$1.07	-2.1%	$3.19	$3.16	-0.9%	$2.21	$2.18	-1.4%	$2.09	$2.33

Source: Company reports, RBC Capital Markets estimates

Exhibit 8 - Bombardier estimate revisions detail

	Q2/24E			2024E			2025E		
($MM's unless specified)	Old	New	% Δ	Old	New	% Δ	Old	New	% Δ
Total aircraft deliveries	31	31	0.0%	150	150	0.0%	152	152	0.0%
Total Revenues	$1,741	$1,741	0.0%	$8,464	$8,464	0.0%	$9,174	$9,174	0.0%
Total EBIT	$171	$171	0.0%	$869	$869	0.0%	$1,207	$1,207	0.0%
Margin (%)	9.8%	9.8%	0 bps	10.3%	10.3%	0 bps	13.2%	13.2%	0 bps
Free Cash Flow	-$155	-$155	0.0%	$236	$236	0.0%	$952	$952	0.0%
EBITDA	**$259**	**$259**	**0.0%**	**$1,322**	**$1,322**	**0.0%**	**$1,680**	**$1,680**	**0.0%**
Margin (%)	14.9%	14.9%	0 bps	15.6%	15.6%	0 bps	18.3%	18.3%	0 bps

Source: Company reports, RBC Capital Markets estimates

Exhibit 9 - CAE estimate revisions detail

ESTIMATE SUMMARY	FQ1/25E			FQ1/24	F2025E			F2026E		
(C$ millions)	Old	New	% Δ	Actual	Old	New	% Δ	Old	New	% Δ
Revenue	1,125	**1,058**	(6.0%)	**1,012**	4,576	**4,530**	(1.0%)	4,920	**4,854**	(1.3%)
Civil Revenue	665	**598**	(10.1%)	**540**	2,671	**2,624**	(1.7%)	2,848	**2,782**	(2.3%)
Defense & Security Revenue	460	**460**	0.0%	**472**	1,906	**1,906**	0.0%	2,072	**2,072**	0.0%
Adj. EBITDA	241	**239**	(0.9%)	**233**	1,079	**1,100**	2.0%	1,149	**1,175**	2.3%
Civil Adj. EBITDA	198	**189**	(4.2%)	**185**	879	**880**	0.1%	930	**936**	0.6%
Defence & Security Adj. EBITDA	43	**49**	14.4%	**48**	200	**220**	10.1%	218	**239**	9.4%
Adjusted Operating Income	156	**143**	(8.6%)	**143**	731	**715**	(2.1%)	787	**779**	(1.1%)
Adj. Operating Income Margin %	*13.9%*	***13.5%***	*-39bps*	***14.2%***	*16.0%*	***15.8%***	*-18bps*	*16.0%*	***16.0%***	*4bps*
Civil Adj. EBIT	133	**120**	(10.1%)	**119**	616	**601**	(2.5%)	657	**648**	(1.3%)
Defence & Security Adj. EBIT	23	**23**	0.0%	**24**	115	**115**	0.0%	131	**131**	0.0%
Adj. EPS (F.D)	$0.25	**$0.22**	(12.8%)	**$0.24**	$1.24	**$1.21**	(2.9%)	$1.46	**$1.44**	(1.4%)
Consensus EBITDA		**243**				**1,109**			**1,204**	

Source: Company reports, RBC Capital Markets estimates

Exhibit 10 - Chorus estimate revisions detail

	Q2/24E			2024E			2025E		
	Old	New	% Δ	Old	New	% Δ	Old	New	% Δ
Revenue breakdown									
Regional Aircraft Services	$321	$321	0.0%	$1,394	$1,394	0.0%	$1,394	$1,394	0.0%
Regional Aircraft Leasing	$58	$58	0.0%	$239	$239	0.0%	$243	$243	0.0%
Total Revenues	$379	$379	0.0%	$1,633	$1,633	0.0%	$1,636	$1,636	0.0%
Total Expenses	$326	$326	0.0%	$1,418	$1,418	0.0%	$1,402	$1,402	0.0%
Operating Income	$53	$53	0.0%	$215	$215	0.0%	$235	$235	0.0%
Depreciation and Amortization	$42	$42	0.0%	$187	$187	0.0%	$180	$180	0.0%
Adj. EBITDA	**$95**	**$95**	**0.0%**	**$407**	**$407**	**0.0%**	**$415**	**$415**	**0.0%**
Adj. EPS	$0.06	$0.06	0.0%	$0.27	$0.27	0.0%	$0.36	$0.36	0.0%

Source: Company reports, RBC Capital Markets estimates

Exhibit 11 - Exchange Income estimate revisions detail

	Q2/24E			2024E			2025E		
(C$MM's unless specified)	Old	New	% Δ	Old	New	% Δ	Old	New	% Δ
Total revenue	650	650	0.0%	2,703	2,703	0.0%	2,910	2,910	0.0%
Total Aviation Revenues	395	395	0.0%	1,656	1,656	0.0%	1,811	1,811	0.0%
Total Manufacturing Revenues	256	256	0.0%	1,047	1,047	0.0%	1,099	1,099	0.0%
Adj. EBITDA	**156**	**156**	**0.0%**	**624**	**624**	**0.0%**	**689**	**689**	**0.0%**
Total Aviation EBITDA	121	121	0.0%	484	484	0.0%	539	539	0.0%
Total Manufacturing EBITDA	46	46	0.0%	185	185	0.0%	194	194	0.0%
Adj. net income (diluted)	43	43	0.0%	171	171	0.0%	201	201	0.0%
Adj. EPS (Diluted)	$0.89	$0.89	0.0%	$3.54	$3.54	0.0%	$3.97	$3.97	0.0%

Source: Company reports, RBC Capital Markets estimates

RBC Elements™

Driving insights through data

Description

RBC Elements™ is a primary research and data science team embedded within RBC's Global Research division. The main focus of RBC Elements™ is to use scientific methods, algorithms and systems to analyze vast amounts of structured and unstructured data, to obtain insights that are inputs into RBC's Fundamental Global Research teams.

Objective

The team is involved in creating various machine learning and predictive modeling tools and processes, helping RBC Research discover the information hidden in big data, and allowing the Research division to make smarter decisions and deliver differentiated products to our clients. RBC Elements™ strives to augment the already available industry data with different alternative data sources, and enhance data collection procedures to include information that is relevant.

Methods

The team is implementing different machine learning and data mining algorithms using state-of-the-art methods. Examples include:

- Machine learning techniques and algorithms, such as k-NN, Naive Bayes, SVM, Decision Forests, Clustering, Artificial Neural Networks, and Natural Language Processing to find patterns in the past, and to predict the future.
- Feature selection techniques to find what matters most in the data.
- Statistical modeling and analysis, and statistical tests such as distributions, and regression/GLM.
- Developing hypotheses and making inferences using large amounts of data.

Company Profiles

Air Canada

James McGarragle (Analyst)

Sector Perform

TSX: AC CN; CAD 17.90

Price Target CAD 18.00

Key Statistics

Shares O/S (MM):	383.0	Market Cap (MM):	6,856
Dividend:	0.00	Yield:	0.0%
Float (MM):	375.3	Avg. Daily Volume:	2,973,500

RBC Estimates

FY Dec	2023A	2024E	2025E	2026E
Revenue	21,833.0	22,463.9	23,626.1	25,172.0
Prev.		22,483.0	23,659.1	
EBITDA	3,982.0	3,412.4	3,549.4	3,920.0
Prev.		3,417.1		

Revenue	Q1	Q2	Q3	Q4
2023	4,887.0A	5,427.0A	6,344.0A	5,175.0A
2024	5,226.0E	5,608.1E	6,445.8E	5,184.0E
Prev.		5,627.2E		
2025	5,497.5E	5,897.4E	6,781.9E	5,449.3E
Prev.	5,474.1E	5,891.1E	6,868.5E	5,425.3E
EBITDA				
2023	411.0A	1,220.0A	1,830.0A	521.0A
2024	453.0E	981.4E	1,550.8E	427.2E
Prev.		990.2E	1,453.2E	520.7E
2025	498.7E	1,015.8E	1,627.5E	407.4E
Prev.	408.4E	1,046.7E	1,580.6E	513.7E

All values in CAD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

Valuation

Applying a 3.4x EV/EBITDA multiple to our 2025 estimates, we derive our price target of $18. Our target multiple is in line with AC's historical average multiple and supported by our view that the industry should largely return to normal by 2025. Our base case reflects the following assumptions: (1) near-term constraints continue with a return to 2019 capacity levels by 2025; (2) negative pricing; and (3) continued cost increases. Our price target supports our Sector Perform rating.

Investment summary

Our neutral view on AC shares is driven by three points:

1. **Sustainability of higher fares at risk.** In our view, the sustainability of higher fares is at risk going forward, as we expect a normalization of demand following a surge in travel emerging from the pandemic. We also see risk to household spending resulting from higher interest costs and elevated debt levels, which we note is consistent with recent data from RBC Economics. In our view, a weaker demand backdrop, combined with growing and less rational competition, introduces significant downside risk to airline pricing in the near term and therefore to 2024 consensus EBITDA estimates.
2. **Higher costs expected to weigh on profitability.** Costs are up +20% compared to 2019, reflecting meaningful inflation across a number of expense categories. Looking ahead, we flag added risk, in our view, from pilot negotiations that could increase wages significantly. In addition, we see a changing regulatory environment as well as flight attendant contract negotiations as further potential headwinds going forward. Overall, we see these factors as pointing to upside risk to costs and therefore adding more uncertainty to the near-term outlook for Air Canada.
3. **Capex program to limit FCF in the medium term.** While we believe that fleet renewals are key to an airline's long-term success, we see new capex plans at AC limiting its FCF in the medium term. We flag that FCF is an important driver of sentiment toward AC shares (as well as of our longer-term thesis on the company), and we therefore view the capex program as pushing out an inflection in FCF to 2027.

Risks to rating and price target

Risks to our price target and rating include:

- Delayed recovery for air travel.
- Collective agreements.
- Regulation risk.
- Supply chain risk.
- Increasing competition.

AC Model Summary

C$MM	2022	2023	Q1/24	Q2/24E	Q3/24E	Q4/24E	2024E	Q1/25E	Q2/25E	Q3/25E	Q4/25E	2025E	2026E	2027E
Traffic / RPM (MMs)	66,495	85,802	20,520	22,774	26,001	21,197	90,492	21,546	23,913	27,301	22,257	95,017	99,768	103,759
% change	216.0%	29.0%	10.5%	5.4%	3.2%	3.9%	5.5%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	4.0%
Capacity / ASM (MMs)	82,558	99,012	24,337	26,328	29,716	25,539	105,920	25,797	27,908	31,498	27,071	112,275	119,011	125,272
% change	147.3%	19.9%	11.1%	7.0%	5.9%	4.5%	7.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	5.3%
Load Factor (%)	80.5%	86.7%	84.3%	86.5%	87.5%	83.0%	85.4%	83.5%	85.7%	86.7%	82.2%	84.6%	83.8%	82.8%
change (% pts)	17.5%	6.1%	-0.5%	-1.4%	-2.3%	-0.5%	-1.2%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%	-1.0%
Yield ($)	0.212	0.226	0.217	0.221	0.226	0.216	0.220	0.218	0.222	0.227	0.217	0.221	0.226	0.230
% change	-4.3%	6.4%	-1.4%	-2.8%	-3.0%	-3.0%	-2.5%	0.5%	0.5%	0.5%	0.5%	0.5%	2.0%	2.0%
RASM (Rev per unit of capacity, cents)	17.2	19.6	18.3	19.1	19.8	18.0	18.8	18.2	19.0	19.7	17.9	18.7	18.9	19.1
CASM (Costs per unit of capacity, cents)	20.3	19.7	21.4	19.3	18.0	20.4	19.7	21.2	19.2	17.9	20.5	19.6	19.8	19.8
Fuel Cost/ASM (cents)	6.4	5.4	5.2	5.1	5.0	4.9	5.0	4.8	4.8	4.8	4.8	4.8	4.6	4.4
CASM (excl. fuel, ground packages & freighter) (cents	13.2	13.5	14.8	13.7	12.6	14.8	13.9	15.1	13.9	12.8	15.0	14.1	14.5	14.7
Total Revenues	**16,556**	**21,833**	**5,226**	**5,608**	**6,446**	**5,184**	**22,464**	**5,498**	**5,897**	**6,782**	**5,449**	**23,626**	**25,172**	**26,595**
% change	158.7%	31.9%	6.9%	3.3%	1.6%	0.2%	2.9%	5.2%	5.2%	5.2%	5.1%	5.2%	6.5%	5.7%
Wages, salaries and benefits	3260	3955	1108	1128	1156	1248	4640	1221	1243	1273	1375	5112	5579	5975
% Sales	19.7%	18.1%	21.2%	20.1%	17.9%	24.1%	20.7%	22.2%	21.1%	18.8%	25.2%	21.6%	22.2%	22.5%
Aircraft Fuel - total	5276	5318	1254	1333	1495	1256	5338	1229	1350	1508	1287	5374	5488	5524
% Sales	31.9%	24.4%	24.0%	23.8%	23.2%	24.2%	23.8%	22.4%	22.9%	22.2%	23.6%	22.7%	21.8%	20.8%
Sales and distribution costs	797	1097	266	282	325	264	1138	282	299	345	280	1206	1279	1346
% Sales	4.8%	5.0%	5.1%	5.0%	5.0%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%
Ground package costs	474	720	335	135	105	185	760	355	143	111	196	805	854	898
% Sales	2.9%	3.3%	6.4%	2.4%	1.6%	3.6%	3.4%	6.5%	2.4%	1.6%	3.6%	3.4%	3.4%	3.4%
Catering and onboard services	425	628	155	169	192	168	684	164	179	203	178	725	769	809
% Sales	2.6%	2.9%	3.0%	3.0%	3.0%	3.2%	3.0%	3.0%	3.0%	3.0%	3.3%	3.1%	3.1%	3.0%
Aircraft maintenance	706	1083	315	294	250	325	1184	334	312	265	344	1255	1331	1400
% Sales	4.3%	5.0%	6.0%	5.2%	3.9%	6.3%	5.3%	6.1%	5.3%	3.9%	6.3%	5.3%	5.3%	5.3%
Airport and navigation fees	1213	1418	348	389	415	366	1518	369	413	440	388	1609	1706	1796
% Sales	7.3%	6.5%	6.7%	6.9%	6.4%	7.1%	6.8%	6.7%	7.0%	6.5%	7.1%	6.8%	6.8%	6.8%
Communications and information technology	468	555	186	137	149	146	619	197	145	158	155	656	695	731
% Sales	2.8%	2.5%	3.6%	2.4%	2.3%	2.8%	2.8%	3.6%	2.5%	2.3%	2.8%	2.8%	2.8%	2.8%
Other	1717	2219	598	551	589	574	2312	629	579	620	603	2432	2591	2737
% Sales	10.4%	10.2%	11.4%	9.8%	9.1%	11.1%	10.3%	11.4%	9.8%	9.1%	11.1%	10.3%	10.3%	10.3%
Capacity purchase fees	763	858	208	207	219	223	858	219	218	231	235	902	961	1016
% Sales	4.6%	3.9%	4.0%	3.7%	3.4%	4.3%	3.8%	4.0%	3.7%	3.4%	4.3%	3.8%	3.8%	3.8%
Total Operating Costs	**15,099**	**17,851**	**4,773**	**4,627**	**4,895**	**4,757**	**19,051**	**4,999**	**4,882**	**5,154**	**5,042**	**20,077**	**21,252**	**22,231**
EBITDA	**1,457**	**3,982**	**453**	**981**	**1,551**	**427**	**3,412**	**499**	**1,016**	**1,628**	**407**	**3,549**	**3,920**	**4,363**
% of sales	8.8%	18.2%	8.7%	17.5%	24.1%	8.2%	15.2%	9.1%	17.2%	24.0%	7.5%	15.0%	15.6%	16.4%
Depreciation, amortization and impairment (Mainline	1,640	1,703	442	445	453	460	1,800	471	485	499	512	1,968	2,288	2,568
EBIT (Excluding Special Charges)	**(187)**	**2,279**	**11**	**536**	**1,098**	**(33)**	**1,613**	**28**	**530**	**1,129**	**(105)**	**1,582**	**1,632**	**1,796**
% of sales	-1.1%	10.4%	0.2%	9.6%	17.0%	-0.6%	7.2%	0.5%	9.0%	16.6%	-1.9%	6.7%	6.5%	6.8%
Net Income	**(1,700)**	**2,276**	**(96)**	**413**	**1,031**	**(128)**	**1,220**	**(49)**	**298**	**739**	**(149)**	**840**	**807**	**897**
EPS (F.D) ($) (Exc. Special charges)	**$ (4.24)**	**$ 6.03**	**$ (0.25)**	**$ 1.07**	**$ 2.67**	**$ (0.33)**	**$ 3.16**	**$ (0.13)**	**$ 0.77**	**$ 1.92**	**$ (0.39)**	**$ 2.18**	**$ 2.09**	**$ 2.33**
Net debt	**8,318**	**5,311**	**4,574**	**4,263**	**4,627**	**4,855**	**4,855**	**5,308**	**5,271**	**4,616**	**5,163**	**5,163**	**7,342**	**5,781**
Net debt/LTM EBITDA	**5.7x**	**1.3x**	**1.1x**	**1.1x**	**1.3x**	**1.4x**	**1.4x**	**1.5x**	**1.5x**	**1.3x**	**1.5x**	**1.5x**	**1.9x**	**1.3x**

Source: Company reports, RBC Capital Markets estimates

Bombardier Inc.

James McGarragle (Analyst)

Outperform

TSX: BBD/B CN; CAD 87.73

Price Target CAD 133.00 ↑ 99.00

Key Statistics

Shares O/S (MM):	99.5	Market Cap (MM):	8,732
Dividend:	0.00	Yield:	0.0%
Float (MM):	2,227.5	Avg. Daily Volume:	957,695

Strategic Ownership: Bombardier/Beaudoin families Equity (11%); Voting (52%)

RBC Estimates

FY Dec	2023A	2024E	2025E	2026E
EPS, Ops Diluted	3.94	3.60	8.54	
EBITDA, Adj	1,230.0	1,322.5	1,680.0	
P/E	16.2x	17.8x	7.5x	NM
CFPS Diluted	8.68	8.80	13.61	
P/CFPS	7.4x	7.3x	4.7x	NM
Revenue	8.0	8.5	9.2	

EPS, Ops Diluted	Q1	Q2	Q3	Q4
2023	1.06A	0.72A	0.73A	1.37A
2024	0.36A	0.34E	0.57E	2.33E
2025	1.22E	1.74E	1.85E	3.74E
CFPS Diluted				
2023	3.51A	0.97A	0.54A	3.75A
2024	1.40A	1.31E	1.57E	4.51E
2025	2.17E	2.82E	2.98E	5.64E

All market data in CAD; all financial data in USD; dividends paid in CAD.
Priced as of prior trading day's market close, EST (unless otherwise noted).

Valuation

We apply a target multiple of 8x to our 2025 EBITDA estimate of $1.68B to derive our $133 price target. Our target multiple represents a discount to peers to reflect higher debt and a lower proportion of Defense revenue. Our price target supports our Outperform rating.

Investment summary

Our Outperform rating reflects the following key 3 points:

1. **Solid near-term demand backdrop expected in our view to support meaningful inflection in FCF.** We are calling for FCF to inflect meaningfully by 2025E to >$900MM. We expect higher FCF to be driven by better operating margins, lower interest costs, and decreased working capital investment. Key is that we believe the current business jet demand environment will support production at targeted 2024/2025 levels setting the stage in our view for Bombardier to execute on its near-term strategy and therefore achieve its 2025 targets
2. **Defense, CPO, and Services set the stage out to 2030.** While we see a near-term inflection in FCF as key to our investment thesis, we also believe the market is not appreciating Defense, CPO, and Services opportunities longer-term. We note that the company has guided to $1B opportunities in both Defense and CPO, which we believe sets the stage for GDP-plus revenue growth out to 2030. We also see further opportunity to grow Services on the back of an increasing fleet size and expanded network. Key is that we estimate each of Defense, CPO, and Services have EBITDA margins of >20% providing a platform for significant operating leverage longer-term.
3. **Bombardier has changed; why believe the shares will re-rate higher**. The operational improvements and recent deleveraging since 2021, as well as upside levers discussed above, makes us question whether the 45% valuation discount to peers is entirely appropriate. We believe shares are primed for a re-rating given solid execution, debt reduction, and FCF growth, all of which we expect to over time erase the historical valuation hangover.

Risks to rating and price target

- Execution on operational and financial targets.
- Slowdown in the bizjet market.
- Environmental concerns.
- New aircraft investments.

Capital Markets

Bombardier Model Summary

Summary Income Statement (in US $MM's)	2021	2022	2023	Q1/24	Q2/24	Q3/24E	Q4/24E	2024E	Q1/25E	Q2/25E	Q3/25E	Q4/25E	2025E
Aerospace Key Drivers													
Business Jet Deliveries	120	123	138	20	31	32	67	150	25	32	32	63	152
Delivery Growth	*5.3%*	*2.5%*	*12.2%*	*-9.1%*	*6.9%*	*3.2%*	*19.6%*	*8.7%*	*25.0%*	*3.2%*	*0.0%*	*-6.0%*	*1.3%*
Revenue													
Manufacturing	4,759	5,345	6,261	795	1,251	1,409	3,021	6,476	1,223	1,453	1,523	2,887	7,087
Services	1,237	1,508	1,748	477	479	460	535	1,951	510	513	492	572	2,087
Total Revenues	**6,085**	**6,913**	**8,046**	**1,281**	**1,741**	**1,878**	**3,565**	**8,464**	**1,734**	**1,966**	**2,015**	**3,459**	**9,174**
Revenue Growth	*3.3%*	*12.3%*	*17.1%*	*-22.1%*	*1.2%*	*-1.7%*	*17.5%*	*3.4%*	*53.9%*	*16.1%*	*8.1%*	*-4.4%*	*9.4%*
Total EBITDA	**658**	**930**	**1,230**	**205**	**259**	**284**	**575**	**1,322**	**305**	**366**	**373**	**635**	**1,680**
EBITDA Margin %	*10.8%*	*13.5%*	*15.3%*	*16.2%*	*14.9%*	*15.1%*	*16.1%*	*15.6%*	*17.6%*	*18.6%*	*18.5%*	*18.4%*	*18.3%*
Total EBIT	223	512	799	142	171	192	365	869	218	267	268	453	1,207
EBIT Margin %	*3.7%*	*7.4%*	*9.9%*	*11.1%*	*9.8%*	*10.2%*	*10.2%*	*10.3%*	*12.6%*	*13.6%*	*13.3%*	*13.1%*	*13.2%*
Adj. Net Income (Loss) to Common	(855)	73	385	36	34	57	232	359	121	174	184	373	852
Adj. EPS	**$ (0.35)**	**$ 0.74**	**$ 3.94**	**$ 0.36**	**$ 0.34**	**$ 0.57**	**$ 2.33**	**$ 3.60**	**$ 1.22**	**$ 1.74**	**$ 1.85**	**$ 3.74**	**$ 8.54**
CFPS $(Basic)	$ 0.11	$ 1.93	$ 8.68	$ 1.40	$ 1.31	$ 1.57	$ 4.51	$ 8.80	$ 2.17	$ 2.82	$ 2.98	$ 5.64	$ 13.61
Free Cash Flow	**$ 103**	**$ 735**	**$ 257**	**$ (387)**	**$ (155)**	**$ 19**	**$ 759**	**$ 236**	**$ 176**	**$ 216**	**$ 212**	**$ 348**	**$ 952**
Net debt	5,372	4,689	4,013	4,425	4,588	4,577	3,826	3,826	3,657	3,449	3,245	2,906	2,906

Source: Company reports, RBC Capital Markets estimates

CAE Inc.

James McGarragle (Analyst)

Outperform

TSX: CAE CN; CAD 25.41; NYSE: CAE

Price Target CAD 30.00 ↓ 31.00

Key Statistics

Shares O/S (MM):	318.3	Market Cap (MM):	8,088
Dividend:	0.00	Yield:	0.0%
		Avg. Daily Volume:	1,437,982

RBC Estimates

FY Mar	**2023A**	**2024A**	**2025E**	**2026E**
Revenue	4,203.3	4,282.8	4,529.9	4,854.3
Prev.			4,576.2	4,919.6
EPS, Adj Diluted	0.88	0.87	1.21	1.44
Prev.			1.24	1.46
P/AEPS	29.0x	29.2x	21.1x	17.6x
EBITDA	890.3	918.4	1,100.2	1,175.1
Prev.			1,078.8	1,148.7

Revenue	**Q1**	**Q2**	**Q3**	**Q4**
2023	933.3A	993.2A	1,020.3A	1,256.5A
2024	1,012.0A	1,050.0A	1,094.5A	1,126.3A
2025	1,058.1E	1,114.2E	1,151.0E	1,206.6E
Prev.	1,125.0E		1,130.4E	
EPS, Adj Diluted				
2023	0.06A	0.19A	0.28A	0.35A
2024	0.24A	0.26A	0.24A	0.12A
2025	0.22E	0.27E	0.32E	0.40E
Prev.	0.25E			0.41E

All values in CAD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

Valuation

We value CAE shares on a sum of the parts basis using a blended EV/EBITDA multiple of 10.6x on our FY26 EBITDA estimate of $1,149MM. Our 11.5x Civil multiple is driven off the Rail and Waste sectors, which trade in the 13x to 17x range, and our Defense multiple of 6x is derived using a discount to peers due to lower margins and recent headwinds. We anticipate that CAE's valuation will be supported by the company's favourable industry fundamentals (including secular growth and high barriers to entry) and FCF conversion, as well as the continued recovery in travel and defense procurement. Based on relative returns to our $30 price target, we rate the shares Outperform.

Investment summary

Our positive investment thesis on the CAE shares is based on the following key points:

- **Meaningful secular tailwinds.** We believe CAE's Civil segment is well positioned to benefit from long-term secular tailwinds. Our view is that the Civil segment will grow at a pace that meaningfully exceeds the overall economy at an organic growth rate that we peg at a mid- to high-single-digit range out to 2030. Key drivers of this growth are: i) a near- to medium-term recovery in passenger travel; ii) favourable pilot demographics; and iii) specific to the Defense segment, increased spending by NATO members driven by Russia's invasion of Ukraine.
- **Differentiated Civil service / product offering.** CAE is an industry leader in the Civil Aviation Training market and we note that CAE operates the world's largest civil aviation training network, which we believe acts as a significant barrier to entry as well as a key differentiator. Our view is that this favourably positions CAE to capitalize on meaningful Civil tailwinds going forward.

Risks to rating and price target

- Supply chain risk
- Delayed recovery for air travel
- Reduction in defense spending
- Regulation risk
- R&D and technology risk
- US foreign ownership
- Acquisition risk

Capital Markets

CAE Model Summary

CAE (C$MM unless otherwise indicated)	F2023	FQ1/24	FQ2/24	FQ3/24	FQ4/24	F2024	FQ1/25E	FQ2/25E	FQ3/25E	FQ4/25E	F2025E	FQ1/26E	FQ2/26E	FQ3/26E	FQ4/26E	F2026E
SEGMENTED RESULTS																
CIVIL AVIATION																
Revenue	2,166.4	540.3	572.6	622.1	700.8	2,435.8	598.0	634.0	664.5	727.8	2,624.3	689.7	668.1	695.6	729.0	2,782.3
Adjusted Operating Income	485.3	119.0	114.3	124.2	191.4	548.9	119.6	139.5	156.2	185.6	600.8	141.4	150.3	166.9	189.5	648.2
Adjusted Operating Margin	*22.4%*	*22.0%*	*20.0%*	*20.0%*	*27.3%*	*22.5%*	*20.0%*	*22.0%*	*23.5%*	*25.5%*	*22.9%*	*20.5%*	*22.5%*	*24.0%*	*26.0%*	*23.3%*
DEFENSE & SECURITY																
Revenue	1,844.2	471.7	477.4	472.4	425.5	1,847.0	460.1	480.2	486.6	478.7	1,905.5	511.1	524.3	524.7	511.7	2,071.9
Adjusted Operating Income	53.1	24.3	21.3	20.9	(65.7)	0.8	23.0	26.4	31.6	33.5	114.6	30.7	32.5	33.6	33.8	130.5
Adjusted Operating Margin	*2.9%*	*5.2%*	*4.5%*	*4.4%*	*-15.4%*	*0.0%*	*5.0%*	*5.5%*	*6.5%*	*7.0%*	*6.0%*	*6.0%*	*6.2%*	*6.4%*	*6.6%*	*6.3%*
CONSOLIDATED RESULTS																
Revenue	**4,203.3**	**1,012.0**	**1,050.0**	**1,094.5**	**1,126.3**	**4,282.8**	**1,058.1**	**1,114.2**	**1,151.0**	**1,206.6**	**4,529.9**	**1,200.8**	**1,192.4**	**1,220.3**	**1,240.7**	**4,854.3**
y/y growth (%)	*24.7%*	*8.4%*	*5.7%*	*7.3%*	*-10.4%*	*1.9%*	*4.6%*	*6.1%*	*5.2%*	*7.1%*	*5.8%*	*13.5%*	*7.0%*	*6.0%*	*2.8%*	*7.2%*
Expenses																
COGS	3,037.0	726.3	765.3	791.9	844.8	3,128.3	735.3	774.4	800.0	838.6	3,148.3	834.6	828.7	848.1	862.3	3,373.7
R&D	143.1	36.7	33.3	38.1	41.7	149.8	41.7	41.7	41.7	41.7	166.8	41.7	41.7	41.7	41.7	166.8
SG&A	560.9	123.7	132.3	140.9	138.1	535.0	138.1	138.1	138.1	138.1	552.4	138.1	138.1	138.1	138.1	552.4
Other Gains/Losses	(22.8)	(1.4)	(2.2)	(4.8)	36.3	27.9	36.3	36.3	36.3	36.3	145.2	36.3	36.3	36.3	36.3	145.2
After Tax share in profit of equity accounted in	(53.2)	(16.6)	(14.3)	(16.7)	(24.6)	(72.2)	(24.6)	(24.6)	(24.6)	(24.6)	(98.4)	(24.6)	(24.6)	(24.6)	(24.6)	(98.4)
Restructuring Cost/Other	64.3	15.0	37.9	23.5	623.0	699.4	(11.4)	(17.6)	(28.2)	(42.6)	(99.8)	2.7	(10.6)	(19.8)	(36.4)	(64.2)
Adj. Operating Income	**548.1**	**143.3**	**135.6**	**145.1**	**125.7**	**549.7**	**142.6**	**165.9**	**187.8**	**219.1**	**715.4**	**172.1**	**182.8**	**200.5**	**223.3**	**778.7**
Adjusted Operating Margin	13.0%	14.2%	12.9%	13.3%	11.2%	12.8%	13.5%	14.9%	16.3%	18.2%	15.8%	14.3%	15.3%	16.4%	18.0%	16.0%
y/y growth (%)	*23.3%*	*135.3%*	*8.7%*	*-9.7%*	*-37.7%*	*0.3%*	*-0.5%*	*22.3%*	*29.4%*	*74.3%*	*30.1%*	*20.7%*	*10.2%*	*6.8%*	*1.9%*	*8.9%*
Depreciation & Amortization	342.2	89.8	88.4	94.3	96.2	368.7	96.2	96.2	96.2	96.2	384.8	99.1	99.1	99.1	99.1	396.3
Adj. EBITDA	**890.3**	**233.1**	**224.0**	**239.4**	**221.9**	**918.4**	**238.8**	**262.1**	**284.0**	**315.3**	**1,100.2**	**271.1**	**281.9**	**299.6**	**322.4**	**1,175.1**
Adjusted EBITDA Margin	*21.2%*	*23.0%*	*21.3%*	*21.9%*	*19.7%*	*21.4%*	*22.6%*	*23.5%*	*24.7%*	*26.1%*	*24.3%*	*22.6%*	*23.6%*	*24.6%*	*26.0%*	*24.2%*
y/y growth (%)	*17.9%*	*62.4%*	*8.4%*	*-3.8%*	*-23.8%*	*3.2%*	*2.4%*	*17.0%*	*18.6%*	*42.1%*	*19.8%*	*13.5%*	*7.6%*	*5.5%*	*2.2%*	*6.8%*
Adj. Operating EPS	**$0.88**	**$0.24**	**$0.26**	**$0.24**	**$0.12**	**$0.87**	**$0.22**	**$0.27**	**$0.32**	**$0.40**	**$1.21**	**$0.30**	**$0.33**	**$0.37**	**$0.43**	**$1.44**
y/y growth (%)	*4.5%*	*324.9%*	*37.2%*	*-14.2%*	*-65.1%*	*-1.0%*	*-8.8%*	*1.9%*	*34.1%*	*226.5%*	*38.6%*	*40.4%*	*21.6%*	*15.6%*	*9.2%*	*19.3%*
Free Cash Flow (excl. dividends)	**335.7**	**(106.7)**	**144.6**	**190.0**	**191.1**	**418.2**	**(10.5)**	**19.2**	**248.6**	**273.7**	**531.0**	**18.2**	**39.5**	**216.4**	**237.0**	**511.1**
FCF conversion	120%	-142%	171%	248%	494%	151%	-15%	22%	242%	217%	138%	19%	38%	182%	172%	112%
Net Debt to EBITDA	**3.4x**	**3.2x**	**3.2x**	**3.1x**	**3.2x**	**3.2x**	**3.3x**	**3.2x**	**2.9x**	**2.5x**	**2.5x**	**2.5x**	**2.5x**	**2.3x**	**2.1x**	**2.1x**

Source: Company reports, RBC Capital Markets estimates

Chorus Aviation Inc.

James McGarragle (Analyst)

Outperform

TSX: CHR CN; CAD 2.42

Price Target CAD 3.50

Key Statistics

Shares O/S (MM):	198.9	Market Cap (MM):	481
Dividend:	0.00	Yield:	0.0%
Float (MM):	180.6	Avg. Daily Volume:	640,030

RBC Estimates

FY Dec	2023A	2024E	2025E	2026E
Revenue	1,681.1	1,633.2	1,636.4	
EBITDA	458.7	406.8	414.8	
EPS, Adj Diluted	0.30	0.27	0.36	
CFPS Diluted	1.87	1.43	1.52	
P/CFPS	1.3x	1.7x	1.6x	NM
P/AEPS	8.1x	9.0x	6.7x	NM

Revenue	Q1	Q2	Q3	Q4
2023	415.3A	396.8A	447.6A	421.5A
2024	426.2E	379.1E	435.0E	393.0E
2025	421.6E	379.4E	438.7E	396.6E
EBITDA				
2023	118.1A	110.7A	113.1A	116.7A
2024	109.1E	94.6E	101.9E	101.3E
2025	106.4E	97.9E	109.9E	100.5E

All values in CAD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

Valuation

We value Chorus on our 2025 EPS estimate which reflects anticipated asset sales, deleveraging, and the launch of Fund III. Our target multiple of 10x represents a discount of 18% compared to peers, which we view as warranted as the company transitions to asset light and deleverages. We also consider Chorus' valuation versus its historical and consensus NTM valuation, where we believe a premium to the 5-year average and consensus NTM is appropriate given the declining debt load, solid FCF generation and scalable asset management growth (which was not present in the past). This results in our price target of $3.50, and we therefore rate the shares as Outperform.

Investment summary

1. **Asset sales to inflect and support deleveraging.** We expect Chorus to successfully execute on its asset sale targets this year. Alongside the company's stable core operations, we see line of sight to lower debt levels, which in our view will increase capital deployment optionality for growth capex, M&A and shareholder returns, all of which we see as important catalysts. We also view the near-term demand backdrop as supportive due to favourable trends in turboprop and regional jet valuation as well as in lease rates.
2. **Fund III a key catalyst.** Fund III is a key piece of Chorus' asset light transition as we expect it to offset decreases in lease revenue brought on by the disposition of aircraft. While Fund III has had launch delays reflecting uncertain market conditions, we flag Falko's long-term track record as giving us confidence in the team's ability to execute as conditions become more favorable. Key is that we see the backdrop for Fund III as improving namely due to lower expected interest rates, limited regional jet supply, and an increase in transaction activity and high lease renewal rates on narrowbodies.
3. **We expect shares to re-rate higher.** We believe the market for regional aircraft is on the rebound and lease rates are inflecting, and we therefore expect sentiment in Chorus shares to improve as these factors start to benefit near-term results. We also expect the transition to asset light and debt reduction on the back of solid FCF to improve the valuation discount versus peers over time.

Risks to rating and price target

- **Asset sales**. We flag a lack of asset sales as a potential headwind to CHR's FCF and deleveraging targets. We view a potentially weaker regional aircraft leasing market on the back of decreased travel demand as potentially impacting the company's 2024 targets.
- **Fund III execution.** A recession or change in market dynamics could impact investor appetite for the new fund, negatively affecting Chorus' financial results. However, we believe the delay of Fund III has been adequately priced into shares, limiting potential downside.
- **Slowdown in travel demand.** A slowdown in passenger demand for air travel could affect airlines' performance and financial condition, including Air Canada and Chorus' lessees.
- **Contract risk.** Most of Chorus' revenues are derived from the CPA and AC, and loss could negatively impact the company's operations and cash flow.
- **Competition from large players.** CHR has the second-largest regional aircraft fleet but is smaller relative to peers. We believe this risk is mitigated as larger competitors are focused on narrowbodies and widebodies and not regional.

Capital Markets

CHR Model Summary

C$MM	2022	Q1/23	Q2/23	Q3/23	Q4/23	2023	Q1/24	Q2/24E	Q3/24E	Q4/24E	2024E	Q1/25E	Q2/25E	Q3/25E	Q4/25E	2025E
Income Statement																
Revenue	**1595.8**	**415.3**	**396.8**	**447.6**	**421.5**	**1681.1**	**426.2**	**379.1**	**435.0**	**393.0**	**1633.2**	**421.6**	**379.4**	**438.7**	**396.6**	**1636.4**
% change	**56.0%**	**21.3%**	**1.1%**	**6.2%**	**-4.2%**	**5.3%**	**2.6%**	**-4.5%**	**-2.8%**	**-6.8%**	**-2.8%**	**-1.1%**	**0.1%**	**0.8%**	**0.9%**	**0.2%**
Airline Operations Total - RAS	1333	339	327	378	354	1399	358	321	378	337	1394	358	321	378	337	1394
Regional Aircraft Leasing - RAL	262	76	69	70	67	281	68	58	57	56	239	63	59	61	60	243
Total Operating Expenses	1,408	353	341	386	368	1,449	376	326	381	335	1,418	362	323	377	340	1,402
Operating Income	188	62	55	61	53	232	50	53	54	58	215	60	56	62	57	235
Adjusted EBITDA	**441.0**	**118.1**	**110.7**	**113.1**	**116.7**	**458.7**	**109.1**	**94.6**	**101.9**	**101.3**	**406.8**	**106.4**	**97.9**	**109.9**	**100.5**	**414.8**
% of sales	27.6%	28.4%	27.9%	25.3%	27.7%	27.3%	25.6%	25.0%	23.4%	25.8%	24.9%	25.2%	25.8%	25.1%	25.3%	25.3%
Adj. Net Income to Common shareholders	**93**	**21**	**15**	**12**	**9**	**58**	**12**	**11**	**13**	**17**	**53**	**18**	**16**	**20**	**16**	**70**
Adj. EPS (F.D) ($)	**$0.47**	**$0.11**	**$0.08**	**$0.06**	**$0.05**	**$0.30**	**$0.06**	**$0.06**	**$0.06**	**$0.08**	**$0.27**	**$0.09**	**$0.08**	**$0.10**	**$0.08**	**$0.36**
FCF	371.3	73.1	70.3	113.7	74.4	331.4	102.1	76.5	84.3	83.4	346.4	93.1	85.8	96.5	88.5	363.8
CFPS (F.D) ($) (Excluding Special charges)	$1.26	$0.41	$0.40	$0.62	$0.43	$1.87	$0.36	$0.33	$0.37	$0.37	$1.43	$0.39	$0.35	$0.41	$0.37	$1.52
Net debt	1,925	1,897	1,825	1,694	1,666	1,666	1,525	1,446	1,360	1,274	1,274	1,185	1,102	1,009	924	924
Net debt/LTM EBITDA	4.4x	4.0x	3.8x	3.6x	3.6x	3.6x	3.4x	3.3x	3.2x	3.1x	3.1x	2.9x	2.7x	2.4x	2.2x	2.2x

Source: Company reports, RBC Capital Markets estimates

Exchange Income Corporation

James McGarragle (Analyst)

Outperform

TSX: EIF CN; CAD 45.22

Price Target CAD 65.00

Key Statistics

Shares O/S (MM):	48.1	Market Cap (MM):	2,175
Dividend:	2.64	Yield:	5.8%
		Avg. Daily Volume:	132,940

RBC Estimates

FY Dec	2023A	2024E	2025E	2026E
Revenue	2,498.4	2,702.6	2,910.0	3,008.3
EBITDA, Adj	555.5	624.1	688.9	727.6
Free Cash Flow	201.8	205.8	243.0	270.8
FCF Yield	9.3%	9.5%	11.2%	12.5%

Revenue	Q1	Q2	Q3	Q4
2023	526.8A	627.2A	687.7A	656.7A
2024	601.8A	650.5E	744.5E	705.9E
2025	654.8E	705.1E	802.0E	748.1E
EBITDA, Adj				
2023	97.1A	147.0A	167.8A	143.6A
2024	111.1A	156.4E	189.7E	167.0E
2025	120.4E	178.7E	211.7E	178.0E

Note: Free Cash Flow shown above uses the company's FCF less maintenance capex definition.
All values in CAD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

Valuation

In valuing EIF, we apply a blended 7.6x EV/EBITDA multiple (8x for Aviation & Aerospace and 6.5x for Manufacturing, ahead of aviation peers and in line with manufacturing) to our $728MM 2026E EBITDA, reflecting a valuation blend of ~70% Aviation & Aerospace and ~30% Manufacturing. We apply our target multiples to our 2026E EBITDA for each segment and discount back one year at 10%, generating our $65 price target, which supports our Outperform rating.

Investment summary

Exchange Income Corporation is a diversified, acquisition-oriented company that acts as a holding company for a number of different subsidiaries within the aviation, aerospace, and manufacturing industries. We believe the shares currently represent an attractive opportunity for investors to own a company that provides a unique blend of growth and income at an attractive relative valuation. In summary, our positive view on the EIF shares stems from:

Regional One provides upside potential as lease rates beginning to inflect. Regional One EBITDA and cash flows have proved resilient emerging from the pandemic, a development we attribute to strong cost-management, the high-margin nature of Regional One's lease revenues (~95% EBITDA margins according to management), and solid capex flexibility (an aspect we believe may not be fully appreciated by investors).

Quest as well as Northern Mat to drive growth within Manufacturing. Going forward, we see tailwinds in EIF's Window Solutions business on the back of apartment construction and easing of production gaps. Moreover, despite near-term headwinds, we view Northern Mat as well positioned to benefit from oil and gas as well as hydro electric investment longer-term.

Recent contract wins set the stage for solid 3-year EBITDA CAGR. Recent contract wins, including with the BC and Manitoba governments, as well as with Air Canada, set the stage in our view for a double-digit EBITDA CAGR for 2023 to 2026.

Risks to rating and price target

- **Access to external capital.** If the capital markets' desire for income-producing investments were to significantly decrease, EIF could have difficulty executing its strategy.
- **Acquisition integration and related risks.** EIF has a solid record of identifying and making accretive acquisitions, but its ability to successfully grow or diversify through additional acquisitions is dependent on a number of factors.
- **Contract risk.** EIF is party to a number of significant contracts with key customers. The loss of any one of these significant contracts could have a negative impact on the company's operations and cash flow.
- **Competition.** New competition or increased competition could have a significant impact on the business, operations, and financial condition of EIF's Aerospace & Aviation and Manufacturing segments.

Capital Markets

EIF Model Summary

(CAD $000's unless otherwise indicated)	2022	Q1/23	Q2/23	Q3/23	Q4/23	2023	Q1/24	Q2/24E	Q3/24E	Q4/24E	2024E	Q1/25E	Q2/25E	Q3/25E	Q4/25E	2025E	2026E
Segmented revenues																	
Aviation revenues	1,337,440	325,929	372,361	414,693	385,233	1,498,216	368,514	394,808	457,987	434,438	1,655,747	409,884	436,704	501,147	463,126	1,810,862	1,887,079
Manufacturing revenues	721,933	200,915	254,861	272,980	271,443	1,000,199	233,255	255,643	286,505	271,443	1,046,846	244,918	268,425	300,830	285,015	1,099,188	1,121,172
Segmented EBITDA																	
Aviation EBITDA	336,512	73,807	107,691	124,066	108,907	414,471	94,038	121,206	141,976	127,162	484,382	106,644	136,252	157,861	137,875	538,632	570,284
EBITDA Margin	25.2%	22.6%	28.9%	29.9%	28.3%	27.7%	25.5%	30.7%	31.0%	29.3%	29.3%	26.0%	31.2%	31.5%	29.8%	29.7%	30.2%
Manufacturing EBITDA	157,206	32,145	49,040	53,974	45,412	180,571	27,051	46,016	60,166	51,574	184,807	29,628	49,659	64,679	49,878	193,843	203,035
EBITDA Margin	*21.8%*	*16.0%*	*19.2%*	*19.8%*	*16.7%*	*18.1%*	*11.6%*	*18.0%*	*21.0%*	*19.0%*	*17.7%*	*12.1%*	*18.5%*	*21.5%*	*17.5%*	*17.6%*	*18.1%*
Revenues, Net	**2,059,373**	**526,844**	**627,222**	**687,673**	**656,676**	**2,498,415**	**601,769**	**650,451**	**744,492**	**705,881**	**2,702,593**	**654,802**	**705,129**	**801,977**	**748,142**	**2,910,050**	**3,008,251**
Revenue growth (Y/Y)	45.7%	98.0%	18.6%	17.2%	20.9%	21.3%	102.6%	3.7%	8.3%	7.5%	8.2%	8.8%	8.4%	7.7%	6.0%	7.7%	3.4%
Aviation expenses	**854,487**	**211,447**	**225,690**	**251,076**	**231,417**	**919,630**	**229,322**	**218,882**	**252,809**	**245,821**	**946,833**	**242,592**	**240,362**	**274,628**	**260,201**	**1,017,784**	**1,053,436**
Aviation expenses (% of sales)	41.5%	40.1%	36.0%	36.5%	35.2%	36.8%	38.1%	33.7%	34.0%	34.8%	35.0%	37.0%	34.1%	34.2%	34.8%	35.0%	35.0%
Manufacturing expenses	**493,833**	**150,241**	**179,941**	**192,594**	**195,693**	**718,469**	**178,569**	**178,183**	**192,388**	**186,889**	**736,029**	**182,996**	**185,951**	**200,729**	**199,867**	**769,544**	**780,417**
Manufacturing expenses (% of sales)	57.8%	71.1%	79.7%	76.7%	84.6%	78.1%	77.9%	81.4%	76.1%	76.0%	77.7%	75.4%	77.4%	73.1%	76.8%	75.6%	74.1%
Gross profit	**711,053**	**165,156**	**221,591**	**244,003**	**229,566**	**860,316**	**193,878**	**253,386**	**299,295**	**273,171**	**1,019,731**	**229,214**	**278,816**	**326,620**	**288,073**	**1,122,723**	**1,174,398**
Gross margin	34.5%	31.3%	35.3%	35.5%	35.0%	34.4%	32.2%	39.0%	40.2%	38.7%	37.7%	35.0%	39.5%	40.7%	38.5%	38.6%	39.0%
EBITDA	**449,595**	**96,703**	**144,433**	**166,120**	**141,451**	**548,707**	**109,746**	**156,372**	**189,723**	**166,961**	**622,802**	**127,760**	**176,744**	**212,114**	**178,027**	**694,644**	**734,211**
EBITDA Margin (%)	21.8%	18.4%	23.0%	24.2%	21.5%	22.0%	18.2%	24.0%	25.5%	23.7%	23.0%	19.5%	25.1%	26.4%	23.8%	23.9%	24.4%
EBITDA growth (Y/Y)	35.1%	45.4%	30.6%	11.4%	14.6%	22.0%	13.5%	8.3%	14.2%	18.0%	13.5%	16.4%	13.0%	11.8%	6.6%	11.5%	5.7%
Adj. EBITDA	**456,442**	**97,117**	**147,036**	**167,751**	**143,621**	**555,525**	**111,051**	**156,372**	**189,723**	**166,961**	**624,107**	**127,760**	**176,744**	**212,114**	**178,027**	**694,644**	**734,211**
Adj. EBITDA Margin (%)	22.2%	18.4%	23.4%	24.4%	21.9%	22.2%	18.5%	24.0%	25.5%	23.7%	23.1%	19.5%	25.1%	26.4%	23.8%	23.9%	24.4%
Adj. EBITDA growth (Y/Y)	38.4%	45.0%	27.8%	11.6%	15.8%	21.7%	14.3%	6.3%	13.1%	16.3%	12.3%	15.0%	13.0%	11.8%	6.6%	11.3%	5.7%
EBIT	**229,887**	**36,271**	**80,390**	**95,815**	**70,404**	**282,880**	**39,172**	**85,798**	**119,149**	**96,387**	**340,506**	**53,290**	**102,274**	**137,644**	**103,557**	**396,765**	**407,164**
Depreciation and Amort.	219,708	60,432	64,043	70,305	71,047	265,827	70,574	70,574	70,574	70,574	282,296	74,470	74,470	74,470	74,470	297,879	327,047
Interest Expense	78,418	27,310	29,896	31,339	31,242	119,787	31,799	31,656	31,687	31,719	126,861	31,750	31,798	31,829	31,861	127,238	127,805
Taxes	41,800	2,100	13,598	14,953	10,135	40,786	2,845	14,618	23,615	17,460	58,538	5,816	19,029	28,570	19,358	72,772	75,427
Adj. net income	**132,915**	**11,540**	**43,480**	**55,263**	**33,768**	**144,051**	**9,574**	**43,024**	**67,347**	**50,708**	**170,652**	**19,224**	**54,948**	**80,745**	**55,838**	**210,755**	**217,932**
Weighted average shares outstanding (diluted)	47,314	43,404	52,551	55,514	55,500	51,989	48,154	48,154	48,154	48,154	48,154	48,254	48,354	48,454	48,554	48,404	48,804
Adj. EPS (FD)	**3.13**	**0.27**	**0.93**	**1.09**	**0.70**	**3.07**	**0.20**	**0.89**	**1.40**	**1.05**	**3.54**	**0.40**	**1.14**	**1.67**	**1.15**	**4.35**	**4.47**
Cash flow from operations (CFO)	**335,119**	**(10,774)**	**76,986**	**117,257**	**169,757**	**353,226**	**50,977**	**113,098**	**136,421**	**119,782**	**420,277**	**92,194**	**128,917**	**153,715**	**128,808**	**503,634**	**539,979**
Changes in working capital	(21,217)	(77,579)	(27,559)	(7,362)	59,945	(52,555)	(19,085)	0	0	0	(19,085)	0	0	0	0	0	0
FCF from operations (company definition)	**332,025**	**59,708**	**98,002**	**117,143**	**102,265**	**377,118**	**61,931**	**107,098**	**130,421**	**113,782**	**413,231**	**86,194**	**122,917**	**147,715**	**122,808**	**479,634**	**515,979**
Maintenance capital expenditures	155,921	40,785	39,410	42,802	52,294	175,291	39,338	52,036	59,559	56,470	207,404	52,384	56,410	64,158	59,851	232,804	240,660
Growth capital expenditures	125,416	34,411	85,952	81,115	101,566	303,044	39,326	76,851	80,613	79,068	275,858	25,000	25,000	25,000	25,000	100,000	100,000
FCF from operations less maintenance capex (company definition)	**176,104**	**18,923**	**58,592**	**74,341**	**49,971**	**201,827**	**22,593**	**55,061**	**70,862**	**57,311**	**205,828**	**33,810**	**66,507**	**83,557**	**62,957**	**246,830**	**275,319**
FCF growth (Y/Y)	19.7%	-2.9%	23.7%	7.7%	24.2%	14.6%	19.4%	-6.0%	-4.7%	14.7%	2.0%	49.6%	20.8%	17.9%	9.8%	19.9%	11.5%
FCF / share	4.36	0.44	1.34	1.60	1.06	4.49	0.48	1.17	1.50	1.21	4.36	0.71	1.40	1.76	1.32	5.20	5.75
Adj.EBITDA conversion	38.6%	19.5%	39.8%	44.3%	34.8%	36.3%	20.3%	35.2%	37.4%	34.3%	33.0%	26.5%	37.6%	39.4%	35.4%	35.5%	37.5%
Dividend payout ratio (FCF less maintenance capex)	55.3%	141.7%	47.5%	39.5%	61.2%	56.8%	138.0%	56.6%	44.0%	54.4%	60.6%	97.0%	49.4%	39.4%	52.4%	53.3%	50.6%
Dividend payout ratio (FCF less total capex)	181.2%	-31.2%	-57.5%	-441.0%	192.5%	-91.6%	-112.6%	-197.3%	-830.6%	-197.7%	-197.9%	221.4%	69.2%	51.0%	75.1%	77.0%	69.9%
Net debt	1,638,571	1,761,689	1,785,930	1,855,154	1,903,012	1,903,012	1,993,443	2,043,389	2,080,296	2,129,209	2,129,209	2,124,182	2,087,528	2,032,893	1,998,927	1,998,927	1,847,899
Net debt/LTM EBITDA	**3.6x**	**3.6x**	**3.4x**	**3.5x**	**3.4x**	**3.4x**	**3.5x**	**3.5x**	**3.5x**	**3.4x**	**3.4x**	**3.3x**	**3.2x**	**3.0x**	**2.9x**	**2.9x**	**2.5x**
Net debt/LTM EBITDA (covenant metric, excl. converts)	**2.4x**	**2.5x**	**2.4x**	**2.4x**	**2.4x**	**2.4x**	**2.5x**	**2.5x**	**2.5x**	**2.5x**	**2.5x**	**2.4x**	**2.3x**	**2.2x**	**2.1x**	**2.1x**	**1.8x**

Source: Company reports, RBC Capital Markets estimates

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Royal Bank of Canada, together with its affiliates, beneficially owns 1 percent or more of a class of the equity securities of Chorus Aviation Inc..

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RBC Capital Markets has provided CAE Inc. with non-investment banking securities-related services in the past 12 months.

RBC Capital Markets has provided CAE Inc. with non-securities services in the past 12 months.

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RBC Dominion Securities Inc. makes a market in the securities of Bombardier Inc..

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RBC Capital Markets is currently providing Bombardier Inc. with investment banking services.

RBC Capital Markets has provided Bombardier Inc. with non-securities services in the past 12 months.

The class B shares of Bombardier Inc. are subordinate voting shares.

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Diane Fontaine, Vice President and Portfolio Manager at RBC Dominion Securities Inc., is a member of the Board of Directors of Bombardier Inc.

An analyst involved in the preparation of this report has visited material operations of Exchange Income Corporation, and more specifically, the facilities of Exchange Income Corporation, which includes but is not limited to mines, distribution centres, warehouses, production plants and/or other facilities related to the day-to-day operation of Exchange Income Corporation as applicable.

An analyst involved in the preparation of this report has visited material operations of CAE Inc., and more specifically, the facilities of CAE Inc., which includes but is not limited to mines, distribution centres, warehouses, production plants and/or other facilities related to the day-to-day operation of CAE Inc. as applicable.

An analyst involved in the preparation of this report has visited material operations of Bombardier Inc., and more specifically, the facilities of Bombardier Inc., which includes but is not limited to mines, distribution centres, warehouses, production plants and/or other facilities related to the day-to-day operation of Bombardier Inc. as applicable.

Explanation of RBC Capital Markets Equity rating system

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

Ratings

Outperform (O): Expected to materially outperform sector average over 12 months.

Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.

Restricted (R): RBC policy precludes certain types of communications, including an investment recommendation, when RBC is acting as an advisor in certain merger or other strategic transactions and in certain other circumstances.

Not Rated (NR): The rating, price targets and estimates have been removed due to applicable legal, regulatory or policy constraints which may include when RBC Capital Markets is acting in an advisory capacity involving the company.

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The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

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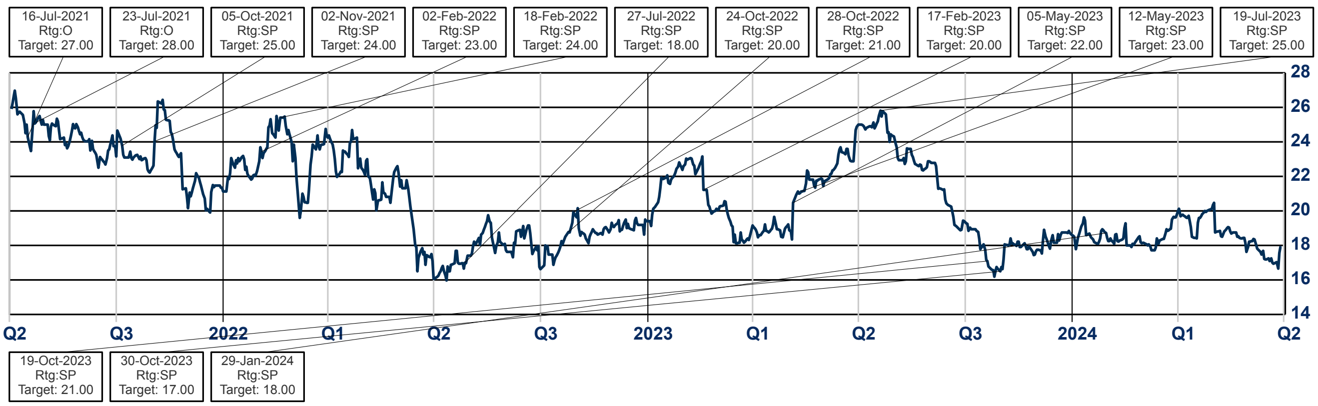
Distribution of ratings
RBC Capital Markets, Equity Research
As of 30-Jun-2024

			Investment Banking Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [Outperform]	857	57.44	271	31.62
HOLD [Sector Perform]	588	39.41	146	24.83
SELL [Underperform]	47	3.15	5	10.64

Rating and price target history for: Air Canada, AC CN as of 28-Jun-2024 (in CAD)



Legend:
O: Outperform; SP: Sector Perform; U: Underperform; R: Restricted; I: Initiation of Research Coverage; D: Discontinuation of Research Coverage;
NR: Not Rated; NA: Not Available; RL: Recommended List - RL: On: Refers to date a security was placed on a recommended list, while RL Off: Refers to date a security was removed from a recommended list; Rtg: Rating.

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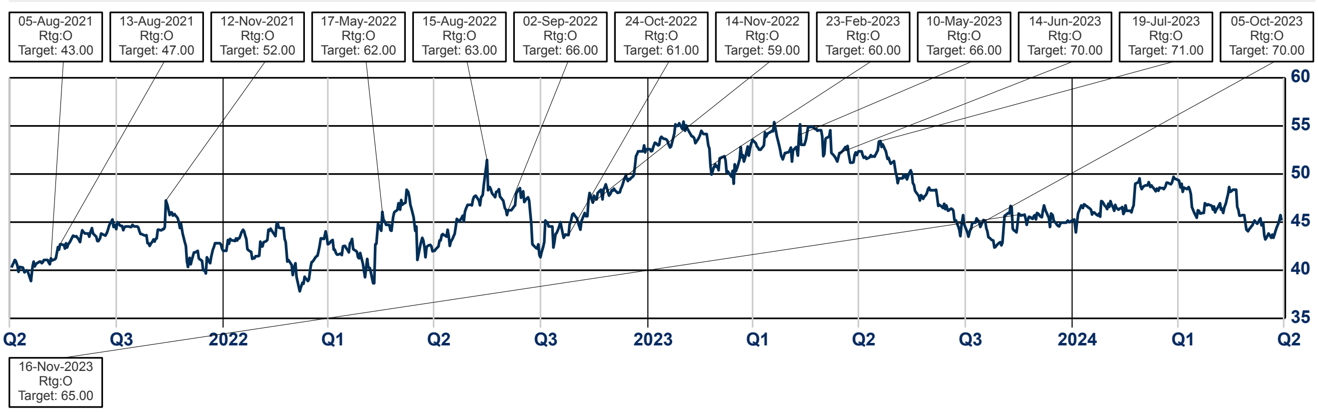
Rating and price target history for: Exchange Income Corporation, EIF CN as of 28-Jun-2024 (in CAD)



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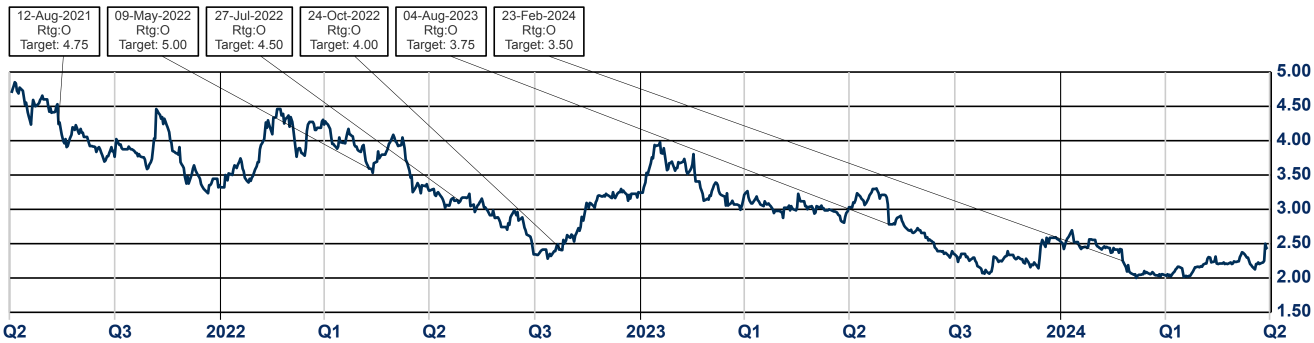
Rating and price target history for: Chorus Aviation Inc., CHR CN as of 28-Jun-2024 (in CAD)



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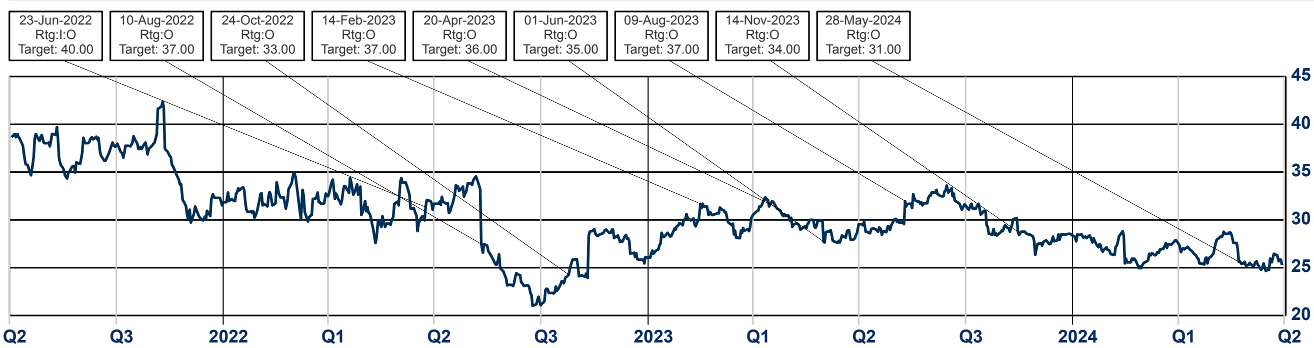
Rating and price target history for: CAE Inc., CAE CN as of 28-Jun-2024 (in CAD)



Legend:
O: Outperform; SP: Sector Perform; U: Underperform; R: Restricted; I: Initiation of Research Coverage; D: Discontinuation of Research Coverage;
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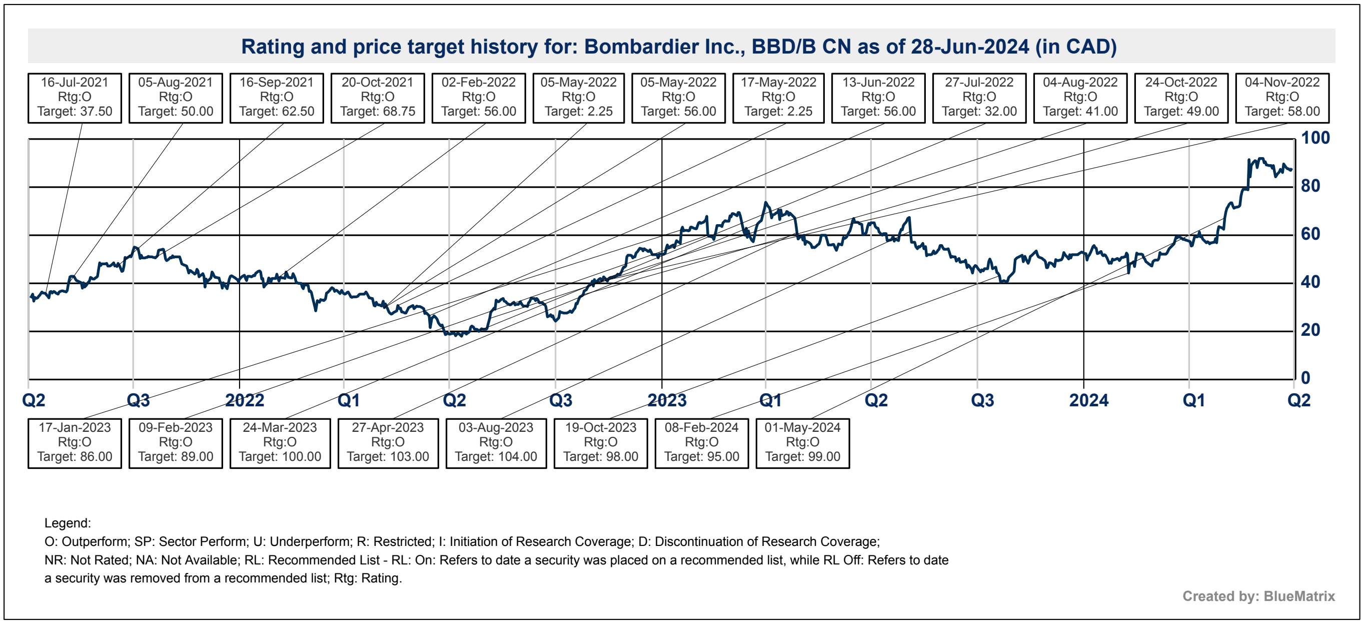
Created by: BlueMatrix



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: ADR (RL 10), and the Guided Portfolio: All Cap Growth (RL 12). The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List. As of April 3, 2023, U.S. RBC Wealth Management's quarterly reports will serve as the primary communication for its models and will highlight any changes to the model made during the quarter.

Equity valuation and risks

For valuation methods used to determine, and risks that may impede achievement of, price targets for covered companies, please see the most recent company-specific research report at www.rbcinsightresearch.com or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

Air Canada

Valuation

Applying a 3.4x EV/EBITDA multiple to our 2025 estimates, we derive our price target of $18. Our target multiple is in line with AC's historical average multiple and supported by our view that the industry should largely return to normal by 2025. Our base case reflects the following assumptions: (1) near-term constraints continue with a return to 2019 capacity levels by 2025; (2) negative pricing; and (3) continued cost increases. Our price target supports our Sector Perform rating.

Risks to rating and price target

Risks to our price target and rating include:

- Delayed recovery for air travel.
- Collective agreements.
- Regulation risk.
- Supply chain risk.
- Increasing competition.

Bombardier Inc.

Valuation

We apply a target multiple of 8x to our 2025 EBITDA estimate of $1.68B to derive our $133 price target. Our target multiple represents a discount to peers to reflect higher debt and a lower proportion of Defense revenue. Our price target supports our

Outperform rating.

Risks to rating and price target

- Execution on operational and financial targets.
- Slowdown in the bizjet market.
- Environmental concerns.
- New aircraft investments.

CAE Inc.

Valuation

We value CAE shares on a sum of the parts basis using a blended EV/EBITDA multiple of 10.6x on our FY26 EBITDA estimate of $1,149MM. Our 11.5x Civil multiple is driven off the Rail and Waste sectors, which trade in the 13x to 17x range, and our Defense multiple of 6x is derived using a discount to peers due to lower margins and recent headwinds. We anticipate that CAE's valuation will be supported by the company's favourable industry fundamentals (including secular growth and high barriers to entry) and FCF conversion, as well as the continued recovery in travel and defense procurement. Based on relative returns to our $30 price target, we rate the shares Outperform.

Risks to rating and price target

- Supply chain risk
- Delayed recovery for air travel
- Reduction in defense spending
- Regulation risk
- R&D and technology risk
- US foreign ownership
- Acquisition risk

Chorus Aviation Inc.

Valuation

We value Chorus on our 2025 EPS estimate which reflects anticipated asset sales, deleveraging, and the launch of Fund III. Our target multiple of 10x represents a discount of 18% compared to peers, which we view as warranted as the company transitions to asset light and deleverages. We also consider Chorus' valuation versus its historical and consensus NTM valuation, where we believe a premium to the 5-year average and consensus NTM is appropriate given the declining debt load, solid FCF generation and scalable asset management growth (which was not present in the past). This results in our price target of $3.50, and we therefore rate the shares as Outperform.

Risks to rating and price target

- **Asset sales**. We flag a lack of asset sales as a potential headwind to CHR's FCF and deleveraging targets. We view a potentially weaker regional aircraft leasing market on the back of decreased travel demand as potentially impacting the company's 2024 targets.
- **Fund III execution.** A recession or change in market dynamics could impact investor appetite for the new fund, negatively affecting Chorus' financial results. However, we believe the delay of Fund III has been adequately priced into shares, limiting potential downside.
- **Slowdown in travel demand.** A slowdown in passenger demand for air travel could affect airlines' performance and financial condition, including Air Canada and Chorus' lessees.
- **Contract risk.** Most of Chorus' revenues are derived from the CPA and AC, and loss could negatively impact the company's operations and cash flow.
- **Competition from large players.** CHR has the second-largest regional aircraft fleet but is smaller relative to peers. We believe this risk is mitigated as larger competitors are focused on narrowbodies and widebodies and not regional.

Exchange Income Corporation

Valuation

In valuing EIF, we apply a blended 7.6x EV/EBITDA multiple (8x for Aviation & Aerospace and 6.5x for Manufacturing, ahead of aviation peers and in line with manufacturing) to our $728MM 2026E EBITDA, reflecting a valuation blend of ~70% Aviation &

Aerospace and ~30% Manufacturing. We apply our target multiples to our 2026E EBITDA for each segment and discount back one year at 10%, generating our $65 price target, which supports our Outperform rating.

Risks to rating and price target

- **Access to external capital.** If the capital markets' desire for income-producing investments were to significantly decrease, EIF could have difficulty executing its strategy.
- **Acquisition integration and related risks.** EIF has a solid record of identifying and making accretive acquisitions, but its ability to successfully grow or diversify through additional acquisitions is dependent on a number of factors.
- **Contract risk.** EIF is party to a number of significant contracts with key customers. The loss of any one of these significant contracts could have a negative impact on the company's operations and cash flow.
- **Competition.** New competition or increased competition could have a significant impact on the business, operations, and financial condition of EIF's Aerospace & Aviation and Manufacturing segments.

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