



Capital  
Markets

July 19, 2023

## RBC Elements™: Q2/23 Flight Deck

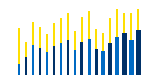
### Q2 airline/aerospace preview

**Our view:** Generally, the airlines/aerospace sector underperformed the market in Q2, except for AC, which significantly outperformed on robust summer travel demand and normalizing fuel prices. In this report, we introduce our Canadian Airlines & Aerospace Heatmap powered by RBC Elements™, where we track a series of travel indicators across the Airlines & Aerospace sectors quarterly. In addition to the Heatmap, we developed (also in conjunction with RBC Elements™) a proprietary Canadian Airfare Index, which utilizes real-time ticket prices from Canadian mainline operators. Additionally, we continue to track non-mainline fleet size as a barometer for competition. Based on the data and associate trends, we are increasing our Q2 estimates for AC (due to fuel cost declines) and take a more conservative view in our out-year estimates, supported by weakening travel indicators observed in the RBC Elements data. The remainder of our coverage Q2 estimates remains unchanged ahead of reporting season. Key areas of focus for us this quarter will be: 1) sustainability of higher airfares, given macro concerns and new entrants, 2) update on booking trends, 3) the impact of materially higher labour costs and pilot negotiations, and 4) expansion of capacity, especially as infrastructure issues persist.

### Q2 estimate revisions

- **AC: Q2 estimate increased; price target increases to \$25 (from \$23); reaffirm Sector Perform rating.** We are raising our Q2/23 EBITDA estimate to \$903MM from \$820MM (cons. \$895MM) solely on lower fuel prices. Additionally, our 2024 estimates remain below consensus and guidance (\$3.5B to \$4B) as we see multiple headwinds facing the airline industry after the summer travel season. These include the sustainability of higher fares, increased new entrants, weakening leading indicators supported by our Heatmap and increased costs. The key focus for us into the quarter will be on airfares, pilot contract negotiations, and persistent infrastructure delays. Our target multiple increases to 5x (from 4.5x) on robust summer travel demand and lower fuel costs. When applied to our 2024E EBITDA of \$3,233MM, our price target increases to \$25.
- **BBD: Q2 estimate unchanged; price target unchanged at \$103; reaffirm Outperform rating.** We are maintaining our Q2/23 EBITDA estimate of \$265MM, above cons. of \$245MM. Our estimate reflects 32 total deliveries, of which 24 are large jet deliveries and +13% growth in services revenues. Our key focus into the quarter will be on demand, book-to-bill and potential for a services guidance raise. When applying our 2025E EBITDA of \$1,640MM to our unchanged 7.5x target multiple, we arrive at our \$103 price target. BBD remains our top idea and currently trades at a ~40% discount to peers.
- **CAE: FQ1 estimate unchanged; price target remains at \$35; maintain Outperform.** Our FQ1 EBITDA estimate remains at \$235MM, above consensus \$227MM on Civil reflecting robust demand conditions. Our F24 Civil adj. operating income estimate of +15% aligns with guidance for growth of low-to-mid teen. Key focus for us into the quarter will be on margins in the Defense segment. Price target remains at \$35 on unchanged target multiple of 12x.
- **CHR: Q2 estimate unchanged; price target unchanged at \$4; reaffirm Outperform rating.** We are maintaining our Q1/23 EBITDA estimate of \$109MM, in line with consensus of \$109MM, and make no changes to out-year estimates. Key focus for us on the call will be the launch of Fund III, visibility toward new growth avenues in RAS and the pilot shortage. When applying our unchanged 2024E EBITDA estimate to our 5.5x target multiple, we arrive at our \$4 price target.
- **EIF: Q2 estimate unchanged; price target increases to \$71 (from \$70); maintain Outperform.** Our Q2 estimate remains unchanged at \$147MM, ahead of consensus \$143MM on higher Aviation EBITDA. Our 2023 EBITDA estimate also remains unchanged at \$568MM, toward the top end of guidance for EBITDA of \$540MM to \$570MM, and ahead of consensus \$559MM. We now value EIF off our 2025 EBITDA estimate of \$708MM (cons. \$675MM) to fully capture new business wins; and discount back one-year at 8%. Target multiple remains at 7.7x and price target increases to \$71 (from \$70).

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**RBC Elements™**  
 Driving insights through data

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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## 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 %
<b>James McGarragle</b>										
CAE Inc.	CAE CN	Outperform	Outperform	CAD	9,335	29.29	35.00	35.00	--	19
Exchange Income Corporation	EIF CN	Outperform	Outperform	CAD	2,515	53.39	71.00	70.00	1	38
<b>Walter Spracklin</b>										
Air Canada	AC CN	Sector Perform	Sector Perform	CAD	9,588	25.50	25.00	23.00	9	(2)
Bombardier Inc.	BBD/B CN	Outperform	Outperform	CAD	5,777	58.47	103.00	103.00	--	76
Chorus Aviation Inc.	CHR CN	Outperform	Outperform	CAD	637	3.20	4.00	4.00	--	25

Source: Bloomberg and RBC Capital Markets estimates

Click [here](#) to access the individual company pages.



## Canadian Airlines & Aerospace Q2/23 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	Q2/23 Share Price Performance
AC	30.5%
S&P TSX	0.3%
EIF	-2.1%
CAE	-3.0%
CHR	-5.6%
BBD	-11.5%

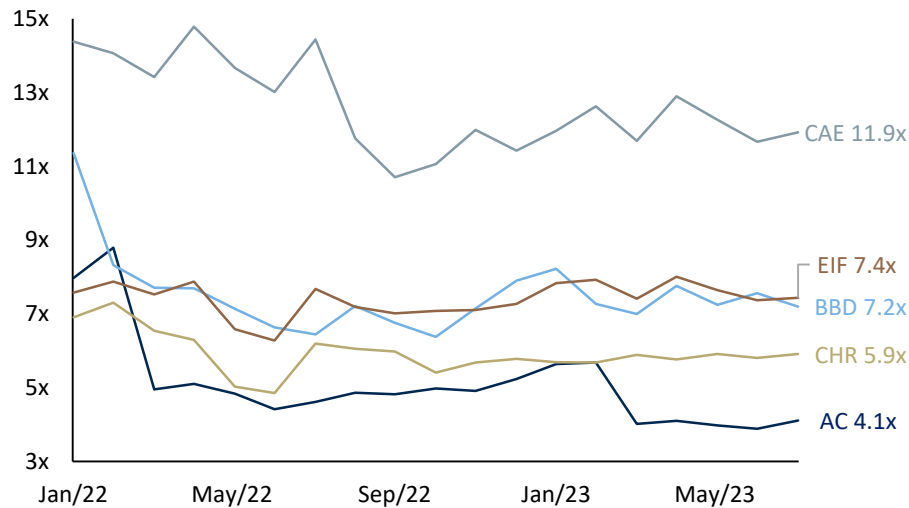
Source: Factset

**Share prices mixed in Q2.** Canadian Airlines & Aerospace share prices were mixed during the quarter, with AC significantly outperforming the index, at +31% over the quarter. The performance was driven by the seasonal summer boost in travel demand and lower fuel prices. BBD underperformed against the peer set but remains our top idea given execution to date and raised long term targets set out in the [2023 Investor Day](#). EIF ended lower despite some significant contracts wins during the quarter and CAE also traded down due to margin headwinds in its Defense segment. CHR underperformed over the quarter on pilot shortages, inhibiting growth.

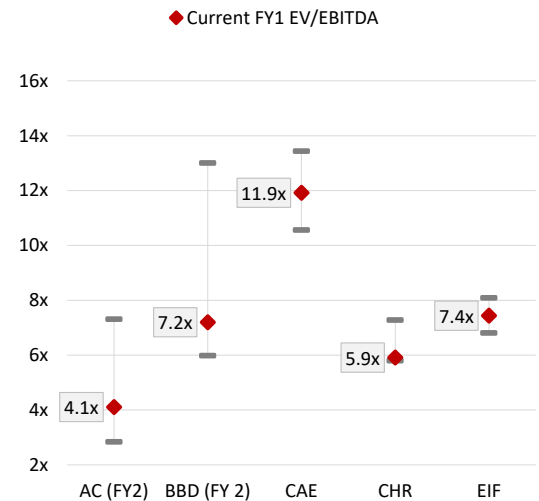
**Thoughts on valuations.** Referencing Exhibit 1, the bar chart below shows current valuations (diamond) relative to the 5-yr range. CAE is trading at the midpoint of its historical range despite in our view positive long-term trends in Civil and opportunity for operating leverage in Defense. AC trades at the lower end on its historical average, however above its pre-pandemic levels. We flag EIF as attractively valued, in our view, with valuation not reflecting our expectation for mid-teen 3-year EBITDA CAGR 2022 to 2025. We see CHR as attractively valued given the pending launch of Fund III and new business opportunities. We highlight Bombardier as our top pick and view the company as attractively valued at a 40% discount to peers.

### Exhibit 1 - Airlines & Aerospace shares trading toward bottom of relative valuation

Historical EV/EBITDA multiples on consensus NTM estimates



Current valuation vs. 5-year range



Source: FactSet consensus estimates as of market close July 18, 2023. (AC & BBD using FY2 EV/EBITDA Estimates)

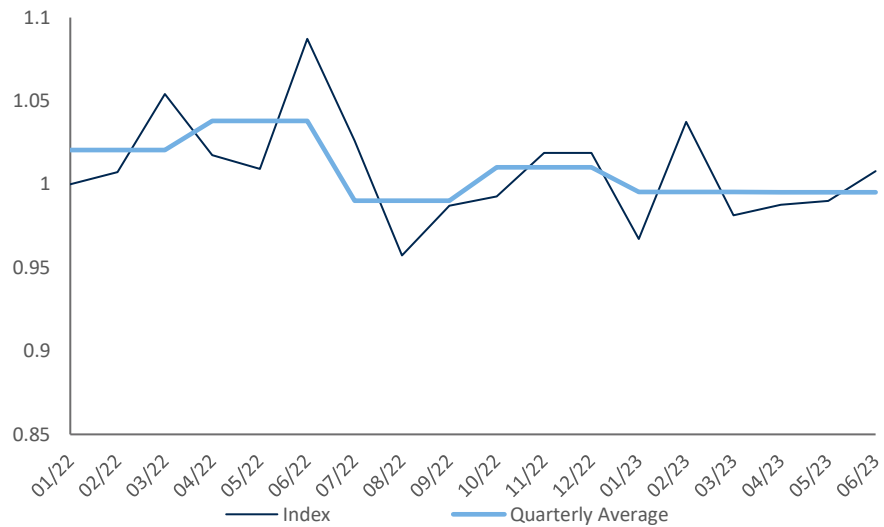


### Canadian Airlines & Aerospace Heatmap powered by RBC Elements™

Given the variable demand for commercial and private air travel since the pandemic, we have begun to track a series of travel indicators across the Airlines & Aerospace sectors on a quarterly basis. 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 which utilizes real-time ticket prices from Canadian mainline operators as well as continue to update the [RBC Elements™: Canadian Airline Monitor](#), see Exhibit 2. We expand further on certain Elements indicators summarized in the heatmap below.

**Canadian Airfare Index trending down.** We see that airfares hit a seasonal peak in the summer of 2022 and have since trended downwards. Key is that prices are down -4% Y/Y in Q2, accelerating from -2% in Q1 vs same period last year, though flat Q/Q. Our findings are consistent with US airfare CPI which saw a significant decline in June and also trended lower since peaking in Q2/22. Additionally, we note similar findings in [Digital Intelligence Strategy: US Summer Travel Feeling Jetlagged?](#), where we see the Vacation Price Index (VPI) (key components of a vacation budget including airfare) trending lower at -3% in May 2023 relative to May 2022. We remain cautious on the sustainability of high pricing as consumer confidence weakens (see leading indicators below) and the percentage of non-mainline carrier fleet expands putting pressure on prices, reaching a high of ~23% of total fleet in Q2. All told, we take a more conservative view in our out-year estimates given the insights gained from the data.

Exhibit 2 - Canadian Airfare Index: airfares have trended downwards since 2022



Source: RBC Elements, RBC Capital Markets

Exhibit 3 - Canadian Airlines & Aerospace Heatmap powered by RBC Elements™

	High/Low	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23
<b>Macro Indicators YY</b>															
US GDP**		(4.6%)	(29.9%)	35.3%	3.9%	6.3%	7.0%	2.7%	7.0%	(1.6%)	(0.6%)	3.2%	2.6%	2.0%	1.0%
CAD GDP**		(8.3%)	(37.1%)	41.3%	8.8%	5.3%	(2.3%)	5.9%	6.9%	2.6%	3.6%	2.3%	(0.1%)	3.1%	1.1%
Jet Fuel		(25.1%)	(60.2%)	(42.4%)	(37.1%)	10.6%	129.5%	77.4%	86.1%	85.3%	148.9%	77.8%	55.1%	13.4%	(47.6%)
<b>Alternative Data Indicators (Powered by RBC Elements)</b>															
RBC Canadian Airfare Index										102.0	103.8	99.0	101.0	99.5	99.5
RBC GOAT Index YY							144.4%	48.6%	50.1%	40.0%	10.2%	12.0%	2.4%	1.5%	(5.2%)
GOAT Leading Travel Indicators YY							114.4%	36.5%	40.5%	41.5%	7.2%	17.1%	3.3%	(3.0%)	(9.6%)
Corporate Travel Search Interest YY		(33.2%)	(32.4%)	51.3%	19.0%	33.7%	(38.2%)	(32.5%)	(41.1%)	(53.2%)	33.4%	9.5%	10.3%	41.0%	14.8%
AC Travel Search Interest YY		31.4%	(18.4%)	(22.4%)	(12.8%)	(29.2%)	(4.0%)	77.5%	54.2%	42.8%	132.4%	51.0%	38.8%	72.0%	20.4%
US Travel Search Interest YY		12.7%	(18.0%)	(7.7%)	(5.6%)	(6.6%)	59.1%	64.0%	36.4%	16.0%	(8.7%)	(9.8%)	2.7%	25.9%	15.3%
Cdn Travel Search Interest YY		22.2%	(25.8%)	(30.2%)	(23.0%)	(38.9%)	(5.9%)	86.3%	65.8%	73.8%	152.9%	54.1%	50.5%	72.0%	27.3%
Cdn Non-Mainline Search Interest YY		6.0%	(46.5%)	(45.8%)	(54.2%)	(70.8%)	(18.0%)	93.2%	191.2%	277.7%	358.4%	130.5%	75.5%	133.5%	36.0%
% of Cdn Non-Mainline Fleet		14.2%	13.2%	12.7%	13.1%	13.9%	14.6%	15.0%	15.9%	16.7%	15.8%	16.8%	21.3%	22.3%	23.3%
<b>Travel Fundamentals (vs 2019)</b>															
Airline Travel Transactions*		(17.8%)	(78.3%)	(70.2%)	(63.8%)	(58.5%)	(35.4%)	(31.8%)	(23.7%)	(21.5%)	(12.2%)	(11.7%)	(5.7%)	(8.6%)	(5.7%)
Average Domestic Fare*		(15.3%)	(66.7%)	(46.2%)	(39.2%)	(42.2%)	(26.2%)	(28.4%)	(20.8%)	(14.5%)	9.6%	0.9%	6.2%	6.3%	2.4%
Average International Fare*		(40.6%)	(133.6%)	(80.2%)	(57.6%)	(56.8%)	(40.6%)	(39.6%)	(27.3%)	(21.1%)	4.1%	6.9%	5.3%	11.7%	10.0%
US Airfare CPI		(1.3%)	(26.3%)	(24.4%)	(18.9%)	(21.4%)	(12.1%)	(18.2%)	(20.7%)	(10.2%)	18.6%	9.6%	7.7%	10.5%	5.1%
Global RPKs*		(21.5%)	(90.7%)	(76.0%)	(70.2%)	(71.3%)	(62.7%)	(54.2%)	(47.2%)	(45.5%)	(32.6%)	(26.0%)	(24.5%)	(14.3%)	(6.7%)
Global ASKs*		(14.4%)	(84.4%)	(65.6%)	(58.4%)	(59.5%)	(53.3%)	(45.0%)	(39.5%)	(36.7%)	(29.8%)	(24.1%)	(24.1%)	(12.0%)	(5.7%)
North American RPKs*		(12.9%)	(91.8%)	(77.7%)	(68.9%)	(63.6%)	(43.6%)	(29.8%)	(22.7%)	(19.4%)	(10.4%)	(8.2%)	(4.9%)	(1.5%)	2.1%
North American ASKs*		(4.8%)	(80.2%)	(61.1%)	(50.8%)	(45.3%)	(33.6%)	(22.7%)	(17.3%)	(14.7%)	(10.8%)	(8.6%)	(6.0%)	1.2%	1.5%
North American Load Factors*		72.7%	35.2%	49.3%	53.1%	54.5%	73.4%	78.5%	78.3%	79.2%	87.0%	86.4%	84.6%	79.7%	86.0%
TSA Passenger Throughput		(20.3%)	(88.1%)	(70.9%)	(63.0%)	(54.0%)	(32.6%)	(22.4%)	(17.7%)	(15.9%)	(9.6%)	(9.0%)	(6.0%)	0.3%	(0.0%)
CATSA Passenger Throughput		(22.6%)	(95.4%)	(86.8%)	(85.6%)	(90.6%)	(89.6%)	(62.0%)	(49.8%)	(54.5%)	(25.3%)	(15.4%)	(11.2%)	(8.4%)	(3.4%)
<b>BizJet Indicators (vs 2019)</b>															
Total Traffic*		(9.7%)	(50.5%)	(16.5%)	(13.9%)	(5.2%)	9.7%	20.0%	25.0%	18.6%	21.5%	17.3%	16.2%	13.3%	14.5%
Domestic Traffic*		(9.8%)	(47.1%)	(14.2%)	(12.5%)	(2.4%)	13.6%	22.6%	26.3%	20.2%	23.0%	17.9%	16.3%	13.5%	15.2%
International Traffic*		(9.6%)	(68.4%)	(30.5%)	(21.7%)	(19.7%)	(10.9%)	4.3%	17.4%	10.8%	14.0%	12.9%	16.1%	12.4%	10.4%
Global Bizjet Activity		2.1%	(34.0%)	1.5%	(3.0%)	21.9%	38.1%	36.9%	37.6%	50.9%	54.5%	40.2%	35.4%	53.0%	50.5%
Bombardier Activity		11.3%	(40.1%)	1.8%	(5.2%)	25.7%	36.8%	37.4%	35.2%	52.6%	52.3%	41.7%	34.4%	54.2%	48.0%
Gulfstream Activity		(2.1%)	(54.3%)	(19.6%)	(21.7%)	(1.5%)	7.1%	12.5%	15.7%	21.2%	26.5%	19.1%	16.7%	27.6%	21.0%
Number of Billionaires		(2.7%)	(2.7%)	(2.7%)	(2.7%)	28.0%	28.0%	28.0%	28.0%	23.9%	23.9%	23.9%	23.9%	22.6%	22.6%
Used Inventory (% of Total)		9.5%	10.0%	9.7%	8.2%	7.2%	6.2%	5.0%	3.6%	3.0%	3.4%	3.8%	4.8%	5.0%	
<b>Returns (vs 2019)</b>															
Cdn Airlines & Aerospace Index Return		(64.6%)	(57.4%)	(60.3%)	(39.1%)	(28.1%)	(24.2%)	(16.2%)	(27.5%)	(25.4%)	(39.8%)	(47.6%)	(24.9%)	(13.2%)	(15.1%)
North American Airlines Index return		(57.6%)	(51.4%)	(50.8%)	(28.5%)	(10.0%)	(16.5%)	(18.7%)	(31.2%)	(33.8%)	(56.3%)	(61.8%)	(59.3%)	(55.1%)	(47.8%)
European Airlines Index Return		(54.2%)	(43.1%)	(56.0%)	(31.5%)	(31.0%)	(34.8%)	(35.2%)	(44.2%)	(48.2%)	(55.4%)	(53.6%)	(23.2%)	(18.5%)	(14.8%)
Asian Airlines Index Return		(40.0%)	(25.6%)	(23.8%)	3.6%	11.6%	16.3%	6.0%	1.6%	0.3%	(12.3%)	(19.0%)	(7.4%)	(5.4%)	(6.7%)

\* Data through May

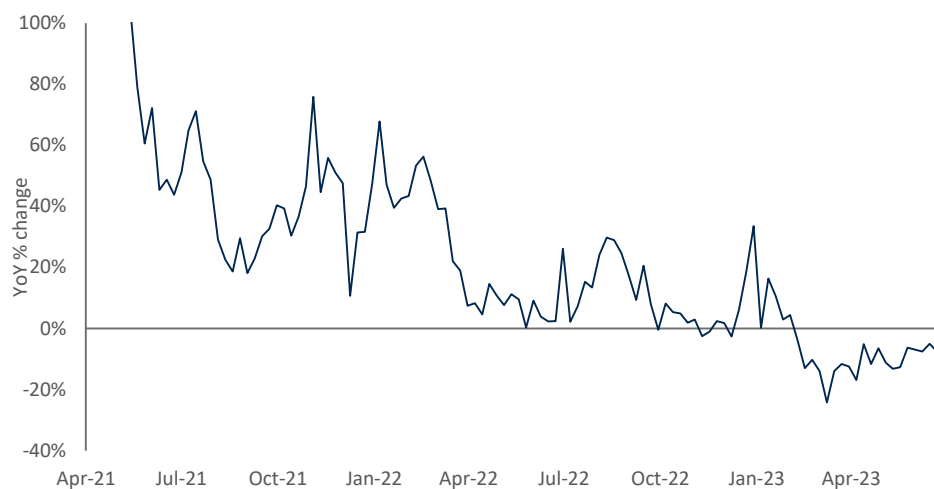
\*\*Indicates estimates

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



**GOAT inflecting lower, leading indicators continue to be negative.** We look to RBC's proprietary Get Out and Travel (GOAT) index to gauge consumer demand for travel. As seen in the Heatmap in Exhibit 3 above, the GOAT index has inflected downward in Q2 for the first time since inception at -5.2% Y/Y, a sign that travel demand may potentially be turning over. First flagged by our colleague Mike Tran in [Digital Intelligence Strategy: Red Alert? China Scrapes Inflecting Softer](#) specific leading indicators (namely car rental, air travel and accommodation search interest), which are inputs into the GOAT index, are down -9.6% in Q2 the largest decline since 2021. Key is that these leading indicators have produced negative Y/Y prints for the last 20 weeks, indicating that the revenge travel trend may be satisfied.

Exhibit 4 - Leading travel indicators remain negative since February



Source: RBC Elements, RBC Capital Markets

**Travel search interest trending lower.** We looked at travel search interest as measured by website traffic across corporate, leisure and non-mainline carriers and find that though higher Y/Y, travel interest has trended lower since Q2/22 with an uptick seen in Q1/23 likely due to the summer travel season. Interesting to note is that Canadian travel search interest and corporate rate of growth declined faster than that of the US.

**Travel Fundamentals: Demand robust during the summer travel season.** North American RPKs, ASKs are above 2019 levels with airport throughput essentially back to normal. OEM delays and infrastructure issues (pilots, air traffic control) continue to keep capacity tight with load factors up Q/Q to 86%, helping support higher fares. Transactions touched a high point once again down 5.7% vs 2019. Global RPKs and ASKs continue to lag on the slower come back of APAC. Though the industry is in a “sweet spot” currently, we note a weakening economy and higher percentage of LCC is likely to negatively impact demand, sentiment which IATA chief economist Marie Owens Thomsen echoed at the IATA AGM, see our note [here](#).

**Bizjets: Activity remains above 2019 levels and used inventory at lows.** Total bizjet activity in the US remains 14.5% ahead of 2019 levels and has hovered in this mid-teen range since Q3/22, indicating structurally higher demand for private travel. In addition, global activity data shows bizjet activity is 51% higher in Q2 vs 2019 with Bombardier jet activity above that of Gulfstream according to AirNav Radar Box. As of last quarter, used inventory continues to be well below the normal range of 11-14% which should support demand for bizjets and note the number of UHNW individuals continues to trend 22.6% above 2019 levels. Taken together, the



data points to robust manufacturing and aftermarket demand which we believe supports our 2024E EBITDA estimates above consensus.

## Q2 Estimates

We are leaving our Q2 estimates largely unchanged for the group ahead of reporting season, with the exception of AC. Details by company are below:

- **Air Canada (AC): Q2 estimate increased; price target increases to \$25 (from \$23); reaffirm Sector Perform rating.** We are raising our Q2/23 EBITDA estimate to \$903MM from \$820MM (consensus \$895MM) solely on lower fuel prices. Our 2023E and 2024E EBITDA estimates move lower on increase in fuel curve in out years. Additionally, our 2024 estimates remain below consensus and guidance (\$3.5B to \$4B) as we see multiple headwinds facing the airline industry after the robust summer travel season. These include the sustainability of higher fares, increased new entrants, weakening leading indicators supported by our heatmap and increased costs. The key focus for us into the quarter will be on airfares, contract negotiations considering significant wage increases at peers, and trends in infrastructure delays. Our target multiple increases on the robust summer travel demand and the positive impact of normalizing fuel prices to 5x (from 4.5x) and when applied to our 2024E EBITDA of \$3,233MM results in our \$25 price target.
- **Bombardier (BBD): Q2 estimate unchanged; price target unchanged at \$103; reaffirm Outperform rating.** We are maintaining our Q2/23 EBITDA estimate of \$265MM, above consensus of \$245MM. Our Q2 estimate reflects 32 total deliveries, of which 24 are large jet deliveries and +13% growth in services revenues. Our key focus into the quarter will be on demand, book to bill and potential for a services guidance raise, first highlighted at our conference in May. We continue to use 2025 as our valuation year, and when applying our 2025 EBITDA estimate of \$1,640MM to our unchanged 7.5x target multiple, we arrive at our \$103 price target. BBD remains our top recommendation under coverage and currently trades at a ~40% discount to peers.
- **CAE: FQ1 estimate unchanged; price target remains at \$35; maintain Outperform.** Our FQ1 EBITDA estimate remains at \$235MM, above consensus \$227MM on Civil reflecting robust demand conditions. Our F24 EBITDA estimate remains unchanged at \$1,041MM, in line with consensus \$1,056MM, and our F24 Civil adj. operating income estimate of +15% aligns with guidance for growth of low-to-mid teen. Our F25 EBITDA estimate is also unchanged at \$1,182MM, in line with consensus \$1,196MM. Our F25 EPS estimate of \$1.47 is below consensus \$1.53 and implies 3-year EPS CAGR of +21%, in line to a touch below guidance for mid-20% CAGR. Key focus for us into the quarter will be on margins in the Defense segment. Price target remains at \$35 on unchanged target multiple of 12x. See Exhibit 8.
- **Chorus Aviation (CHR): Q2 estimate unchanged; price target unchanged at \$4; reaffirm Outperform rating.** We are maintaining our Q1/23 estimate of \$109MM, in line with consensus of \$109MM and make no changes to out-year estimates. Key focus on the call for us will be the launch of Fund III, visibility toward new growth avenues in RAS and the pilot shortage. When applying our unchanged 2024E EBITDA estimate to our 5.5x target multiple, we arrive at our \$4 price target.
- **Exchange Income (EIF): Q2 estimate unchanged; price target increases to \$71 (from \$70); maintain Outperform.** Our Q2 estimate remains unchanged at \$147MM, ahead of consensus \$143MM on higher Aviation EBITDA. Our 2023 EBITDA estimate also remains unchanged at \$568MM, toward the top end of guidance for EBITDA of \$540MM to \$570MM, and ahead of consensus \$559MM. Our 2024 estimate increases to \$669MM (from \$665MM) well ahead of consensus \$637MM reflecting recent contract wins. We also introduce our 2025 EBITDA estimate of \$708MM, ahead of consensus \$675MM, which we do not believe factors in recent contract wins. Key into the quarter will be colour



on the M&A pipeline as well as capex and revenues associated with recent business wins. We now value EIF off our 2025 estimates and discount back one-year at 8% to fully capture new business wins; target multiple remains at 7.7x and price target increases to \$71 (from \$70). See Exhibit 10.

Exhibit 5 - Estimate changes ahead of the quarter

	Q2 2023E EBITDA			2023E EBITDA			2024E EBITDA			Target Multiple		Price Target (CAD)			Rating	Implied Return
	Prior	RBC	Street	Prior	RBC	Street	Prior	RBC	Street	Old	RBC	Old	New			
Air Canada	\$820	<b>\$903</b>	\$895	\$3,631	<b>\$3,617</b>	\$3,713	\$3,439	<b>\$3,233</b>	\$4,119	4.5x	<b>5.0x</b>	\$23	<b>\$25</b>	SP	(1%)	
Bombardier	unchg.	<b>US\$265</b>	\$245	unchg.	<b>US\$1,144</b>	US\$1,159	unchg.	<b>US\$1,399</b>	\$1,357	unchg.	<b>7.5x</b>	unchg.	<b>\$103</b>	O	+75%	
CAE <sup>1</sup>	unchg.	<b>\$235</b>	\$227	unchg.	<b>\$1,041</b>	\$1,056	unchg.	<b>\$1,182</b>	\$1,196	unchg.	<b>12.0x</b>	unchg.	<b>\$35</b>	O	+20%	
Chorus Aviation	unchg.	<b>\$109</b>	\$109	unchg.	<b>\$441</b>	\$443	unchg.	<b>\$436</b>	\$415	unchg.	<b>5.5x</b>	unchg.	<b>\$4.00</b>	O	+26%	
Exchange Income	unchg.	<b>\$147</b>	\$143	unchg.	<b>\$568</b>	\$559	\$665	<b>\$669</b>	\$637	unchg.	<b>7.7x</b>	\$70	<b>\$71</b>	O	+39%	

1. CAE estimates are for FQ1/24, F2024, and F2025, respectively

Source: RBC Capital Markets estimates, FactSet for consensus. Note: Priced as of market close July 18, 2023

Exhibit 6 - Air Canada estimate revisions detail

(C\$MM's unless specified)	Q2/23E			2023E			2024E		
	Old	New	% Δ	Old	New	% Δ	Old	New	% Δ
Traffic: RPMs (% chg)	27.3%	27.3%	0bp	28.5%	28.5%	0bp	10.2%	10.2%	0bp
Capacity: ASMs (% chg)	22.0%	22.0%	0bp	22.7%	22.7%	0bp	11.3%	11.3%	0bp
Load Factor (%pts)	84.0%	84.0%	0bp	84.3%	84.3%	0bp	83.4%	83.4%	0bp
Yield (% chg)	4.0%	4.0%	0bp	3.6%	3.6%	0bp	-4.0%	-4.0%	0bp
RASM (% chg)	8.6%	8.6%	0bp	7.6%	7.6%	0bp	-5.0%	-5.0%	0bp
Adj. CASM ex fuel+other (% chg)	-0.7%	-0.7%	0bp	-0.5%	-0.5%	0bp	-4.0%	-4.0%	0bp
Avg Jet Fuel Price: (\$C/Ltr)	\$1.14	\$1.07	-5.9%	\$1.09	\$1.09	0.1%	\$1.09	\$1.13	3.3%
Revenue	5,214	5,214	0.0%	21,617	21,617	0.0%	22,756	22,756	0.0%
Expenses	4,394	4,311	-1.9%	17,986	18,000	0.1%	19,317	19,523	1.1%
<b>EBITDA</b>	<b>820</b>	<b>903</b>	<b>10.1%</b>	<b>3,631</b>	<b>3,617</b>	<b>-0.4%</b>	<b>3,439</b>	<b>3,233</b>	<b>-6.0%</b>
EBITDA Margin	15.7%	17.3%	10.1%	16.8%	16.7%	-0.4%	15.1%	14.2%	-6.0%
EPS ex-one time items (\$)	0.58	0.80	38.1%	3.93	3.90	-0.9%	3.07	2.52	-18.0%

Source: Company reports, RBC Capital Markets estimates

Exhibit 7 - Bombardier estimate revisions detail

(\$MM's unless specified)	Q2/23E			2023E			2024E			2025E		
	Old	New	% Δ	Old	New	% Δ	Old	New	% Δ	Old	Cur	% Δ
Total aircraft deliveries	32	32	0.0%	139	139	0.0%	145	145	0.0%	150	150	0.0%
Total Revenues	1,783	1,783	0.0%	7,863	7,863	0.0%	8,354	8,354	0.0%	9,051	9,051	0.0%
Total EBIT	160	160	0.0%	710	710	0.0%	919	919	0.0%	1,140	1,140	0.0%
Mgn%	9.0%	9.0%	0 bps	9.0%	9.0%	0 bps	11.0%	11.0%	0 bps	12.6%	12.6%	0 bps
Free Cash Flow	71	71	0.0%	244	244	0.0%	562	562	0.0%	890	890	0.0%
<b>EBITDA</b>	<b>265</b>	<b>265</b>	<b>0.0%</b>	<b>1,144</b>	<b>1,144</b>	<b>0.0%</b>	<b>1,399</b>	<b>1,399</b>	<b>0.0%</b>	<b>1,640</b>	<b>1,640</b>	<b>0.0%</b>
Mgn%	14.9%	14.9%	0 bps	14.6%	14.6%	0 bps	16.7%	16.7%	0 bps	18.1%	18.1%	0 bps
Adjusted EPS	\$0.09	\$0.09	0.0%	\$2.26	\$2.26	0.0%	\$4.46	\$4.46	0.0%	\$8.29	\$8.29	0.0%

Source: Company reports, RBC Capital Markets estimates



Exhibit 8 - CAE estimate revisions detail

ESTIMATE SUMMARY (C\$ millions)	FQ1/24E			F2024E			F2025E		
	Old	New	% Δ	Old	New	% Δ	Old	New	% Δ
Revenue	1,068	<b>1,068</b>	0.0%	4,617	<b>4,617</b>	0.0%	4,835	<b>4,835</b>	0.0%
Civil Revenue	547	<b>547</b>	0.0%	2,454	<b>2,454</b>	0.0%	2,575	<b>2,575</b>	0.0%
Defense & Security Revenue	477	<b>477</b>	0.0%	1,962	<b>1,962</b>	0.0%	2,051	<b>2,051</b>	0.0%
Healthcare Revenue	44	<b>44</b>	0.0%	201	<b>201</b>	0.0%	209	<b>209</b>	0.0%
Adj. EBITDA	235	<b>235</b>	0.0%	1,041	<b>1,041</b>	0.0%	1,182	<b>1,182</b>	0.0%
Civil Adj. EBITDA	183	<b>183</b>	0.0%	812	<b>812</b>	0.0%	864	<b>864</b>	0.0%
Defence & Security Adj. EBITDA	46	<b>46</b>	0.0%	203	<b>203</b>	0.0%	287	<b>287</b>	0.0%
Healthcare Adj. EBITDA	6	<b>6</b>	0.0%	27	<b>27</b>	0.0%	31	<b>31</b>	0.0%
Adjusted Operating Income	147	<b>147</b>	0.0%	687	<b>687</b>	0.0%	816	<b>816</b>	0.0%
Adj. Operating Income Margin %	13.8%	<b>13.8%</b>	0bps	14.9%	<b>14.9%</b>	0bps	16.9%	<b>16.9%</b>	0bps
Civil Adj. EBIT	120	<b>120</b>	0.0%	556	<b>556</b>	0.0%	599	<b>599</b>	0.0%
Defence & Security Adj. EBIT	24	<b>24</b>	0.0%	115	<b>115</b>	0.0%	197	<b>197</b>	0.0%
Healthcare Adj. EBIT	3	<b>3</b>	0.0%	15	<b>15</b>	0.0%	20	<b>20</b>	0.0%
Adj. EPS (F.D)	\$0.23	<b>\$0.23</b>	0.0%	\$1.15	<b>\$1.15</b>	0.0%	\$1.47	<b>\$1.47</b>	0.0%
<b>Consensus EBITDA</b>		<b>227</b>			<b>1,056</b>			<b>1,196</b>	

Source: Company reports, RBC Capital Markets estimates

Exhibit 9 - Chorus estimate revisions detail

Revenue breakdown	Q2/23E			2023E			2024E		
	Old	New	% Δ	Old	New	% Δ	Old	New	% Δ
Controllable Revenue	224	<b>224</b>	0.0%	862	<b>862</b>	0.0%	906	<b>906</b>	0.0%
Leasing under CPA	37	<b>37</b>	0.0%	146	<b>146</b>	0.0%	146	<b>146</b>	0.0%
Margin compensation	16	<b>16</b>	0.0%	63	<b>63</b>	0.0%	63	<b>63</b>	0.0%
Incentives	0.5	<b>0.5</b>	0.0%	2	<b>2</b>	0.0%	2	<b>2</b>	0.0%
Pass through revenue	53	<b>53</b>	0.0%	226	<b>226</b>	0.0%	218	<b>218</b>	0.0%
Passenger revenue	330	<b>330</b>	0.0%	1,299	<b>1,299</b>	0.0%	1,335	<b>1,335</b>	0.0%
Regional Aircraft Leasing	61	<b>61</b>	0.0%	262	<b>262</b>	0.0%	249	<b>249</b>	0.0%
Other - Charter, contract flying, MRO	23	<b>23</b>	0.0%	109	<b>109</b>	0.0%	109	<b>109</b>	0.0%
Total Revenues	415	<b>415</b>	0.0%	1,672	<b>1,672</b>	0.0%	1,692	<b>1,692</b>	0.0%
Total Expenses	364	<b>364</b>	0.0%	1,449	<b>1,449</b>	0.0%	1,467	<b>1,467</b>	0.0%
Total Operating Income	51	<b>51</b>	0.0%	224	<b>224</b>	0.0%	226	<b>226</b>	0.0%
Depreciation and Amortization	58	<b>58</b>	0.0%	211	<b>211</b>	0.0%	211	<b>211</b>	0.0%
<b>EBITDA</b>	<b>109</b>	<b>109</b>	<b>0.0%</b>	<b>441</b>	<b>441</b>	<b>0.0%</b>	<b>436</b>	<b>436</b>	<b>0.0%</b>

Source: Company reports, RBC Capital Markets estimates



Exhibit 10 - Exchange Income estimate revisions detail

ESTIMATE SUMMARY (C\$ millions)	Q2/23E			2023E			2024E			2025E
	Old	New	% Δ	Old	New	% Δ	Old	New	% Δ	New
Total revenue	605	<b>605</b>	0.0%	2,420	<b>2,420</b>	0.0%	2,705	<b>2,718</b>	0.5%	<b>2,816</b>
Total Aviation Revenues	388	<b>388</b>	0.0%	1,495	<b>1,495</b>	0.0%	1,692	<b>1,705</b>	0.8%	<b>1,793</b>
Total Manufacturing Revenues	217	<b>217</b>	0.0%	926	<b>926</b>	0.0%	1,013	<b>1,013</b>	0.0%	<b>1,023</b>
Adj. EBITDA	147	<b>147</b>	0.0%	568	<b>568</b>	0.0%	665	<b>669</b>	0.6%	<b>708</b>
Total Aviation EBITDA	109	<b>109</b>	0.0%	401	<b>401</b>	0.0%	471	<b>475</b>	0.8%	<b>508</b>
Total Manufacturing EBITDA	48	<b>48</b>	0.0%	207	<b>207</b>	0.0%	229	<b>229</b>	0.0%	<b>237</b>
Net income	43	<b>43</b>	0.0%	159	<b>159</b>	0.0%	221	<b>224</b>	1.3%	<b>251</b>
EPS (Diluted)	\$0.91	<b>\$0.91</b>	0.0%	\$3.43	<b>\$3.43</b>	0.0%	\$4.69	<b>\$4.75</b>	1.3%	<b>\$5.29</b>
Adj. net income (diluted)	47	<b>47</b>	0.0%	174	<b>174</b>	0.0%	235	<b>238</b>	1.2%	<b>265</b>
Adj. EPS (Diluted)	\$0.99	<b>\$0.99</b>	0.0%	\$3.76	<b>\$3.76</b>	0.0%	\$4.99	<b>\$5.05</b>	1.2%	<b>\$5.59</b>
FCF (less maintenance capex)	52	<b>52</b>	0.0%	189	<b>189</b>	0.0%	232	<b>233</b>	0.7%	<b>252</b>
FCF (less maintenance capex) / share	\$1.11	<b>\$1.11</b>	0.0%	\$4.10	<b>\$4.10</b>	0.0%	\$4.91	<b>\$4.95</b>	0.7%	<b>\$5.32</b>
Consensus EBITDA		<b>143</b>			<b>559</b>			<b>637</b>		<b>675</b>

Source: Company reports, RBC Capital Markets estimates

## Appendix 1 – Airline comparables

	Symbol	Curr	18-Jul-23 Price	Mkt Cap (MM)	EV/EBITDA			EV/Sales			EBITDA Margin		
					2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E
<b>Discount Airlines</b>													
Southwest	LUV-US	US\$	36.74	21,863	8.0x	5.6x	4.2x	0.8x	0.7x	0.7x	10%	13%	16%
JetBlue	JBLU-US	US\$	\$8.34	2,735	13.8x	5.1x	4.1x	0.6x	0.5x	0.5x	4%	11%	12%
<b>Discount Average</b>					<b>10.9x</b>	<b>5.3x</b>	<b>4.2x</b>	<b>0.7x</b>	<b>0.6x</b>	<b>0.6x</b>	<b>7%</b>	<b>12%</b>	<b>14%</b>
<b>Mainline Airlines</b>													
Air Canada	AC-CA	C\$	\$25.50	9,132	12.0x	4.8x	5.4x	1.1x	0.8x	0.8x	9%	17%	14%
Delta Air Lines	DAL-US	US\$	\$48.37	31,122	8.4x	5.6x	5.2x	1.2x	1.0x	0.9x	14%	17%	18%
United Continental	UAL-US	US\$	\$54.79	17,969	7.6x	4.8x	4.3x	0.8x	0.7x	0.7x	11%	15%	16%
American Airlines	AAL-US	US\$	\$18.68	12,195	11.1x	6.5x	6.2x	0.9x	0.8x	0.8x	8%	13%	13%
<b>Mainline Average</b>					<b>9.8x</b>	<b>5.4x</b>	<b>5.3x</b>	<b>1.0x</b>	<b>0.8x</b>	<b>0.8x</b>	<b>10%</b>	<b>15%</b>	<b>15%</b>
<b>Regional Airlines</b>													
Chorus Aviation	CHR-CA	C\$	\$3.20	637	5.0x	5.0x	5.1x	1.4x	1.3x	1.3x	28%	26%	26%
SkyWest Inc.	SKYW-US	US\$	\$41.87	1,860	6.9x	10.3x	6.1x	1.4x	1.5x	1.4x	21%	15%	22%
<b>Regional Average</b>					<b>6.0x</b>	<b>7.7x</b>	<b>5.6x</b>	<b>1.4x</b>	<b>1.4x</b>	<b>1.3x</b>	<b>24%</b>	<b>21%</b>	<b>24%</b>
<b>Airline Average</b>					<b>9.1x</b>	<b>6.0x</b>	<b>5.1x</b>	<b>1.0x</b>	<b>0.9x</b>	<b>0.9x</b>	<b>13%</b>	<b>16%</b>	<b>17%</b>

Sources: Company reports, FactSet, and RBC Capital Markets estimates for Air Canada and Chorus Aviation. Priced as of close on July 18, 2023

## Appendix 2 – Aerospace comparables

Company Name	Exch: Ticker	Price 18-Jul-23	Mkt. Cap (\$MM's)	Net Debt to EBITDA	EV/EBITDA				EBITDA Margin				
					2022	2023E	2024E	2025E	2022	2023E	2024E	2025E	
<b>Aerospace</b>													
Boeing	NYSE:BA	US\$	211.57	127,279	N/A	N/A	38.4x	18.7x	14.8x	-2.3%	5.6%	9.9%	11.4%
Embraer	NYSE: ERJ	US\$	14.45	2,654	3.0x	8.8x	7.2x	6.1x	5.5x	10.1%	10.4%	11.0%	11.4%
General Dynamics	NYSE: GD	US\$	213.52	58,576	2.0x	13.4x	12.9x	11.5x	11.0x	13.0%	12.9%	13.4%	13.6%
Textron	NYSE: TXT	US\$	67.93	13,700	1.4x	10.4x	9.8x	9.0x	8.5x	11.8%	11.6%	11.9%	12.1%
<b>Average</b>						<b>10.9x</b>	<b>17.1x</b>	<b>11.3x</b>	<b>10.0x</b>	<b>8.2%</b>	<b>10.1%</b>	<b>11.6%</b>	<b>12.1%</b>
<b>Transportation &amp; Conglomerates</b>													
Siemens	XE: SIE	EUR	150.20	111,472	3.5x	13.1x	10.8x	10.2x	9.5x	16.2%	18.2%	18.4%	18.8%
General Electric	NYSE: GE	US\$	111.06	120,940	0.0x	13.9x	17.0x	12.5x	N/A	12.0%	11.6%	14.5%	N/A
United Technologies	NYSE: UTX	US\$	95.76	139,919	2.7x	15.4x	14.2x	12.8x	11.7x	16.4%	16.5%	16.9%	17.4%
<b>Average</b>						<b>14.1x</b>	<b>14.0x</b>	<b>11.8x</b>	<b>10.6x</b>	<b>14.9%</b>	<b>15.4%</b>	<b>16.6%</b>	<b>18.1%</b>
<b>Bombardier</b>	<b>TSX: BBD.B</b>	<b>C\$</b>	<b>\$58.47</b>	<b>5,503</b>	<b>4.1x</b>	9.5x	7.7x	6.3x	5.4x	<b>13.5%</b>	<b>14.6%</b>	<b>16.7%</b>	<b>18.1%</b>

Source: Company reports, FactSet, and RBC Capital Markets estimates for Bombardier. Note BBD Net Debt/EBITDA uses 2023 numbers. Priced at close on July 18, 2023.

## Appendix 3 – CAE comparables

	Ticker	Rating <sup>1</sup>	Share Price	Mkt Cap (\$MM)	EV (\$MM)	Yield (%)	EV/EBITDA			P/E		
							'F23A	'F24E	'F25E	'F23A	'F24E	'F25E
<b>CAE</b>	<b>CAE-CA</b>	<b>OP</b>	<b>\$29.29</b>	<b>\$9,335</b>	<b>\$12,367</b>	<b>0.0%</b>	<b>13.9x</b>	<b>11.9x</b>	<b>10.5x</b>	<b>33.4x</b>	<b>25.4x</b>	<b>20.0x</b>
							EV/EBITDA			P/E		
							'22E	'23E	'24E	'22E	'23E	'24E
<b>Defense<sup>2,3</sup></b>												
General Dynamics Corporation	GD-US		\$213.52	\$58,576	\$69,448	2.4%	13.6x	13.0x	11.7x	17.5x	16.9x	14.5x
Lockheed Martin Corporation	LMT-US		\$455.70	\$115,407	\$129,506	2.6%	13.3x	13.1x	13.1x	21.0x	16.8x	16.3x
Northrop Grumman Corporation	NOC-US		\$442.68	\$67,225	\$79,648	1.6%	16.1x	14.9x	13.8x	17.3x	19.5x	17.9x
Raytheon Company	RTX-US		\$95.76	\$139,919	\$167,555	2.5%	15.2x	14.0x	12.6x	20.0x	19.1x	16.6x
L3Harris Technologies Inc	LHX-US		\$196.31	\$37,192	\$44,219	2.3%	13.5x	12.6x	11.7x	15.2x	16.0x	14.7x
CACI International Inc Class A	CACI-US		\$347.62	\$7,923	\$9,671	0.0%	15.2x	13.5x	12.7x	19.5x	18.8x	17.3x
Curtiss-Wright Corporation	CW-US		\$188.83	\$7,240	\$8,409	0.4%	15.4x	14.3x	13.5x	23.2x	21.3x	19.6x
Huntington Ingalls Industries, Inc.	HII-US		\$229.60	\$9,159	\$11,895	2.1%	12.9x	11.7x	10.8x	15.9x	16.0x	13.9x
Teledyne Technologies Incorporated	TDY-US		\$408.79	\$19,232	\$22,685	0.0%	17.4x	16.3x	15.3x	22.5x	21.4x	19.8x
<b>Peer Average - Defense</b>						<b>1.5%</b>	<b>14.7x</b>	<b>13.7x</b>	<b>12.8x</b>	<b>19.1x</b>	<b>18.4x</b>	<b>16.7x</b>
<b>Aerospace<sup>2,3</sup></b>												
Boeing Company	BA-US		\$211.57	\$127,279	\$168,641	0.0%	n.a.	38.6x	18.8x	n.a.	-139.7x	38.0x
Honeywell International Inc.	HON-US		\$205.25	\$136,630	\$147,057	2.0%	16.7x	15.4x	14.4x	23.4x	22.4x	20.4x
Embraer S.A.	EMBR3-BR		\$17.32	\$12,724	\$17,748	0.0%	7.5x	6.3x	5.4x	n.a.	16.6x	10.7x
Hexcel Corporation	HXL-US		\$77.08	\$6,503	\$7,165	0.6%	24.1x	18.9x	16.0x	60.2x	39.2x	29.5x
Spirit AeroSystems Holdings, Inc. Class A	SPR-US		\$28.56	\$3,005	\$6,308	0.1%	92.9x	15.5x	7.7x	n.a.	-12.8x	19.0x
<b>Peer Average - Aerospace</b>						<b>0.6%</b>	<b>35.3x</b>	<b>19.0x</b>	<b>12.4x</b>	<b>41.8x</b>	<b>-14.9x</b>	<b>23.5x</b>

1. Investment ratings: Outperform (OP), Sector Perform (SP), Underperform (U)

2. FactSet consensus estimates

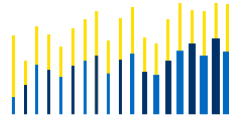
3. USD

Sources: Company Reports, FactSet and RBC Capital Markets Estimates for CAE. Priced as of market close on July 18, 2023

## Appendix 4 – EIF comparables

	Symbol	Price	Shares	Mkt Cap (\$MM)	EBITDA (\$MM)		EBITDA Margin (%)		EV/EBITDA		Net Debt/EBITDA	Div. Yield
					2023E	2024E	2023E	2024E	2023E	2024E		
<b>Exchange Income Corp.</b>	<b>EIF</b>	<b>\$53.39</b>	<b>47</b>	<b>2,517</b>	<b>568</b>	<b>669</b>	<b>23.5%</b>	<b>24.6%</b>	<b>7.5x</b>	<b>6.4x</b>	<b>3.1x</b>	<b>4.7%</b>
<b>Aviation</b>												
Chorus Aviation Inc.	CHR	\$3.20	194.8	623	443	415	340.7%	25.6%	4.4x	4.7x	4.0x	N/A
Alaska Airlines	ALK	\$53.42	127.9	6,833	1,642	1,831	15.7%	16.7%	5.0x	4.4x	12.1x	N/A
Hawaiian Airlines	HAL	\$38.11	902	34,383	5,077	5,626	21.5%	21.9%	8.2x	7.4x	2.6x	N/A
Air Lease Corp.	AL	\$44.28	111	4,916	2,491	2,772	90.8%	90.7%	9.5x	8.5x	10.2x	1.8%
AerCap Holdings	AER	\$66.56	247	16,443	6,068	6,274	80.5%	80.3%	10.2x	9.8x	10.6x	N/A
Air Transport Services Group	ATSG	\$20.07	72	1,437	609	677	29.2%	30.2%	4.9x	4.4x	2.8x	N/A
SkyWest Inc.	SKYW	\$41.87	44	1,860	418	710	15.0%	22.5%	10.3x	n.a.	3.6x	N/A
<b>Airlines/Aerospace Average</b>							<b>84.8%</b>	<b>41.1%</b>	<b>7.5x</b>	<b>6.5x</b>	<b>6.6x</b>	<b>1.8%</b>
<b>Manufacturing</b>												
Heroux-Devtek	HRX	\$15.16	34.0	516	77	91	13.0%	14.2%	8.8x	7.4x	2.0x	N/A
Russel Metals	RUS	\$38.30	62	2,391	439	374	9.5%	8.8%	5.5x	6.4x	0.0x	4.2%
Magellan	MAL	\$8.25	57	474	79	105	8.9%	11.1%	6.6x	5.0x	0.8x	1.2%
Mastec	MTZ	\$115.82	79	9,133	1,115	1,300	8.5%	9.1%	9.8x	8.4x	2.0x	N/A
New Flyer Industries Inc.	NFI	\$11.22	77	866	73	352	2.1%	7.8%	23.3x	4.9x	4.0x	N/A
<b>Manufacturing Average</b>							<b>8.4%</b>	<b>10.2%</b>	<b>10.8x</b>	<b>6.4x</b>	<b>1.8x</b>	<b>2.7%</b>
<b>Financial/Holding Companies</b>												
Alaris Royalty	AD	\$15.51	45	705	125	146	81.1%	86.6%	7.9x	6.7x	2.2x	8.8%
Diversified Royalty Corp.	DIV	\$2.88	143	411	55	57	95.5%	95.2%	11.0x	10.5x	4.9x	8.3%
<b>Financial/Holding Company Average</b>							<b>88.3%</b>	<b>90.9%</b>	<b>9.4x</b>	<b>8.6x</b>	<b>3.5x</b>	<b>8.6%</b>

Priced as of market close July 18, 2023. Source: RBC Capital Markets estimates for EIF, FactSet consensus for all others.



## 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.



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## Company Profiles

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## Air Canada

Walter Spracklin (Analyst)

### Sector Perform

TSX: AC CN; CAD 25.50

Price Target CAD 25.00 ↑ 23.00

### Key Statistics

Shares O/S (MM):	376.0	Market Cap (MM):	9,588
Dividend:	0.00	Yield:	0.0%
Float (MM):	375.3	Avg. Daily Volume:	3,663,032

### RBC Estimates

FY Dec	2022A	2023E	2024E	2025E
Revenue	16,556.0	21,617.0	22,755.8	
EBITDA	1,457.0	3,617.4	3,233.1	
Prev.		3,631.1	3,438.8	
Revenue	Q1	Q2	Q3	Q4
2022	2,573.0A	3,981.0A	5,322.0A	4,680.0A
2023	4,887.0E	5,214.4E	6,541.5E	4,974.2E
2024	5,239.8E	5,639.6E	6,668.2E	5,208.2E
EBITDA				
2022	(143.0)A	154.0A	1,057.0A	389.0A
2023	411.0A	903.3E	1,482.2E	820.9E
Prev.		820.4E	1,534.4E	865.3E
2024	408.6E	881.6E	1,349.8E	593.1E
Prev.	462.2E	934.3E	1,407.3E	635.0E

All values in CAD unless otherwise noted.

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

### Valuation

Applying a 5x EV/EBITDA multiple to our 2024 estimates, we derive our price target of \$25. Our target multiple is in line with the historical group average multiple and in line with peers and supported by our view that the industry should largely return to normal by 2024. Our base case reflects the following assumptions: (1) near-term headwinds from return to travel disruptions followed by a general return to "normal" by 2024; and (2) a reduction in capital intensity out to 2024. Our price target supports our Sector Perform rating.

### Investment summary

**A strong business in the midst of a tough operating environment.** Despite unprecedented industry conditions, we believe Air Canada has done a commendable job navigating an exceptionally challenging industry environment. Going forward, we believe upside is limited in the medium-term given: (1) sustainability of high fares in a recession; (2) increased new entrant activity increasing competition, (3) increased operating costs and pilot contract renewal; and (4) business travel plateau.

### Risks to rating and price target

Risks to our price target and rating include but are not limited to very high operating leverage given a fixed-cost structure, above-average sensitivity to the economy, exposure to volatile fuel prices and the risk of terrorism and epidemics. This is a very competitive industry in which WestJet is focusing on Western Canada and Porter Airlines is expanding in Eastern Canada. As of Q1/2023 Air Canada is not hedged to changes in jet fuel prices.

## AC Model Summary

C\$MM	Q1/22	Q2/22	Q3/22	Q4/22	2022	Q1/23	Q2/23E	Q3/23E	Q4/23E	2023E	Q1/24E	Q2/24E	Q3/24E	Q4/24E	2024E
Traffic / RPM (MMs)	9,481	16,371	22,118	18,525	66,495	18,578	20,835	26,517	19,506	85,437	21,293	23,463	27,954	21,403	94,113
% change	417.8%	870.4%	179.4%	92.7%	216.0%	95.9%	27.3%	19.9%	5.3%	28.5%	14.6%	12.6%	5.4%	9.7%	10.2%
Capacity / ASM (MMs)	14,297	20,331	25,562	22,368	82,558	21,907	24,804	30,834	23,788	101,333	26,016	27,910	32,457	26,431	112,814
% change	239.5%	408.3%	130.0%	59.1%	147.3%	53.2%	22.0%	20.6%	6.3%	22.7%	18.8%	12.5%	5.3%	11.1%	11.3%
Load Factor (%)	66.3%	80.5%	86.5%	82.8%	80.5%	84.8%	84.0%	86.0%	82.0%	84.3%	81.8%	84.1%	86.1%	81.0%	83.4%
change (% pts)	22.8%	38.3%	15.3%	14.4%	17.5%	18.5%	3.5%	-0.5%	-0.8%	3.8%	-3.0%	0.1%	0.1%	-1.0%	-0.9%
Yield (\$)	0.202	0.210	0.218	0.219	0.212	0.220	0.218	0.222	0.219	0.220	0.211	0.210	0.213	0.210	0.211
% change	-6.3%	-17.0%	5.3%	3.3%	-4.3%	8.9%	4.0%	2.0%	0.0%	3.6%	-4.0%	-4.0%	-4.0%	-4.0%	-4.0%
RASM (Rev per unit of capacity, cents)	13.4	16.9	18.8	18.2	17.2	18.7	18.3	19.1	18.0	18.6	17.3	17.6	18.4	17.0	17.6
CASM (Costs per unit of capacity, cents)	21.8	20.8	18.3	21.0	20.3	22.4	19.1	17.8	19.2	19.4	20.2	18.6	17.7	19.1	18.8
Fuel Cost/ASM (cents)	5.2	7.1	6.3	6.5	6.4	6.3	5.4	5.2	4.8	5.4	5.7	5.7	5.6	5.6	5.6
CASM (excl. fuel) (cents)	16.6	13.7	12.0	14.5	13.9	16.1	13.7	12.5	14.4	14.0	14.5	12.9	12.1	13.5	13.2
<b>Total Revenues</b>	<b>2,573</b>	<b>3,981</b>	<b>5,322</b>	<b>4,680</b>	<b>16,556</b>	<b>4,887</b>	<b>5,214</b>	<b>6,541</b>	<b>4,974</b>	<b>21,617</b>	<b>5,240</b>	<b>5,640</b>	<b>6,668</b>	<b>5,208</b>	<b>22,756</b>
% change	252.9%	375.6%	153.1%	71.4%	158.7%	89.9%	31.0%	22.9%	6.3%	30.6%	7.2%	8.2%	1.9%	4.7%	5.3%
Wages, salaries and benefits	707	749	816	988	3260	914	920	930	924	3687	970	976	986	980	3912
% Sales	27.5%	18.8%	15.3%	21.1%	19.7%	18.7%	17.6%	14.2%	18.6%	17.1%	18.5%	17.3%	14.8%	18.8%	17.2%
Aircraft Fuel - total	750	1450	1617	1459	5276	1375	1333	1612	1136	5455	1486	1581	1825	1474	6367
% Sales	29.1%	36.4%	30.4%	31.2%	31.9%	28.1%	25.6%	24.6%	22.8%	25.2%	28.4%	28.0%	27.4%	28.3%	28.0%
Sales and distribution costs	108	171	217	301	797	273	203	262	238	976	324	229	276	264	1093
% Sales	4.2%	4.3%	4.1%	6.4%	4.8%	5.6%	3.9%	4.0%	4.8%	4.5%	6.2%	4.1%	4.1%	5.1%	4.8%
Ground package costs	129	102	80	163	474	318	149	154	143	764	289	110	97	126	622
% Sales	5.0%	2.6%	1.5%	3.5%	2.9%	6.5%	2.9%	2.4%	2.9%	3.5%	5.5%	2.0%	1.5%	2.4%	2.7%
Catering and onboard services	64	94	120	147	425	128	99	120	95	443	98	106	119	100	422
% Sales	2.5%	2.4%	2.3%	3.1%	2.6%	2.6%	1.9%	1.8%	1.9%	2.0%	1.9%	1.9%	1.8%	1.9%	1.9%
Aircraft maintenance	26	195	193	292	706	261	200	200	210	871	250	250	250	250	1000
% Sales	1.0%	4.9%	3.6%	6.2%	4.3%	5.3%	3.8%	3.1%	4.2%	4.0%	4.8%	4.4%	3.7%	4.8%	4.4%
Airport and navigation fees	183	241	299	490	1213	312	298	385	357	1352	286	307	357	291	1241
% Sales	7.1%	6.1%	5.6%	10.5%	7.3%	6.4%	5.7%	5.9%	7.2%	6.3%	5.5%	5.4%	5.4%	5.6%	5.5%
Communications and information technol	116	103	112	137	468	146	82	135	146	509	96	85	90	104	374
% Sales	4.5%	2.6%	2.1%	2.9%	2.8%	3.0%	1.6%	2.1%	2.9%	2.4%	1.8%	1.5%	1.3%	2.0%	1.6%
Other	633	722	811	314	1717	533	521	556	423	2033	498	536	633	495	2162
% Sales	24.6%	18.1%	15.2%	6.7%	10.4%	10.9%	10.0%	8.5%	8.5%	9.4%	9.5%	9.5%	9.5%	9.5%	9.5%
Regional airline expense (ex fuel and DA	316	367	400	-320	763	216	506	705	482	1909	535	577	685	532	2329
% Sales	12.3%	9.2%	7.5%	-6.8%	4.6%	4.4%	9.7%	10.8%	9.7%	8.8%	10.2%	10.2%	10.3%	10.2%	10.2%
<b>Total Operating Costs</b>	<b>2,716</b>	<b>3,827</b>	<b>4,265</b>	<b>4,291</b>	<b>15,099</b>	<b>4,476</b>	<b>4,311</b>	<b>5,059</b>	<b>4,153</b>	<b>18,000</b>	<b>4,831</b>	<b>4,758</b>	<b>5,318</b>	<b>4,615</b>	<b>19,523</b>
<b>EBITDA</b>	<b>(143)</b>	<b>154</b>	<b>1,057</b>	<b>389</b>	<b>1,457</b>	<b>411</b>	<b>903</b>	<b>1,482</b>	<b>821</b>	<b>3,617</b>	<b>409</b>	<b>882</b>	<b>1,350</b>	<b>593</b>	<b>3,233</b>
% of sales	-5.6%	3.9%	19.9%	8.3%	8.8%	8.4%	17.3%	22.7%	16.5%	16.7%	7.8%	15.6%	20.2%	11.4%	14.2%
Depreciation, amortization and impairm	403	407	413	417	1,640	428	421	419	417	1,685	427	425	424	422	1,698
<b>EBIT (Excluding Special Charges)</b>	<b>(550)</b>	<b>(253)</b>	<b>644</b>	<b>(28)</b>	<b>(187)</b>	<b>(17)</b>	<b>483</b>	<b>1,063</b>	<b>404</b>	<b>1,933</b>	<b>(19)</b>	<b>456</b>	<b>926</b>	<b>171</b>	<b>1,535</b>
% of sales	-21.4%	-6.4%	12.1%	-0.6%	-1.1%	-0.3%	9.3%	16.3%	8.1%	8.9%	-0.4%	8.1%	13.9%	3.3%	6.7%
<b>Net Income</b>	<b>(974)</b>	<b>(386)</b>	<b>(508)</b>	<b>168</b>	<b>(1,700)</b>	<b>4</b>	<b>300</b>	<b>893</b>	<b>268</b>	<b>1,466</b>	<b>(166)</b>	<b>284</b>	<b>777</b>	<b>51</b>	<b>947</b>
EPS (F.D) (\$) (Exc. Special charges)	\$ (2.36)	\$ (0.94)	\$ (1.27)	\$ 0.44	\$ (4.24)	\$ 0.01	\$ 0.80	\$ 2.38	\$ 0.71	\$ 3.90	\$ (0.44)	\$ 0.76	\$ 2.07	\$ 0.14	\$ 2.52
<b>Net debt</b>	<b>7,654</b>	<b>7,875</b>	<b>8,545</b>	<b>8,318</b>	<b>8,318</b>	<b>7,547</b>	<b>7,201</b>	<b>6,264</b>	<b>6,278</b>	<b>6,278</b>	<b>6,391</b>	<b>6,057</b>	<b>5,231</b>	<b>5,132</b>	<b>5,132</b>
<b>Net debt/LTM EBITDA</b>	<b>-9.1x</b>	<b>-231.6x</b>	<b>7.8x</b>	<b>5.7x</b>	<b>5.7x</b>	<b>3.8x</b>	<b>2.6x</b>	<b>2.0x</b>	<b>1.7x</b>	<b>1.7x</b>	<b>1.8x</b>	<b>1.7x</b>	<b>1.5x</b>	<b>1.6x</b>	<b>1.6x</b>

Source: Company reports, RBC Capital Markets estimates



## Bombardier Inc.

Walter Spracklin (Analyst)

### Outperform

TSX: BBD/B CN; CAD 58.47

Price Target CAD 103.00

### Key Statistics

Shares O/S (MM):	98.8	Market Cap (MM):	5,777
Dividend:	0.00	Yield:	0.0%
Float (MM):	2,227.5	Avg. Daily Volume:	618,245
Strategic Ownership: Bombardier/Beaudoin families Equity (11%); Voting (52%)			

### RBC Estimates

FY Dec	2022A	2023E	2024E	2025E
EPS, Ops Diluted	0.74	2.26	4.46	8.29
EBITDA, Adj	930.0	1,144.4	1,398.9	1,640.0
P/E	59.9x	19.7x	10.0x	5.4x
CFPS Diluted	1.93	8.57	9.68	13.71
P/CFPS	23.0x	5.2x	4.6x	3.2x
Revenue	6.9	7.9	8.4	9.1
EPS, Ops Diluted	Q1	Q2	Q3	Q4
2022	(0.80)A	(0.47)A	(0.10)A	2.09A
2023	1.06A	0.09E	(0.09)E	1.20E
2024	0.45E	0.94E	0.73E	2.34E
CFPS Diluted				
2022	(1.80)A	(0.28)A	1.16A	2.88A
2023	3.51A	1.23E	1.09E	2.81E
2024	1.64E	2.12E	1.97E	3.95E

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 7.5x to our 2025 EBITDA estimate of \$1.6B and then discount back one year at 13% to derive our \$103 price target. Our target multiple is based on a significant discount to peers and a structurally higher demand environment. We use EBITDA (as opposed to PE) as our primary valuation methodology, as we believe it better reflects the company's growth potential while also taking into account its capital structure. Our price target supports our Outperform rating.

### Investment summary

Our Outperform rating reflects our view that the company presently screens as an attractive deep-value opportunity with the transition to a pure-play biz jet company now complete. While risks remain with the execution of strategic objectives, we see the existing business as less complex and the cost structure as more streamlined, which should eventually support a return to FCF breakeven on a sustainable basis.

With Bombardier now finishing a multi-year period of high investment spend to develop and position its product and service portfolio, 2023 should be an important transition year. The company has pursued ways to further deleverage the balance sheet through strategic alternatives (i.e., asset sales), and we believe BBD has sufficient liquidity to absorb smaller issues that may still arise.

Key potential catalysts for the shares would be related to: (1) an acceleration in demand for the company's business jet aircraft (particularly the Global 7500/8000); (2) better-than-expected FCF generation/usage; and (3) formal guidance provided on longer-term run-rate margins.

### Risks to rating and price target

Risks to our estimates, price target, and rating include but are not limited to the performance of the global airline industry, possible changes to Bombardier's credit rating, and demand for business jets. We also see risk in renewed supply chain disruption leading to production halts in both Bombardier and suppliers. For these reasons, our earnings estimates could be more at risk than for most companies.

## BBD/B Model Summary

(in US \$MM's)	2022	Q1/23	Q2/23E	Q3/23E	Q4/23E	2023E	Q1/24E	Q2/24E	Q3/24E	Q4/24E	2024E	Q1/25E	Q2/25E	Q3/25E	Q4/25E	2025E
<b>Aerospace Key Drivers</b>																
Business Jet Deliveries	123	22	32	28	57	139	25	33	29	58	145	26	34	30	60	150
<i>Delivery Growth</i>	2.5%	4.8%	12.5%	12.0%	16.3%	12.6%	13.6%	4.8%	3.6%	1.8%	4.7%	4.0%	3.0%	3.4%	3.4%	3.4%
<b>Revenue</b>																
Manufacturing	5,345	1,020	1,377	1,204	2,562	6,164	1,061	1,481	1,308	2,652	6,501	1,161	1,599	1,419	2,839	7,017
Services	1,508	424	406	409	451	1,690	460	446	450	496	1,853	501	491	495	546	2,034
Total Revenues	6,913	1,453	1,783	1,614	3,014	7,863	1,521	1,927	1,758	3,148	8,354	1,662	2,090	1,915	3,385	9,051
<i>Revenue Growth</i>	12.3%	17.5%	16.5%	12.7%	15.1%	15.3%	4.0%	7.5%	8.6%	3.5%	5.5%	9.4%	8.0%	8.5%	7.0%	7.9%
Total EBITDA	<b>930</b>	<b>212</b>	<b>265</b>	<b>250</b>	<b>417</b>	<b>1,144</b>	<b>277</b>	<b>322</b>	<b>303</b>	<b>496</b>	<b>1,399</b>	<b>314</b>	<b>376</b>	<b>354</b>	<b>595</b>	<b>1,640</b>
<i>EBITDA Margin %</i>	13.5%	14.7%	14.9%	15.5%	13.8%	14.6%	18.2%	16.7%	17.3%	15.8%	16.7%	18.9%	18.0%	18.5%	17.6%	18.1%
Total EBIT	512	138	160	145	267	710	167	212	193	346	919	199	261	239	440	1,140
<i>EBIT Margin %</i>	7.4%	9.5%	9.0%	9.0%	8.9%	9.0%	11.0%	11.0%	11.0%	11.0%	11.0%	12.0%	12.5%	12.5%	13.0%	12.6%
Adj. Net Income (Loss) to Common	73	105	9	(9)	118	223	44	93	72	231	441	112	179	161	368	819
Adj. EPS	<b>\$ 0.74</b>	<b>\$ 1.06</b>	<b>\$ 0.09</b>	<b>\$ (0.09)</b>	<b>\$ 1.20</b>	<b>\$ 2.26</b>	<b>\$ 0.45</b>	<b>\$ 0.94</b>	<b>\$ 0.73</b>	<b>\$ 2.34</b>	<b>\$ 4.46</b>	<b>\$ 1.13</b>	<b>\$ 1.81</b>	<b>\$ 1.63</b>	<b>\$ 3.72</b>	<b>\$ 8.29</b>
CFPS \$(Basic)	\$ 1.93	\$ 3.51	\$ 1.23	\$ 1.09	\$ 2.81	\$ 8.57	\$ 1.64	\$ 2.12	\$ 1.97	\$ 3.95	\$ 9.68	\$ 2.38	\$ 3.04	\$ 2.91	\$ 5.38	\$ 13.71
Net debt	4,689	4,437	4,389	4,374	4,060	4,052	3,938	3,801	3,699	3,522	3,522	3,335	3,107	2,913	2,664	2,664

Source: Company reports, RBC Capital Markets estimates



## CAE Inc.

James McGarragle (Analyst)

### Outperform

TSX: CAE CN; CAD 29.29; NYSE: CAE

Price Target CAD 35.00

### Key Statistics

Shares O/S (MM):	318.7	Market Cap (MM):	9,335
Dividend:	0.00	Yield:	0.0%
		Avg. Daily Volume:	1,044,369

### RBC Estimates

FY Mar	2022A	2023E	2024E	2025E
Revenue	3,371.3	4,203.3	4,617.0	4,835.0
EPS, Adj Diluted	0.84	0.88	1.15	1.47
P/AEPS	34.9x	33.3x	25.5x	19.9x
EBITDA	755.0	890.3	1,041.3	1,181.6

Revenue	Q1	Q2	Q3	Q4
2022	752.7A	814.9A	848.7A	955.0A
2023	933.3A	993.2A	1,020.3A	1,256.5A
2024	1,067.6E	1,075.9E	1,214.9E	1,258.6E
EPS, Adj Diluted				
2022	0.19A	0.17A	0.19A	0.29A
2023	0.06A	0.19A	0.28A	0.35A
2024	0.23E	0.24E	0.33E	0.36E

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 12x on our FY25 EBITDA estimate of \$1,182MM. Our 13x Civil multiple is driven off the Rail and Waste sectors, which trade in the 11x to 15x range, and our Defense multiple of 8x is derived using a discount to its 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), strong management team, high FCF conversion, and the expected recovery in both travel and defense procurement. Based on relative returns to our \$35 price target, we rate the shares Outperform.

### Investment summary

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

- 1. 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 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.
- 2. 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.
- 3. Key investment made during the pandemic sets the stage for growth.** On the back of CAE's resilience demonstrated during the pandemic, the company was able to invest heavily in growth and executed successfully on key restructuring initiatives. We point to: i) the acquisitions of L3H MT and Sabre; ii) a meaningful restructuring program; and iii) a ramp-up in capex in F2022 to pre-pandemic levels. We view these investments as setting the stage for a significant rebound in growth exiting the pandemic.

### 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

CAE	F2020A	F2021A	F2022A	FQ1/23	FQ2/23	FQ3/23	FQ4/23	F2023	FQ1/24E	FQ2/24E	FQ3/24E	FQ4/24E	F2024E	FQ1/25E	FQ2/25E	FQ3/25E	FQ4/25E	F2025E
(CSMM unless otherwise indicated)																		
<b>SEGMENTED RESULTS</b>																		
<b>CIVIL AVIATION</b>																		
Revenue	2,167.5	1,412.9	1,617.8	480.4	507.2	517.4	661.4	2,166.4	547.1	532.3	668.3	706.1	2,453.9	645.5	617.6	643.8	667.9	2,574.8
Adjusted Operating Income	479.4	164.3	314.7	86.6	104.4	131.4	162.9	485.3	120.4	119.8	153.7	162.4	556.3	145.2	142.0	151.3	160.3	598.8
Adjusted Operating Margin	22.1%	11.6%	19.5%	18.0%	20.6%	25.4%	24.6%	22.4%	22.0%	22.5%	23.0%	23.0%	22.7%	22.5%	23.0%	23.5%	24.0%	23.3%
<b>DEFENSE &amp; SECURITY</b>																		
Revenue	1,331.2	1,217.1	1,602.1	413.3	442.4	452.5	536.0	1,844.2	476.9	495.6	496.2	493.4	1,962.1	518.6	514.1	511.9	506.7	2,051.3
Adjusted Operating Income	114.5	87.0	119.2	(21.2)	18.4	25.4	30.5	53.1	23.8	27.3	29.8	34.5	115.4	44.1	48.8	52.5	52.0	197.4
Adjusted Operating Margin	8.6%	7.1%	7.4%	-5.1%	4.2%	5.6%	5.7%	2.9%	5.0%	5.5%	6.0%	7.0%	5.9%	8.5%	9.5%	10.3%	10.3%	9.6%
<b>HEALTHCARE</b>																		
Revenue	124.5	351.9	151.4	39.6	43.6	50.4	59.1	192.7	43.6	48.0	50.4	59.1	201.0	47.9	51.9	52.9	56.1	208.9
Adjusted Operating Income	(3.5)	29.3	10.6	(4.5)	1.9	3.8	8.5	9.7	3.3	3.6	3.8	4.4	15.1	4.5	4.9	5.0	5.3	19.6
Adjusted Operating Margin	-2.8%	8.3%	7.0%	-11.4%	4.4%	7.5%	14.4%	5.0%	7.5%	7.5%	7.5%	7.5%	7.5%	9.4%	9.4%	9.4%	9.4%	9.4%
<b>CONSOLIDATED RESULTS</b>																		
Revenue	<b>3,623.2</b>	<b>2,981.9</b>	<b>3,371.3</b>	<b>933.3</b>	<b>993.2</b>	<b>1,020.3</b>	<b>1,256.5</b>	<b>4,203.3</b>	<b>1,067.6</b>	<b>1,075.9</b>	<b>1,214.9</b>	<b>1,258.6</b>	<b>4,617.0</b>	<b>1,212.0</b>	<b>1,183.6</b>	<b>1,208.7</b>	<b>1,230.7</b>	<b>4,835.0</b>
y/y growth (%)	9.7%	-17.7%	13.1%	24.0%	21.9%	20.2%	31.6%	24.7%	14.4%	8.3%	19.1%	0.2%	9.8%	13.5%	10.0%	-0.5%	-2.2%	4.7%
<b>Expenses</b>																		
COGS	2,539.6	2,216.9	2,415.8	700.4	719.6	722.3	894.7	3,037.0	747.3	746.6	843.2	873.4	3,210.6	842.3	822.6	840.0	855.4	3,360.3
R&D	137.5	104.7	120.8	40.7	32.2	30.2	40.0	143.1	30.0	30.0	30.0	30.0	120.0	30.0	30.0	30.0	30.0	120.0
SG&A	437.5	398.9	489.1	145.1	128.0	138.1	149.7	560.9	140.2	140.2	140.2	140.2	560.9	140.2	140.2	140.2	140.2	560.9
Other Gains/Losses	(1.0)	91.7	(37.0)	(2.4)	(3.2)	(6.7)	(10.5)	(22.8)	(10.5)	(10.5)	(10.5)	(10.5)	(42.0)	(10.5)	(10.5)	(10.5)	(10.5)	(42.0)
After Tax share in profit of equity accounted invest	(27.5)	(2.7)	(48.5)	(11.4)	(8.1)	(14.4)	(19.3)	(53.2)	(13.3)	(13.3)	(13.3)	(13.3)	(53.2)	(13.3)	(13.3)	(13.3)	(13.3)	(53.2)
Restructuring Cost/Other	-	124.0	146.9	21.5	22.6	4.9	15.3	64.3	26.4	32.2	38.1	37.3	133.9	29.4	18.9	13.5	11.4	73.2
<b>Adj. Operating Income</b>	<b>590.4</b>	<b>280.6</b>	<b>444.5</b>	<b>60.9</b>	<b>124.7</b>	<b>160.6</b>	<b>201.9</b>	<b>548.1</b>	<b>147.5</b>	<b>150.6</b>	<b>187.3</b>	<b>201.4</b>	<b>686.7</b>	<b>193.8</b>	<b>195.7</b>	<b>208.8</b>	<b>217.5</b>	<b>815.8</b>
Adjusted Operating Margin	16.3%	9.4%	13.2%	6.5%	12.6%	15.7%	16.1%	13.0%	13.8%	14.0%	15.4%	16.0%	14.9%	16.0%	16.5%	17.3%	17.7%	16.9%
y/y growth (%)	21.1%	-52.5%	58.4%	-38.1%	37.5%	42.5%	41.5%	23.3%	142.2%	20.8%	16.6%	-0.3%	25.3%	31.4%	29.9%	11.5%	8.0%	18.8%
Depreciation & Amortization	305.4	319.5	310.5	82.6	81.9	88.3	89.4	342.2	87.7	88.3	88.9	89.7	354.6	90.3	91.1	91.8	92.6	365.8
<b>Adj. EBITDA</b>	<b>895.8</b>	<b>600.1</b>	<b>755.0</b>	<b>143.5</b>	<b>206.6</b>	<b>248.9</b>	<b>291.3</b>	<b>890.3</b>	<b>235.2</b>	<b>238.9</b>	<b>276.2</b>	<b>291.0</b>	<b>1,041.3</b>	<b>284.1</b>	<b>286.8</b>	<b>300.6</b>	<b>310.1</b>	<b>1,181.6</b>
Adjusted EBITDA Margin	24.7%	20.1%	22.4%	15.4%	20.8%	24.4%	23.2%	21.2%	22.0%	22.2%	22.7%	23.1%	22.6%	23.4%	24.2%	24.9%	25.2%	24.4%
y/y growth (%)	28.4%	-33.0%	25.8%	-15.3%	22.0%	29.2%	30.3%	17.9%	63.9%	15.6%	11.0%	-0.1%	17.0%	20.8%	20.0%	8.8%	6.6%	13.5%
<b>Adj. Operating EPS</b>	<b>\$1.33</b>	<b>\$0.47</b>	<b>\$0.84</b>	<b>\$0.06</b>	<b>\$0.19</b>	<b>\$0.28</b>	<b>\$0.35</b>	<b>\$0.88</b>	<b>\$0.23</b>	<b>\$0.24</b>	<b>\$0.33</b>	<b>\$0.36</b>	<b>\$1.15</b>	<b>\$0.34</b>	<b>\$0.35</b>	<b>\$0.38</b>	<b>\$0.40</b>	<b>\$1.47</b>
y/y growth (%)	8.4%	-65.2%	80.0%	-70.7%	15.1%	46.5%	20.2%	4.5%	313.9%	23.4%	17.3%	3.1%	31.7%	48.8%	45.4%	15.4%	11.9%	27.1%
<b>Free Cash Flow (excl. dividends)</b>	<b>462.1</b>	<b>346.8</b>	<b>341.5</b>	<b>(182.4)</b>	<b>108.4</b>	<b>238.4</b>	<b>171.3</b>	<b>335.7</b>	<b>(19.3)</b>	<b>1.5</b>	<b>226.4</b>	<b>221.8</b>	<b>430.4</b>	<b>69.6</b>	<b>89.5</b>	<b>246.1</b>	<b>237.5</b>	<b>642.8</b>
FCF conversion	129%	273%	131%	-1036%	176%	267%	154%	120%	-26%	2%	216%	194%	117%	64%	81%	204%	186%	137%
<b>Net Debt to EBITDA</b>	<b>2.6x</b>	<b>2.4x</b>	<b>3.6x</b>	<b>4.2x</b>	<b>4.2x</b>	<b>3.7x</b>	<b>3.4x</b>	<b>3.4x</b>	<b>3.2x</b>	<b>3.2x</b>	<b>3.0x</b>	<b>2.9x</b>	<b>2.9x</b>	<b>2.8x</b>	<b>2.6x</b>	<b>2.4x</b>	<b>2.3x</b>	<b>2.3x</b>

Source: Company reports, RBC Capital Markets estimates



## Chorus Aviation Inc.

Walter Spracklin (Analyst)

### Outperform

TSX: CHR CN; CAD 3.20

Price Target CAD 4.00

### Key Statistics

Shares O/S (MM):	199.1	Market Cap (MM):	637
Dividend:	0.00	Yield:	0.0%
Float (MM):	180.6	Avg. Daily Volume:	385,288

### RBC Estimates

FY Dec	2022A	2023E	2024E	2025E
Revenue	1,595.8	1,672.3	1,692.2	
EBITDA	441.0	440.8	436.3	
CFPS Diluted	1.26	1.61	1.59	
P/CFPS	2.5x	2.0x	2.0x	NM
Revenue	Q1	Q2	Q3	Q4
2022	342.4A	392.3A	421.3A	439.8A
2023	415.3A	415.3E	414.0E	427.8E
2024	422.4E	420.2E	419.5E	430.2E
EBITDA	Q1	Q2	Q3	Q4
2022	83.3A	104.9A	123.4A	129.5A
2023	118.1A	109.0E	106.8E	107.0E
2024	113.9E	106.7E	107.9E	107.7E

All values in CAD unless otherwise noted.

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

### Valuation

Our \$4 price target is derived from a sum-of-the-parts valuation. We value Chorus's core-CPA segment at a 5x EV/EBITDA multiple based on our 2024 estimates and we value the company's leasing segment at a 6x P/E multiple based on our assumptions for operating and funding costs attributable to the segment. We believe these multiples are appropriate when assessed relative to historical early-cycle peer multiples. This generates our \$4 price target, which is the basis of our Outperform rating.

### Investment summary

We rate Chorus Aviation Outperform, as we believe the CHR share price does not represent the enhanced value of the new CPA contract with Air Canada at current valuations. As anticipated, management has delivered with Chorus and Air Canada developing a new framework agreement, which we believe is mutually beneficial and provides CHR with a level of earnings and FCF stability. The new arrangement removes inefficiencies inherent under the previous contract and fundamentally transforms CHR into a sustainable company, in our view.

**Chorus acquires Falko.** We take a positive view on the transaction that would see Chorus acquire Falko for US \$855MM. This positive view stems from mgmt indication related to immediate accretion; together with the value of a financial backer that is key to aircraft leasing (and to this point largely absent for CHR). With significantly improved scale and diversification as a result of this transaction, we believe CHR is now set to substantially grow its leasing business going forward.

**Diversification progressing.** With the new CPA in place and long-term collective agreements secured with the pilots and flight attendants, management is focusing on diversification efforts. The acquisition of Voyageur in the first quarter of 2015 began the initiatives outside of the CPA, with the creation of Chorus Aviation Capital in 2017 adding to the growth platform. We expect CHR to make incremental progress with growth outside of the CPA, with what we see as potential for a more material impact on earnings (and valuations) longer term.

**Business model still provides significantly less risk than a "plain vanilla" airline.** The fixed-fee nature of the company's business model provides substantially less risk than a conventional airline, in our view. Exposure to non-controllable costs, including jet fuel prices, is limited as the costs are passed through accordingly to Air Canada. Additionally, controllable costs are no longer subjected to benchmarking of a group of peers, and as such, the level of profitability has less exposure to variability.

### Risks to rating and price target

Chorus Aviation's revenues and operating earnings are highly dependent on the CPA with Air Canada. The CPA agreement provides for a fixed fee per aircraft and other services rendered. Significant changes in the average daily utilization of aircraft by Air Canada covered by the CPA could impact the revenues and earnings generated under the CPA. Increases in Controllable Costs above the level estimated would reduce the margins earned on Scheduled Flights Revenue.

## CHR Model Summary

C\$MM	2022	Q1/23	Q2/23E	Q3/23E	Q4/23E	2023E	Q1/24E	Q2/24E	Q3/24E	Q4/24E	2024E
<b>Income Statement</b>											
<b>Revenue</b>	<b>1595.8</b>	<b>415.3</b>	<b>415.3</b>	<b>414.0</b>	<b>427.8</b>	<b>1672.3</b>	<b>422.4</b>	<b>420.2</b>	<b>419.5</b>	<b>430.2</b>	<b>1692.2</b>
<i>% change</i>	<b>56.0%</b>	<b>21.3%</b>	<b>5.9%</b>	<b>-1.7%</b>	<b>-2.7%</b>	<b>4.8%</b>	<b>1.7%</b>	<b>1.2%</b>	<b>1.3%</b>	<b>0.6%</b>	<b>1.2%</b>
Airline Operations Total - RAS	1334	339	354	351	366	1410	359	358	358	369	1444
Regional Aircraft Leasing - RAL	262	76	61	63	62	262	63	63	62	61	249
Total Operating Expenses	1,408	353	364	359	372	1,449	362	366	364	374	1,467
Operating Income	188	62	51	55	56	224	60	54	56	56	226
<b>Adjusted EBITDA</b>	<b>441.0</b>	<b>118.1</b>	<b>109.0</b>	<b>106.8</b>	<b>107.0</b>	<b>440.8</b>	<b>113.9</b>	<b>106.7</b>	<b>107.9</b>	<b>107.7</b>	<b>436.3</b>
<i>% of sales</i>	27.6%	28.4%	26.2%	25.8%	25.0%	26.4%	27.0%	25.4%	25.7%	25.0%	25.8%
<b>Adj. Net Income</b>	<b>93</b>	<b>21</b>	<b>12</b>	<b>16</b>	<b>16</b>	<b>65</b>	<b>18</b>	<b>14</b>	<b>15</b>	<b>15</b>	<b>62</b>
<b>Adj. EPS (F.D) (\$)</b>	<b>\$0.47</b>	<b>\$0.11</b>	<b>\$0.06</b>	<b>\$0.08</b>	<b>\$0.08</b>	<b>\$0.34</b>	<b>\$0.09</b>	<b>\$0.07</b>	<b>\$0.08</b>	<b>\$0.08</b>	<b>\$0.32</b>
<b>CFPS (F.D) (\$) (Excluding Special charges)</b>	<b>\$1.26</b>	<b>\$0.41</b>	<b>\$0.41</b>	<b>\$0.39</b>	<b>\$0.39</b>	<b>\$1.61</b>	<b>\$0.42</b>	<b>\$0.39</b>	<b>\$0.39</b>	<b>\$0.39</b>	<b>\$1.59</b>
Net debt	1,925	1,897	1,828	1,763	1,672	1,672	1,597	1,531	1,465	1,400	1,188
<b>Net debt/LTM EBITDA</b>	<b>4.4x</b>	<b>4.0x</b>	<b>3.8x</b>	<b>3.8x</b>	<b>3.8x</b>	<b>3.8x</b>	<b>3.7x</b>	<b>3.5x</b>	<b>3.4x</b>	<b>3.2x</b>	<b>2.7x</b>

Source: Company reports, RBC Capital Markets estimates



## Exchange Income Corporation

James McGarragle (Analyst)

### Outperform

TSX: EIF CN; CAD 53.39

Price Target CAD 71.00 ↑ 70.00

### Key Statistics

Shares O/S (MM):	47.1	Market Cap (MM):	2,515
Dividend:	2.58	Yield:	4.8%
		Avg. Daily Volume:	184,862

### RBC Estimates

FY Dec	2022A	2023E	2024E	2025E
Revenue	2,059.4	2,420.4	2,717.8	2,815.9
Prev.			2,704.8	
EBITDA, Adj	456.4	567.8	668.7	707.7
Prev.			664.9	
Free Cash Flow	176.1	189.5	233.2	252.3
Prev.			231.5	
FCF Yield	7.0%	7.5%	9.3%	10.0%
Revenue	Q1	Q2	Q3	Q4
2022	400.2A	529.0A	586.8A	543.4A
2023	526.8A	604.9E	657.4E	631.3E
2024	606.6E	686.2E	719.5E	705.4E
Prev.	609.9E	690.1E	709.5E	695.3E
EBITDA, Adj				
2022	67.0A	115.1A	150.4A	124.1A
2023	97.1A	146.7E	175.0E	149.1E
2024	118.5E	173.5E	199.9E	176.9E
Prev.	119.2E	174.5E	197.1E	174.2E

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 7.7x EV/EBITDA multiple (8x for Aviation & Aerospace and 7x for Manufacturing, ahead of aviation peers and in line with manufacturing) to our \$708MM 2025E EBITDA, reflecting a valuation blend of ~66% Aviation & Aerospace and ~34% Manufacturing. We apply our target multiples to our 2025E EBITDA for each segment, and discount back 1-year, which we believe accurately reflects a more normalized operating environment. This generates our \$71 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 regional travel recovers in Europe.** 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.** Quest has emerged as the crown jewel within Manufacturing, and we note that since the acquisition was completed in late 2017, Manufacturing segment revenues and EBITDA have grown at CAGRs of 34% and 55%, respectively, in the two years that followed. Going forward, we also expect recently acquired Northern Mat to be a key driver of growth.

**Recent contract wins set the stage for mid-teen 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 mid-teen EBITDA CAGR 2022 to 2025.

### 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 operations and cash flow of the company.
- **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.

(CAD \$000's unless otherwise indicated)	2021	2022	Q1/23	Q2/23E	Q3/23E	Q4/23E	2023E	Q1/24E	Q2/24E	Q3/24E	Q4/24E	2024E	Q1/25E	Q2/25E	Q3/25E	Q4/25E	2025E
<b>Segmented revenues</b>																	
Aviation revenues	917,368	1,337,440	325,929	387,589	399,753	381,590	1,494,862	367,448	430,341	456,748	450,722	1,705,259	401,448	464,341	476,748	450,722	1,793,259
Manufacturing revenues	495,778	721,933	200,915	217,288	257,608	249,725	925,536	239,183	255,884	262,760	254,719	1,012,546	241,575	258,443	265,388	257,266	1,022,672
<b>Segmented EBITDA</b>																	
Aviation EBITDA	288,003	336,512	73,807	108,525	115,928	103,029	401,290	86,883	124,799	137,024	126,202	474,909	96,930	136,981	145,408	128,456	507,775
EBITDA Margin	31.4%	25.2%	22.6%	28.0%	29.0%	27.0%	26.8%	23.6%	29.0%	30.0%	28.0%	27.8%	24.1%	29.5%	30.5%	28.5%	28.3%
Manufacturing EBITDA	72,996	157,206	32,145	47,803	69,554	57,437	206,939	39,464	57,574	72,259	59,859	229,155	41,066	59,442	74,309	61,744	236,560
EBITDA Margin	14.7%	21.8%	16.0%	22.0%	27.0%	23.0%	22.4%	16.5%	22.5%	27.5%	23.5%	22.6%	17.0%	23.0%	28.0%	24.0%	23.1%
<b>Revenues, Net</b>	<b>1,413,146</b>	<b>2,059,373</b>	<b>526,844</b>	<b>604,877</b>	<b>657,361</b>	<b>631,315</b>	<b>2,420,397</b>	<b>606,631</b>	<b>686,225</b>	<b>719,508</b>	<b>705,441</b>	<b>2,717,805</b>	<b>643,023</b>	<b>722,784</b>	<b>742,136</b>	<b>707,988</b>	<b>2,815,931</b>
Revenue growth (Y/Y)	22.9%	45.7%	98.0%	14.3%	12.0%	16.2%	17.5%	15.1%	13.4%	9.5%	11.7%	12.3%	6.0%	5.3%	3.1%	0.4%	3.6%
<b>Aviation expenses</b>	<b>520,410</b>	<b>854,487</b>	<b>211,447</b>	<b>223,251</b>	<b>227,060</b>	<b>222,849</b>	<b>884,607</b>	<b>224,451</b>	<b>244,434</b>	<b>255,779</b>	<b>259,616</b>	<b>984,280</b>	<b>243,614</b>	<b>261,888</b>	<b>265,072</b>	<b>257,813</b>	<b>1,028,388</b>
Aviation expenses (% of sales)	36.8%	41.5%	40.1%	36.9%	34.5%	35.3%	36.5%	37.0%	35.6%	35.5%	36.8%	36.2%	37.9%	36.2%	35.7%	36.4%	36.5%
<b>Manufacturing expenses</b>	<b>371,896</b>	<b>493,833</b>	<b>150,241</b>	<b>144,062</b>	<b>159,846</b>	<b>163,445</b>	<b>617,594</b>	<b>169,762</b>	<b>168,563</b>	<b>161,926</b>	<b>165,631</b>	<b>665,882</b>	<b>170,433</b>	<b>169,151</b>	<b>162,417</b>	<b>166,194</b>	<b>668,195</b>
Manufacturing expenses (% of sales)	71.5%	57.8%	71.1%	64.5%	70.4%	73.3%	69.8%	75.6%	69.0%	63.3%	63.8%	67.7%	70.0%	64.6%	61.3%	64.5%	65.0%
<b>Gross profit</b>	<b>520,840</b>	<b>711,053</b>	<b>165,156</b>	<b>237,564</b>	<b>270,456</b>	<b>245,021</b>	<b>918,197</b>	<b>212,418</b>	<b>273,228</b>	<b>301,803</b>	<b>280,194</b>	<b>1,067,643</b>	<b>228,976</b>	<b>291,745</b>	<b>314,647</b>	<b>283,981</b>	<b>1,119,349</b>
Gross margin	36.9%	34.5%	31.3%	39.3%	41.1%	38.8%	37.9%	35.0%	39.8%	41.9%	39.7%	39.3%	35.6%	40.4%	42.4%	40.1%	39.8%
<b>EBITDA</b>	<b>332,846</b>	<b>449,595</b>	<b>96,703</b>	<b>146,650</b>	<b>174,965</b>	<b>149,102</b>	<b>567,421</b>	<b>118,461</b>	<b>173,452</b>	<b>199,930</b>	<b>176,890</b>	<b>668,733</b>	<b>129,637</b>	<b>187,026</b>	<b>210,069</b>	<b>180,996</b>	<b>707,728</b>
EBITDA Margin (%)	23.6%	21.8%	18.4%	24.2%	26.6%	23.6%	23.4%	19.5%	25.3%	27.8%	25.1%	24.6%	20.2%	25.9%	28.3%	25.6%	25.1%
EBITDA growth (Y/Y)	20.3%	35.1%	45.4%	32.6%	17.4%	20.8%	26.2%	22.5%	18.3%	14.3%	18.6%	17.9%	9.4%	7.8%	5.1%	2.3%	5.8%
<b>Adj. EBITDA</b>	<b>329,880</b>	<b>456,442</b>	<b>97,117</b>	<b>146,650</b>	<b>174,965</b>	<b>149,102</b>	<b>567,835</b>	<b>118,461</b>	<b>173,452</b>	<b>199,930</b>	<b>176,890</b>	<b>668,733</b>	<b>129,637</b>	<b>187,026</b>	<b>210,069</b>	<b>180,996</b>	<b>707,728</b>
Adj. EBITDA Margin (%)	23.3%	22.2%	18.4%	24.2%	26.6%	23.6%	23.5%	19.5%	25.3%	27.8%	25.1%	24.6%	20.2%	25.9%	28.3%	25.6%	25.1%
Adj. EBITDA growth (Y/Y)	15.9%	38.4%	45.0%	27.5%	16.3%	20.2%	24.4%	22.0%	18.3%	14.3%	18.6%	17.8%	9.4%	7.8%	5.1%	2.3%	5.8%
<b>EBIT</b>	<b>146,461</b>	<b>229,887</b>	<b>36,271</b>	<b>86,218</b>	<b>114,533</b>	<b>88,670</b>	<b>325,693</b>	<b>58,029</b>	<b>113,020</b>	<b>139,498</b>	<b>116,458</b>	<b>427,005</b>	<b>69,205</b>	<b>126,594</b>	<b>149,637</b>	<b>120,564</b>	<b>466,000</b>
Depreciation and Amort.	186,385	219,708	60,432	60,432	60,432	60,432	241,728	60,432	60,432	60,432	60,432	241,728	60,432	60,432	60,432	60,432	241,728
Interest Expense	52,198	78,418	27,310	27,154	27,185	27,217	108,866	28,823	30,446	30,477	30,509	120,255	30,540	30,587	30,619	30,650	122,397
Taxes	25,675	41,800	2,100	15,947	23,584	16,592	58,224	7,885	22,295	29,436	23,206	82,823	10,439	25,922	32,135	24,277	92,773
<b>Adj. net income</b>	<b>86,012</b>	<b>132,915</b>	<b>11,540</b>	<b>46,617</b>	<b>67,264</b>	<b>48,361</b>	<b>173,782</b>	<b>24,820</b>	<b>63,779</b>	<b>83,085</b>	<b>66,243</b>	<b>237,928</b>	<b>31,725</b>	<b>73,585</b>	<b>90,383</b>	<b>69,137</b>	<b>264,830</b>
Weighted average shares outstanding (diluted)	38,088	47,314	43,404	47,142	47,142	47,142	46,207	47,142	47,142	47,142	47,142	47,142	47,242	47,342	47,442	47,542	47,392
<b>Adj. EPS (FD)</b>	<b>2.26</b>	<b>3.13</b>	<b>0.27</b>	<b>0.99</b>	<b>1.43</b>	<b>1.03</b>	<b>3.76</b>	<b>0.53</b>	<b>1.35</b>	<b>1.76</b>	<b>1.41</b>	<b>5.05</b>	<b>0.67</b>	<b>1.55</b>	<b>1.91</b>	<b>1.45</b>	<b>5.59</b>
<b>Cash flow from operations (CFO)</b>	<b>285,047</b>	<b>335,119</b>	<b>(10,774)</b>	<b>106,549</b>	<b>126,196</b>	<b>107,293</b>	<b>329,264</b>	<b>83,752</b>	<b>123,711</b>	<b>142,017</b>	<b>125,175</b>	<b>474,656</b>	<b>90,657</b>	<b>133,517</b>	<b>149,315</b>	<b>128,069</b>	<b>501,558</b>
Changes in working capital	20,755	(21,217)	(77,579)	0	0	0	(77,579)	0	0	0	0	0	0	0	0	0	0
<b>FCF from operations (company definition)</b>	<b>243,317</b>	<b>332,025</b>	<b>59,708</b>	<b>100,549</b>	<b>120,196</b>	<b>101,293</b>	<b>381,746</b>	<b>77,752</b>	<b>117,711</b>	<b>136,017</b>	<b>119,175</b>	<b>450,656</b>	<b>84,657</b>	<b>127,517</b>	<b>143,315</b>	<b>122,069</b>	<b>477,558</b>
Maintenance capital expenditures	96,163	155,921	40,785	48,390	52,589	50,505	192,269	48,530	54,898	57,561	56,435	217,424	51,442	57,823	59,371	56,639	225,274
Growth capital expenditures	130,967	125,416	34,411	36,293	39,442	37,879	148,024	36,398	41,173	43,171	42,326	163,068	38,581	43,367	44,528	42,479	168,956
<b>FCF from operations less maintenance capex (company definition)</b>	<b>147,154</b>	<b>176,104</b>	<b>18,923</b>	<b>52,159</b>	<b>67,607</b>	<b>50,788</b>	<b>189,476</b>	<b>29,221</b>	<b>62,813</b>	<b>78,456</b>	<b>62,740</b>	<b>233,231</b>	<b>33,215</b>	<b>69,694</b>	<b>83,944</b>	<b>65,430</b>	<b>252,284</b>
FCF growth (Y/Y)	30.0%	19.7%	-2.9%	10.1%	-2.0%	26.2%	7.6%	54.4%	20.4%	16.0%	23.5%	23.1%	13.7%	11.0%	7.0%	4.3%	8.2%
FCF / share	3.86	4.36	0.44	1.14	1.46	1.10	4.19	0.63	1.36	1.69	1.35	5.03	0.72	1.50	1.80	1.40	5.41
Adj. EBITDA conversion	44.6%	38.6%	19.5%	35.6%	38.6%	34.1%	33.4%	24.7%	36.2%	39.2%	35.5%	34.9%	25.6%	37.3%	40.0%	36.1%	35.6%
<b>Free Cash Flow (CFO - total capex)</b>	<b>57,917</b>	<b>53,782</b>	<b>(85,970)</b>	<b>21,866</b>	<b>34,165</b>	<b>18,909</b>	<b>(11,030)</b>	<b>(1,176)</b>	<b>27,640</b>	<b>41,286</b>	<b>26,414</b>	<b>94,163</b>	<b>634</b>	<b>32,327</b>	<b>45,416</b>	<b>28,950</b>	<b>107,328</b>
FCF % of revenue	4.1%	2.6%	-16.3%	3.6%	5.2%	3.0%	-0.5%	-0.2%	4.0%	5.7%	3.7%	3.5%	0.1%	4.5%	6.1%	4.1%	3.8%
Adj. EBITDA conversion	17.6%	11.8%	-88.5%	14.9%	19.5%	12.7%	-1.9%	-1.0%	15.9%	20.7%	14.9%	14.1%	0.5%	17.3%	21.6%	16.0%	15.2%
Dividend payout ratio (FCF less maintenance capex)	58.0%	55.3%	141.7%	55.4%	45.3%	60.2%	61.7%	104.9%	48.8%	39.1%	48.9%	52.6%	97.1%	46.4%	38.6%	49.6%	51.3%
Dividend payout ratio (FCF less total capex)	147.4%	181.2%	-31.2%	132.1%	89.5%	161.8%	-1059.6%	-2606.6%	110.9%	74.3%	116.1%	130.3%	5089.3%	100.0%	71.4%	112.2%	120.6%
Net debt	1,214,419	1,638,571	1,761,689	1,598,948	1,765,710	1,837,728	1,837,728	1,947,401	2,004,258	2,046,468	2,103,551	2,103,551	2,137,183	2,140,192	2,129,181	2,134,705	2,134,705
Net debt/LTM EBITDA	3.7x	3.6x	3.6x	3.1x	3.3x	3.2x	3.2x	3.3x	3.3x	3.2x	3.1x	3.1x	3.1x	3.1x	3.0x	3.0x	3.0x
Net debt/LTM EBITDA (covenant metric, excl. converts)	2.2x	2.4x	2.5x	2.1x	2.3x	2.3x	2.3x	2.4x	2.4x	2.4x	2.4x	2.4x	2.4x	2.4x	2.3x	2.3x	2.3x

Source: Company reports, RBC Capital Markets estimates



## Required disclosures

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

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A member company of RBC Capital Markets or one of its affiliates expects to receive or intends to seek compensation for investment banking services from Exchange Income Corporation in the next three months.

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RBC Capital Markets is currently providing Exchange Income Corporation with investment banking services.

RBC Capital Markets has provided Exchange Income Corporation with non-securities services in the past 12 months.

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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..

The Class A shares of Chorus Aviation Inc. are variable voting shares.

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A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from CAE Inc. in the past 12 months.

RBC Capital Markets, LLC makes a market in the securities of CAE Inc..

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

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from CAE Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to CAE Inc..

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

Michael Fortier, Vice Chairman at RBC is a Board member at CAE Inc.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Bombardier Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Bombardier Inc. in the past 12 months.

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

A member company of RBC Capital Markets or one of its affiliates received compensation for products or services other than investment banking services from Bombardier Inc. during the past 12 months. During this time, a member company of RBC Capital Markets or one of its affiliates provided non-securities services to Bombardier Inc..

RBC Capital Markets has provided Bombardier Inc. with investment banking services in the past 12 months.

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.

The class A shares of Bombardier Inc. are multiple voting shares.

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

## 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.

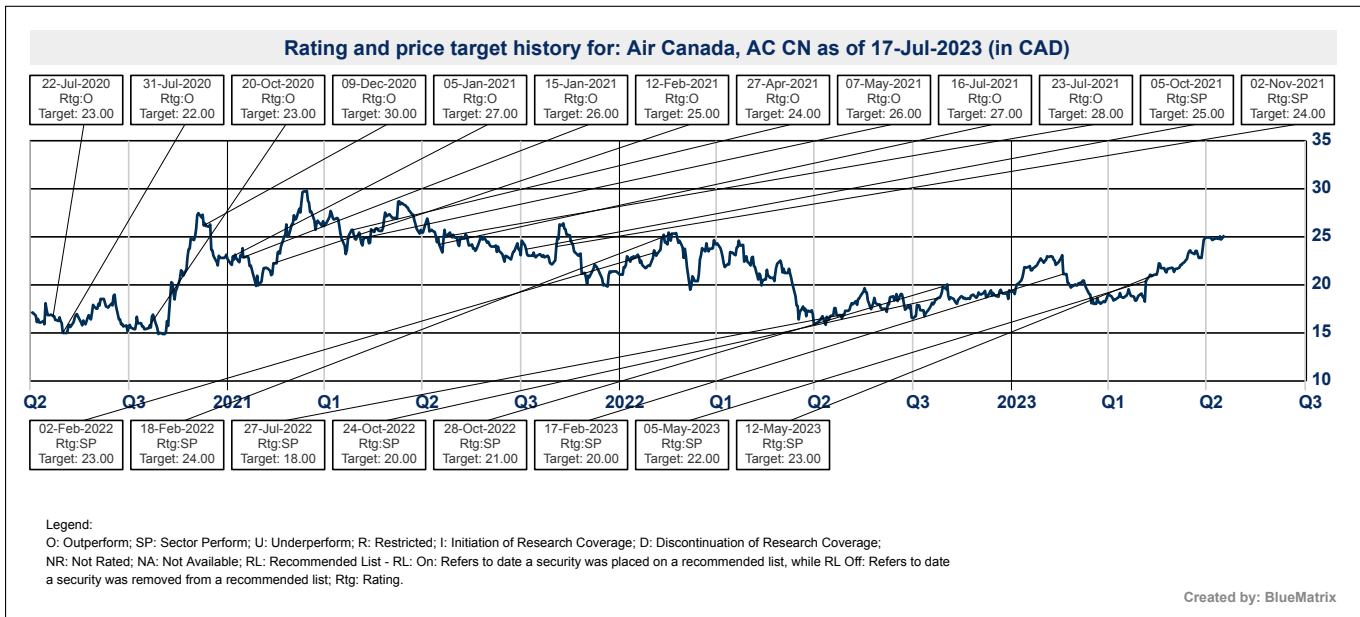
**Risk Rating**

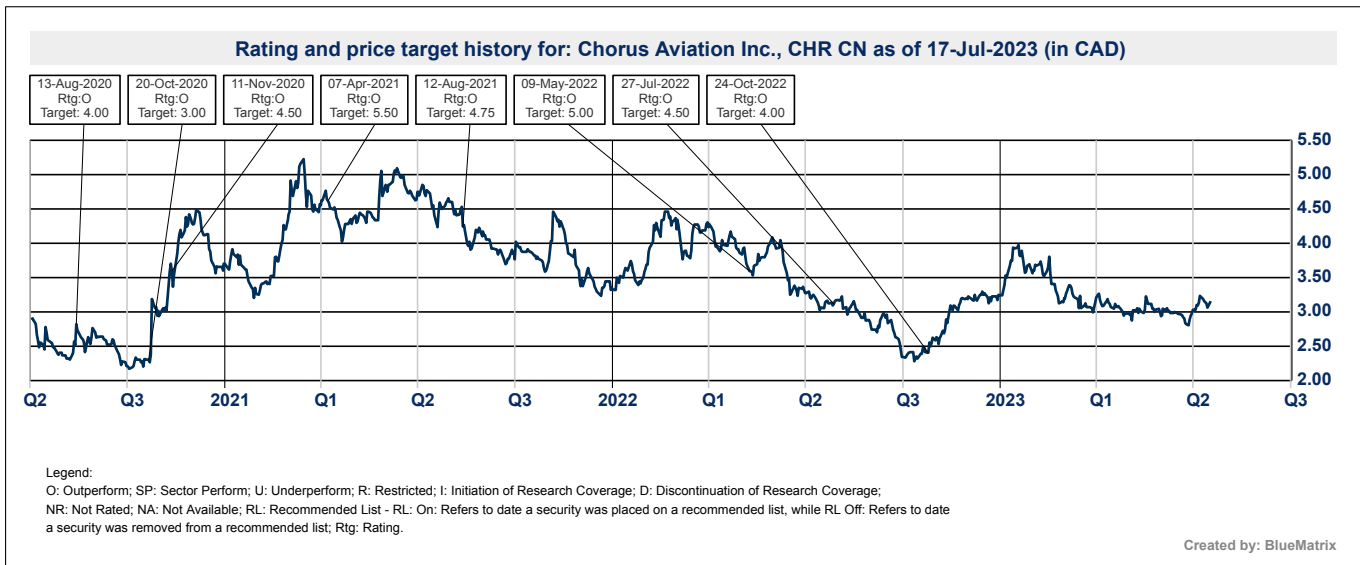
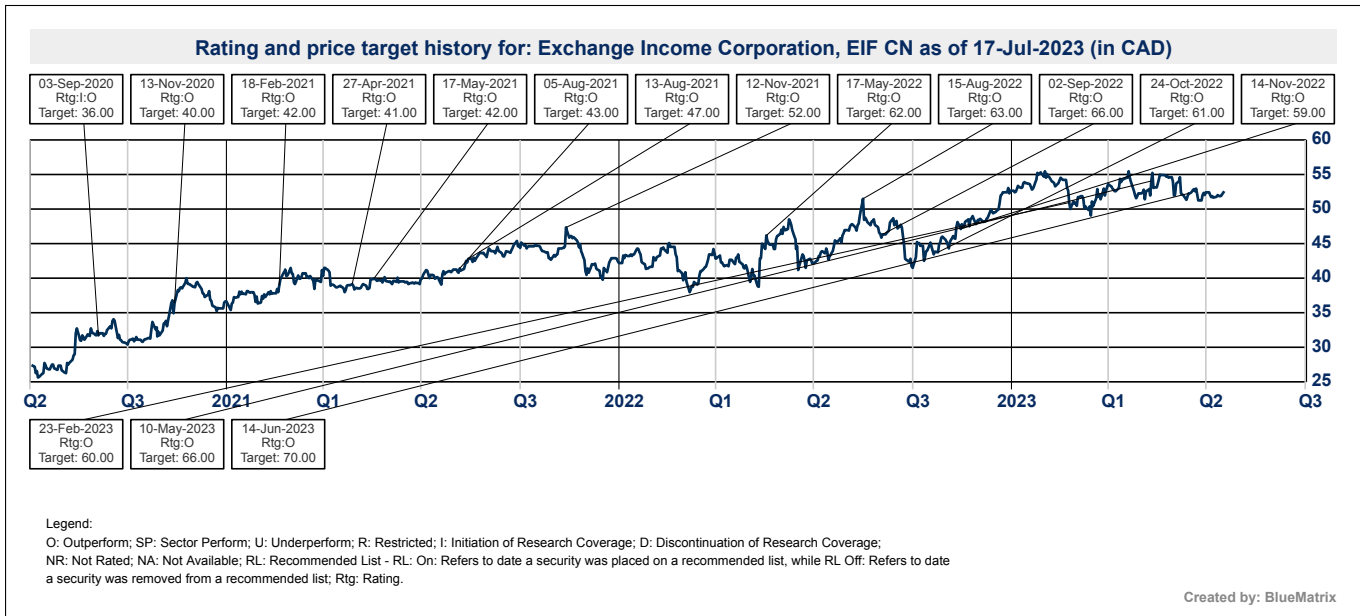
The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

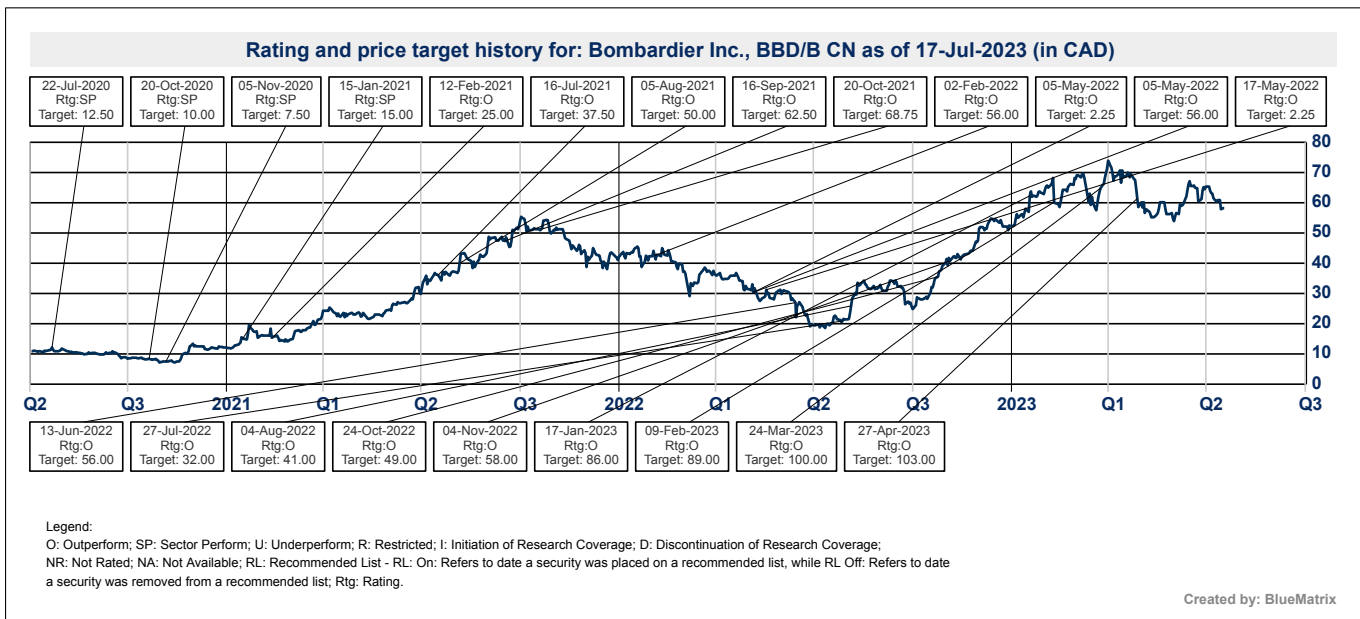
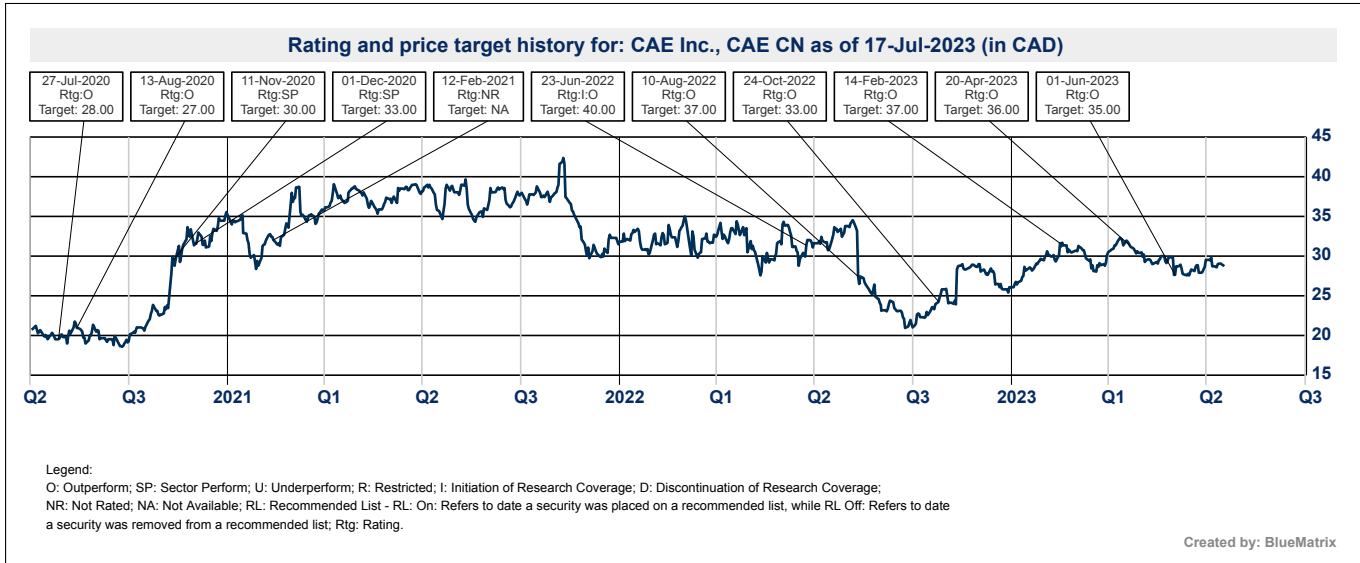
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For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis.

Distribution of ratings				
RBC Capital Markets, Equity Research				
As of 30-Jun-2023				
Rating	Count	Percent	Investment Banking	
			Serv./Past 12 Mos.	
			Count	Percent
BUY [Outperform]	832	57.22	250	30.05
HOLD [Sector Perform]	573	39.41	138	24.08
SELL [Underperform]	49	3.37	3	6.12







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](http://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 5x EV/EBITDA multiple to our 2024 estimates, we derive our price target of \$25. Our target multiple is in line with the historical group average multiple and in line with peers and supported by our view that the industry should largely return to normal by 2024. Our base case reflects the following assumptions: (1) near-term headwinds from return to travel disruptions followed by a general return to “normal” by 2024; and (2) a reduction in capital intensity out to 2024. Our price target supports our Sector Perform rating.

### Risks to rating and price target

Risks to our price target and rating include but are not limited to very high operating leverage given a fixed-cost structure, above-average sensitivity to the economy, exposure to volatile fuel prices and the risk of terrorism and epidemics. This is a very competitive industry in which WestJet is focusing on Western Canada and Porter Airlines is expanding in Eastern Canada. As of Q1/2023 Air Canada is not hedged to changes in jet fuel prices.

## Bombardier Inc.

### Valuation

We apply a target multiple of 7.5x to our 2025 EBITDA estimate of \$1.6B and then discount back one year at 13% to derive our \$103 price target. Our target multiple is based on a significant discount to peers and a structurally higher demand environment. We use EBITDA (as opposed to PE) as our primary valuation methodology, as we believe it better reflects the company’s growth potential while also taking into account its capital structure. Our price target supports our Outperform rating.

### Risks to rating and price target

Risks to our estimates, price target, and rating include but are not limited to the performance of the global airline industry, possible changes to Bombardier’s credit rating, and demand for business jets. We also see risk in renewed supply chain disruption leading to production halts in both Bombardier and suppliers. For these reasons, our earnings estimates could be more at risk than for most companies.

## CAE Inc.

### Valuation

We value CAE shares on a sum of the parts basis using a blended EV/EBITDA multiple of 12x on our FY25 EBITDA estimate of \$1,182MM. Our 13x Civil multiple is driven off the Rail and Waste sectors, which trade in the 11x to 15x range, and our Defense multiple of 8x is derived using a discount to its 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), strong management team, high FCF conversion, and the expected recovery in both travel and defense procurement. Based on relative returns to our \$35 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

Our \$4 price target is derived from a sum-of-the-parts valuation. We value Chorus's core-CPA segment at a 5x EV/EBITDA multiple based on our 2024 estimates and we value the company's leasing segment at a 6x P/E multiple based on our assumptions for operating and funding costs attributable to the segment. We believe these multiples are appropriate when assessed relative to historical early-cycle peer multiples. This generates our \$4 price target, which is the basis of our Outperform rating.



### Risks to rating and price target

Chorus Aviation's revenues and operating earnings are highly dependent on the CPA with Air Canada. The CPA agreement provides for a fixed fee per aircraft and other services rendered. Significant changes in the average daily utilization of aircraft by Air Canada covered by the CPA could impact the revenues and earnings generated under the CPA. Increases in Controllable Costs above the level estimated would reduce the margins earned on Scheduled Flights Revenue.

### Exchange Income Corporation

#### Valuation

In valuing EIF, we apply a blended 7.7x EV/EBITDA multiple (8x for Aviation & Aerospace and 7x for Manufacturing, ahead of aviation peers and in line with manufacturing) to our \$708MM 2025E EBITDA, reflecting a valuation blend of ~66% Aviation & Aerospace and ~34% Manufacturing. We apply our target multiples to our 2025E EBITDA for each segment, and discount back 1-year, which we believe accurately reflects a more normalized operating environment. This generates our \$71 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 operations and cash flow of the company.
- **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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