RBC Capital Markets

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# RBC Flight Deck

## Q3 preview – Navigating through another challenging quarter

**Q3/20 preview.** Following a historically challenging Q2, we remain constructive on the steps taken by our Airline & Aerospace companies to bolster liquidity, align capacity, and streamline costs to address going-concern risk in the near term. That said, travel demand and flight activity remained rather stagnant, as little progress was made on the easing/removal of travel restrictions. As such, our Q3 estimates (while aligned with management's guidance where applicable) reflect another challenging quarter for the sector. Our primary focus going forward will be on commentary on demand trends (and associated capacity reductions) into the winter, insights into government discussions regarding the removal of travel restrictions, and colour on near-term cash burn rates.

**RBC Fare Survey points to continued decline in yields.** Our proprietary Fare Survey tracks price changes on selected routes to gauge the direction and magnitude of fare prices. Based on this data, overall fare growth was down -6.2% Y/Y for AC in Q3 while WestJet fares were down -14.6% Y/Y for the quarter. While fares are less relevant when the majority of aircraft capacity is grounded, tracker data showed a significant uptick in fare pricing during August/September—a trend that we will monitor closely as we head into the winter.

**Estimates largely unchanged heading into Q3.** We have kept our Q3 estimates mostly unchanged. Our target multiples are also largely unchanged (except for CHR), and we roll forward our valuation years where applicable. Highlights are below; further details on pages 10–13.

- **AC: Maintaining Outperform; raising price target to $23 (from $22).** We updated our fuel curve and yield assumptions for Q3. Though our Q3 EBITDA estimate is above consensus, the range of estimates is noticeably wide. Our primary focus for the quarter will be on cash burn rates, recent demand trends and the Q4 capacity outlook, and additional plans to raise further liquidity or refinance debt.
- **BBD: Maintaining Sector Perform, Speculative Risk; lowering price target to $0.40 (from $0.50).** We are not making any changes to our Q3 estimates; our EBITDA estimate is generally in line with consensus. Key focus for us will be on the cash burn outlook, Alstom deal regulatory approval progress, and the current biz jet demand outlook.
- **CHR: Reiterating Outperform; lowering price target to $3.00 from $4.00.** We keep our Q3 estimates unchanged into the quarter; our EBITDA estimate is slightly below consensus. Our focus for the quarter will be on near-term NWC trends and efforts to further improve liquidity.
- **EIF: Maintaining Outperform and $36 price target.** Our Q3 estimates are unchanged; our EBITDA estimate is slightly ahead of consensus. Key focus for us will be commentary on the near-term outlook at Regional One and the Legacy Airlines, and colour on the current M&A environment.

| INDEX | 1-M (%) | YTD (%) | YR (%) | TREND |
|---|---|---|---|---|
| S&PTSX | 0.5 | (4.6) | (0.6) | △ |
| S&P 500 | 3.2 | 6.1 | 14.8 | △ |
| AMEX Airline | (3.0) | (45.4) | (41.9) | ▼ |
| AMEX Aerospace | (2.3) | (26.6) | (24.7) | ▼ |
| **COMMODITIES** | **1-M (%)** | **YTD (%)** | **YR (%)** | **TREND** |
| WTI | (1.5) | (28.4) | (20.9) | ▼ |
| Jet Fuel | 2.0 | (45.1) | (44.0) | △ |
| CAD/USD | (0.9) | 1.5 | 0.8 | ▼ |
| **AEROSPACE** | | | | |
| Bombardier | (20.5) | (82.9) | (79.5) | ▼ |
| Boeing | 3.7 | (48.7) | (51.4) | △ |
| EADS | (4.2) | (49.6) | (45.4) | ▼ |
| Embraer | (8.1) | (76.8) | (73.4) | ▼ |
| General Dynamics | (3.0) | (21.4) | (20.5) | ▼ |
| Textron | (5.7) | (20.4) | (22.9) | ▼ |
| **N.A. MAINLINE** | | | | |
| Air Canada | (13.2) | (67.8) | (65.5) | ▼ |
| AMR | (4.8) | (56.2) | (55.5) | ▼ |
| Delta | (4.1) | (46.1) | (41.5) | ▼ |
| United | (4.0) | (59.7) | (60.6) | ▼ |
| **N.A. REGIONAL** | | | | |
| Alaska | (3.6) | (41.6) | (40.8) | ▼ |
| Allegiant | (1.4) | (23.8) | (12.8) | ▼ |
| Chorus Aviation | (8.4) | (71.6) | (70.0) | ▼ |
| Exchange Income | (7.4) | (30.0) | (18.3) | ▼ |
| JetBlue | (3.1) | (34.5) | (27.7) | ▼ |
| SkyWest | (9.2) | (52.6) | (46.0) | ▼ |
| Southwest | 0.1 | (26.2) | (25.5) | △ |
| **INTL. AIRLINES** | | | | |
| Lufthansa | (7.1) | (51.3) | (48.5) | ▼ |
| Air France/KLM | (11.9) | (67.5) | (68.4) | ▼ |
| BA/Iberia | (9.5) | (75.9) | (70.3) | ▼ |
| Cathay Pacific | 10.9 | (31.0) | (25.7) | △ |
| Air China | (12.3) | (35.0) | (26.6) | ▼ |
| China Eastern | (10.4) | (24.3) | (16.2) | ▼ |
| China Southern | (12.1) | (19.7) | (13.7) | ▼ |
| Singapore Airlines | 0.9 | (44.6) | (44.6) | △ |
| Qantas | 8.5 | (39.2) | (33.8) | △ |

Source: Bloomberg

# Canadian Airlines & Aerospace Q3/20 preview

## Path ahead remains uncertain as demand moderates into winter

**Moderation in the recovery trajectory sets the stage for another challenging quarter.** Following a Q2 reporting season that very likely represented the bottom in air travel demand, we see the steps taken by companies within our Airline & Aerospace coverage to bolster liquidity, align capacity, and streamline costs as largely addressing liquidity/going-concern risk in the near term. That said, attention during the third quarter rightly shifted to the moderation observed in the recovery of travel demand and flight activity, and the relative lack of progress made on the easing/removal of travel restrictions. We note that these developments manifested in Airline & Aerospace share price performance during the quarter, as the sector (with the exception of EIF) noticeably underperformed the market during Q3. While our current forecasts are aligned with management's guidance where applicable, we acknowledge that the unpredictable nature of the current industry environment leaves room for potentially significant variance to our quarterly (and also longer-term) estimates.

Our primary focus going forward will be commentary on demand trends (and associated capacity reductions) into the winter, insights into government discussions around the removal of travel restrictions, and colour on anticipated cash burn rates going forward. We note that based on recent data points we have been tracking from RBC Elements and third-party providers, industry trends appear to have largely plateaued during September and into October, with a noticeable moderation in overall flight departure activity.

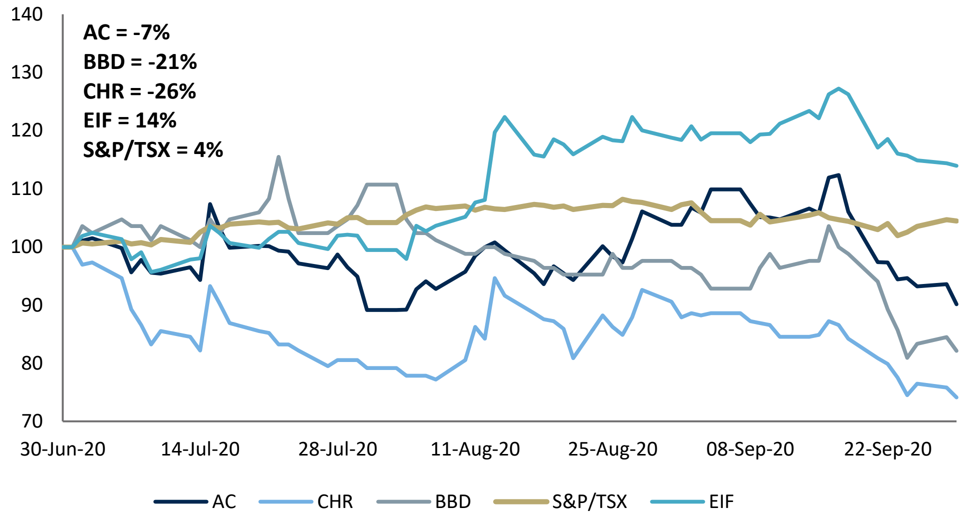
In this report, we discuss:

- the performance of the Canadian airlines during the quarter;
- changes to our estimates heading into Q3;
- fare trends measured by our fare tracker;
- global air traffic trends measured by IATA;
- an overview of liquidity across our coverage; and
- our Q3 estimates for each company in our coverage.

## Airlines continue to underperform during Q3

Shares of Air Canada (-7%), Chorus (-26%), and Bombardier (-21%) all materially underperformed the S&P/TSX (+4%), as moderating air travel demand trends continued to weigh on the sector, while Exchange Income (+14%) outperformed during the third quarter following its strong performance during Q2/20 results that highlighted its diversified business model and resilient cash flow streams.

Exhibit 1: Indexed share price performance vs. the S&P/TSX during Q3/20




Source: Factset, RBC Capital Markets

## Q3 estimates

We make modest revisions to our Q3 estimates ahead of the reporting season. Overall, we expect that following an uptick in June, the recovery moderated during Q3 as travel restrictions and mandatory quarantines continued to weigh on demand (particularly international) during the quarter. Accordingly, there remain elevated levels of uncertainty regarding the trajectory of the recovery, and a number of near-term potential outcomes with unpredictable timing (i.e., a widespread second wave, vaccine, lifting of travel restrictions, etc.) continue to limit visibility when it comes to forecasting financial performance. Details by company are below.

- **Air Canada (AC): Raising price target to $23 (from $22); reiterating Outperform rating.** We modestly reduce our Q3 estimates after updating our fuel curve and to reflect our expectation (further supported by RBC Fare Tracker data below) for yield compression during the quarter. With that, our Q3/20E adj. EBITDA declines to -$184MM (from -$133MM; cons. -$348MM), and we also reduce our 2020E estimate, as we lower our expectation of Q4/20 traffic and capacity to -60% Y/Y (from -50% Y/Y), though our valuation year 2024E EBITDA remains largely unchanged at $3,146MM (previously $3,133MM). Applying an unchanged target multiple of 5.0x to our 2024E EBITDA discounted back two years at 13% (from 12%), we derive our $23 price target (previously $22).

- **Bombardier (BBD): Reducing price target to $0.40 (from $0.50); reiterating Sector Perform, Speculative Risk rating.** We leave our Q3 and longer-term estimates unchanged heading into the quarter; our Q3 EBITDA estimate remains at $167MM (consensus $169MM). Our target multiple is unchanged at 5.0x, though we have updated our model to better reflect anticipated timing for the BAES sale and deal proceeds from the sale of BT to Alstom (lowered from $4.35B to $4.0B), which increases our 2021E net debt. Accordingly, applying our 5.0x target multiple to our unchanged 2022E EBITDA generates a price target of $0.40 (previously $0.50).

- **Chorus Aviation (CHR): Lowering price target to $3.00 (from $4.00); maintaining Outperform rating.** We leave our Q3 estimates for Chorus unchanged, though we modestly reduce our Q4/20 and 2021 forecasts to better reflect the changes we made to AC's forward-looking capacity estimates heading into the quarter. With that, our Q3 EBITDA estimate remains at $82MM, while we lower our 2020 (to $332MM from $340MM; cons. $351MM) and 2021 ($384MM from $397MM; cons. $386MM) estimates. We also roll forward our valuation year and introduce our 2022E EBITDA of $413MM; applying our reduced target multiples of 4.75x (previously 6.0x) to the core CPA business and 4.75x (previously 5.0x) to the leasing business, we derive a price target of $3.00 (previously $4.00).

- **Exchange Income (EIF): Maintaining $36 price target; reiterating Outperform rating.** We leave our Q3 and longer-term estimates unchanged heading into the quarter; our Q3 EBITDA estimate remains at $72MM (consensus $70MM). Our unchanged target multiple of 6.9x and continues to reflect a blend of 7.0x for Aviation and 6.5x for Manufacturing at an Aviation/Manufacturing split of 76%/24%. Accordingly, applying our blended target multiple to our unchanged 2022E EBITDA, we derive an unchanged price target of $36.

Exhibit 2: Estimate revisions ahead of the quarter ($MM except per share)

| | Q3 2020 EBITDA | | | 2020E EBITDA | | | 2021E EBITDA | | | 2022E EBITDA | | | 2023E EBITDA | | | 2024E EBITDA | | | Target Multiple | | Price Target (CAD) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Prior | RBC | Street | Prior | RBC | Street | Prior | RBC | Street | Prior | RBC | Street | Prior | RBC | Street | Prior | RBC | Street | Old | New | RBC | New | Rating | Implied Return |
| Air Canada | -$133 | **-$184** | -$348 | -$695 | **-$937** | -$1,290 | $1,647 | **$1,653** | $1,754 | $1,746 | **$1,747** | $2,719 | $2,941 | **$2,977** | - | $3,133 | **$3,146** | - | *5.0x* | **5.0x** | $22 | **$23** | O | +47% |
| Bombardier | $167 | **$167** | $169 | $281 | **$281** | $279 | $810 | **$810** | $1,006 | $1,047 | **$1,047** | $1,181 | N/A | **N/A** | - | N/A | **N/A** | - | *4.0x* | **4.0x** | $0.50 | **$0.40** | SP | +21% |
| Chorus Aviation | $82 | **$82** | $85 | $340 | **$332** | $351 | $397 | **$384** | $386 | N/A | **$413** | $419 | N/A | **N/A** | - | N/A | **N/A** | - | *6.0x* | **4.8x** | $4.00 | **$3.00** | O | +30% |
| Exchange Income | $72 | **$72** | $70 | $269 | **$269** | $266 | $327 | **$327** | $335 | $364 | **$364** | $364 | N/A | **N/A** | - | N/A | **N/A** | - | *6.9x* | **6.9x** | $36 | **$36** | O | +22% |

Source: Company reports, RBC Capital Markets estimates

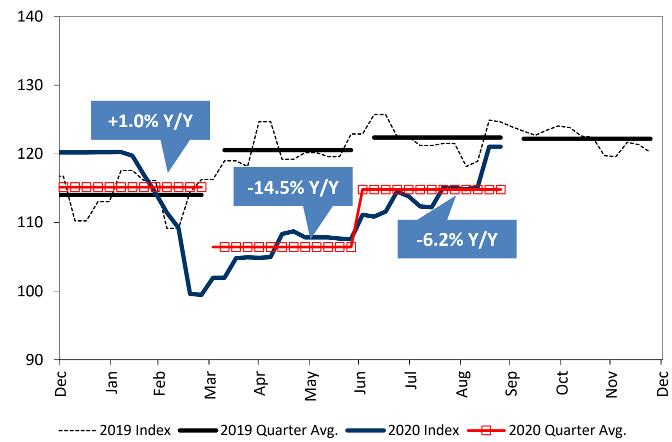
## Fare tracker points to continued Y/Y yield compression in Q3

The RBC Fare Survey points toward continued pressure on yields during Q3, with the data showing material Y/Y declines in fare pricing at both airlines. For Air Canada, yields in our RBC Fare Survey remained negative at **-6.2% Y/Y** during Q3 (though up from the **-14.5% Y/Y** in Q2), though they did show an encouraging trend of improvement during the quarter, with a noticeable improvement occurring in September. We note that we have reflected this in our yield forecasts for Q3, which currently sit at -6.2% Y/Y.

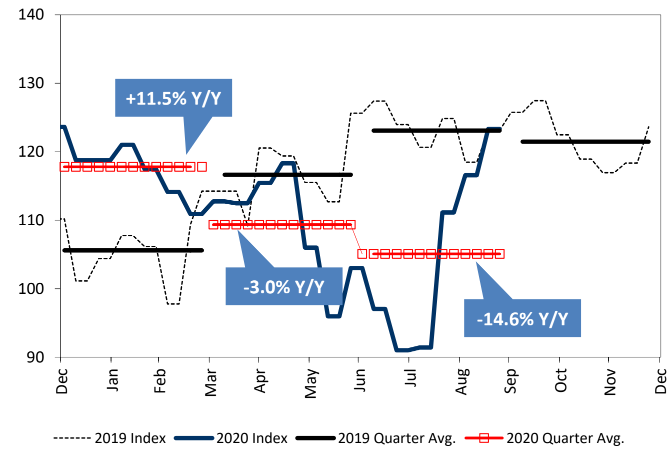
WestJet fares, as measured by our Fare Tracker, fell off considerably to start the quarter though they rebounded significantly in August and September. As such, fare prices were down **-14.6% Y/Y** in Q3 after being down only **-3.0% Y/Y** on average during Q2. With WestJet recently announcing the elimination of 80% of its domestic capacity to Atlantic Canada beginning on November 2, we will be closely monitoring changes in fare pricing at the airline going forward.

Exhibit 3: Fares remained down significantly Y/Y during Q3, though both AC and WJA saw noticeable increases during Aug./Sept.

**RBC Fare Tracker – Air Canada**




**RBC Fare Tracker – WestJet**




Note: Due to issues retrieving data from our third-party provider, we are unable to extract ticket pricing data for Air Canada during January 1 – February 12 and May 29 – June 16.
Source: Air Canada, WestJet, RBC Capital Markets estimates.

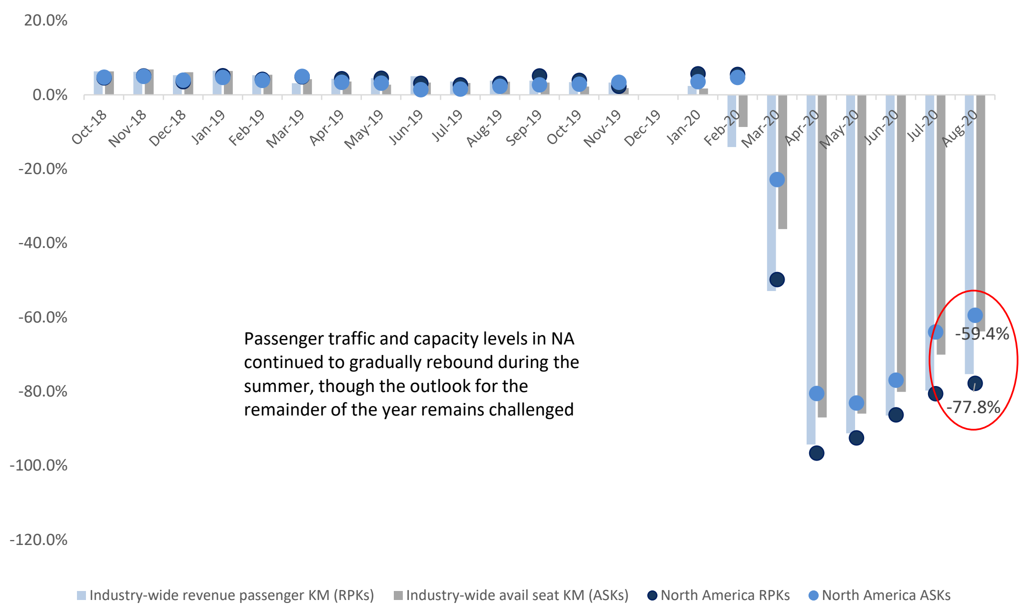
## IATA traffic data shows continuation of sluggish rebound

To gauge global air traffic conditions, we use data by the industry trade group International Air Transport Association (IATA), which provides an estimate of traffic, capacity, and load factor, broken down by region. This data does come with a bit of a time lag (~4–6 weeks), but it still provides a good indication of overall sentiment ahead of the quarterly reporting season. We summarize some of this data in Exhibit 4.

**Passenger traffic improved modestly in August but still remains extremely suppressed.** According to IATA, global demand remained strained throughout the summer following the initial uptick seen during June, with industry-wide Revenue Passenger Km's (RPK's) down 80% Y/Y in July and 75% Y/Y in August. In North America, traffic was similarly impacted, with RPKs dropping to -78% Y/Y in August (and -81% Y/Y in July). Looking ahead, we expect the traffic environment (both globally and in North America) to remain challenged until a vaccine becomes approved and widely available, and we point to IATA's recently reduced full-year 2020 global traffic outlook (to -66% Y/Y from -63% Y/Y previously) as further supporting that view.

**Global capacity levels (though higher than RPKs) remained challenged during the summer.** IATA data also showed global capacity numbers following a trajectory similar to that of traffic, dropping -70% Y/Y in July and -64% Y/Y in August. Capacity in North America was slightly better though still down -64% Y/Y in July and -59% Y/Y in August. We also note that load factors remained largely unchanged between July (48%) and August (48%). We will be closely monitoring industry capacity levels as we head into to fall/winter, though we note that recent updates from the major NA carriers depict rather modest expectations for demand improvement in the near term.

Exhibit 4: Traffic (RPKs) and capacity (ASKs) as reported by IATA show a sluggish recovery




Source: IATA .org

# Airline & Aerospace cash burn and liquidity overview

## Air Canada

**Financings completed during the quarter to further bolster liquidity.** Air Canada continues to do a solid job of raising additional liquidity and further strengthening its balance sheet to weather the pandemic. We calculate a total of ~$2B raised in new financings since the end of Q2—we estimate total liquidity at the end of Q3/20 amounting to ~$9.6B (or ~$10.6B including estimated proceeds from the financing of AC's remaining unencumbered asset pool). We believe that Air Canada is taking the right approach and conservatively raising funding on favorable terms, and we continue to see the company as having more than enough liquidity to ride out several quarters (years potentially) of extremely suppressed levels of travel demand and traffic.

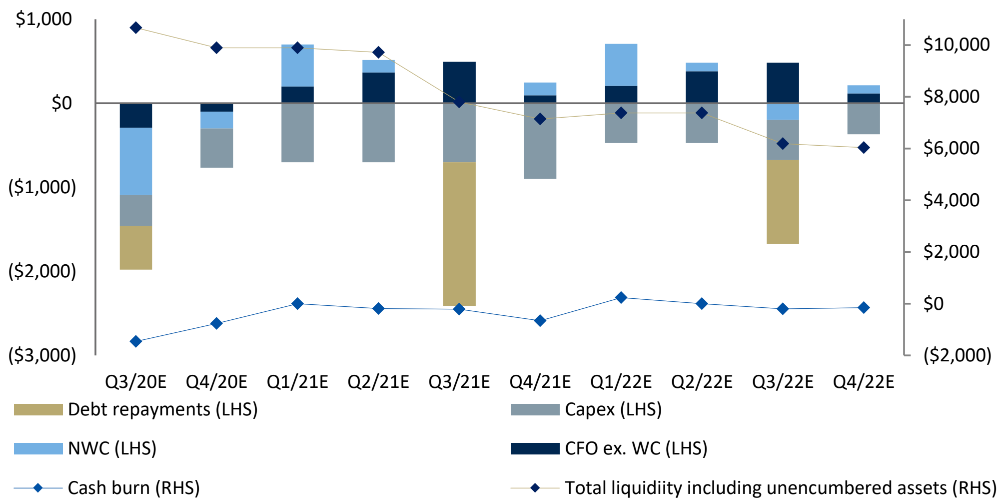
Exhibit 5: Liquidity overview pro-forma all recently completed financings and Q3 cash burn

| Financial Position Overview (as of June 30, 2020) | |
|---|---|
| *in CAD $MMs* | |
| **Liquidity** | |
| Cash and cash equivalents | $5,089 |
| Short term investments | $3,555 |
| Long-term investments | $476 |
| Undrawn amount on credit facility | $0 |
| **Total unrestricted liquidity** | **$9,120** |
| | |
| Additional liquidity from recent financings | $2,005 |
| Estimated liquidity from financing of unencumbered assets | $1,000 |
| Estimated cash burn during Q3/20 | -$1,461 |
| | |
| **Total available liquidity including unencumbered assets** | **$10,664** |
| | |
| **Debt** | |
| Long-term debt | $10,268 |
| Lease liabilities | $3,594 |
| **Total debt and lease liabilities** | **$13,862** |
| Current portion of LT debt | $2,614 |
| Amortization of debt issuance costs | $178 |
| Current portion of lease liabilities | $622 |
| **Long-term debt and lease liabilities** | **$10,448** |
| | |
| **Minimum cash required to run operations (as indicated by mgmt)** | **$2,400** |
| **Excess cash (as reported)** | **$6,820** |
| | |
| **Total liquidity after accounting for minimum cash requirements** | **$8,264** |

Source: Company reports, RBC Capital Markets estimates

**Looking for cash burn to gradually improve, though cash flow breakeven likely not possible until vaccine is approved.** With cash burn likely to have peaked during Q2, we estimate that daily burn will improve from $16MM/day in Q3/20 to $8MM/day in Q4/20, and we expect further improvement thereafter. However, we continue to believe that the magnitude at which cash burn moderates is more a function of revenue (i.e., air travel demand) than cost reductions (which we believe are generally maximized at this point), and accordingly we continue to see the recovery trajectory as positively correlated to lower cash burn rates going forward. We note that our current forecasts continue to reflect a return to full-year positive FCF by 2023.

Exhibit 6: We continue to view liquidity as sufficient to absorb anticipated cash burn ($MM)

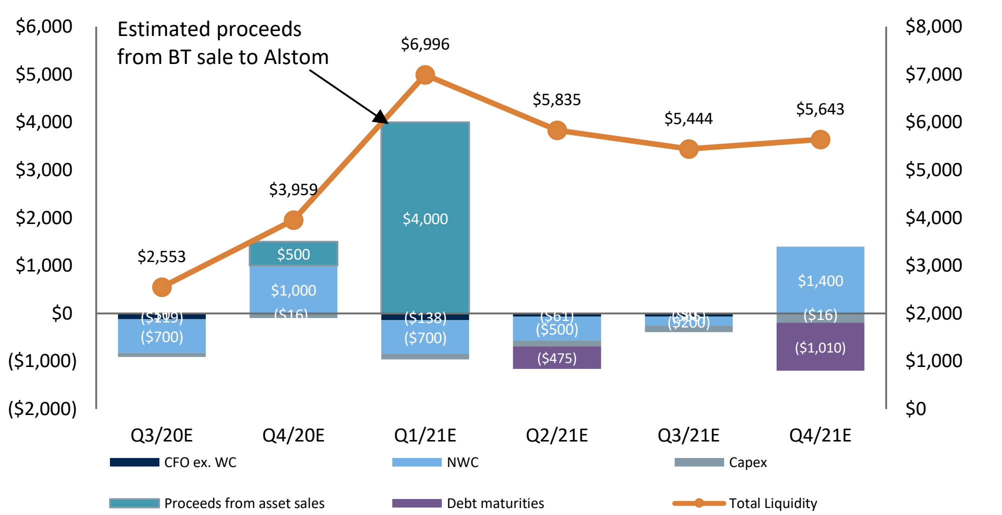



Source: Company reports, RBC Capital Markets estimates

## Bombardier

**Liquidity sufficient to bridge until sale of BT to Alstom.** We estimate that BBD's pro-forma liquidity position at the end of Q2/20 was ~$3.5B. With estimated cash burn of $909MM expected in Q3/20 and the sale of BAES to Spirit now pushed forward to our Q4/20 forecast, we see BBD exiting the third quarter with ~$2.6B in total available liquidity. We have reflected management's expectations that it will be cash flow breakeven in 2H/20 in our estimates, and as such we see the company as sufficiently funded until the sale to Alstom (which we now forecast to occur in Q1/21). Although total proceeds to BBD have been reduced from ~$4.35B to ~$4.0B, we view the recently announced SPA as serving to lower overall risk associated with the deal.

Exhibit 7: Asset sales should be supportive of liquidity until BT sale to Alstom ($MM)

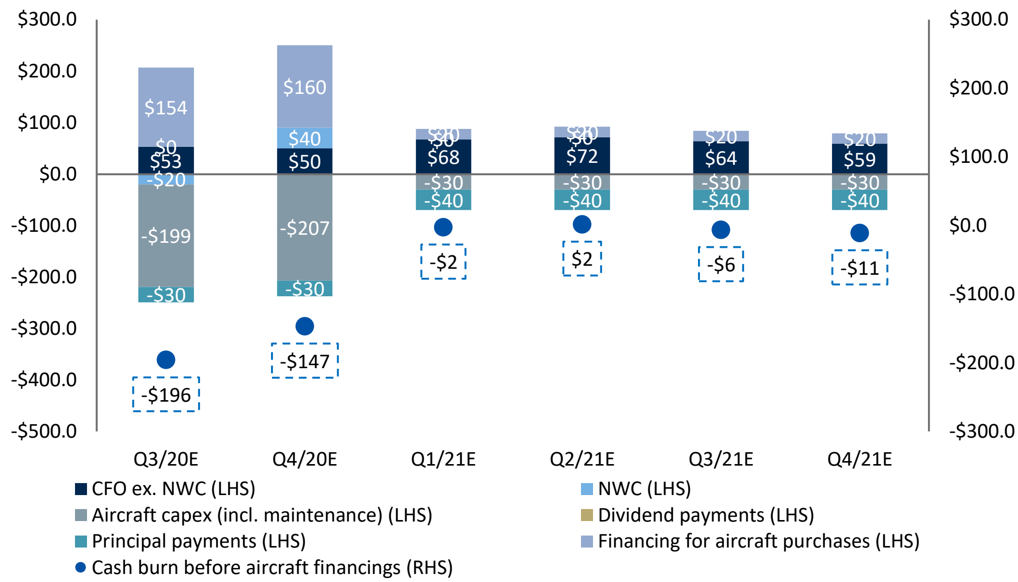



Source: Company reports, RBC Capital Markets estimates

## Chorus

**Looking for CHR to end 2020 near Q2/20 liquidity levels.** During Q2 results, CHR reported total available liquidity (pro-forma financings done following quarter-end) of $228MM. With positive CFO generation and a moderation in NWC headwinds expected during Q3, we estimate that CHR will exit the quarter with liquidity of $186MM. We then expect NWC trends to reverse during Q4, and we see the company ending 2020 with liquidity of $199MM (generally in line with management's guidance for liquidity levels to remain stable through year-end). Overall, while we continue to view CHR's liquidity as sufficient to fund operations and anticipated cash burn in the near term, we acknowledge that a material delay (or regression) in the recovery of domestic travel could adversely impact the company's liquidity position going forward.

Exhibit 8: We view current liquidity as sufficient and anticipate cash flow breakeven by 2022 ($MM)




Source: Company reports, RBC Capital Markets estimates

## Exchange Income

**Liquidity not a concern given capex flexibility and diversified cash flow streams.** We estimate that at the end of Q2 EIF had $864MM in total liquidity (including the $300MM accordion feature on the existing credit facility) and no long-term debt maturities before December 2022. We note that the company was able to generate sufficient cash flow to fund both its capital expenditures and dividend during an exceptionally challenging second quarter as the flexibility of its capex profile and resilience of subsidiary cash flow streams were on display. Accordingly, we see the company generating healthy FCF (less maintenance capex) that should be more than sufficient to meet its primary capital allocation priorities and we do not view liquidity risk as a concern going forward.

## Air Canada (TSX: AC) — Outperform; $23 price target (from $22)

### SUMMARY

| | | | |
|---|---|---|---|
| Market price: | $15.61 | 52-Wk High: | $52.71 |
| Yield (12-mth): | 0.0% | 52-Wk Low: | $9.26 |
| Total est. return: | 47% | Mkt Cap (MM): | $4,246 |
| Shares O/S (MM): | 272.0 | Net Debt (MM): | $5,040 |
| Float (MM): | $4,246 | EV (MM): | $9,286 |

### CONFERENCE CALL DETAILS

- November 9 at 8:30AM ET
- 1-800-806-5484 or 416-340-2217; passcode 9933124#

**Q3/20 set-up.** We modestly revise our Q3 estimates after updating the fuel curve and lowering our yield estimate to -6.2% from 0% to better reflect RBC Fare Tracker trends. We maintain our Q3 traffic and capacity decline assumptions at -80% Y/Y, in line with the company's prior guidance. As such, our daily cash burn estimate for the quarter increases to $16MM from $15MM, though it remains within guidance of $15–17M. We also update our forecasts for the recently completed financing transactions and now estimate AC to exit Q3 with total unrestricted liquidity of $10.6B (including unencumbered assets).

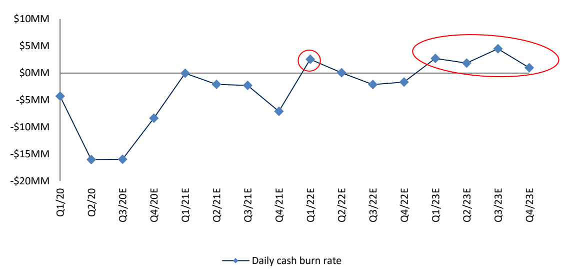
**Areas of focus.** During Q3 reporting, we will be looking for commentary regarding: 1) anticipated cash burn rates for Q4 and any insight as to when cash flow breakeven is expected; 2) updates on the capacity outlook for Q4, and commentary on recent booking trends as we head into winter; 3) additional plans to raise further liquidity or refinance existing debt; and 4) any updates from the Canadian government regarding the easing/removal of international travel restrictions and the mandatory 14-day quarantine.

**Reiterating Outperform rating.** Despite ongoing efforts to bolster liquidity and reduce cash burn, we continue to see AC shares as reflecting a meaningful liquidity/going-concern risk that in our view remains unwarranted. Accordingly, we see attractive upside potential in the shares, though we acknowledge that additional upside beyond our $23 price target is challenging to assess and largely dependent on the approval and timing of a widely available/distributed vaccine.

### STOCK SET-UP

| | |
|---|---|
| **Q3/20 Performance** | |
| Absolute | (7%) |
| vs. S&P TSX | (1,134bps) |
| **Short Interest (Days to Cover)** | |
| Current | 1.8 |
| **Analyst Sentiment** | |
| Outperform | 71% |
| Sector Perform | 29% |
| Underperform | 0% |

### Daily cash burn




| | Q3/20E | | | 2020E | | | 2021E | | | 2022E | | | 2023E | | | 2024E | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | OLD | NEW | Var | OLD | NEW | Var | OLD | NEW | Var | OLD | NEW | Var | OLD | NEW | Var | OLD | NEW | Var |
| Traffic: RPMs (% chg) | -80.0% | -80.0% | 0bp | -63.3% | -65.5% | -227bp | 36.1% | 45.0% | 898bp | 29.8% | 29.8% | 0bp | 32.8% | 32.8% | 0bp | 16.1% | 16.1% | 0bp |
| Capacity: ASMs (% chg) | -80.0% | -80.0% | 0bp | -59.7% | -62.0% | -234bp | 24.1% | 31.7% | 766bp | 33.1% | 33.1% | 0bp | 26.6% | 26.6% | 0bp | 18.7% | 18.7% | 0bp |
| Load Factor (%pts) | 86.1% | 86.1% | 0bp | 76.1% | 75.8% | -30bp | 83.4% | 83.4% | 0bp | 81.3% | 81.3% | 0bp | 85.3% | 85.3% | 0bp | 83.4% | 83.4% | 0bp |
| Yield (% chg) | 0.0% | -6.2% | -620bp | 11.5% | 9.9% | -156bp | -13.4% | -12.2% | 117bp | -2.0% | -2.0% | 0bp | 0.0% | 0.0% | 0bp | 0.0% | 0.0% | 0bp |
| RASM (% chg) | 0.2% | -6.0% | -621bp | -7.6% | -8.9% | -136bp | 4.4% | 5.8% | 147bp | -4.4% | -4.4% | 0bp | 4.8% | 4.8% | 0bp | -2.2% | -2.2% | -1bp |
| Adj. CASM ex fuel+other (% chg) | 154.0% | 151.7% | -232bp | 71.1% | 78.2% | 718bp | -23.4% | -26.5% | -310bp | -12.4% | -12.4% | 0bp | -7.2% | -7.2% | 0bp | -5.5% | -5.5% | 0bp |
| Avg Jet Fuel Price: ($C/Ltr) | $0.77 | $0.77 | 0.0% | $0.60 | $0.60 | 0.0% | $0.67 | $0.66 | -0.7% | $0.67 | $0.67 | 0.1% | $0.67 | $0.67 | -0.3% | $0.68 | $0.67 | -1.2% |
| Revenue | 1,327 | 1,263 | -4.8% | 7,952 | 7,463 | -6.2% | 10,091 | 10,084 | -0.1% | 12,198 | 12,189 | -0.1% | 15,953 | 15,942 | -0.1% | 18,251 | 18,238 | -0.1% |
| Expenses | 1,460 | 1,446 | -0.9% | 8,647 | 8,400 | -2.9% | 8,444 | 8,431 | -0.1% | 10,452 | 10,443 | -0.1% | 13,012 | 12,965 | -0.4% | 15,118 | 15,092 | -0.2% |
| **EBITDA** | **(133)** | **(184)** | **38.1%** | **(695)** | **(937)** | **34.8%** | **1,647** | **1,653** | **0.3%** | **1,746** | **1,747** | **0.1%** | **2,941** | **2,977** | **1.2%** | **3,133** | **3,146** | **0.4%** |
| EBITDA Margin | -10.0% | -14.5% | 45.1% | -8.7% | -12.6% | 43.7% | 16.3% | 16.4% | 0.4% | 14.3% | 14.3% | 0.1% | 18.4% | 18.7% | 1.3% | 17.2% | 17.2% | 0.5% |
| EPS ex-one time items ($) | (2.56) | (2.80) | 9.1% | (11.80) | (12.76) | 8.1% | (2.66) | (2.78) | 4.2% | (2.13) | (2.24) | 5.1% | 1.25 | 1.23 | -1.3% | 2.06 | 1.98 | -3.8% |

Source: Bloomberg, FactSet, RBC Capital Markets estimates, Company reports

Priced as of market close October 19, 2020

## Bombardier (TSX : BBD) — SP, Spec. Risk; $0.40 PT (from $0.50)

### SUMMARY

| | | | |
|---|---|---|---|
| Market price: | $0.33 | 52-Wk High: | $2.15 |
| Yield (12-mth): | 0.0% | 52-Wk Low: | $0.32 |
| Total est. return: | 21% | Mkt Cap (MM): | $788 |
| Shares O/S (MM): | 2,387.1 | LT Debt (MM): | $8,857 |
| Float (MM shs): | 2,387.1 | Net Debt (MM): | $7,183 |
| Float (MM): | $788 | EV (MM): | $7,971 |

### CONFERENCE CALL DETAILS

- November 5 at 8:00AM ET (estimated)
- 1-888-231-8191 (estimated)

**Q3/20 set-up.** We are not making any changes to our estimates ahead of Q3 results. We anticipate Q2 to have been the bottom and accordingly see a gradual recovery in business jet deliveries (25) and improvement at BT driving consolidated EBITDA of $167MM in the quarter—largely in line with consensus of $169MM. While we anticipate Q3 to represent another quarter of material FCF burn (looking for -$909MM), we note our forecasts remain aligned with guidance for breakeven FCF during 2H/20.

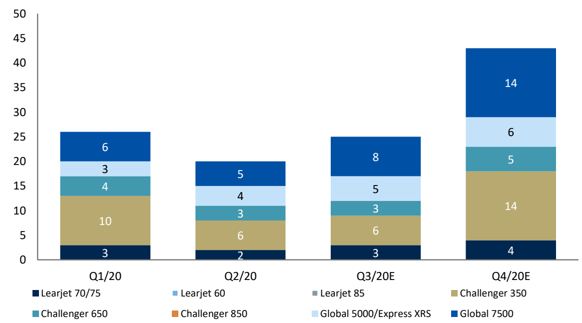
**Key focus for Q3.** We will be listening for commentary and looking for updates regarding: 1) any changes to 2020 cash burn guidance, colour on when FCF breakeven will be achieved, and efforts to further improve liquidity; 2) progress on the sale of BT to Alstom and updates on final regulatory approvals; and 3) any updates to the biz jet delivery outlook for 2020 and any potential insights into demand and order flow in 2021.

**Maintaining Sector Perform, Speculative Risk rating.** While the upcoming closing deadline for the BAES sale and the remaining regulatory approvals needed for the closing of the Alstom deal are likely to act as an overhang on the stock in the near term, ultimately we believe the successful execution of BBD's strategic shift to a pure-play biz jet company will be the primary determinant in driving shareholder value longer-term. That said, there remains significant uncertainty as to the success of this strategy and we are staying on the sidelines until visibility/clarity improves.

### STOCK SET-UP

| | |
|---|---|
| **Q3/20 Performance** | |
| Absolute | (21%) |
| vs. S&P TSX | (2,534bps) |
| **Short Interest (Days to Cover)** | |
| Current | 7.5 |
| **Analyst Sentiment** | |
| Outperform | 12% |
| Sector Perform | 82% |
| Underperform | 6% |

**Business jet deliveries**




| | Q3/20E | | | 2020E | | | 2021E | | | 2022E | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Old | Cur | Var (%) | Old | Cur | Var (%) | Old | Cur | Var (%) | Old | Cur | Var (%) |
| **Operating metrics** | | | | | | | | | | | | |
| **Bombardier Aviation (BA)** | | | | | | | | | | | | |
| Revenue | 1,116 | 1,116 | 0.0% | 5,742 | 5,742 | 0.0% | 5,700 | 5,700 | 0.0% | 6,141 | 6,141 | 0.0% |
| EBIT | 45 | 45 | 0.0% | 144 | 144 | 0.0% | 456 | 456 | 0.0% | 675 | 675 | 0.0% |
| *Mgn%* | 4.0% | 4.0% | 0 bps | 2.5% | 2.5% | 0 bps | 8.0% | 8.0% | 0 bps | 11.0% | 11.0% | 0 bps |
| **Bombardier Transportation (BT)** | | | | | | | | | | | | |
| Revenue | 1,856 | 1,856 | 0.0% | 7,535 | 7,535 | 0.0% | | | | | | |
| EBIT | 54 | 54 | 0.0% | (199) | (199) | 0.0% | | | | | | |
| *Mgn%* | 2.9% | 2.9% | 0 bps | -2.6% | -2.6% | 0 bps | | | | | | |
| **Bombardier Consolidated** | | | | | | | | | | | | |
| Total Revenues | 2,971 | 2,971 | 0.0% | 13,276 | 13,276 | 0.0% | 5,700 | 5,700 | 0.0% | 6,141 | 6,141 | 0.0% |
| Total EBIT | 48 | 48 | 0.0% | (195) | (195) | 0.0% | 456 | 456 | 0.0% | 675 | 675 | 0.0% |
| *Mgn%* | 1.6% | 1.6% | 0 bps | -1.5% | -1.5% | 0 bps | 8.0% | 8.0% | 0 bps | 11.0% | 11.0% | 0 bps |
| **Free Cash Flow** | (909) | (909) | | (2,676) | (2,681) | | (868) | (830) | | (472) | (486) | |
| **EBITDA** | 167 | 167 | | 281 | 281 | | 810 | 810 | | 1,047 | 1,047 | |
| **Adjusted EPS** | -$0.11 | -$0.11 | | -$0.57 | -$0.58 | | -$0.25 | -$0.23 | | -$0.04 | -$0.05 | |

Source: Bloomberg, FactSet, RBC Capital Markets estimates, Company reports

Priced as of market close October 19, 2020

## Chorus Aviation (TSX : CHR)

## Outperform; $3 price target (from $4)

### SUMMARY

| | | | |
|---|---|---|---|
| Market price: | $2.30 | 52-Wk High: | $8.45 |
| Yield (12-mth): | 0.0% | 52-Wk Low: | $1.80 |
| Total est. return: | 30.4% | Mkt Cap (MM): | $376 |
| Shares O/S (MM): | 163.6 | Net Debt (MM) | $1,929 |
| | | EV (MM): | $2,305 |

### CONFERENCE CALL DETAILS

- November 11 at 8:30AM ET
- 1-888-231-8191

**Q3/20 set-up.** We maintain our Q3 estimates; our EBITDA estimate of $82MM is modestly below consensus of $85MM. Our Q3 revenue forecast of -44% Y/Y (led by declines of -59% Y/Y in Controllable cost revenues) represents only modest improvement Q/Q, though given CHR's uniquely defensive business model we look for EBITDA to be down only 12% Y/Y. Further, we forecast that CHR will return to positive CFO generation ($33MM) during the quarter, which should further support the $186MM in liquidity with which we estimate Chorus will end Q3.

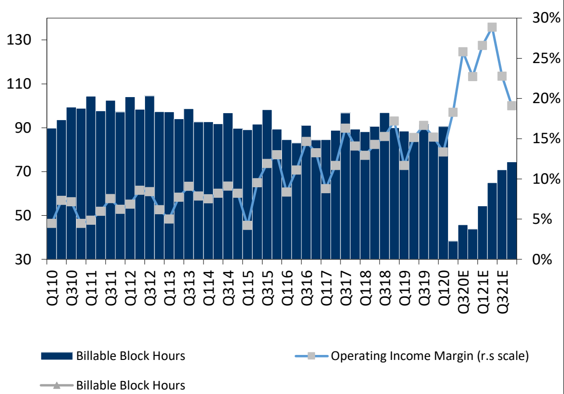
**Key areas of focus for Q3.** Given the significant impact of NWC during Q2 ($91MM headwind) and the still-challenging dynamics currently present in the regional leasing market, the degree to which NWC trends have stabilized will be a key focus for us in the quarter. We will also be keeping tabs on any commentary regarding the CPA and any plans to further preserve cash/bolster liquidity going forward.

**Maintaining Outperform.** While Canadian travel restrictions (i.e., Atlantic Bubble and 14-day quarantine) continue to weigh on the domestic recovery and the regional leasing environment remains challenging, we see the fixed-fee nature of Chorus's business model and anticipated CFO generation providing investors with a degree of defensiveness relative to industry peers. We reiterate our Outperform rating and lower our price target to $3.00 (from $4.00).

### STOCK SET-UP

| | |
|---|---|
| **Q3/20 Performance** | |
| Absolute | (26%) |
| vs. S&P TSX | (2,975bps) |
| **Short Interest (Days to Cover)** | |
| Current | 11.8 |
| **Analyst Sentiment** | |
| Outperform | 75% |
| Sector Perform | 25% |
| Underperform | 0% |

### Operating metrics




| | Q3/20E OLD | Q3/20E NEW | Q3/20E Var | 2020E OLD | 2020E NEW | 2020E Var | 2021E OLD | 2021E NEW | 2021E Var | 2022E NEW |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue breakdown** | | | | | | | | | | |
| Controllable Revenue | 75 | 75 | 0.0% | 418 | 409 | -2.1% | 469 | 450 | -4.0% | 537 |
| Leasing under CPA | 33 | 33 | 0.0% | 133 | 133 | 0.0% | 150 | 150 | 0.0% | 150 |
| Margin compensation | 18 | 18 | 0.0% | 76 | 76 | 0.0% | 62 | 62 | 0.0% | 62 |
| Incentives | 0.3 | 0.3 | 0.0% | 1 | 1 | 0.0% | 2 | 1 | -28.0% | 1 |
| Pass through revenue | 16 | 16 | 0.0% | 95 | 93 | -1.2% | 86 | 78 | -9.1% | 107 |
| Passenger revenue | 143 | 143 | 0.0% | 723 | 713 | -1.4% | 768 | 741 | -3.5% | 856 |
| Regional Aircraft Leasing | 41 | 41 | 0.0% | 170 | 167 | -2.1% | 192 | 185 | -3.7% | 199 |
| Other - Charter, contract flying, MRO | 14 | 14 | 0.0% | 60 | 59 | -1.8% | 69 | 68 | -1.9% | 85 |
| Total Revenues | 198 | 198 | 0.0% | 954 | 939 | -1.5% | 1,029 | 993 | -3.4% | 1,140 |
| Total Expenses | 147 | 147 | 0.0% | 767 | 760 | -0.8% | 783 | 754 | -3.7% | 877 |
| Total Operating Income | 51 | 51 | 0.0% | 187 | 178 | -4.4% | 246 | 240 | -2.5% | 263 |
| Depreciation and Amortization | 31 | 31 | 0.0% | 150 | 150 | 0.0% | 151 | 144 | -4.6% | 150 |
| EBITDA | 82 | 82 | 0.0% | 340 | 332 | -2.4% | 397 | 384 | -3.3% | 413 |

Source: Bloomberg, FactSet, RBC Capital Markets estimates, Company reports

Priced as of market close October 19, 2020

## Exchange Income Corporation (TSX : EIF) Outperform; $36 price target (unchanged)

**SUMMARY**

| | | | |
|---|---|---|---|
| Market price: | $31.28 | 52-Wk High: | $46.10 |
| Yield (12-mth): | 7.3% | 52-Wk Low: | $12.57 |
| Total est. return: | 22% | Mkt Cap (MM): | $1,118 |
| Shares O/S (MM): | 35.7 | EV (MM): | $1,854 |

**CONFERENCE CALL DETAILS**

- November 13 at 8:30AM ET
- 1-888-231-8191 or 647-427-7450

**STOCK SET-UP**

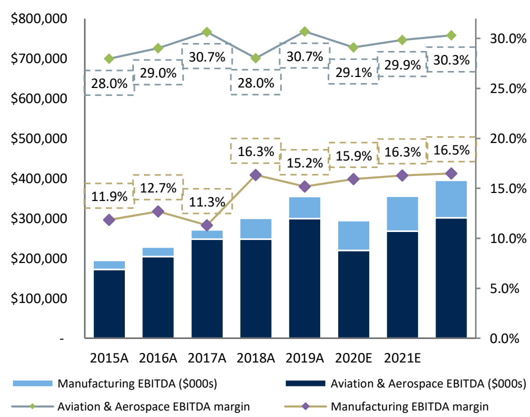
| | |
|---|---|
| **Q3/20 Performance** | |
| Absolute | 14% |
| vs. S&P TSX | 963bps |
| **Short Interest (Days to Cover)** | |
| Current | 10.3 |
| **Analyst Sentiment** | |
| Outperform | 80% |
| Sector Perform | 20% |
| Underperform | 0% |

**Q3/20 set-up.** We maintain our estimates ahead of Q3 results; our EBITDA estimate of $72MM (-19% Y/Y) if modestly above consensus of $70MM. On a segment basis, we forecast Aviation revenues to be down 25% Y/Y, though we expect that Manufacturing should help to offset the decline with robust 41% Y/Y growth during Q3. In terms of cash generation, we anticipate the company to generate FCF (less maintenance capex) of $26MM, which we view as healthy given the current state of air travel and our expectations for an increase in capex to $41MM (+39% Q/Q) during the quarter.

**Areas of focus for Q3.** Our primary area of focus for EIF will be on the near-term outlook and any changes to recent demand trends for Regional One and the Legacy Airlines. We will also look for colour on operational performance at Quest and for potential insight into the 2021 outlook for the company. Finally, we will seek colour on the M&A environment and the appetite to pursue deals within the current acquisition pipeline.

**Reiterating Outperform rating.** As evidenced by its Q2/20 results and subsequent share price performance during the quarter, EIF remains the best-insulated name within our Airline & Aerospace coverage. We continue to view the company as providing investors with both downside protection and upside potential along with an attractive blend of growth and yield; accordingly, we reiterate our Outperform rating.

**Segment EBITDA and adj. EBITDA margins**




| (C$000s unless specified) | Q3/20E | | | | 2020E | | | | 2021E | | | | 2022E | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Old | Current | Var | Y/Y | Old | Current | Var | Y/Y | Old | Current | Var | Y/Y | Old | NEW | Var | Y/Y |
| Aviation revenue | 199,853 | 199,853 | 0.0% | -25.0% | 755,182 | 755,182 | 0.0% | -22.5% | 897,269 | 897,269 | 0.0% | 18.8% | 994,273 | 994,273 | 0.0% | 10.8% |
| Manufacturing revenue | 125,467 | 125,467 | 0.0% | 41.5% | 468,375 | 468,375 | 0.0% | 27.7% | 538,408 | 538,408 | 0.0% | 15.0% | 569,632 | 569,632 | 0.0% | 5.8% |
| **Consolidated revenue** | **325,320** | **325,320** | **0.0%** | **-8.4%** | **1,223,557** | **1,223,557** | **0.0%** | **-8.8%** | **1,435,677** | **1,435,677** | **0.0%** | **17.3%** | **1,563,905** | **1,563,905** | **0.0%** | **8.9%** |
| **Adj. EBITDA** | **72,270** | **72,270** | **0.0%** | **-18.8%** | **268,999** | **268,999** | **0.0%** | **-18.2%** | **326,896** | **326,896** | **0.0%** | **21.5%** | **364,152** | **364,152** | **0.0%** | **11.4%** |
| *EBITDA Margin* | *22.2%* | *22.2%* | 0bp | -11.4% | *22.0%* | *22.0%* | 0bp | -253bp | *22.8%* | *22.8%* | 0bp | 78bp | *23.3%* | *23.3%* | 0bp | 52bp |
| CFO | 32,437 | 32,437 | 0.0% | -56.9% | 236,376 | 236,376 | 0.0% | 8.8% | 246,724 | 246,724 | 0.0% | 4.4% | 262,982 | 262,982 | 0.0% | 6.6% |
| **FCF from operations (comp** | **50,250** | **50,250** | **0.0%** | **-25.2%** | **186,027** | **186,027** | **0.0%** | **-24.3%** | **232,388** | **232,388** | **0.0%** | **24.9%** | **261,718** | **261,718** | **0.0%** | **12.6%** |
| FCF less total capex | -8,228 | -8,228 | 0.0% | -163.5% | 68,796 | 68,796 | 0.0% | -415.8% | 45,729 | 45,729 | 0.0% | -33.5% | 44,035 | 44,035 | 0.0% | -3.7% |
| **FCF less maintenance capex** | **25,851** | **25,851** | **0.0%** | **-29.9%** | **82,252** | **82,252** | **0.0%** | **-34.8%** | **117,534** | **117,534** | **0.0%** | **42.9%** | **136,606** | **136,606** | **0.0%** | **16.2%** |
| FCF less maintenance cape | $0.74 | 0.74 | 0.0% | -20.2% | $2.34 | 2.34 | 0.0% | -29.3% | $3.34 | 3.34 | 0.0% | 42.9% | $3.89 | 3.89 | 0.0% | 16.2% |
| ***Adj. EPS (f.d.)*** | ***$0.43*** | ***0.43*** | ***0.0%*** | ***-54.4%*** | ***$1.12*** | ***1.12*** | ***0.0%*** | ***-62.5%*** | ***$1.76*** | ***1.76*** | ***0.0%*** | ***57.4%*** | ***$2.12*** | ***2.12*** | ***0.0%*** | ***20.5%*** |

Source: Bloomberg, FactSet, RBC Capital Markets estimates, Company reports

Priced as of market close October 19, 2020

## Appendix 1: Airline comparables

| | Symbol | | 19-Oct-20 Price | EV/EBITDA 2019A | EV/EBITDA 2020E | EV/EBITDA 2021E | EV/EBITDA 2022E | EV/Sales 2019A | EV/Sales 2020E | EV/Sales 2021E | EV/Sales 2022E | EBITDA Margin 2019A | EBITDA Margin 2020E | EBITDA Margin 2021E | EBITDA Margin 2022E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Discount Airlines** | | | | | | | | | | | | | | | |
| Southwest | LUV-US | US$ | $39.85 | 4.9x | -5.5x | 10.6x | 5.3x | 0.9x | 2.2x | 1.3x | 1.0x | 19% | -41% | 12% | 19% |
| JetBlue | JBLU-US | US$ | $12.26 | 4.1x | -3.8x | 7.3x | 4.3x | 0.7x | 1.8x | 1.0x | 0.8x | 17% | -48% | 14% | 18% |
| **Discount Average** | | | | **4.5x** | **-4.7x** | **8.9x** | **4.8x** | **0.8x** | **2.0x** | **1.2x** | **0.9x** | **18%** | **-44%** | **13%** | **18%** |
| **Mainline Airlines** | | | | | | | | | | | | | | | |
| Air Canada | AC-CA | C$ | $15.61 | 2.6x | -9.9x | 5.6x | 5.3x | 0.5x | 1.2x | 0.9x | 0.8x | 19% | -13% | 16% | 14% |
| Delta Air Lines | DAL-US | US$ | $31.50 | 4.2x | -7.4x | 10.2x | 6.0x | 0.8x | 2.4x | 1.4x | 1.0x | 20% | -32% | 14% | 18% |
| United Continental | UAL-US | US$ | $35.50 | 4.5x | -5.0x | 13.5x | 5.8x | 0.7x | 1.9x | 1.2x | 0.9x | 16% | -39% | 9% | 15% |
| American Airlines | AAL-US | US$ | $12.56 | 6.2x | -4.2x | 25.2x | 8.1x | 0.8x | 2.1x | 1.3x | 1.0x | 13% | -51% | 5% | 12% |
| **Mainline Average** | | | | **4.4x** | **-6.6x** | **13.6x** | **6.3x** | **0.7x** | **1.9x** | **1.2x** | **0.9x** | **17%** | **-34%** | **11%** | **15%** |
| **Regional Airlines** | | | | | | | | | | | | | | | |
| Chorus Aviation | CHR-CA | C$ | $2.30 | 7.7x | 7.8x | 6.7x | 6.3x | 1.9x | 2.8x | 2.6x | 2.3x | 25% | 35% | 39% | 36% |
| SkyWest Inc. | SKYW-US | US$ | $30.65 | 5.7x | 5.7x | 5.7x | 5.7x | 1.4x | 2.0x | 1.6x | 1.5x | 24% | 35% | 29% | 26% |
| **Regional Average** | | | | **6.7x** | **6.7x** | **6.2x** | **6.0x** | **1.6x** | **2.4x** | **2.1x** | **1.9x** | **24%** | **35%** | **34%** | **31%** |
| **Airline Average** | | | | **5.0x** | **-2.8x** | **10.6x** | **5.8x** | **1.0x** | **2.1x** | **1.4x** | **1.1x** | **19%** | **-19%** | **17%** | **20%** |

Sources: Company reports, FactSet, and RBC Capital Markets estimates for Air Canada and Chorus Aviation. Priced at market close October 19, 2020

## Appendix 2: Aerospace comparables

| | Exch: | | Price | Mkt. Cap | Debt | P/E | | | | EV/EBITDA | | | | 2019A EBITDA | 2020E EBITDA | 2021E EBITDA | 2022E EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company Name | Ticker | | 19-Oct-20 | ($MM's) | to EBITDA | 2019A | 2020E | 2021E | 2022E | 2019A | 2020E | 2021E | 2022E | Margin | Margin | Margin | Margin |
| **Aerospace** | | | | | | | | | | | | | | | | | |
| Boeing | NYSE:BA | US$ | 167.11 | 94,325 | -14.8x | -48.2x | -18.1x | nmf | 21.4x | 418.8x | -63.2x | 15.1x | 11.5x | 0.4% | -3.2% | 10.0% | 12.2% |
| Embraer | NYSE: ERJ | US$ | 4.52 | 837 | -11.3x | -2.6x | -1.2x | -8.8x | 31.6x | 14.8x | -16.4x | 9.4x | 5.7x | 3.3% | -4.6% | 6.6% | 8.7% |
| General Dynamics | NYSE: GD | US$ | 138.68 | 39,792 | 2.7x | 11.6x | 12.6x | 11.6x | 10.4x | 9.7x | 10.6x | 10.0x | 9.3x | 14.0% | 13.2% | 13.5% | 13.7% |
| Textron | NYSE: TXT | US$ | 35.49 | 8,093 | 3.0x | 9.5x | 23.5x | 14.0x | 10.9x | 6.8x | 12.1x | 8.4x | 7.2x | 11.6% | 7.7% | 10.0% | 10.9% |
| **Average** | | | | | | **-7.4x** | **4.2x** | **5.6x** | **18.5x** | **112.5x** | **-14.2x** | **10.7x** | **8.4x** | **7.3%** | **3.3%** | **10.0%** | **11.4%** |
| **Transportation & Conglomerates** | | | | | | | | | | | | | | | | | |
| Siemens | XE: SIE | EUR | 110.46 | 93,891 | 4.2x | 17.7x | 20.5x | 17.4x | 14.8x | 12.4x | 15.9x | 13.8x | 12.5x | 11.9% | 13.9% | 15.6% | 16.4% |
| General Electric | NYSE: GE | US$ | 7.29 | 63,811 | 11.2x | 11.2x | -123.1x | 22.0x | 13.9x | 9.4x | 27.6x | 13.3x | 10.3x | 12.0% | 4.9% | 9.9% | 12.1% |
| United Technologies | NYSE: UTX | US$ | 61.46 | 93,890 | 3.2x | 12.6x | 21.4x | 16.1x | 12.4x | 8.7x | 14.3x | 11.3x | 9.6x | 18.1% | 13.4% | 15.8% | 17.2% |
| **Average** | | | | | | **13.8x** | **-27.0x** | **18.5x** | **13.7x** | **10.1x** | **19.3x** | **12.8x** | **10.8x** | **14.0%** | **10.7%** | **13.8%** | **15.2%** |
| **Bombardier** | **TSX: BBD.B** | **C$** | **$0.33** | **788** | **25.6x** | **-1.0x** | **-0.4x** | **-1.1x** | **-5.1x** | 8.9x | 27.6x | 9.6x | 7.4x | **5.5%** | **2.1%** | **14.2%** | **17.1%** |

Source: Company reports, FactSet, and RBC Capital Markets estimates for Bombardier. Priced at market close on October 19, 2020

## Appendix 3: EIF comparables

| | | | 19-Oct | Mkt Cap | EBITDA (MM) | | | | | EBITDA Margin (MM) | | | | EV/EBITDA | | | | Net Debt/ | Div. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Symbol | | Price | ($MM) | 2018 | 2019 | 2020E | 2021E | 2022E | 2019 | 2020E | 2021E | 2022E | 2019 | 2020E | 2021E | 2022E | EBITDA | Yield |
| **Aviation** | | | | | | | | | | | | | | | | | | | |
| Chorus Aviation Inc. | CHR | C$ | $2.30 | 376 | 285 | 337 | 332 | 384 | 413 | 24.7% | 35.4% | 38.7% | 36.2% | 7.7x | 7.8x | 6.7x | 6.3x | 6.7x | N/A |
| Cargojet Inc. | CJT | C$ | $229.07 | 3,573 | 128 | 156 | 258 | 254 | 268 | 32.1% | 40.8% | 39.8% | 39.7% | 26.6x | 16.1x | 16.4x | 15.5x | 2.2x | 0.4% |
| Alaska Airlines | ALK | US$ | $39.58 | 4,894 | 1,193 | 1,523 | - 948 | 706 | 1,232 | 17.3% | -25.8% | 11.8% | 15.8% | 4.2x | N/A | 9.0x | 5.2x | -1.6x | N/A |
| Hawaiian Airlines | HAL | US$ | $12.17 | 10,691 | 4,333 | 3,674 | 2,317 | 2,157 | 2,581 | 16.4% | 16.1% | 16.5% | 17.3% | 5.3x | 8.4x | 9.0x | 7.5x | 3.8x | 1.5% |
| Air Lease Corp. | AL | US$ | $30.44 | 3,463 | 1,556 | 1,842 | 1,920 | 2,152 | 2,519 | 91.3% | 92.6% | 92.0% | 91.1% | 9.3x | 8.9x | 8.0x | 6.8x | 7.1x | 2.0% |
| AerCap Holdings | AER | US$ | $28.54 | 3,701 | 4,010 | 4,306 | 3,768 | 3,619 | 3,966 | 87.2% | 80.4% | 81.2% | 89.1% | 7.4x | 8.4x | 8.8x | 8.0x | 7.4x | N/A |
| Air Transport Services Group | ATSG | US$ | $27.86 | 1,660 | 312 | 452 | 473 | 525 | 527 | 31.1% | 30.3% | 31.0% | 31.6% | 7.0x | 6.7x | 6.0x | 6.0x | 3.2x | N/A |
| FLY Leasing Ltd. | FLY | US$ | $7.01 | 214 | 386 | 509 | 309 | 314 | 319 | 88.5% | 87.1% | 92.0% | 88.8% | 4.1x | 6.7x | 6.6x | 6.5x | 6.0x | N/A |
| SkyWest Inc. | SKYW | US$ | $30.65 | 1,538 | 861 | 926 | 598 | 723 | 845 | 31.2% | 29.1% | 29.1% | 30.3% | 4.4x | 6.8x | 5.6x | 4.8x | 4.2x | N/A |
| **Airlines/Aerospace Average** | | | | | | | | | | **46.7%** | **42.9%** | **48.0%** | **48.9%** | **8.4x** | **8.7x** | **8.5x** | **7.4x** | **4.3x** | **1.3%** |
| **Manufacturing** | | | | | | | | | | | | | | | | | | | |
| Heroux-Devtek | HRX | C$ | $10.17 | 370 | 74 | 96 | 77 | 82 | 96 | 15.7% | 14.5% | 15.1% | 16.1% | 6.2x | 7.8x | 7.3x | 6.3x | 3.0x | N/A |
| Russel Metals | RUS | C$ | $19.06 | 1,185 | 368 | 215 | 144 | 213 | 205 | 5.8% | 5.3% | 6.9% | 6.7% | 7.7x | 11.6x | 7.8x | 8.1x | 3.3x | 8.0% |
| Magellan | MAL | C$ | $7.30 | 424 | 159 | 147 | 115 | 110 | 130 | 14.5% | 15.3% | 14.0% | 14.7% | 3.2x | 4.1x | 4.3x | 3.7x | 0.4x | 5.8% |
| Mastec | MTZ | US$ | $47.16 | 3,481 | 721 | 843 | 798 | 787 | 746 | 11.7% | 11.4% | 10.5% | 10.1% | 5.8x | 6.1x | 6.2x | 6.5x | 1.8x | N/A |
| New Flyer Industries Inc. | NFI | C$ | $15.77 | 986 | 420 | 447 | 191 | 358 | 429 | 11.1% | 6.2% | 9.9% | N/A | 4.1x | 9.6x | 5.1x | N/A | 4.4x | 5.4% |
| **Manufacturing Average** | | | | | | | | | | **11.8%** | **10.5%** | **11.3%** | **11.9%** | **5.4x** | **7.8x** | **6.2x** | **6.1x** | **2.6x** | **6.4%** |
| **Financial/Holding Companies** | | | | | | | | | | | | | | | | | | | |
| Alaris Royalty | AD | C$ | $12.26 | 436 | 82 | 101 | 84 | 102 | 120 | 87.4% | 100.9% | 82.9% | 83.3% | 6.7x | 8.0x | 6.6x | 5.6x | 2.8x | 9.5% |
| Diversified Royalty Corp. | DIV | C$ | $1.83 | 221 | 24 | 28 | 31 | 37 | - | 90.8% | 90.9% | 91.8% | NMF | 13.0x | 11.7x | 9.8x | NMF | 4.6x | 10.9% |
| **Financial/Holding Company Average** | | | | | | | | | | **89.1%** | **95.9%** | **87.4%** | **83.3%** | **9.8x** | **9.8x** | **8.2x** | **5.6x** | **3.7x** | **10.2%** |
| Airlines/Aerospace Average | | | | | | | | | | 46.7% | 42.9% | 48.0% | 48.9% | 8.4x | 8.7x | 8.5x | 7.4x | 4.3x | 1.3% |
| Manufacturing Average | | | | | | | | | | 11.8% | 10.5% | 11.3% | 11.9% | 5.4x | 7.8x | 6.2x | 6.1x | 2.6x | 6.4% |
| **Blended average (75/25)** | | | | | | | | | | **37.9%** | **34.8%** | **38.8%** | **39.6%** | **7.7x** | **8.5x** | **7.9x** | **7.1x** | **3.9x** | **2.6%** |
| **Exchange Income Corp.** | | **C$** | **$31.28** | **1,100** | **278** | **329** | **269** | **327** | **364** | **24.5%** | **22.0%** | **22.8%** | **23.3%** | **7.1x** | **8.7x** | **7.1x** | **6.4x** | **3.8x** | **7.3%** |

Priced as of market close October 19, 2020. Source: RBC estimates for EIF and CHR, FactSet consensus for all others. Note: EIF EV uses our 2021E net debt and share count.

## Appendix 4: AC Model Summary

**AIR CANADA (TSX: AC/B, TSX: AC/A)**

| FY Dec 31 | 2018 | 2019 | Q1/20 | Q2/20 | Q3/20E | Q4/20E | 2020E | Q1/21E | Q2/21E | Q3/21E | Q4/21E | 2021E | Q1/22E | Q2/22E | Q3/22E | Q4/22E | 2022E | Q1/23E | Q2/23E | Q3/23E | Q4/23E | 2023E | 2024E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Traffic / RPM (MMs) | 92,352 | 94,113 | 17,507 | 783 | 5,591 | 8,561 | 32,442 | 10,647 | 11,732 | 13,977 | 10,702 | 47,057 | 14,147 | 15,232 | 17,477 | 14,202 | 61,057 | 19,147 | 20,232 | 22,477 | 19,202 | 81,057 | 94,113 |
| *% change* | 8.5% | 1.9% | -17.8% | -96.7% | -80.0% | -60.0% | -65.5% | -39.2% | 1398.3% | 150.0% | 25.0% | 45.0% | 32.9% | 29.8% | 25.0% | 32.7% | 29.8% | 35.3% | 32.8% | 28.6% | 35.2% | 32.8% | 16.1% |
| Capacity / ASM (MMs) | 110,862 | 112,814 | 23,511 | 2,243 | 6,491 | 10,572 | 42,818 | 13,008 | 13,955 | 16,229 | 13,216 | 56,407 | 17,647 | 18,732 | 20,977 | 17,702 | 75,057 | 22,647 | 23,732 | 25,977 | 22,702 | 95,057 | 112,814 |
| *% change* | 7.1% | 1.8% | -9.6% | -92.0% | -80.0% | -60.0% | -62.0% | -44.7% | 522.1% | 150.0% | 25.0% | 31.7% | 35.7% | 34.2% | 29.3% | 33.9% | 33.1% | 28.3% | 26.7% | 23.8% | 28.2% | 26.6% | 18.7% |
| Load Factor (%) | 83.3% | 83.4% | 74.5% | 34.9% | 86.1% | 81.0% | 75.8% | 81.8% | 84.1% | 86.1% | 81.0% | 83.4% | 80.2% | 81.3% | 83.3% | 80.2% | 81.3% | 84.5% | 85.3% | 86.5% | 84.6% | 85.3% | 83.4% |
| *change (% pts)* | 1.0% | 0.1% | -7.4% | -49.2% | 0.0% | 0.0% | -7.7% | 7.4% | 49.2% | 0.0% | 0.0% | 7.7% | -1.7% | -2.8% | -2.8% | -0.7% | -2.1% | 4.4% | 3.9% | 3.2% | 4.4% | 3.9% | -1.8% |
| Yield ($) | 0.176 | 0.183 | 0.182 | 0.264 | 0.174 | 0.186 | 0.201 | 0.178 | 0.177 | 0.175 | 0.177 | 0.177 | 0.175 | 0.173 | 0.172 | 0.173 | 0.173 | 0.175 | 0.173 | 0.172 | 0.173 | 0.173 | 0.173 |
| *% change* | 3.1% | 4.4% | 2.2% | 43.5% | -6.2% | 0.0% | 9.9% | -2.0% | -33.0% | 1.0% | -5.0% | -12.2% | -2.0% | -2.0% | -2.0% | -2.0% | -2.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| RASM (Rev per unit of capacity, cents) | 14.6 | 15.3 | 13.6 | 9.2 | 14.9 | 15.1 | 13.9 | 14.6 | 14.9 | 15.1 | 14.3 | 14.7 | 14.0 | 14.1 | 14.3 | 13.9 | 14.1 | 14.8 | 14.8 | 14.9 | 14.7 | 14.8 | 14.4 |
| CASM (Costs per unit of capacity, cents) | 14.9 | 15.5 | 17.7 | 82.3 | 29.5 | 22.8 | 24.1 | 19.2 | 18.7 | 16.5 | 19.3 | 18.3 | 17.3 | 16.8 | 15.2 | 17.3 | 16.6 | 16.4 | 15.7 | 14.7 | 16.2 | 15.7 | 15.1 |
| Fuel Cost/ASM (cents) | 4.0 | 3.9 | 3.6 | 5.5 | 3.2 | 3.2 | 3.5 | 3.3 | 3.4 | 3.3 | 3.4 | 3.3 | 3.4 | 3.4 | 3.3 | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 |
| CASM (excl. fuel) (cents) | 10.9 | 11.6 | 14.1 | 76.8 | 26.3 | 19.5 | 20.6 | 15.8 | 15.4 | 13.2 | 15.9 | 15.0 | 13.9 | 13.4 | 11.8 | 13.9 | 13.2 | 13.0 | 12.2 | 11.4 | 12.8 | 12.3 | 11.6 |
| **Total Revenues** | **18,065** | **19,154** | **3,722** | **527** | **1,263** | **1,951** | **7,463** | **2,359** | **2,642** | **2,806** | **2,277** | **10,084** | **2,898** | **3,206** | **3,279** | **2,806** | **12,189** | **3,984** | **3,926** | **4,250** | **3,783** | **15,942** | **18,238** |
| *% change* | 11.2% | 6.0% | -16.1% | -88.9% | -77.3% | -55.9% | -61.0% | -36.6% | 401.4% | 122.2% | 16.7% | 35.1% | 22.8% | 21.3% | 16.9% | 23.2% | 20.9% | 37.5% | 22.5% | 29.6% | 34.8% | 30.8% | 14.4% |
| Wages, salaries and benefits | 2873 | 3184 | 796 | 464 | 475 | 490 | 2225 | 482 | 566 | 522 | 613 | 2183 | 544 | 638 | 589 | 691 | 2461 | 641 | 752 | 694 | 814 | 2901 | 3420 |
| *% Sales* | 15.9% | 16.6% | 21.4% | 88.0% | 37.6% | 25.1% | 29.8% | 20.4% | 21.4% | 18.6% | 26.9% | 21.6% | 18.8% | 19.9% | 18.0% | 24.6% | 20.2% | 16.1% | 19.2% | 16.3% | 21.5% | 18.2% | 18.8% |
| Aircraft Fuel - total | 4489 | 4444 | 836 | 124 | 209 | 342 | 1511 | 434 | 470 | 537 | 445 | 1887 | 604 | 639 | 699 | 601 | 2544 | 778 | 814 | 872 | 774 | 3237 | 3857 |
| *% Sales* | 24.8% | 23.2% | 22.5% | 23.5% | 16.5% | 17.5% | 20.2% | 18.4% | 17.8% | 19.2% | 19.6% | 18.7% | 20.8% | 19.9% | 21.3% | 21.4% | 20.9% | 19.5% | 20.7% | 20.5% | 20.5% | 20.3% | 21.1% |
| Sales and distribution costs | 807 | 874 | 183 | 13 | 120 | 150 | 466 | 107 | 110 | 124 | 97 | 437 | 144 | 147 | 160 | 130 | 582 | 185 | 186 | 198 | 167 | 737 | 874 |
| *% Sales* | 4.5% | 4.6% | 4.9% | 2.5% | 9.5% | 7.7% | 6.2% | 4.5% | 4.1% | 4.4% | 4.3% | 4.3% | 5.0% | 4.6% | 4.9% | 4.6% | 4.8% | 4.7% | 4.7% | 4.7% | 4.4% | 4.6% | 4.8% |
| Catering and onboard services | 433 | 445 | 97 | 23 | 25 | 42 | 187 | 54 | 56 | 63 | 53 | 224 | 73 | 75 | 81 | 70 | 299 | 93 | 95 | 100 | 90 | 379 | 449 |
| *% Sales* | 2.4% | 2.3% | 2.6% | 4.4% | 2.0% | 2.2% | 2.5% | 2.3% | 2.1% | 2.2% | 2.3% | 2.2% | 2.5% | 2.3% | 2.5% | 2.5% | 2.5% | 2.3% | 2.4% | 2.4% | 2.4% | 2.4% | 2.5% |
| Aircraft maintenance | 903 | 1004 | 270 | 181 | 175 | 225 | 851 | 208 | 217 | 216 | 213 | 853 | 245 | 255 | 254 | 250 | 1004 | 252 | 263 | 262 | 258 | 1034 | 1065 |
| *% Sales* | 5.0% | 5.2% | 7.3% | 34.3% | 13.9% | 11.5% | 11.4% | 8.8% | 8.2% | 7.7% | 9.3% | 8.5% | 8.5% | 8.0% | 7.7% | 8.9% | 8.2% | 6.3% | 6.7% | 6.2% | 6.8% | 6.5% | 5.8% |
| Airport and navigation fees | 964 | 990 | 228 | 113 | 57 | 92 | 490 | 126 | 135 | 142 | 115 | 518 | 155 | 166 | 184 | 154 | 659 | 198 | 211 | 227 | 198 | 834 | 990 |
| *% Sales* | 5.3% | 5.2% | 6.1% | 21.4% | 4.5% | 4.7% | 6.6% | 5.3% | 5.1% | 5.1% | 5.1% | 5.1% | 5.3% | 5.2% | 5.6% | 5.5% | 5.4% | 5.0% | 5.4% | 5.3% | 5.2% | 5.2% | 5.4% |
| Communications and information technolo | 294 | 397 | 135 | 91 | 19 | 44 | 289 | 51 | 56 | 48 | 55 | 209 | 69 | 75 | 62 | 73 | 279 | 88 | 95 | 77 | 94 | 354 | 418 |
| *% Sales* | 1.6% | 2.1% | 3.6% | 17.3% | 1.5% | 2.2% | 3.9% | 2.2% | 2.1% | 1.7% | 2.4% | 2.1% | 2.4% | 2.3% | 1.9% | 2.6% | 2.3% | 2.2% | 2.4% | 1.8% | 2.5% | 2.2% | 2.3% |
| Other | 3487 | 3553 | 872 | 353 | 297 | 459 | 1980 | 421 | 474 | 504 | 406 | 1806 | 521 | 578 | 592 | 504 | 2195 | 722 | 711 | 835 | 685 | 2953 | 3392 |
| *% Sales* | 19.3% | 18.5% | 23.4% | 67.0% | 23.5% | 23.5% | 26.5% | 17.9% | 17.9% | 18.0% | 17.8% | 17.9% | 18.0% | 18.0% | 18.0% | 18.0% | 18.0% | 18.1% | 18.1% | 19.6% | 18.1% | 18.5% | 18.6% |
| Regional airline expense (ex fuel and DAR) | 1999 | 1847 | 471 | 172 | 107 | 166 | 916 | 186 | 210 | 223 | 179 | 797 | 231 | 258 | 264 | 224 | 976 | 324 | 319 | 410 | 307 | 1359 | 1568 |
| *% Sales* | 11.1% | 9.6% | 12.7% | 32.6% | 8.5% | 8.5% | 12.3% | 7.9% | 7.9% | 8.0% | 7.8% | 7.9% | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% | 8.1% | 8.1% | 9.6% | 8.1% | 8.5% | 8.6% |
| **Total Operating Costs** | **14,250** | **14,891** | **3,417** | **1,362** | **1,376** | **1,843** | **7,999** | **1,883** | **2,083** | **2,156** | **1,996** | **8,118** | **2,355** | **2,574** | **2,620** | **2,473** | **10,022** | **2,959** | **3,127** | **3,265** | **3,078** | **12,429** | **14,465** |
| **EBITDA** | **3,213** | **3,636** | **71** | **(832)** | **(184)** | **8** | **(937)** | **329** | **501** | **607** | **216** | **1,653** | **344** | **555** | **603** | **245** | **1,747** | **769** | **701** | **916** | **592** | **2,977** | **3,146** |
| *% of sales* | 17.8% | 19.0% | 1.9% | -157.9% | -14.5% | 0.4% | -12.6% | 13.9% | 19.0% | 21.6% | 9.5% | 16.4% | 11.9% | 17.3% | 18.4% | 8.7% | 14.3% | 19.3% | 17.8% | 21.6% | 15.6% | 18.7% | 17.2% |
| Depreciation, amortization and impairment | 1,717 | 1,986 | 504 | 487 | 468 | 464 | 1,923 | 464 | 473 | 482 | 490 | 1,909 | 506 | 504 | 503 | 502 | 2,015 | 497 | 492 | 488 | 484 | 1,961 | 1,895 |
| **EBIT (Excluding Special Charges)** | **1,496** | **1,650** | **(433)** | **(1,319)** | **(652)** | **(456)** | **(2,860)** | **(135)** | **28** | **125** | **(274)** | **(256)** | **(162)** | **50** | **100** | **(257)** | **(269)** | **271** | **208** | **428** | **108** | **1,016** | **1,250** |
| *% of sales* | 8.3% | 8.6% | -11.6% | -250.3% | -51.6% | -23.4% | -38.3% | -5.7% | 1.1% | 4.5% | -12.0% | -2.5% | -5.6% | 1.6% | 3.1% | -9.2% | -2.2% | 6.8% | 5.3% | 10.1% | 2.9% | 6.4% | 6.9% |
| **Net Income** | **547** | **1,020** | **(392)** | **(1,752)** | **(761)** | **(565)** | **(3,470)** | **(264)** | **(108)** | **12** | **(395)** | **(755)** | **(219)** | **(90)** | **(17)** | **(283)** | **(608)** | **90** | **38** | **220** | **(13)** | **335** | **539** |
| **EPS (F.D) ($) (Exc. Special charges)** | **$ 1.99** | **$ 3.75** | **$ (1.49)** | **$ (6.44)** | **$ (2.80)** | **$ (2.08)** | **$ (12.76)** | **$ (0.97)** | **$ (0.40)** | **$ 0.04** | **$ (1.45)** | **$ (2.78)** | **$ (0.80)** | **$ (0.33)** | **$ (0.06)** | **$ (1.04)** | **$ (2.24)** | **$ 0.33** | **$ 0.14** | **$ 0.81** | **$ (0.05)** | **$ 1.23** | **$ 1.98** |
| **Net debt** | **5,214** | **3,353** | **4,565** | **5,040** | **6,501** | **7,268** | **7,268** | **7,268** | **7,452** | **7,658** | **8,313** | **8,313** | **8,082** | **8,076** | **8,271** | **8,424** | **8,424** | **8,179** | **8,009** | **7,595** | **7,503** | **7,503** | **6,370** |
| **Net debt/LTM EBITDA** | **1.6x** | **0.9x** | **1.5x** | **3.7x** | **-23.2x** | **-7.8x** | **-7.8x** | **-10.7x** | **11.4x** | **5.3x** | **5.0x** | **5.0x** | **4.8x** | **4.7x** | **4.8x** | **4.8x** | **4.8x** | **3.8x** | **3.5x** | **2.9x** | **2.5x** | **2.5x** | **2.0x** |

Source: RBC CM estimates, Company reports

## Appendix 5: BBD Model Summary

| Summary Income Statement (in US $MM's) | 2018 | 2019 | Q1/20 | Q2/20 | Q3/20E | Q4/20E | 2020E | Q1/21E | Q2/21E | Q3/21E | Q4/21E | 2021E | Q1/22E | Q2/22E | Q3/22E | Q4/22E | 2022E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Aerospace Key Drivers** | | | | | | | | | | | | | | | | | |
| Business Jet Deliveries | 137 | 144 | 26 | 20 | 25 | 43 | 114 | 31 | 28 | 31 | 43 | 133 | 32 | 30 | 33 | 46 | 142 |
| *Delivery Growth* | *-2.1%* | *5.1%* | *8.3%* | *-44.4%* | *-21.9%* | *-17.3%* | *-20.8%* | *19.2%* | *40.0%* | *24.0%* | *0.0%* | *16.7%* | *4.5%* | *8.6%* | *7.9%* | *5.8%* | *6.6%* |
| Commercial Jet Deliveries | 30 | 29 | 5 | 0 | 5 | 6 | 16 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *Delivery Growth* | *-58.3%* | *-3.3%* | *25.0%* | *-100.0%* | *25.0%* | *50.0%* | *-44.8%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* |
| Total Aircraft Deliveries | 167 | 173 | 31 | 20 | 30 | 49 | 130 | 31 | 28 | 31 | 43 | 133 | 32 | 30 | 33 | 46 | 142 |
| **Transportation Key Drivers** | | | | | | | | | | | | | | | | | |
| Transportation Backlog | 34,500 | 35,800 | 35,841 | 35,844 | 35,604 | 35,363 | 35,363 | 36,271 | 36,433 | 36,343 | 36,254 | 36,254 | 37,261 | 37,450 | 37,381 | 37,311 | 37,311 |
| *Backlog Growth* | *3.5%* | *1.8%* | *2.0%* | *1.7%* | *1.3%* | *1.0%* | *1.0%* | *1.2%* | *1.6%* | *2.1%* | *2.5%* | *2.5%* | *2.7%* | *2.8%* | *2.9%* | *2.9%* | *2.9%* |
| Book-to-Bill | 1.1 | 1.2 | 1.3 | 1.0 | 0.9 | 0.9 | 1.0 | 1.4 | 1.1 | 1.0 | 1.0 | 1.1 | 1.4 | 1.1 | 1.0 | 1.0 | 1.1 |
| **Segmented results** | | | | | | | | | | | | | | | | | |
| **Bombardier Aviation (BA)** | | | | | | | | | | | | | | | | | |
| Revenue | 7,324 | 7,503 | 1,523 | 1,223 | 1,116 | 1,881 | 5,742 | 1,334 | 1,244 | 1,381 | 1,740 | 5,700 | 1,419 | 1,355 | 1,498 | 1,868 | 6,141 |
| EBIT | 472 | 531 | 25 | -20 | 45 | 94 | 144 | 107 | 100 | 110 | 139 | 456 | 156 | 149 | 165 | 206 | 675 |
| *Margin %* | 6.4% | 7.1% | 1.6% | -1.6% | 4.0% | 5.0% | 2.5% | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% | 11.0% | 11.0% | 11.0% | 11.0% | 11.0% |
| **Bombardier Transportation (BT)** | | | | | | | | | | | | | | | | | |
| Revenue | 8,916 | 8,269 | 2,169 | 1,479 | 1,856 | 2,032 | 7,535 | | | | | | | | | | |
| EBIT | 750 | 70 | 51 | -377 | 54 | 79 | -193 | | | | | | | | | | |
| *Margin %* | 8.4% | 0.8% | 2.4% | -25.9% | 2.9% | 3.9% | -2.6% | | | | | | | | | | |
| **Bombardier Consolidated** | | | | | | | | | | | | | | | | | |
| Total Revenues | 16,237 | 15,759 | 3,691 | 2,702 | 2,971 | 3,912 | 13,276 | 1,334 | 1,244 | 1,381 | 1,740 | 5,700 | 1,419 | 1,355 | 1,498 | 1,868 | 6,141 |
| Total EBITDA | 1,304 | 871 | 171 | -319 | 167 | 261 | 281 | 188 | 178 | 205 | 239 | 810 | 241 | 232 | 264 | 310 | 1,047 |
| Total EBIT | 1,029 | 470 | 60 | -427 | 48 | 123 | -195 | 107 | 100 | 110 | 139 | 456 | 156 | 149 | 165 | 206 | 675 |
| *EBIT Margin %* | 6.3% | 3.0% | 1.6% | -15.8% | 1.6% | 3.2% | -1.5% | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% | 11.0% | 11.0% | 11.0% | 11.0% | 11.0% |
| Net Income Before Special Items | 438 | (396) | (169) | (631) | (232) | (121) | (1,153) | (244) | (56) | (117) | (54) | (472) | (96) | 33 | (5) | 33 | (34) |
| **EPS Before Special Items** | **$ 0.14** | **$ (0.25)** | **$ (0.10)** | **$ (0.30)** | **$ (0.11)** | **$ (0.07)** | **$ (0.58)** | **$ (0.11)** | **$ (0.03)** | **$ (0.06)** | **$ (0.03)** | **$ (0.23)** | **$ (0.05)** | **$ 0.01** | **$ (0.01)** | **$ 0.01** | **$ (0.05)** |
| CFPS $(Basic) | $ 0.27 | $ (0.09) | $ (0.07) | $ (0.27) | $ (0.05) | $ (0.01) | $ (0.40) | $ (0.06) | $ (0.03) | $ (0.03) | $ (0.01) | $ (0.12) | $ (0.02) | $ 0.01 | $ 0.02 | $ 0.03 | $ 0.04 |
| Net debt | 5,911 | 6,747 | 7,286 | 7,183 | 8,085 | 6,672 | 6,723 | 3,679 | 4,358 | 4,742 | 3,526 | 3,526 | 4,398 | 4,999 | 5,284 | 3,983 | 3,983 |

Source: RBC CM estimates, Company reports

## Appendix 6: CHR Model Summary

**Chorus Aviation (TSX: CHR)**

| FY Dec 31 | 2018 | 2019 | Q1/20 | Q2/20 | Q3/20E | Q4/20E | 2020E | Q1/21E | Q2/21E | Q3/21E | Q4/21E | 2021E | Q1/22E | Q2/22E | Q3/22E | Q4/22E | 2022E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Chorus Aviaition Income Statement ($MM)** | | | | | | | | | | | | | | | | | |
| **Revenue** | **1,451** | **1,366** | **350** | **184** | **198** | **206** | **939** | **233** | **238** | **254** | **269** | **993** | **289** | **276** | **286** | **289** | **1140** |
| *% change* | **7.3%** | **-5.8%** | **1.8%** | **-44.6%** | **-43.6%** | **-39.1%** | **-31.3%** | **-33.5%** | **29.3%** | **28.0%** | **30.1%** | **5.8%** | **24.1%** | **15.9%** | **12.6%** | **7.8%** | **14.8%** |
| Salaries, wages and benefits | 443 | 471 | 136 | 54 | 47 | 49 | 286 | 55 | 68 | 76 | 85 | 283 | 84 | 87 | 88 | 88 | 348 |
| *% Sales* | 31% | 34% | 39% | 29% | 24% | 24% | 30% | 23% | 28% | 30% | 32% | 28% | 29% | 31% | 31% | 31% | 30% |
| Depreciation and amortization | 121 | 137 | 38 | 49 | 31 | 32 | 150 | 36 | 36 | 36 | 36 | 144 | 37 | 37 | 38 | 38 | 150 |
| *% Sales* | 8% | 10% | 11% | 27% | 15% | 16% | 16% | 16% | 15% | 14% | 13% | 15% | 13% | 14% | 13% | 13% | 13% |
| Aircraft maintenance | 241 | 208 | 49 | 12 | 18 | 19 | 99 | 28 | 20 | 28 | 32 | 108 | 39 | 24 | 32 | 36 | 132 |
| *% Sales* | 17% | 15% | 14% | 7% | 9% | 9% | 10% | 12% | 8% | 11% | 12% | 11% | 14% | 9% | 11% | 12% | 12% |
| Airport and navigation fees | 170 | 170 | 38 | 4 | 9 | 10 | 61 | 10 | 11 | 12 | 12 | 46 | 19 | 18 | 18 | 18 | 72 |
| *% Sales* | 12% | 12% | 11% | 2% | 5% | 5% | 7% | 4% | 5% | 5% | 5% | 5% | 7% | 6% | 6% | 6% | 6% |
| Terminal handling | 22 | 20 | 5 | 1 | 5 | 5 | 16 | 5 | 5 | 5 | 5 | 20 | 5 | 5 | 5 | 5 | 20 |
| *% Sales* | 1% | 1% | 1% | 1% | 2% | 2% | 2% | 2% | 2% | 2% | 2% | 2% | 2% | 2% | 2% | 2% | 2% |
| Other | 140 | 160 | 37 | 29 | 38 | 45 | 148 | 37 | 29 | 40 | 47 | 152 | 37 | 30 | 40 | 48 | 155 |
| *% Sales* | 10% | 12% | 10% | 16% | 19% | 22% | 16% | 16% | 12% | 16% | 17% | 15% | 13% | 11% | 14% | 17% | 14% |
| Total Operating Expenses | 1,235 | 1,166 | 303 | 151 | 147 | 159 | 760 | 171 | 169 | 196 | 217 | 754 | 222 | 201 | 221 | 233 | 877 |
| Operating Income | 217 | 200 | 47 | 34 | 51 | 47 | 178 | 62 | 69 | 58 | 51 | 240 | 67 | 75 | 65 | 57 | 263 |
| **Adjusted EBITDA** | **338** | **339** | **89** | **83** | **82** | **79** | **332** | **98** | **105** | **94** | **87** | **384** | **104** | **112** | **102** | **94** | **413** |
| *% of sales* | 23.3% | 24.8% | 25.3% | 44.9% | 41.3% | 38.3% | 35.4% | 42.1% | 44.1% | 37.0% | 32.5% | 38.7% | 36.1% | 40.6% | 35.8% | 32.6% | 36.2% |
| **Net Income** | **33** | **137** | **18** | **6** | **23** | **18** | **65** | **31** | **36** | **28** | **23** | **118** | **35** | **41** | **33** | **27** | **136** |
| **EPS (F.D) ($) (Excluding Special charges)** | **$0.47** | **$0.84** | **$0.15** | **$0.18** | **$0.14** | **$0.11** | **$0.32** | **$0.19** | **$0.22** | **$0.17** | **$0.14** | **$0.72** | **$0.21** | **$0.25** | **$0.20** | **$0.16** | **$0.83** |
| **CFPS (F.D) ($) (Excluding Special charges)** | **$2.00** | **$1.68** | **$0.40** | **$0.39** | **$0.33** | **$0.31** | **$1.42** | **$0.41** | **$0.44** | **$0.39** | **$0.36** | **$1.60** | **$0.44** | **$0.48** | **$0.43** | **$0.40** | **$1.74** |
| Net debt | 1,409 | 1,746 | 1,868 | 1,929 | 2,095 | 2,211 | 2,211 | 2,174 | 2,132 | 2,098 | 2,069 | 2,069 | 2,053 | 2,032 | 2,018 | 2,010 | 2,010 |
| **Net debt/LTM EBITDA** | **3.2x** | **5.2x** | **5.3x** | **5.5x** | **6.1x** | **6.7x** | **6.7x** | **6.4x** | **5.9x** | **5.6x** | **5.4x** | **5.4x** | **5.3x** | **5.1x** | **5.0x** | **4.9x** | **4.9x** |

Source: Company reports, RBC Capital Markets estimates

## Appendix 7: EIF Model Summary

**Exchange Income Corporation**

| (CAD $000's unless otherwise indicated) | 2018 | Q1/19 | Q2/19 | Q3/19 | Q4/19 | 2019 | Q1/20 | Q2/20 | Q3/20E | Q4/20E | 2020E | Q1/21E | Q2/21E | Q3/21E | Q4/21E | 2021E | 2022E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Segmented revenues** | | | | | | | | | | | | | | | | | |
| Aviation revenues | 883,962 | 216,744 | 238,884 | 266,471 | 252,640 | 974,739 | 200,693 | 139,892 | 199,853 | 214,744 | 755,182 | 190,658 | 209,838 | 249,817 | 246,956 | 897,269 | 994,273 |
| Manufacturing revenues | 319,430 | 80,272 | 87,023 | 88,693 | 110,647 | 366,635 | 106,283 | 103,765 | 125,467 | 132,860 | 468,375 | 128,409 | 125,840 | 138,014 | 146,146 | 538,408 | 569,632 |
| **Segmented EBITDA** | | | | | | | | | | | | | | | | | |
| Aviation EBITDA | 247,910 | 57,626 | 79,046 | 81,956 | 80,562 | 299,190 | 48,638 | 46,788 | 59,956 | 64,423 | 219,805 | 49,571 | 69,247 | 74,945 | 74,087 | 267,849 | 301,441 |
| Manufacturing EBITDA | 52,211 | 13,013 | 15,752 | 12,527 | 14,443 | 55,735 | 14,125 | 21,745 | 18,820 | 19,929 | 74,619 | 20,931 | 20,512 | 22,496 | 23,822 | 87,761 | 93,989 |
| **Revenues, Net** | **1,203,392** | **297,016** | **325,907** | **355,164** | **363,287** | **1,341,374** | **306,976** | **243,657** | **325,320** | **347,604** | **1,223,557** | **319,067** | **335,678** | **387,830** | **393,102** | **1,435,677** | **1,563,905** |
| Revenue growth (Y/Y) | 18.8% | 11.6% | 4.0% | 15.2% | 15.1% | 11.5% | 76.5% | -25.2% | -8.4% | -4.3% | -8.8% | 3.9% | 37.8% | 19.2% | 13.1% | 17.3% | 8.9% |
| **Aviation expenses** | **513,863** | **129,292** | **128,339** | **146,948** | **139,664** | **544,243** | **118,311** | **72,010** | **111,918** | **120,257** | **422,495** | **112,870** | **112,473** | **139,897** | **138,295** | **503,535** | **554,266** |
| Aviation expenses (% of sales) | 42.7% | 43.5% | 39.4% | 41.4% | 38.4% | 40.6% | 38.5% | 29.6% | 34.4% | 34.6% | 34.5% | 35.4% | 33.5% | 36.1% | 35.2% | 35.1% | 35.4% |
| **Manufacturing expenses** | **228,766** | **56,994** | **60,221** | **65,701** | **81,235** | **264,151** | **78,221** | **70,022** | **90,650** | **95,991** | **334,884** | **91,356** | **89,529** | **98,190** | **103,976** | **383,051** | **404,296** |
| Manufacturing expenses (% of sales) | 44.5% | 44.1% | 46.9% | 44.7% | 58.2% | 48.5% | 66.1% | 97.2% | 81.0% | 79.8% | 79.3% | 80.9% | 79.6% | 70.2% | 75.2% | 76.1% | 72.9% |
| **Gross profit** | **460,763** | **110,730** | **137,347** | **142,515** | **142,388** | **532,980** | **110,444** | **101,625** | **122,752** | **131,356** | **466,177** | **114,841** | **133,676** | **149,743** | **150,831** | **549,091** | **605,343** |
| Gross margin | 38.3% | 37.3% | 42.1% | 40.1% | 39.2% | 39.7% | 36.0% | 41.7% | 37.7% | 37.8% | 38.1% | 36.0% | 39.8% | 38.6% | 38.4% | 38.2% | 38.7% |
| **EBITDA** | **278,695** | **63,808** | **85,748** | **93,454** | **91,381** | **334,391** | **51,299** | **62,010** | **72,270** | **77,400** | **262,979** | **64,120** | **83,045** | **89,685** | **90,046** | **326,896** | **364,152** |
| EBITDA Margin (%) | 23.2% | 21.5% | 26.3% | 26.3% | 25.2% | 24.9% | 16.7% | 25.4% | 22.2% | 22.3% | 21.5% | 20.1% | 24.7% | 23.1% | 22.9% | 22.8% | 23.3% |
| EBITDA growth (Y/Y) | 10.9% | 16.1% | 15.1% | 19.3% | 29.0% | 20.0% | -19.6% | -27.7% | -22.7% | -15.3% | -21.4% | 25.0% | 33.9% | 24.1% | 16.3% | 24.3% | 11.4% |
| **Adj. EBITDA (company definition)** | **277,765** | **63,826** | **87,237** | **89,002** | **88,748** | **328,813** | **57,254** | **62,075** | **72,270** | **77,400** | **268,999** | **64,120** | **83,045** | **89,685** | **90,046** | **326,896** | **364,152** |
| Adj. EBITDA Margin (%) | 23.1% | 21.5% | 26.8% | 25.1% | 24.4% | 24.5% | 18.7% | 25.5% | 22.2% | 22.3% | 22.0% | 20.1% | 24.7% | 23.1% | 22.9% | 22.8% | 23.3% |
| Adj. EBITDA growth (Y/Y) | 11.7% | 18.2% | 16.2% | 12.4% | 27.7% | 18.4% | -10.3% | -28.8% | -18.8% | -12.8% | -18.2% | 12.0% | 33.8% | 24.1% | 16.3% | 21.5% | 11.4% |
| **EBIT** | **140,508** | **23,239** | **43,566** | **51,174** | **46,387** | **164,366** | **6,094** | **17,874** | **29,978** | **32,212** | **86,158** | **22,642** | **39,407** | **39,267** | **38,943** | **140,258** | **160,844** |
| Depreciation and Amort. | 138,187 | 40,569 | 42,182 | 42,280 | 44,994 | 170,025 | 45,205 | 44,136 | 42,292 | 45,189 | 176,821 | 41,479 | 43,638 | 50,418 | 51,103 | 186,638 | 203,308 |
| Interest Expense | 51,706 | 14,520 | 14,970 | 15,031 | 13,999 | 58,520 | 14,125 | 13,008 | 13,597 | 13,620 | 54,350 | 13,739 | 13,762 | 13,785 | 14,383 | 55,669 | 58,912 |
| Taxes | 18,033 | 1,231 | 6,721 | 7,153 | 7,105 | 22,210 | -2,733 | 2,236 | 4,423 | 5,020 | 8,946 | 2,404 | 6,924 | 6,880 | 6,631 | 22,839 | 27,522 |
| **Adj. net income** | **97,421** | **12,724** | **29,473** | **37,292** | **33,781** | **113,270** | **2,058** | **5,645** | **14,958** | **16,572** | **39,233** | **6,499** | **18,721** | **18,602** | **17,929** | **61,750** | **74,410** |
| Weighted average shares outstanding (diluted) | 34,750 | 32,202 | 37,901 | 40,003 | 34,703 | 38,094 | 34,729 | 35,743 | 35,154 | 35,154 | 35,154 | 35,154 | 35,154 | 35,154 | 35,154 | 35,154 | 35,154 |
| **Adj. EPS (FD)** | **2.80** | **0.40** | **0.78** | **0.93** | **0.97** | **2.97** | **0.06** | **0.16** | **0.43** | **0.47** | **1.12** | **0.18** | **0.53** | **0.53** | **0.51** | **1.76** | **2.12** |
| **Cash flow from operations (CFO)** | **164,643** | **34,738** | **41,137** | **75,296** | **66,066** | **217,237** | **45,739** | **69,330** | **32,437** | **88,870** | **236,376** | **74,623** | **53,826** | **74,673** | **43,602** | **246,724** | **262,982** |
| Changes in working capital | -55,598 | -12,144 | -28,479 | 2,642 | -7,077 | -45,058 | 1,175 | 21,870 | -23,812 | 28,110 | 27,342 | 24,645 | -10,532 | 3,653 | -27,431 | -9,664 | -22,736 |
| **FCF from operations (company definition)** | **223,363** | **44,246** | **65,729** | **67,166** | **68,631** | **245,772** | **38,749** | **42,268** | **50,250** | **54,760** | **186,027** | **43,978** | **58,359** | **65,019** | **65,032** | **232,388** | **261,718** |
| Maintenance capital expenditures | 108,996 | 26,524 | 31,196 | 30,281 | 31,696 | 119,697 | 36,450 | 16,856 | 24,399 | 26,070 | 103,775 | 25,525 | 26,854 | 31,026 | 31,448 | 114,854 | 125,112 |
| Growth capital expenditures | 49,005 | 41,082 | 16,392 | 32,060 | 29,790 | 119,324 | 14,381 | 12,301 | 16,266 | 20,856 | 63,804 | 19,144 | 20,141 | 23,270 | 23,586 | 86,141 | 93,834 |
| **FCF from operations less maintenance capex (company definition)** | **114,367** | **17,722** | **34,533** | **36,885** | **36,935** | **126,075** | **2,299** | **25,412** | **25,851** | **28,690** | **82,252** | **18,452** | **31,505** | **33,993** | **33,584** | **117,534** | **136,606** |
| FCF growth (Y/Y) | 24.4% | 80.1% | 16.4% | -10.7% | 8.3% | 10.2% | -87.0% | -26.4% | -29.9% | -22.3% | -34.8% | 702.6% | 24.0% | 31.5% | 17.1% | 42.9% | 16.2% |
| FCF % of revenue | 9.5% | 6.0% | 10.6% | 10.4% | 10.2% | 9.4% | 0.7% | 10.4% | 7.9% | 8.3% | 6.7% | 5.8% | 9.4% | 8.8% | 8.5% | 8.2% | 8.7% |
| Adj.EBITDA conversion | 41.2% | 27.8% | 39.6% | 41.4% | 41.6% | 38.3% | 4.0% | 40.9% | 35.8% | 37.1% | 30.6% | 28.8% | 37.9% | 37.9% | 37.3% | 36.0% | 37.5% |
| **Free Cash Flow (CFO - total capex)** | **6,642** | **-32,868** | **-6,451** | **12,955** | **4,580** | **-21,784** | **-5,092** | **40,173** | **-8,228** | **41,943** | **68,796** | **29,954** | **6,831** | **20,377** | **-11,433** | **45,729** | **44,035** |
| FCF % of revenue | 0.6% | -11.1% | -2.0% | 3.6% | 1.3% | -1.6% | -1.7% | 16.5% | -2.5% | 12.1% | 5.6% | 9.4% | 2.0% | 5.3% | -2.9% | 3.2% | 2.8% |
| Adj.EBITDA conversion | 2.4% | -51.5% | -7.4% | 14.6% | 5.2% | -6.6% | -8.9% | 64.7% | -11.4% | 54.2% | 25.6% | 46.7% | 8.2% | 22.7% | -12.7% | 14.0% | 12.1% |
| Dividend payout ratio (FCF less maintenance capex) | 59.9% | 97.0% | 51.1% | 49.2% | 53.5% | 57.7% | 861.3% | 78.2% | 77.5% | 69.8% | 97.0% | 108.6% | 63.6% | 58.9% | 61.8% | 68.8% | 61.2% |
| Dividend payout ratio (FCF less total capex) | 1030.7% | -52.3% | -273.5% | 140.1% | 431.5% | -333.9% | -388.9% | 49.5% | -243.5% | 47.8% | 115.9% | 66.9% | 293.3% | 98.3% | -181.4% | 176.8% | 190.0% |
| Net debt | 938,364 | 1,094,517 | 1,116,906 | 1,132,028 | 1,121,957 | 1,121,957 | 1,201,297 | 1,155,840 | 1,231,826 | 1,204,230 | 1,204,230 | 1,194,123 | 1,206,973 | 1,205,755 | 1,236,998 | 1,236,998 | 1,272,990 |
| **Net debt/LTM EBITDA** | **3.4x** | **3.8x** | **3.7x** | **3.7x** | **3.4x** | **3.4x** | **3.7x** | **3.9x** | **4.4x** | **4.5x** | **4.5x** | **4.3x** | **4.1x** | **3.8x** | **3.8x** | **3.8x** | **3.5x** |
| **Net debt/LTM EBITDA (covenant metric, excl. converts)** | **2.5x** | **2.3x** | **2.3x** | **2.3x** | **2.1x** | **2.1x** | **2.4x** | **2.5x** | **2.9x** | **2.9x** | **2.9x** | **2.8x** | **2.7x** | **2.6x** | **2.6x** | **2.6x** | **2.5x** |

Source: Company reports, RBC CM Estimates

# Required disclosures

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RBC Capital Markets is currently providing Air Canada with non-securities services.

RBC Capital Markets has provided Air Canada with investment banking services in the past 12 months.

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

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

The Class A shares of Air Canada are variable voting shares.

Kathleen P. Taylor, the Chair of the Board of Royal Bank of Canada, is a Director of Air Canada.

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..

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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.

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

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

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

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

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

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

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RBC Capital Markets has provided Exchange Income Corporation with investment banking services in the past 12 months.

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

## 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.
As of March 31, 2020, RBC Capital Markets discontinued its Top Pick rating. Top Pick rated securities represented an analysts best idea in the sector; expected to provide significant absolute returns over 12 months with a favorable risk-reward ratio. Top Pick rated securities have been reassigned to our Outperform rated securities category, which are securities expected to materially outperform sector average over 12 months.

**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.

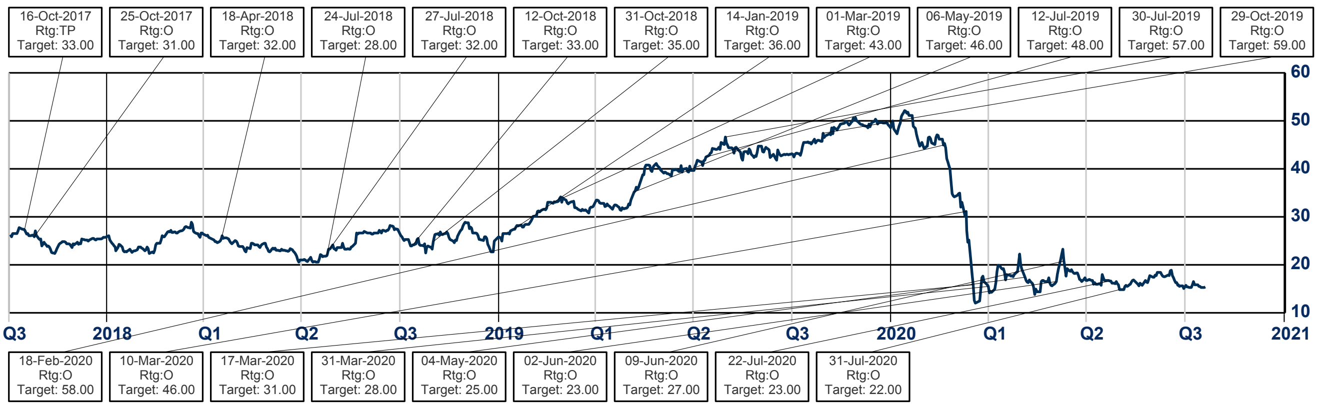
## Distribution of ratings

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-Sep-2020**

| | | | Investment Banking Serv./Past 12 Mos. | |
|---|---|---|---|---|
| **Rating** | **Count** | **Percent** | **Count** | **Percent** |
| BUY [Outperform] | 788 | 52.96 | 248 | 31.47 |
| HOLD [Sector Perform] | 619 | 41.60 | 135 | 21.81 |
| SELL [Underperform] | 81 | 5.44 | 11 | 13.58 |

**Rating and price target history for: Air Canada, AC CN as of 19-Oct-2020 (in CAD)**




Legend:
TP: Top Pick; 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: Bombardier Inc., BBD/B CN as of 19-Oct-2020 (in CAD)**


Legend:
TP: Top Pick; 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
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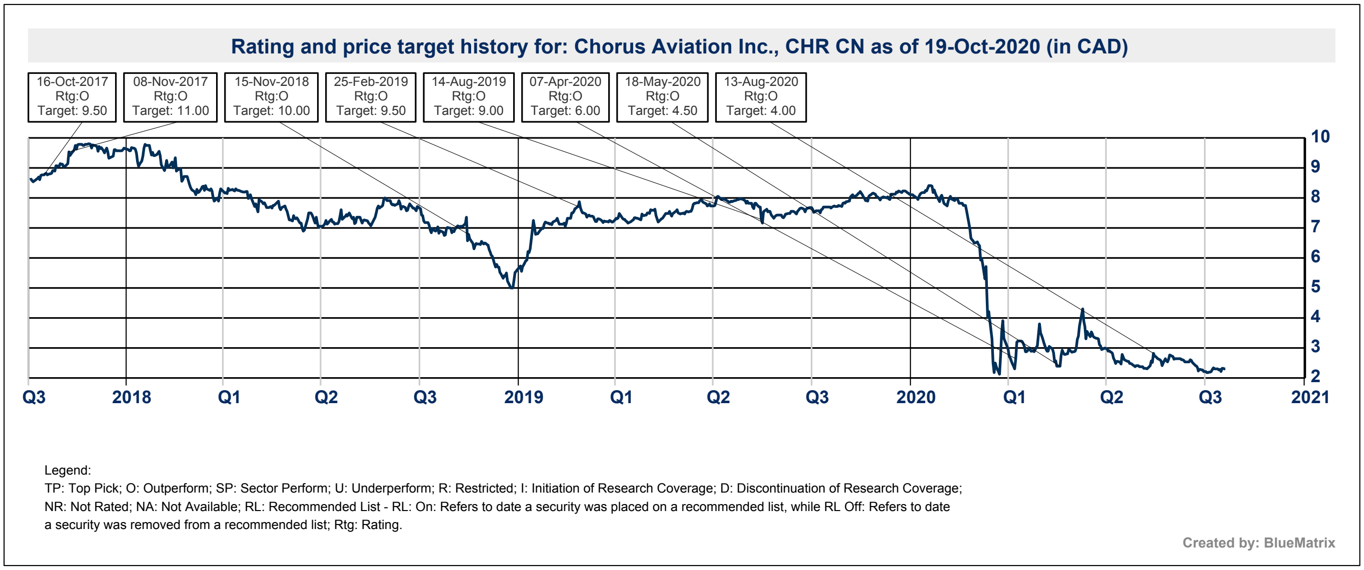


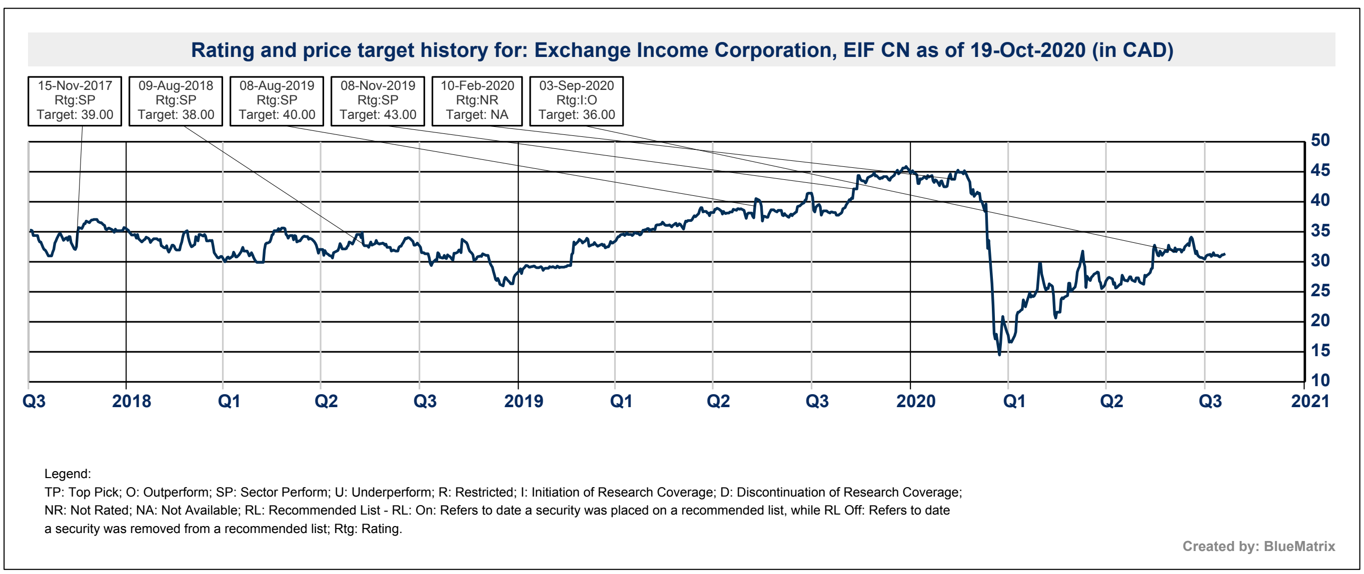


References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: ADR (RL 10), and the Guided Portfolio: All Cap Growth (RL 12). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. 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.

## 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 https://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**

On a 5x EV/EBITDA applied to our 2024 estimates (which we then discount back three years at 13%), we derive our price target of $23.00. Our target multiple is higher than the historical group average multiple, which we believe is justified by our view that the industry will return to “normal” by 2024. Our base case reflects the following assumptions: 1) near-term headwinds from COVID-19 followed by a return to “normal” by 2024; (2) a reduction in capital intensity out to 2021E; and (3) a widely distributed vaccine by the end of 2021. The implied return to our price target supports our Outperform 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 capturing domestic market share. Air Canada is only partially hedged to changes in jet fuel prices.

**Bombardier Inc.**

**Valuation**

Our price target is $0.40. We apply a target multiple of 4x to our 2022 estimate, which is applied to our $1,047MM EBITDA estimate for BA in 2022. Our target multiple is based on a significant discount to peers, reflecting deal risk and an uncertain demand environment. Our price target supports our Sector Perform rating. We apply a Speculative Risk qualifier owing to the company’s high debt level, elevated deal risk, and uncertain demand environment.

**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, demand from railways for Bombardier trains, and demand for business jets. There is now also the risk that the sale of BT to Alstom does not get regulatory approval. We also see risk to reopening plans and should they cease due to COVID-19, we see this leading to further production halts. For these reasons, our earnings estimates could be more at risk than for most companies.

**Chorus Aviation Inc.**

**Valuation**

Our $3.00 price target is derived from a sum-of-the-parts valuation. We value Chorus's core-CPA segment at a 4.75x EV/EBITDA multiple based on our 2022 estimates and we value the company's leasing segment at a 4.75x P/E multiple based on our assumptions for operating and funding costs attributable to the segment. This generates our $3.00 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 the shares of EIF, we apply a blended 6.9x EV/EBITDA multiple (7.0x for Aviation & Aerospace and 6.5x for Manufacturing) on our $364MM 2022E EBITDA – reflecting a valuation blend of 76% Aviation & Aerospace and 24% Manufacturing. We apply our target multiples to our 2022E EBITDA for each segment, which we believe accurately reflects a more normalized operating environment. This takes us to our $36 price target. Our price target supports an Outperform rating on the stock.

**Risks to rating and price target**

**Access to external capital.** A key aspect of EIF's growth strategy is the acquisition of companies in order to expand and diversify the corporation's portfolio. The corporation requires funds to execute on these acquisitions. If the capital markets' desire for income-producing investments (such as the common shares and debentures issued by EIF) were to significantly decrease, EIF could have difficulty executing its acquisition and growth capital investment objectives.

**Acquisition integration and related risks.** While the company has a solid track record of identifying and making accretive acquisitions, EIF's ability to successfully grow or diversify through additional acquisitions is dependent on a number of factors. These include the identification of suitable acquisition targets, the negotiation of purchase agreements on satisfactory terms and prices, securing attractive financing arrangements, and, the integration of newly acquired operations into the existing business.

**Pandemic-related (second wave) risk.** As seen with the COVID-19 pandemic, the spread of contagious disease could have a significant impact on passenger demand for air travel and on global supply chains, making it unable to access required inputs for operations. This type of event, though unpredictable, would have a negative impact on revenue and profitability at EIF. On the other hand, this event could increase the demand for medical travel services.

**Significant contract risk.** EIF and its subsidiaries are currently parties to a number of significant contracts with key customers, including governments. Although EIF's significant contracts are spread over a number of different subsidiaries, which reduces the over-reliance on a customer, 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. The Aerospace & Aviation subsidiaries currently focus on niche markets in Canada and would be exposed to downside earnings risk from an existing competitor expanding into these niche markets or from a well-capitalized new competitor. Similarly, increased competition from new and existing competitors in the Manufacturing segment could drive down revenue and profitability, however, the level of competition is likely to be lower for products with higher degrees of customization.

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