



**AIR CANADA**

at the

## **Cowen 12<sup>th</sup> Annual Global Transportation Conference**

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# Caution Regarding Forward-looking Information

*This presentation includes forward-looking statements within the meaning of applicable securities laws. Forward-looking statements relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These statements may involve, but are not limited to, comments relating to preliminary results, guidance, strategies, expectations, planned operations or future actions. Forward-looking statements are identified using terms and phrases such as "preliminary", "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions.*

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*This presentation also includes certain non-GAAP financial measures used by Air Canada to provide readers with additional information on its financial and operating performance. Such measures are not recognized measures for financial statement presentation under GAAP, do not have standardized meanings, may not be comparable to similar measures presented by other entities and should not be considered a substitute for or superior to GAAP results. Readers are advised to review the section entitled Non-GAAP Financial Measures in Air Canada's First Quarter 2019 MD&A for a further discussion of such non-GAAP measures and a reconciliation of such measures to Canadian GAAP.*



# Significant Progress

- ✓ Sustainably profitable over long term
- ✓ Delivered on commitments
- ✓ Significantly lower risk profile
- ✓ ROIC well in excess of WACC
- ✓ Named **Best Airline in North America** for third consecutive year (2019 Skytrax World Airline Awards)

# Opportunities Ahead

New reservation system and technology investments



Loyalty



# Improved Key Financial Targets

On March 15, 2019, Air Canada announced that, following Transport Canada's safety notice closing Canadian airspace to Boeing 737 MAX aircraft until further notice, the Federal Aviation Administration's temporary grounding order and Boeing's decision to suspend MAX deliveries to airline customers, it was suspending all financial guidance in respect of 2019, and maintaining the financial guidance for 2020 and 2021 in respect of annual EBITDA margins, annual ROIC and cumulative free cash flow over the 2019-2021 period.

	2019 Currently Suspended	Over the period 2020-2021*
✓ <b>Annual EBITDA margin</b>	19% – 22%	19% – 22%
✓ <b>Annual return on invested capital</b>	16% – 20%	16% – 20%
✓ <b>Leverage ratio</b>	No more than 1.2 by end of 2019	
	<b>Over the period 2019-2021</b>	
✓ <b>Cumulative free cash flow</b>	\$4.0B – \$4.5B	

For additional information, including related assumptions, refer to Air Canada's February 28, 2019 news release

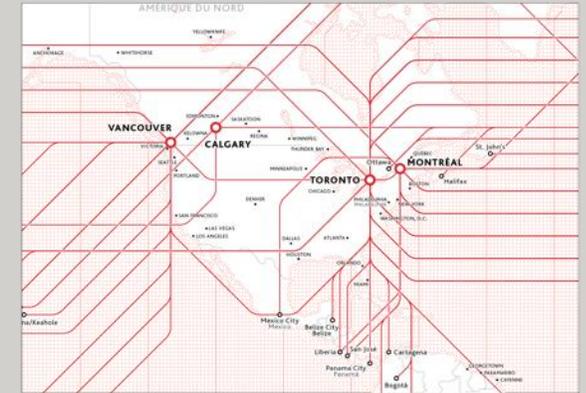
\*Guidance provided as at February 28, 2019



# EBITDA Margin Drivers

## Unique Competitive Advantages

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# EBITDA Margin Drivers

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- ✓ Investments in technology – new reservation system
  - **Annual incremental benefits of \$100M+**
- ✓ \$250M Cost Transformation Program completed
  - **Achieved \$262M in savings by Q2 2019**
- ✓ Replacement of less-efficient narrow-body aircraft
- ✓ Incremental benefits from extended capacity purchase agreement with Jazz
- ✓ Acquisition of Aeroplan loyalty business and launch of new program



# Cost Reduction Remains a Priority

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## Air Canada Rouge

- Adjusted CASM is 29% lower than mainline

## Cost Transformation Program

- Renegotiation of agreements

## Fleet



**Boeing 787**

**29% CASM** advantage over the Boeing 767



**Boeing 737 MAX**

**11% CASM** advantage over the Mainline Airbus A320\*



**Airbus A220**

**12% CASM** advantage over the Embraer E190

- Complete restructuring of regional fleet

\*Note: Boeing 737 MAX fleet is grounded until further notice

# Increased Competitiveness in Regional Sector

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Amended CPA with Jazz – estimated NPV of \$275M (2019 to 2025)

- \$97M equity investment at time of issuance – excellent value for shareholders

Jazz CPA extended by 10 years (2026 to 2035)

- Provides significant network benefits
- Bolsters strength of Air Canada Express brand
- Improves coast-to-coast regional network
- Air Canada Rouge backfilling certain routes



# Loyalty

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- Enhance existing program from 2019 to summer 2020 and then launch of new program
- NPV in excess of \$2.5B
- Materially contributes to free cash flow
- Improves seasonality
- Reduces risk profile from introduction of new program



**AIR CANADA**



- Arrangement Agreement concluded on June 27<sup>th</sup> and Amending Agreement concluded on August 11<sup>th</sup> – approved by almost 95% of shareholders on August 23<sup>rd</sup> 2019
- Air Canada to acquire 100% of all issued and outstanding shares of Transat A.T. for \$18 per share – value of the all-cash transaction is approximately \$720 million
- Superior Court of Quebec granted a final order approving the Plan of Arrangement for the proposed combination of Air Canada and Transat A.T. Inc. on August 29<sup>th</sup> 2019
- Transat A.T. unrestricted cash of \$796 million at April 30<sup>th</sup>
- Combination of ***Skytrax Best Airline in North America*** and ***Skytrax Best Leisure Airline in the World*** to create Montreal-based global leader in leisure, tourism and travel distribution, offering Canadians choices to more destinations and promoting two-way tourism
- Transat A.T. and Transat A.T. brands to be maintained to complement the Air Canada, Air Canada Rouge and Air Canada Vacations brands
- Transat A.T. head office and key functions to be preserved in Montreal
- Purchase of outstanding Transat A.T. shares subject to regulatory approvals



# Boeing 737 MAX Update

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- Grounded worldwide in mid-March 2019
- B737 MAX deliveries currently suspended
- AC had 24 737 MAX aircraft in operation, an additional 12 planned to be delivered by July 2019 and 14 more planned to be delivered in first half of 2020
- AC assumes the 12 B737 MAX aircraft which had been scheduled to be delivered by July 2019 will now be delivered in 2020
- Significant mitigation plan put in place
  - Lease extensions, wet leases, suspensions or consolidations of routes
  - Operated 97% of capacity plan in Q2; expect to cover 95% in Q3
- Economic impact to Air Canada will be discussed with Boeing in due course
- No visibility or reliable timing for return to service – Reflecting prudent approach to scheduling, AC removing B737 MAX aircraft from schedule until at least January 8, 2020



# Lower Level of Capital Expenditures Results in Stronger Free Cash Flow



**Narrow-body fleet replacement program** – average mainline fleet age 6.5 years at end of 2021



**\$600M - \$800M annually in non-aircraft expenditures** focused on investments in technology



**Level of projected capital expenditures to decline** to \$1.6B by end of 2021

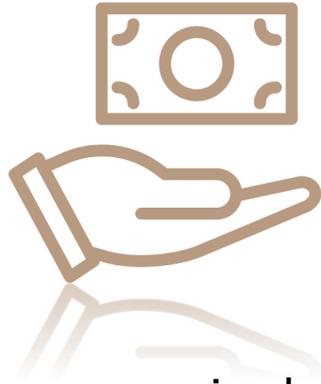


By middle of next decade, **certain Rouge aircraft will need to be replaced due to their age**



# Capital Allocation Strategy

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**Cumulative free cash flow\* of  
\$4.0B to \$4.5B over the period  
2019-2021**

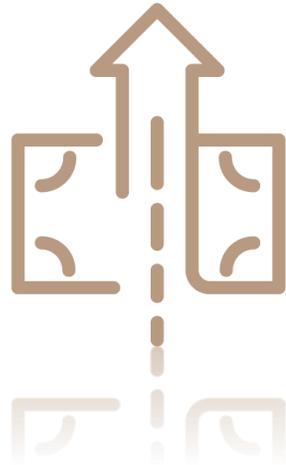
- Continue to aggressively manage debt levels by maintaining balance sheet at investment grade level
- Purchased aircraft delivered in 2019 with excess cash – planning to purchase the majority of 2020 aircraft deliveries with excess cash
- Share buyback program

\* Excludes the net proceeds on the closing of the Aeroplan transaction



# Air Canada's Credit Rating Strengthened, Advancing Us to Our Goal of Investment Grade Status

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**Since 2012, Air Canada's credit rating improved**

**S&P**

5-notch improvement to BB+ (stable)

**Moody's**

5-notch improvement to Ba2 (stable)



# Much Stronger Balance Sheet

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- ✓ **Lowered leverage ratio to 0.9\* from 1.6**  
at end of December 31, 2018
- ✓ **Average cost of debt and lease liabilities of 5.2%\***
- ✓ **Average cost of capital of 7.2%\*,**  
830 basis points lower than ROIC of 15.5%\*
- ✓ **Freed up collateral by purchasing new aircraft**
- ✓ **Currently US\$3.0B unencumbered assets**
- ✓ **Record unrestricted liquidity of \$6.9B\***

\*at June 30, 2019



# Financial Risks are Very Well Managed

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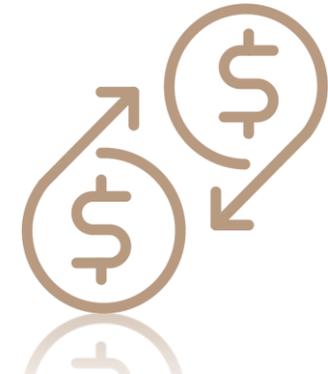
## PENSION

- \$2.5B solvency surplus at January 1, 2019
- 82.5% of liabilities matched with fixed income products
- No past service or current service payments required to domestic registered pension plans



## FUEL RISK MANAGEMENT

- Flexible program
- Hedging program in place and utilized as warranted



## FOREIGN EXCHANGE RISK MANAGEMENT

- U.S cash reserves
- Derivative contracts
- 70% coverage for 18 months

# Much More Resilient to Economic Downturns

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- ✓ Higher margins
- ✓ Lower cost structure
- ✓ Record liquidity levels
- ✓ Lower leverage ratio
- ✓ Unencumbered asset pool
- ✓ Diversified network – less dependent on domestic
- ✓ Flexible and more efficient fleet
- ✓ Ability to defer new aircraft future deliveries
- ✓ Lease mix allows Air Canada to permanently reduce capacity if required



# Much More Resilient to Economic Downturns

## Unencumbered aircraft

- Air Canada and Air Canada Rouge



**Q2 2019**

**79**  
(31%)

**By end of  
2019**

**81**  
(31%)

**Currently 55% of combined Mainline and Rouge is leased –**  
Ratio will decrease as Air Canada purchases more aircraft with cash



# Summary

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- ✓ Record results
- ✓ Improved key financial targets
- ✓ New Jazz agreement – net present value of \$275M
- ✓ Loyalty program – net present value in excess of \$2.5B
- ✓ Arrangement Agreement with Transat
- ✓ Lower risk profile – record liquidity levels, large unencumbered asset pool and pension solvency surplus
- ✓ Lower leverage ratio supports Investment Grade credit rating
- ✓ Adjusted CASM performance in line with U.S. network carriers
- ✓ More resilient to economic downturns than ever before
- ✓ Engaged workforce:
  - One of Canada’s Best Diversity Employers – Mediacorp Canada
  - One of Montreal’s Top Employers – Mediacorp Canada
  - One of 50 Most Engaged Workplaces – Achievers Awards
  - Recognized for Diversity in Leadership – Airline Strategy Awards
- ✓ Multiple industry awards:
  - Four-Star ranking – Skytrax
  - Best Airline in North America - Skytrax
  - Best Business Class in North America – Trip Advisor
  - Best Premium Economy Class – Business Traveler
  - Best Airline for Onboard Entertainment – Business Traveler





***Thank you***

