



RBC Capital Markets

## Automotive, Transportation & Industrials Conference

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# Air Canada – Transforming into a Global Champion



# Business Plan Progress

- Record EBITDAR<sup>(1)</sup> of \$2,768M and EBITDAR<sup>(1)</sup> margin of 18.9% in 2016
- Operating income of \$1,345M in 2016
- ROIC<sup>(1)</sup> of 14.7% at December 31, 2016
- Fleet initiatives and capital programs on target
  - 26 B787s in operating fleet
  - B787s meeting financial and operational expectations
- Delivering a permanently lower cost structure
  - Committed and on track to realizing CASM savings of 21% (excluding impact of FX and fuel prices) by the end of 2018 when compared to 2012 baseline
- Enterprise and financial risk reduced
  - Route diversification
  - Pension
  - Balance sheet leverage
  - Long-term labour contracts
  - Fleet flexibility



As reported on February 17, 2017

<sup>(1)</sup> These measures are non-GAAP financial measures used by Air Canada in an effort to provide additional information on Air Canada's financial and operating performance. Such measures however 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. Reconciliations of these measures to comparable GAAP measures for the relevant periods can be found in Air Canada's MD&A reports, available at [aircanada.com](http://aircanada.com).

# Global Champion Strategy



## Fleet & Network

- Star Alliance
- A++ Joint Venture
- Modern fleet / Seat density
- Extensive route rights
- Favourable slot times at busy airports
- Swing capacity



## Brand

- New Livery
- Iconic Canadian brand
- Operational Excellence
- Award winning products/services
- Only airline among Canada's Top 50 brands
- Rouge



## Commercial Strategy

- Toronto - a true global hub
- 6th freedom connection traffic
- Improving premium value proposition
- Competitive leisure offering



## Geography

- AC hubs are en route to Europe & Asia
- Logical connection for U.S. origins and destinations
- Easy transfer/transit process



## People & Experience

- 30,000+ dedicated employees
- Top 100 Employers in Canada – 4<sup>th</sup> consecutive year
- One of Canada's Best Diversity Employers for 2017 – 2<sup>nd</sup> consecutive year
- Long-term labour stability with all major unions

**Safe & Reliable Operation**

# Our Four Priorities

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1 International expansion



2 Cost reduction and revenue growth



3 Customer engagement



4 Culture change





# 1 International expansion

- 2 Cost reduction and revenue growth
- 3 Customer engagement
- 4 Culture change

# Transformation Plan

*Accelerated, balanced transformation of Air Canada towards sustained profitability*

## Network Optimization

- Strategic international growth
- Increase diversification of route portfolio
- Leverage Rouge model
- Sixth freedom focus
- Leverage strategic Toronto geography

## Aircraft Growth and Reconfiguration

- Delivery of B787s
- Densification and optimization of fleet configurations
- Replacement of mainline narrowbody fleet with B737 MAX and Bombardier C-Series
- Leverage best in class products and services

## Flexibility to Adjust to Shifting Market Conditions

- Swing capacity
- Leverage long-term labour agreements

*Team culture*

▪ *Customer centricity*

▪ *Delivering brand promise*



## More Than 90% of Projected Capacity Growth is Aimed at International Markets

- Focused on selective expansion of network and developing synergies offered by alliances with other carriers
- Historically, margins have been the highest on international routes
- Leveraging strengths internationally, including extensive and expanding global network, geographically well-positioned hubs and competitive products and services
- Launched 28 new routes in 2016 and launched or announced more than 20 new routes for 2017 (such as **Toronto**-Mumbai, Berlin & Belize; **Vancouver**-Taipei, Nagoya & Melbourne; **Montreal**-Shanghai, Algiers, Marseille & Lima)
- Natural consequence – anticipated negative yield impact due to increased average stage lengths and a greater mix of leisure revenues vs business revenues
- Incremental traffic is being flown at a significantly lower-cost (B787s, increased seats on B777s, and Air Canada Rouge) resulting in enhanced profitability
- Diversified network lowers risk profile

# Capacity Growth is Largely Through Seat Density & Larger Gauge Aircraft

		2016	2017
Mainline – new international destinations		24%	21%
Mainline – higher seat density & larger gauge		33%	39%
Air Canada Rouge – new international leisure markets		9%	6%
Air Canada Rouge – transborder & sun leisure destinations		24%	25%
Air Canada Express – capacity growth & larger gauge		10%	9%



# Fleet Plan



	<u>Actual</u> 2016	2017	<u>Planned</u> 2018
<b><u>WIDEBODY</u></b>			
Boeing 787-8	8	8	8
Boeing 787-9	13	22	27
Boeing 777-300ER	12	12	12
Boeing 777-300ER (higher-density)	7	7	7
Boeing 777-200LR	6	6	6
Boeing 767-300ER	14	8	5
Airbus A330-300	8	8	8
<b><u>NARROWBODY</u></b>			
Boeing 737 MAX-8	-	2	18
Airbus A319, A320, A321	75	75	67
Embraer 190	25	25	25
<b>TOTAL MAINLINE</b>	<b>168</b>	<b>173</b>	<b>183</b>
Boeing 767-300ER	20	24	25
Airbus A319, A321	25	25	25
<b>TOTAL AIR CANADA ROUGE</b>	<b>45</b>	<b>49</b>	<b>50</b>
<b>TOTAL WIDEBODY AIRCRAFT</b>	<b>88</b>	<b>95</b>	<b>98</b>
<b>TOTAL NARROWBODY AIRCRAFT</b>	<b>125</b>	<b>127</b>	<b>135</b>
<b>TOTAL MAINLINE AND AIR CANADA ROUGE</b>	<b>213</b>	<b>222</b>	<b>233</b>

## Fleet Flexibility

- Air Canada is positioned to adjust to changes in the economic environment with fully unencumbered, older aircraft (both widebody and narrowbody), and with a sizeable amount of staggered aircraft lease expiries
- Staggered Airbus narrowbody aircraft lease expiries give Air Canada the opportunity to manage capacity, either up or down, as it transitions to B737 MAX aircraft
- Longer-term flexibility exists in Air Canada's ability to defer a portion of B737 MAX aircraft deliveries

**48 aircraft  
owned and unencumbered  
by year-end 2017**

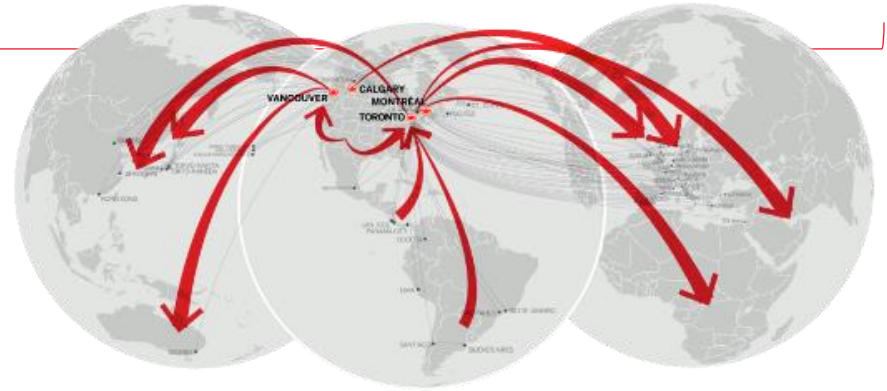
**(57 aircraft by Dec 31, 2018)**

**51 aircraft  
with leases expiring in  
the next three years**



# Leveraging Geography to Maximize 6th Freedom Traffic Potential

- Best-in-class connections process at Toronto Pearson
- International-to-U.S. & international-to-international connections process is **simple** and allows for **seamless connections**
  - Competitive **elapsed time**
  - No need to pick up and/or re-check **bags**
  - No need to change **terminals**
  - U.S. CBP pre-clearance facilities – Passengers arrive in U.S. with other **domestic** flights
  - Agreement with GTAA reduces CASM for incremental traffic growth at Toronto Pearson





- 1 International expansion
- 2 Cost reduction and revenue growth**
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# Air Canada Rouge – Provides Opportunities for Profitable Growth in Leisure Markets



- Air Canada Rouge is improving profitability and competitiveness in existing leisure markets and pursuing new opportunities in international leisure markets made viable by its competitive cost structure
- Air Canada Rouge fleet (comprised of Airbus A319s, A321s and B767s) is estimated to generate 25% lower CASM when compared to the same aircraft in the mainline fleet
- High-speed satellite internet available aboard A319s
- Air Canada Rouge leverages the strengths of Air Canada including
  - Its extensive network
  - Its enhanced connection options
  - Its operational expertise
  - Its frequent flyer program
- Awarded *“Best New Long-haul Airline”* at the Budapest Annual Awards

# Improving Competitiveness in Regional Markets

AIR CANADA   
express



## Diversification strategy

- Sky Regional & Air Georgian have very competitive cost structures
- Air Canada will continue to add scale to Sky Regional and Air Georgian

## Significant enhancements to Jazz CPA driven by fleet changes and pilot mobility agreement

- CPA extends to 2025
- Estimated \$550M in incremental value 2015-2020
- Competitive cost structure post-2020
- Incremental aircraft at competitive rates





## Other Opportunities for Margin Expansion

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- B737 MAX program – estimated 10% CASM reduction vs Airbus narrowbody fleet
- Agreement with Bombardier for acquisition of 45 firm Bombardier C-Series CS300 aircraft starting in late 2019 – 25 of these will replace Embraer 190 aircraft – estimated CASM reduction of 10%
- Revenue Management System – Optimization of pricing and inventory – Determined by origin and destination rather than by individual flight legs
- Buy-up through additions of Premium Economy cabin on widebody aircraft
- Improving ability to generate incremental passenger and ancillary revenue
- Announced decision to launch loyalty program in 2020





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# Engaging Our Customers



The only Four-Star international network carrier in North America

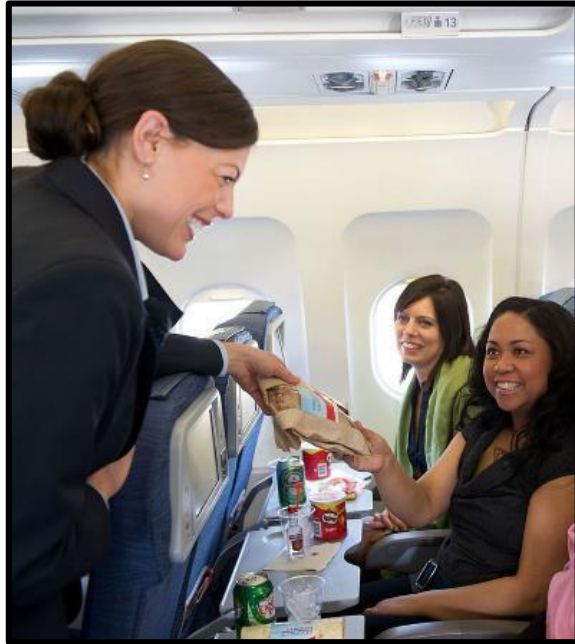
- Newly designed website – improves customer experience across all platforms
- Products and services, such as the Dreamliner with newly designed cabins and next generation in-flight entertainment
- Wi-Fi connectivity available on mainline narrowbody aircraft and Air Canada Rouge A319 aircraft; planned for mainline widebody aircraft and for Air Canada Rouge A321 and Boeing 767 aircraft
- Air Canada Altitude® which recognizes and rewards frequent flyers
- Dedicated check-in areas and premium agent services aimed at higher-yielding customers
- 22 Maple Leaf Lounges world-wide for the comfort and convenience of premium and business customers
- Air Canada Corporate Rewards program – designed to help businesses of all sizes book business travel, reserve cars, manage and share itineraries and keep track of business expenses and program rewards



# Customer Engagement Awards



The only Four-Star international network carrier in North America



- **2015 Skytrax Awards**
  - *Four-Star ranking*
- **2016 Business Traveler Magazine Awards named Air Canada**
  - *Best Airline in North America for International Travel*
- **2016 Global Traveler Magazine Awards named Air Canada**
  - *Best Airline in North America*
- **Fastest growing brand amongst the Top 50 Most Valuable Canadian Brands**





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# Culture Change – Employee Engagement

- Marked improvement in employee engagement
- Employees understand vision and strategy
- 9% of total issued shares held on employees' accounts
- Employee surveys and multiple awards demonstrate significant improvements in employee culture and engagement
  - 2017 - One of Canada's 15 Top Employers for Canadians Over 40
  - 2016 - Canada's 3<sup>rd</sup> Most Attractive Employer
  - 2016 – One of Canada's 10 Most Admired Corporate Cultures of 2016
  - 2016 - One of 50 Most Engaged Workplaces in North America



# 10-Year Labour Agreements With Most Major Unions

- **ACPA** – union representing 3,000 pilots
  - collective agreement terms for 10 years in effect until September 2024\*
- **Unifor** – union representing 4,000 customer service and sales agents
  - collective agreement terms for five years in effect until February 2020
- **CUPE** – union representing 7,200 flight attendants
  - collective agreement terms for 10 years in effect until March 2025\*
- **IAMAW** – union representing 7,500 machinists and aerospace workers
  - collective agreement terms for 10 years in effect until March 2026\*
- **CALDA** – union representing flight dispatchers
  - collective agreement terms for 12 years in effect until February 2028\*

\* Subject to certain renegotiation, provisions and/or benchmarks over this period





# **FINANCIAL RISK MANAGEMENT**



## Pension Deficit Eliminated – Significant Reallocation of Capital to Other Uses

- As at January 1, 2017, aggregate solvency surplus in domestic registered pension plans is \$1.9B\*
  - Plans are in a solvency surplus position, therefore no past service cost payments expected in 2017
  - Plans funded at 105% or more therefore no contributions are required for current service as long as the solvency position is not reduced to less than 105%
  - Total pension funding contributions are forecast to be \$90M, on a cash basis, for 2017
- Risk significantly mitigated
  - 75% of pension liabilities matched with fixed income products
  - Overall risk profile lower by 50%
- Improved financial flexibility to fund capital expenditure programs, lower debt levels and return value to shareholders

\*As reported on March 24, 2017



## Risk Mitigation – Fuel and Currency

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- Fuel hedging strategy designed to lock in booking curve profitability
  - Use of call options protects against short-term price spikes while allowing to participate 100% in fuel price declines
- Foreign exchange risk strategy is to cover 70% of net U.S. exposure on a rolling 18-month basis using derivatives and U.S. cash reserves
  - U.S. dollar revenues together with foreign currency net revenues converted to U.S. dollars essentially cover non-fuel U.S. dollar costs
  - Fuel expenses are a significant U.S. dollar requirement but the impact in Canadian dollars is mitigated by a correlation between the Canadian dollar and the price of crude oil
  - Impact of hedging benefits cash flow but hedging results reported in non-operating income



# Committed to Strengthening Balance Sheet Using Free Cash Flow

- \$8B in capital expenditures to acquire more efficient aircraft and improve the competitiveness of existing aircraft to better position Air Canada for the future
  - Access to EETC market at investment grade rates
- Lowering net debt and leverage levels is top priority followed by shareholder distributions via share buybacks
- Leverage ratio and credit ratings have improved
- Completed a highly successful \$1.25B refinancing transaction resulting in a reduction in weighted average cost of debt, interest expense savings and the release of collateral



## 2017 Guidance

Annual EBITDAR margin	15% - 18%
Annual ROIC (return on invested capital)	9% - 12%
Positive free cash flow	\$200M - \$500M

Air Canada remains on track to reduce CASM by 21 per cent (excluding the impact of foreign exchange and fuel prices) by the end of 2018 when compared to 2012, and to achieve a leverage ratio not exceeding 2.2 by 2018

- *Air Canada assumes relatively modest Canadian GDP growth for 2017 and 2018*

As reported on May 5, 2017



## Conclusion

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- ✓ Met key financial targets in 2016 – EBITDAR margin and ROIC
- ✓ Record EBITDAR results for fourth consecutive year
- ✓ Expect positive free cash flow in 2017
- ✓ Pension solvency surplus
- ✓ Engaged employees, as well as an experienced and results-driven management team
- ✓ Focused on value creation
  - Expand earnings through strategic initiatives
  - Stronger balance sheet – reducing net debt/share buyback program

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As reported on February 17, 2017





**Thank You**

