

# Air Canada Reports Third Quarter 2022 Financial Results

- *Operating margin of 12.1 per cent, first positive quarterly operating margin since the pandemic began*
- *Operating revenues of \$5.322 billion, more than double the third quarter of 2021*
- *Net loss of \$508 million compared to a net loss of \$640 million in the third quarter of 2021*
- *EBITDA margin\* of 19.9 per cent for the third quarter of 2022*
- *Total liquidity of over \$10.2 billion at September 30, 2022*

MONTREAL, Oct. 28, 2022 /CNW Telbec/ - Air Canada today reported its third quarter 2022 financial results.



Air Canada Logo (CNW Group/Air Canada)

"Air Canada's solid third quarter results stem from the ongoing restoration of our extensive network, an improved operational performance, our modern and efficient fleet, as well as leading products and services, and an incredible team of employees," said Michael Rousseau, President and Chief Executive Officer of Air Canada.

"We generated \$644 million in operating income with a strong operating margin of 12.1 per cent. This was the first quarter since the pandemic began in which we delivered positive operating income. In addition, we achieved significant improvements in other metrics from a year ago. Operating revenues more than doubled to \$5.3 billion, on a capacity growth of 130 per cent, and EBITDA\* increased to over a billion, with a margin of 19.9 per cent. Yields also improved, helping offset higher fuel prices. Air Canada Cargo is consistently contributing to our results and Aeroplan is continuing to perform extremely well with travel's return. Our transformed loyalty program's gross billings from points sold, purchase volume on co-brand cards, and new members are all at record highs.

"Despite the global disruption of air travel, through teamwork and focused efforts, we safely transported nearly 11.5 million customers to their destinations this quarter. We are further encouraged by continuing strong demand, now further stimulated by the easing of COVID-related restrictions. Advance ticket sales in the quarter were at 95 per cent of third quarter 2019 levels. In the third quarter, our adjusted unit cost or adjusted CASM\* improved by 38 per cent to 11.6 cents compared to the same period last year, and we will continue to carefully control costs. We ended the quarter with just over \$10.2 billion in total liquidity.

"Thanks to the hard work and commitment of our employees, after a difficult June and July, we saw significant operational improvement throughout August and September, with the operation today now on par with pre pandemic levels. Still, we know many customers experienced disruptions travelling this summer, and we sincerely regret any inconveniences that have occurred. We would like to thank our customers for their understanding and loyalty and assure them that the lessons of this operationally challenging period are now being applied to build greater resiliency going forward, and

to elevate the customer experience overall. Air Canada marked its 85<sup>th</sup> anniversary this quarter. We stand on a robust foundation and, with our most recent financial results, investments and strategic plan, are confident we have a bright future in connecting Canada and the world," said Mr. Rousseau.

### **Third Quarter 2022 Financial Results**

Air Canada reported the following results for the third quarter of 2022:

- Operating capacity, measured by Available Seat Miles (ASMs) more than doubled from the third quarter of 2021. Capacity in the third quarter was 79 per cent of the third quarter of 2019, in line with projections in Air Canada's second quarter 2022 earnings release, dated August 2, 2022.
- Passenger revenues of \$4.818 billion increased about three times from the third quarter of 2021, representing about 94 per cent of passenger revenues in the third quarter of 2019.
- Operating revenues of \$5.322 billion increased about two-and-a-half times from the third quarter of 2021.
- Operating expenses of \$4.678 billion increased \$2.211 billion from the third quarter of 2021.
- Cost per available seat mile (CASM) decreased to 18.3 cents from the third quarter 2021 CASM of 22.2 cents, a sequential decrease from CASM of 20.8 cents in the second quarter of 2022.
- Adjusted cost per available seat mile (Adjusted CASM)\* of 11.6 cents compared to third quarter 2021 adjusted CASM of 18.7 cents, a sequential decrease from Adjusted CASM of 13.1 cents in the second quarter of 2022. Compared to the third quarter of 2019, Adjusted CASM increased 14.8 per cent.
- Operating income of \$644 million compared to an operating loss of \$364 million in the third quarter of 2021, the first quarterly operating income since the pandemic began.
- EBITDA\* (excluding special items) or earnings before interest, taxes, depreciation, and amortization of \$1.057 billion, better than the negative EBITDA of \$67 million in the third quarter of 2021.
- Net loss of \$508 million (or \$1.42 per diluted share), compared to a net loss of \$640 million (or \$1.79 per diluted share) in the third quarter of 2021. Third quarter 2022 net loss included a foreign exchange loss of \$951 million.
- Net cash flows from operations of \$290 million compared to net cash flows from operations of \$305 million in the third quarter of 2021.

\* EBITDA (excluding special items), EBITDA margin, adjusted pre-tax income (loss), free cash flow, net debt, and adjusted CASM (discussed in this news release) are non-GAAP financial measures, non-GAAP ratios, or supplemental financial measures. 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. Refer to the "Non-GAAP Financial Measures" section of this news release for descriptions of Air Canada non-GAAP financial measures, non-GAAP ratios, and supplemental financial measures, and for a reconciliation of Air Canada non-GAAP measures used in this news release to the most comparable GAAP financial measure.

### **Outlook**

For the fourth quarter of 2022, Air Canada plans to increase its ASM capacity by about 60 per cent from the same quarter in 2021 (or approximately 85 per cent of fourth quarter 2019 ASM capacity).

Air Canada is now providing the following guidance for the full year 2022:

- Air Canada expects to have increased its full year 2022 ASM capacity by about 148 per cent from 2021 ASM levels (or about 73 per cent of 2019 ASM levels). Air Canada will continue to

adjust capacity and take other measures as required, including to account for passenger demand.

- For 2022, Air Canada expects Adjusted CASM to be about 16 to 18 per cent above 2019 levels. The variance to prior guidance is mainly due to an increase in wages, salaries and benefits, costs related to a higher number of passengers carried versus prior expectations (which translates into higher passenger service and distribution costs per ASM), as well as the impact of the weakening of the Canadian dollar.
- For 2022, Air Canada maintains its expectation of an annual EBITDA margin\* of about 8 to 11 per cent.

### *Major Assumptions*

Full year assumptions were made by Air Canada in preparing and making forward-looking statements. Among these, Air Canada assumes moderate Canadian GDP growth for 2022. Air Canada also assumes that the Canadian dollar will trade, on average, at C\$1.30 per U.S. dollar for the full year 2022 and that the price of jet fuel will average C\$1.33 per litre for the full year 2022.

### **Non-GAAP Financial Measures**

Below is a description of 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. Refer to the discussion below for descriptions of non-GAAP financial measures and to the tables accompanying this news release for reconciliations of the non-GAAP financial measures, used in this news release to the most comparable GAAP financial measures.

### **EBITDA**

EBITDA (earnings before interest, taxes, depreciation and amortization) is commonly used in the airline industry and is used by Air Canada as a means to view operating results before interest, taxes, depreciation and amortization as these costs can vary significantly among airlines due to differences in the way airlines finance their aircraft and other assets. Air Canada excludes special items from EBITDA as these items may distort the analysis of certain business trends and render comparative analysis across periods or to other airlines less meaningful.

### **EBITDA Margin**

EBITDA margin (EBITDA as a percentage of operating revenue) is commonly used in the airline industry and is used by Air Canada as a means to measure the operating margin before interest, taxes, depreciation and amortization as these costs can vary significantly among airlines due to differences in the way airlines finance their aircraft and other assets.

### **Operating Margin**

Operating margin (operating income (loss) as a percentage of operating revenues) is commonly used in the airline industry and is used by Air Canada as a means to view profitability after operating expenses before interest and taxes.

EBITDA, EBITDA margin, and operating margin are reconciled to GAAP operating income (or loss) as follows:

(Canadian dollars in millions, except where indicated)	Third Quarter		
	2022	2021	Change
Operating income (loss) – GAAP	\$ 644	\$ (364)	\$ 1,008
Add back:			

Depreciation and amortization	413	400	13
<b>EBITDA (including special items)</b>	<b>\$ 1,057</b>	<b>\$ 36</b>	<b>\$ 1,021</b>
<b>Remove:</b>			
Special items	-	(103)	103
<b>EBITDA (excluding special items)</b>	<b>\$ 1,057</b>	<b>\$ (67)</b>	<b>\$ 1,124</b>
<b>Operating revenues</b>	<b>\$ 5,322</b>	<b>\$ 2,103</b>	<b>\$ 3,219</b>
<b>Operating margin (%)</b>	<b>12.1</b>	<b>(17.3)</b>	<b>29.4 pp</b>
<b>EBITDA margin (%)</b>	<b>19.9</b>	<b>(3.2)</b>	<b>23.1 pp</b>

## Adjusted Cost per Available Seat Mile (CASM)

Air Canada uses adjusted CASM to assess the operating and cost performance of its ongoing airline business without the effects of aircraft fuel expense, the cost of ground packages at Air Canada Vacations, freighter costs, and special items as these items may distort the analysis of certain business trends and render comparative analysis across periods or to other airlines less meaningful.

In calculating adjusted CASM, aircraft fuel expense is excluded from operating expense results as it fluctuates widely depending on many factors, including international market conditions, geopolitical events, jet fuel refining costs and Canada/U.S. currency exchange rates. Air Canada also incurs expenses related to ground packages at Air Canada Vacations which some airlines, without comparable tour operator businesses, may not incur. In addition, these costs do not generate ASMs and therefore excluding these costs from operating expense results provides for a more meaningful comparison across periods when such costs may vary.

Air Canada also incurs expenses related to the operation of freighter aircraft which some airlines, without comparable cargo businesses, may not incur. Air Canada introduced one Boeing 767 dedicated freighter to its fleet in December 2021 and added a second Boeing 767 freighter in April 2022. In the second quarter of 2022, Air Canada took delivery of two new Boeing 767 freighter aircraft, which are expected to enter service in 2023. Air Canada expects to have a fleet of seven Boeing 767 dedicated freighters by the end of 2023 and expects to add a further three Boeing 767 freighters in 2024 and 2025 as well as two new Boeing 777 freighter aircraft with deliveries expected in 2024.

Prior to 2021, Air Canada did not incur any costs related to the operation of dedicated freighter aircraft. These costs do not generate ASMs and therefore excluding these costs from operating expense results provides for a more meaningful comparison across periods when such costs may vary.

Excluding aircraft fuel expense, the cost of ground packages at Air Canada Vacations, dedicated freighter expenses and special items from operating expenses generally allows for a more meaningful analysis of Air Canada's operating expense performance and a more meaningful comparison to that of other airlines.

Adjusted CASM is reconciled to GAAP operating expense as follows:

(Canadian dollars in millions, except where indicated)	Third Quarter		
	2022	2021	Change
Operating expense – GAAP	\$ 4,678	\$ 2,467	\$ 2,211
<b>Adjusted for:</b>			
Aircraft fuel	(1,617)	(472)	(1,145)
Ground package costs	(80)	(23)	(57)
Special items	-	103	(103)
Freighter costs (excluding fuel)	(26)	-	(26)
<b>Operating expense, adjusted for the above-noted items</b>	<b>\$ 2,955</b>	<b>\$ 2,075</b>	<b>\$ 880</b>
<b>ASMs (millions)</b>	<b>25,562</b>	<b>11,116</b>	<b>130.0 %</b>
<b>Adjusted CASM (cents)</b>	<b>¢ 11.56</b>	<b>¢ 18.65</b>	<b>¢ (7.09)</b>

## Adjusted Pre-tax Income (Loss)

Adjusted pre-tax income (or loss) is used by Air Canada to assess the overall pre-tax financial performance of its business without the effects of foreign exchange gains or losses, net interest

relating to employee benefits, gains or losses on financial instruments recorded at fair value, gains or losses on sale and leaseback of assets, gains or losses on disposal of assets, gains or losses on debt settlements and modifications, and special items as these items may distort the analysis of certain business trends and render comparative analysis across periods or to other airlines less meaningful.

Adjusted pre-tax income (or loss) is reconciled to GAAP income (or loss) before income taxes as follows:

(Canadian dollars in millions)	Third Quarter		
	2022	2021	\$ Change
Loss before income taxes – GAAP	\$ (504)	\$ (679)	\$ 175
<b>Adjusted for:</b>			
Special items	-	(103)	103
Foreign exchange loss	951	136	815
Net interest relating to employee benefits	(9)	1	(10)
(Gain) loss on financial instruments recorded at fair value	25	(114)	139
(Gain) loss on debt settlements and modifications	(17)	110	(127)
<b>Adjusted pre-tax income (loss)</b>	<b>\$ 446</b>	<b>\$ (649)</b>	<b>\$ 1,095</b>

## Free Cash Flow

Air Canada uses free cash flow as an indicator of the financial strength and performance of its business, indicating the amount of cash Air Canada can generate from operations and after capital expenditures. Free cash flow is calculated as net cash flows from operating activities minus additions to property, equipment, and intangible assets, and is net of proceeds from sale and leaseback transactions.

The table below provides the calculation of free cash flow for Air Canada for the periods indicated.

(Canadian dollars in millions)	Third Quarter		
	2022	2021	\$ Change
Net cash flows from operating activities	\$ 290	\$ 305	\$ (15)
Additions to property, equipment, and intangible assets, net of proceeds from sale and leaseback transactions	(333)	(149)	(184)
<b>Free cash flow</b>	<b>\$ (43)</b>	<b>\$ 156</b>	<b>\$ (199)</b>

## Additional Financial Measures

### Net Debt

Net debt is a capital management measure and a key component of the capital managed by Air Canada and provides management with a measure of its net indebtedness.

The table below reflects Air Canada's net debt balances as at September 30, 2022, and as at December 31, 2021.

(Canadian dollars in millions)	September 30, 2022	December 31, 2021	\$ Change
Total long-term debt and lease liabilities	\$ 15,799	\$ 15,511	\$ 288
Current portion of long-term debt and lease liabilities	1,236	1,012	224
<b>Total long-term debt and lease liabilities (including current portion)</b>	<b>17,035</b>	<b>16,523</b>	<b>512</b>
Less cash, cash equivalents and short and long-term investments	(9,206)	(9,570)	364
<b>Net debt</b>	<b>\$ 7,829</b>	<b>\$ 6,953</b>	<b>\$ 876</b>

For further information on Air Canada's public disclosure file, including Air Canada's 2021 Annual Information Form dated February 25, 2022, consult SEDAR at [www.sedar.com](http://www.sedar.com).

### Third Quarter 2022 Conference Call

Air Canada will host its quarterly analysts' call today, Friday, October 28, 2022, at 9:00 a.m. ET. Michael Rousseau, President and Chief Executive Officer, Amos Kazzaz, Executive Vice President and Chief Financial Officer, Lucie Guillemette, Executive Vice President and Chief Commercial Officer, will be available for analysts' questions. Immediately following the analysts' Q&A session,

Mr. Kazzaz and Pierre Houle, Vice President and Treasurer, will be available to answer questions from term loan B lenders and holders of Air Canada bonds.

Media and the public may access this call on a listen-in basis. Details are as follows:

Live audio webcast: <https://edge.media-server.com/mmc/p/a5ecs3mw>

By telephone: 416-340-2217 or 1-800-898-3989 (toll-free), passcode 5899502#

Please allow 10 minutes to be connected to the conference call.

### **CAUTION REGARDING FORWARD-LOOKING INFORMATION**

*This news release 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 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.*

*Forward-looking statements, by their nature, are based on assumptions including those described in this news release and the documents incorporated by reference herein and are subject to important risks and uncertainties. Forward-looking statements cannot be relied upon due to, among other things, changing external events and general uncertainties of the business of Air Canada. Actual results may differ materially from results indicated in forward-looking statements due to a number of factors, including those discussed below.*

*During the period from March 2020 until early 2022, Air Canada and the rest of the global airline industry faced significantly lower traffic than in 2019, and a corresponding decline in revenue and cash flows, as a result of the COVID-19 pandemic and the travel restrictions imposed in many countries around the world including in Canada. Conditions have improved significantly, and travel restrictions have been lifted in many countries, including in Canada, but the wide-ranging impact of the COVID-19 pandemic and certain other factors have impeded Air Canada's and the global airline industry's restart efforts, particularly during the summer of 2022, and has also affected the ability of some of its participants, on which Air Canada's operations are dependent, to support the surge in traffic. Over the period from June to mid-July, this led to a meaningful increase in flight delays and cancellations, and other operational disruptions and challenges. Flight delays and cancellations started to decrease in August and there was a progressive increase in operational stability experienced in the second half of the third quarter of 2022, however, there can be no assurance that further significant disruptions will not reoccur.*

*Other factors that may cause results to differ materially from results indicated in forward-looking statements include the ongoing effects from the COVID-19 pandemic, economic and geopolitical conditions such as the military conflict between Russia and Ukraine, Air Canada's ability to successfully achieve or sustain positive net profitability, industry and market conditions and the demand environment, Air Canada's ability to pay its indebtedness and maintain or increase liquidity, competition, Air Canada's dependence on technology, cybersecurity risks, energy prices, Air Canada's ability to successfully implement appropriate strategic and other important initiatives (including Air Canada's ability to manage operating costs), other epidemic diseases, terrorist acts, war, Air Canada's dependence on key suppliers (including government agencies and other stakeholders supporting airport and airline operations), Air Canada's ability to successfully operate its loyalty program, interruptions of service, Air Canada's ability to attract and retain required*



personnel, the availability and onboarding of Air Canada's workforce, casualty losses, changes in laws, regulatory developments or proceedings, climate change and environmental factors (including weather systems and other natural phenomena and factors arising from anthropogenic sources), Air Canada's dependence on regional and other carriers, Air Canada's ability to preserve and grow its brand, employee and labour relations and costs, Air Canada's dependence on Star Alliance® and joint ventures, pending and future litigation and actions by third parties, currency exchange, limitations due to restrictive covenants, insurance issues and costs, pension plans, as well as the factors identified in Air Canada's public disclosure file available at [www.sedar.com](http://www.sedar.com) and, in particular, those identified in section 18 "Risk Factors" in Air Canada's 2021 MD&A and section 14 "Risk Factors" of Air Canada's Third Quarter 2022 MD&A. The forward-looking statements contained or incorporated by reference in this news release represent Air Canada's expectations as of the date of this news release (or as of the date they are otherwise stated to be made) and are subject to change after such date. However, Air Canada disclaims any intention or obligation to update or revise any forward-looking statements whether because of new information, future events or otherwise, except as required under applicable securities regulations.

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## Selected Financial Metrics and Statistics

The financial and operating highlights for Air Canada for the periods indicated are as follows:

(Canadian dollars in millions, except per share data or where indicated)	Third Quarter		
	2022	2021	\$ Change
<b>Financial Performance Metrics</b>			
Operating revenues	5,322	2,103	3,219
Operating income (loss)	644	(364)	1,008
Loss before income taxes	(504)	(679)	175
Net loss	(508)	(640)	132
Adjusted pre-tax income (loss) <sup>(1)</sup>	446	(649)	1,095
Operating margin (%)	12.1	(17.3)	29.4 pp <sup>(8)</sup>
EBITDA (excluding special items) <sup>(1)</sup>	1,057	(67)	1,124
EBITDA margin <sup>(1)</sup> (%)	19.9	(3.2)	23.1 pp
Total liquidity <sup>(2)</sup>	10,236	14,504	(4,268)
Net cash flows from operating activities	290	305	(15)
Free cash flow <sup>(1)</sup>	(43)	156	(199)
Net debt <sup>(1)</sup>	7,829	7,117	712
Diluted loss per share	(1.42)	(1.79)	0.37
<b>Operating Statistics <sup>(3)</sup></b>	<b>2022</b>	<b>2021</b>	<b>% Change</b>
Revenue passenger miles ("RPMs") (millions)	22,118	7,915	179.5
Available seat miles ("ASMs") (millions)	25,562	11,116	130.0
Passenger load factor %	86.5 %	71.2 %	15.3 pp
Passenger revenue per RPM ("Yield") (cents)	21.8	20.7	5.4
Passenger revenue per ASM ("FRASM") (cents)	18.8	14.7	28.1
Operating revenue per ASM (cents)	20.8	18.9	10.0
Operating expense per ASM ("CASM") (cents)	18.3	22.2	(17.5)
Adjusted CASM (cents) <sup>(1)</sup>	11.6	18.7	(38.1)
Average number of full-time-equivalent ("FTE") employees (thousands) <sup>(4)</sup>	31.8	21.3	49.7
Aircraft in operating fleet at period-end <sup>(5)</sup>	344	337	2.1
Seats dispatched (thousands)	13,951	7,094	96.7
Aircraft frequencies (thousands)	99.6	57.4	73.6
Average stage length (miles) <sup>(6)</sup>	1,832	1,565	17.1
Fuel cost per litre (cents)	131.8	72.9	80.7
Fuel litres (thousands)	1,227,669	648,515	89.3
Revenue passengers carried (thousands) <sup>(7)</sup>	11,466	5,067	126.3

- (1) Adjusted pre-tax income (loss), EBITDA (excluding special items) (earnings before interest, taxes, depreciation, and amortization), EBITDA margin, free cash flow, net debt and adjusted CASM are non-GAAP financial measures, non-GAAP ratios or supplemental financial measures. 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. Refer to section "Non-GAAP Financial Measures" of this news release for descriptions of non-GAAP financial measures and to the tables accompanying this news release for a quantitative reconciliation of the non-GAAP financial measures, used in this news release to the most comparable GAAP measure.
- (2) Total liquidity refers to the sum of cash, cash equivalents, short and long-term investments, and the amounts available under Air Canada's credit facilities. Total liquidity, as at September 30, 2022, consisted of \$9,206 million in cash, cash equivalents, short and long-term investments and \$1,030 million available under undrawn credit facilities. As at September 30, 2021, total liquidity amounted to \$14,504 million consisted of \$9,565 million in cash and cash equivalents, short-term and long-term investments, and \$4,939 million available under undrawn credit facilities. These amounts also include funds (\$231 million at September 30, 2022 and \$92 million at September 30, 2021) held in trust by Air Canada Vacations in accordance with regulatory requirements governing advance sales for tour operators. Refer to section 10 "Accounting Policies" of Air Canada's third quarter 2022 MD&A for a description of the change in presentation related to restricted cash effective third quarter of 2022 by which certain amounts have been reclassified to cash and cash equivalents with the 2021 comparative figures also reclassified.
- (3) Except for the reference to average number of FTE employees, operating statistics in this table include third party carriers operating under capacity purchase agreements with Air Canada.
- (4) Reflects FTE employees at Air Canada and its subsidiaries. Excludes FTE employees at third party carriers operating under capacity purchase agreements with Air Canada. As of September 30, 2022, there were 32,166 employees based in Canada.
- (5) The number of aircraft in Air Canada's operating fleet at September 30, 2022 and at September 30, 2021 include certain aircraft that were grounded due to the impact of the COVID-19 pandemic. As at September 30, 2022, four aircraft remained grounded pending return to service maintenance.
- (6) Average stage length is calculated by dividing the total number of available seat miles by the total number of seats dispatched.
- (7) Revenue passengers are counted on a flight number basis (rather than by journey/itinerary or by leg) which is consistent with the IATA definition of revenue passengers carried.
- (8) "pp" denotes percentage points and refers to a measure of the arithmetic difference between two percentages.

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