Company: **_CAN_ CargoJet Inc.**

Conference Title: **CargoJet Conference Call**

Moderator: **Pauline Dhillon**

Date: **Monday 7 March 2022**

Conference Time: **08:30 (UTC-05:00)**

Operator: Good day, and welcome to the CargoJet Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Pauline Dhillon. Please go ahead.

Pauline Dhillon: Good morning, everyone, and thank you for joining us on the call today. With me on the call today are, Ajay Virmani, our President and Chief Executive Officer. Jamie Porteous, our Chief Strategy Officer, and Sanjeev Maini C, our interim Financial Officer. After opening remarks about the quarter, we will open the lines for questions.

I would like to point out that certain statements made on this call, such as those relating to our forecasted revenues, costs, and strategic plans, are forward-looking within the meaning of applicable securities laws. This call also includes references to non-GAAP measures like adjusted EBITA and adjusted EBITDA. Please refer to our most recent press release in MDNA for more important assumptions and cautionary statements relating to forward-looking information and for reconciliations of non-GAAP measures to GAAP income.

I'll now turn the call over to Ajay.

Ajay Virmani: Thank you, Pauline, and thank you, everyone, for joining us this morning. When I spoke to you in November 2021, there was a lot of optimism in the air about the reopening of the economy. But in December, we reversed course and Omnicom forced yet another wave of lockdowns and the challenges that came with that. Once again, we are seeing some signs of hope, and this time, I truly hope that the reopening can be sustainable.

Before I jump into the quarterly results, I wanted to share a few observations about the macro trends affecting our business. Number one, digitization. Be it educational, work, or shopping the digital adoption has gone through a dramatic shift in virtually every industry. We believe that it is no longer an emerging trend. Rather, it is becoming the new normal. The trend has profound implications for every business, but for CargoJet, we see this trend to be a net positive.

Number two, hybrid. I talked about hybrid everything for one of our last Investor Call. This may be the lasting legacy of COVID, and workplaces may have to adopt a new culture. Among many other benefits, we see hybrid work allowing for a better work-life balance, potentially reduced number of vehicles on the road create more leisure travel and activities, which would require online shopping for more categories of goods.

E-commerce. While this trend was already showing strong growth pre-COVID, the last two years have brought forward at least five years of growth. Even in the hardest opponents of online shopping have now accepted the reality of e-commerce. Many companies who did not ramp up their e-commerce and did not believe in it have now started to do so. In this new world order, instead of opening a new store in a shopping mall, entrepreneurs now open the new stores on online portals. This is a secular shift, and we expect this trend to continue to be a tailwind in the medium term.

Number four, passenger airlines and cargo. A prolonged pandemic has triggered structural changes in the aviation industry with a dramatic reduction in cross-border passenger air travel. A significant belly cargo capacity has been taken out of the global supply chain. At the same time, the pandemic has accelerated e-commerce at an unprecedented rate, creating even more demand for air cargo services. While dedicated air cargo operators have tried to step up in the short term, there remains a significant gap in the worldwide airlift capacity versus the demand that is expected to persist in the medium term.

As a major piece, passenger airlines shed their larger wide-body fleets, 747s and A380s in favor of smaller, more fuel-efficient narrow-body aircraft. The reduction in resulting belly cargo capacity will likely become longer-term structural shift. However, that is very closely watching these trends and positioning its business to continue to capture emerging growth opportunities.

Now, let me get into the fourth quarter results. Q4 revenue growth of 26.1% for the quarter compared to the prior year reflected the results of our previously announced diversification strategy that is helping deliver a balanced portfolio growth. Each line of business was a strong contributor during Q4. Domestic network posted a growth of 18.2%. ECMI posted 26.7%. And the charter business posted the largest of all, 54.6% growth compared to the same period last year.

Overall, the full-year growth averaged 13.4%, despite extremely difficult comparison to prior year. The adjusted EBITDA for the full year stands at 293.1 million compared to 281.7 million for the same period in 2020, an increase of 4%. This result must be viewed in the context that the cargo jet flew an extraordinary number of charter flights to Asia during quarter two of 2020 to bring PPE supplies to Canada. It is worth mentioning that we remain a disciplined operator and have used our strong results to invest in growth, reduce debt, pay down aircraft leases, and build balance sheet capacity to fund future growth.

Given the structural shifts noted earlier in my remarks, we are planning to enter a higher capital expenditure phase over the next three to four years. This will be to take advantage of the long-term growth opportunities and we believe we have sufficient liquidity to fund this growth. Our balance sheet remains strong. The leverage ratio at 1.36 times adjusted EBITDA.

On the operational side, volume growth remains strong. Average daily volume is up 25.4% in quarter four versus prior year and is up 24.3% for full-year compared to last year. We grew our fleet size to 31 aircraft. Our on-time performance remains 98 percent% and this is a critical deliverable, given the importance placed on the target by our customer. We did face some on-time performance challenges in the month of December and January, especially with the book-offs because of the COVID situation. We remain focused on cost and expense management, and full-year SG&A cost is down 9.6%.

One area that remains challenge, obviously from our numbers is the cost of crews. The true crew costs have been impacted by a combination of factors, including the recently implemented new cargo fatigue rules by Transport Canada that discriminate Canadian air cargo carriers against the US and other international cargo carriers. We are also investing in pilot training to prepare for growth in our fleet. This has added short-term cost in the quarter. We are focused on finding cost-effective solutions to address this headwind and over the coming quarters.

In order to take advantage of the new digital and global aviation realities, we are investing heavily in acquiring and retaining talent. We have now built a strong experience and seasoned international cargo team that nicely complements our core talent that continues to successfully manage our growing domestic network business.

Once again, thank you for joining us this morning. We'll now open the call to the questions.

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question, please signal by pressing star, followed by one. That is star one to queue for a question. We move to our first question from Konark Gupta of Social Capital. Please go ahead. Your line is open.

Konark Gupta: Thank you, Operator. Good morning, everyone. So my first question is on the fleet. I think looking at the fleet table in the MDNA versus what you disclosed in Q3, it seems like there is an additional five Boeing 757, which are coming in 2022, and there are now eight Boeing 777s coming between 2023 and 2026 instead of four that you were anticipating before. So I wanted to ask you, what is the purpose of investing in incremental aircraft at this point here? Are you seeing any kind of intentions from your existing or new customers in the sense that they want to secure more capacity or just purely on spec basis that you anticipate demand in the future?

Ajay Virmani: We never go out and gamble and spec on these things, Konark. You should look at our 21-year track record on these. First of all, the three aircraft are needed badly, the 767s, are needed badly for our maintenance and spare aircraft because every time we do have one customers have requested that we fly ACMI or charters and deploy any, which way we can because there's shortage of capacity. So those three aircraft are needed for our in-house needs to cover our operational and maintenance needs on a daily basis.

The 757 strategy is an interesting one that we need to – the domestic network is, at the present time a combination of 767 and 757 networks. So our strategy is to use more 757s domestically and take the 767s out for ACMI business. So this strategy is obviously based on the demand and what I hear from the customers and what we have been told and what the requests are. So the 757 also provides our customers with better service as they can be more nonstop flights from Hamilton to Western Canada and eastern Canada and similarly from Montreal as well and the way back.

So the 767s are bigger aircraft. They are more challenging to handle the stop-over flights from Winnipeg or Calgary and continuing on to Vancouver certainly takes more time. So this also improves our service. It also improves more capacity that we need for growth. And thirdly, it also frees up 767s for international and ACMI demand, which seems to be continuously high. So 777s have been added based on our ongoing discussions with customers, we look at the ongoing demand that's going on and the backup is like if we have two or four extra planes, there's sufficient demand to even dry release these if we needed to. So we have backup plans after backup plans. These are not just back aircraft.

Konark Gupta: Okay. That's good clarity, Ajay, thank you. And before the [inaudible] that you are expecting this year, including the 757s you mentioned, and that will release some 767s for ACMI opportunities. When do you expect to formally sign those ACMI opportunities for the 767?

Ajay Virmani: We will announce them as soon as we sign them, there's ongoing discussions. We also have opportunities that are beyond ACMI like those are for our own international growth and similar to what we do domestically. We also have opportunities to sign longer-term blocks space agreements even on some of the international lanes that we service ad hoc or on charter basis. And so we have choices, we can either go that route or we can go ACMI route.

We don't like to form up things and tie up until we know that the aircraft is on its way at least three to four months before. So the opportunities are there. We just haven't signed them. As I said on both block space agreements, just like our domestic network and also on ACMI. I would imagine that probably I'm hoping that next quarter we will have more to announce on those.

Konark Gupta: That's great color. Thank you. And last one for me, Sanjeev, if you have any guidance on CAPEX for this year and the next year given the increase in fleet size, you anticipate. Thank you.

Sanjeev Maini: Hi, Konark. The CAPEX plan for this year definitely move up with these new additions. We will be in the range of 525 to 550 million. That includes maintenance CAPEX as well. So that will be the range, which we will be looking for in 2022. In 2023, it will be in the range of 300 to 350 million.

Ajay Virmani: We're looking at 120 million for maintenance CAPEX and the balances growth. We also have two simulators 767 and 777s that we will be doing our own pilot training in-house in Hamilton, which would also longer-term, this would also bring our costs down and increase our training and efficiency and safety as well. But the important part here, Konark to note is that we plan to fund this growth mostly from our internal cash flows. And secondly, we do have a line of credit of 700 million that's underutilized. So we have sufficient liquidity to fund this growth going forward.

Konark Gupta: That makes perfect sense. Thanks for the time.

Operator: We'll move on to our next question from Chris Murray of ATB Capital Markets. Please go ahead. Your line is open.

Chris Murray: Thanks, folks. Just one of the questions I have. Unfortunate situation, but with what's going on in Russia, there's been a lot of discussion around a lot of Russian cargo carriers moving out of the market, and just wondering if you have any commentary around how this is changing, what you're seeing for demand even on short term charter. And if there's any longer-term opportunities for you to pick up other lift that may have been dislocated.

Ajay Virmani: Yeah. So there is a number of Russian carriers that have been grounded with Antonov, at least 20 to 25 747 cargo planes, a few 777s, and a few 757s that are operated by the Russian carriers. So yes, short term, we have had a lot of inquiries. We have had a lot of demands. Wherever we can plug it over the weekend, we have done it and we will continue to do so, take advantage of those ad hoc opportunities. But most importantly, we do not have presently the fleet to deploy, which we had 20 aircraft, which we could advance these three years and have these aircraft today, and they will all be working.

But these are opportunities about four months ago, we had opportunities when the BC Highways had the flooding. So these short-term opportunities do start – keep popping in and whatever we can plug, we can. A lot of requests have come in even for charters to Poland for relief goods as well. Besides the normal trading, besides the normal day-to-day charters that we are being requested for. We are obviously weighing each one of them. We do not want to take on additional work to disrupt our day-to-day normal long-term customers, but if there are opportunities, we continue to use those.

Chris Murray: Okay. And that kind of goes to my next question, because one of the questions that we always get is the question about this capital spending and bringing in these new aircraft. Is it fair to think that – and I think you alluded to it may be in the earlier question about the fact that you've got the opportunities, you really won't decide until three to four months before you get the aircraft? But is it fair to think that those aircraft will be fully utilized pretty much when they arrive, and we should see kind of a margin profile similar to what we've been seeing over the last couple of years?

Ajay Virmani: Yeah, absolutely. We wouldn't be investing if we didn't believe in our business plan and what we have done and have a track record. So there is not going to be an aircraft that we feel today certainly that is not going to be utilized or are going to be underutilized. So yes, we have a lot of openings, we have a lot of requests. We even have requests from people who today cannot get conversion slots. We could even sell those conversion slots if we wanted to make short-term profit, or we could also dry lease them. So there's many, many opportunities that this capital is not just going to be sitting there collecting dust. So they will be fully utilized one way or the other.

Chris Murray: All right. That's helpful. Thanks, folks.

Operator: We'll move on to our next question from Nauman Satti of Laurentian Bank. Please go ahead. Your line is open.

Nauman Satti: Hi, good morning, everyone. So my first question is more on the high fuel cost. I know that the bulk of fuel costs, you can pass that on. But I'm just trying to get a better sense of if the fuel prices remain at these elevated levels, would you expect some sort of demand destruction to happen in the air cargo business? Maybe if there are some learnings from the last time when oil prices had gone that much higher because you're adding a lot of capacity, but you're still confident that all of that will get absorbed even if there is some sort of demand destruction from higher oil prices.

Ajay Virmani: Yeah, because simply whenever we had higher fuel prices, yes, the demand did come down in the previous experiences, and maybe Jamie, can shed a little more light on it. But just keep in mind that today the supply chains are very disrupted and there is no end in sight for these. So there is a little bit tailwind we get when ocean and rail and trucking isn't performing to what they should be. Even the rail, like with the CP rail strike insight.

So when you look at all the factors that are happening today, I believe that yes, the fuel is high, an all-time high. But also people do need the goods and people do need the supply chain and people do need the e-commerce and daily necessities. And when you can't depend on surface transportation, air becomes the choice, especially when the belly capacity doesn't exist in the market that used to exist.

So combining all these factors and higher fuel price, you can look at it this way that yes, the food prices are going to be higher and that's where we have everybody's finding the inflationary pressures in various industries. But generally, we feel that it should not affect the air cargo business as the demand is certainly much higher than the supply today in every logistics business.

And Jamie, you want to add some color to that?

Jamie Porteous: Yeah, no, I was just going to say compared to historically when we saw fuel prices rise 10 or so years ago, the one fundamental difference as Ajay suggested, demand is at an all-time high and capacity is probably pretty close to an all-time low. So with the continued delays in global supply chains, demand for global air cargo services we feel is going to continue to be very strong regardless of the price of fuel, particularly when customers pass [inaudible].

Nauman Satti: Okay. That's fair. And maybe just on the same thought process, when historically for some of your customers that the costs have gone up, but you guys have generally your margins are still pretty high. Like do the conversations start to move in the direction where they sort of ask you to share some of the burden or generally it's just a small component of their cost and those discussions don't come up?

Jamie Porteous: No, they generally they don't, Nauman. You're right. We make a concerted effort to manage our – the rest of the reason we maintain the margins is obviously we pass on the increase in fuel as a surcharge to our customers and we continue to manage the rest of our operating costs very diligently every day. And I would say no, normally that doesn't happen.

Nauman Satti: Okay. No, that's good. Great color. And just one last one from my end, I think in Q4 you've mentioned that you had some additional relief charter flights for the US and Canadian government and it's going to continue in the first half. Just trying to get a sense of is the sequential improvement in all in charter businesses primarily from that one, and we should expect a similar run rate for the coming quarters.

Ajay Virmani: Well, that's kind of hard to say, but it's certainly, it depends on where we were last quarter. Last quarter, we also had some charters from the BC Highway situation. We also had some relief charters as well. And this time around, right now, it's a different kind of charters that are going on. So what our experience tells us that there's something or the other that is happening, that encourages charters in various directions. We are strictly – these are opportunities that we take. What people call it [inaudible]. We call it ACMI, obviously.

So we take the [inaudible] opportunities very seriously from the standpoint that we want to service our regular customers and also focus on some ad hoc opportunities if our system and our people and our aircraft can accommodate those. But certainly, at this stage, I can tell you that if you wanted to book six months ahead of charters from even our regular customers, we could. They just it's not just the ad hoc opportunities, it's a regular customer looking for more lift. That's where the opportunities come in.

Nauman Satti: Okay. That's great. Thanks for taking my questions and congrats on the quarter.

Ajay Virmani: Thank you.

Operator: We'll take our next question from Walter Spracklin of RBC Capital Markets. Please go ahead. Your line is open.

Walter Spracklin: Great. Thank you very much, Operator. Good morning, everyone. So starting on your CAPEX plan, could you perhaps give us a sense of the 2024-2025, like the years where before you get down to the 120 in maintenance, what those CAPEX numbers just for visibility purposes for investors going forward that they can appropriately model? And then our job is to now kind of calculate returns on that new invested capital going forward. So understanding the CAPEX spend through your entire fleet plan additions would be helpful. So I don't know if you have those numbers for 2024 and 2025

Sanjeev Maini: As of now, I can just give you a rough estimate because things will change as the year passes, but whatever fleet plan we have in place, we expect our maintenance CAPEX will be in the range of 120, 225 in coming years per year. But growth CAPEX, like I said for 2022 and 2023, I have already given the figures. 2024 and 2025, we expect as based on the year in which our 777 supply will come in, our growth CAPEX will be in the range of 225 to 250 million for 2024 and around 175 to 200 million in 2025.

Operator: Yeah. And that's growth only. Is that right?

Sanjeev Maini: Yeah.

Walter Spracklin: Yeah. Okay.

Ajay Virmani: And Walter, just you know that planes do need facilities and ground support equipment and investment and training for pilots and maintenance people and spare parts. So this is all sort of inclusive that goes with it. You just can't get 777s and not grow your facility. So this has hangars attached to it. There's simulators attached to it. There's training attached to it, spare parts. So there's a lot of moving parts on all this.

Walter Spracklin: And then my next question, and that's helpful. Yeah, that's a good consideration, and my next question then is once you have this fleet in place even if we were to only assume ACMI and I know Ajay, you were talking about upside if you did block our flying internationally. But if we were to only assume ACMI goes into the aircraft that come out from this. I don't know if you have – what we're going to be looking for is what is your total revenue dollar capacity. And then if looked differently, if I go in my model and use the 10 million US revenue per aircraft per year for ACMI, is that a good number to use now? Or has this inflationary environment made that 10 million US per year per aircraft may be 12 million or something even higher?

Ajay Virmani: Roughly, the ACMI can do about two anywhere between two to $300 a month. So just one second, I can give you some kind of an idea on what this is for aircraft. Yeah. 10 to $11 million is a good number for revenue for ACMI on a 767, probably.

Walter Spracklin: And that's just a base – that's you do everything ACMI, and if you do your block our business, then that's pure upside, Ajay, is the best way to look at that. Sorry, I didn't get – was sorry, was that a yes?

Ajay Virmani: Yes, yes.

Walter Spracklin: Okay. Yeah. Perfect. Okay. All right. And then under your existing contracts, can you update us as to when you expect your current long-term contracts with your major domestic customers to be renewed? And what flexibility do you have in your current contract to move your pricing higher with cost inflation? Or is that something that we're kind of going to have to wait for? And might we see a big lift in your pricing to recapture some of the higher inflation that we're seeing today or can you do it under your existing contract?

Ajay Virmani: Let's roll all over. We just renewed two medium-sized contracts last quarter and we have two major ones coming up, but they're not due for another 36 months or even some a bit longer. So we have certainly kind of had discussion with our customers of longer-term sort of extending them, but as you can know, three years in this business is to eternity, certainly between this year and before it reaches 24 months. We certainly plan to have those serious discussions in the next quarter and quarter two and quarter three with them.

But also customers and we are both nervous as many of our suppliers we've asked for long term contracts and we have said okay, we're not taking these contracts right now because those contracts are being quoted on what's happening today. So there is some kind of nervousness on parts of suppliers and customers as we have been in similar situations that to hold off and see things stabilize. If we were to lock in an agreement today with a customer, our nervousness is that we could be faced with even higher cost increases.

So that is a bit of a challenge, both on a supplier and a customer side for us, but also keep in mind that we feel confident about the renewals. In our track record, we have never had a situation where we haven't renewed a contract. Yes, there are a few small competitors knocking on the door. We all know that. But what we have Walter, the cause for renewal, which is our infrastructure, 20 years of cargo pedigree, our on-time performance, our people, our investment. We have six to 7,000 ground support equipment in handling.

We have 250 maintenance engineers that work on it. We have over 350 pilots. So we have a lot of infrastructure. We have spares, we can reroute planes. There is so much flexibility we give our customers. And with the 757 introduction of more non-stops to Hamilton and Montreal will be able to serve seven cities nonstop in Canada, in both directions is a major plus. And the combination of the network, the combination of the discipline, the cargo culture that we have developed prior to CargoJet coming in.

As you remember, there were 15 cargo airlines who tried and gone from 1985 to 2000. And we're well-funded, we're well-capitalized, we've got a great team, we've got all the assets that we need to make this work and I'm pretty confident in those renewals are going to happen. Can I give you in writing and in guarantee? Nothing is there forever. Nobody expected that Russia will be at war today. So given what I know, given the circumstances we have, given the assets we have, given the performance we have done, there's no reason why we wouldn't get it at a fair price.

Now would we be able to capture every cent? I don't know what the situation will be when we sit down at the table. But certainly, it's not lost on us and we will start those discussions. We've had informal discussions, but we have exchange notes. We have talked about what-ifs. But I think we will only get serious between I would say when we have closer to 30 months rather than 36 months renewals.

Walter Spracklin: Makes sense. And you mentioned trepidation about locking in too long, are we to interpret, therefore Ajay, that you'll be looking at similar structured agreements that would be seven to 10 years in nature upon renewal?

Ajay Virmani: Yeah. As a minimum, our guideline always has been to get between five and 10 years agreement. So if we've got, let's say, two years left on an agreement, we will certainly like to add a minimum of three with renewal options for one or two years as we go along.

Walter Spracklin: Got it. Okay. That's all my questions. Thanks very much, Ajay.

Ajay Virmani: Okay.

Operator We move on to our next question from Kevin Chiang of CIBC. Please go ahead. Your line is open.

Kevin Chiang: Thanks. Thanks for taking my question. Congrats on a good Q4 there. I'm just wondering, is there a way to frame, I don't know if by block hours or another metric, just how – maybe how much demand you're living on the table today, given the size of your fleet? Just to kind of level set, how much of the growth that you're planning for the next few years is to backfill existing demand that you see versus maybe having to chase demand or making a call what demand looks like two to four years from now?

Ajay Virmani: Jamie.

Jamie Porteous: I think having a good indicator of that would be the comment that we've made before that, not only looking at the dedicated air cargo demand for freighter aircraft around the world but pre-COVID, over 50% of the world's air cargo moved in the belly of passenger aircraft, particularly long haul intercontinental flights flying between Asia and North America, North America and

Europe and Europe and Asia. And with most of that capacity, still, it will never come back to pre-COVID levels at a time when demand globally driven by the surge in e-commerce growth, the supply chain issues globally in terms of logistics. We're very confident that the demand is going to continue to be very strong for at least the next five to 10 year period. It's one of the reasons why we're making the investments in aircraft now.

And as Ajay indicated, we have an extremely strong 21-year track record of being very successful and being very prudent when it comes to CAPEX and ensuring that we only enter into agreements to get aircraft when we know there's a certainty that we're going to put those aircraft into use. Whether it's in ACMI basis, whether it's enhancing our domestic network, or continuing to grow our international and charter business.

Ajay Virmani: And as I said, as a risk management, we also have a backup plan because these aircraft and slots are so much in demand that we could even dry lease them. So there is opportunities even in that, Kevin.

Kevin Chiang: Right. It does help, but these are fungible assets, and obviously, the market is very tight now in the foreseeable future. Just on your 777 strategy, you are adding more aircraft here. You note that in your updated fleet plan, it does feel like you're starting to shape how you see these larger aircraft or what role these larger aircraft might play in your network, given your adding this bigger aircraft type. Is that something you share with us?

Do you see more international opportunities as you kind of tested out the market? Is this primarily – Ajay, talked about using 757s domestically, do you think you need more 777s for maybe some of the trunk routes between Vancouver to Hamilton, so you need a bigger aircraft? Just wondering how you see that 777 strategy evolving here, given you're adding more of those aircraft?

Ajay Virmani: Yeah. So our strategy on 777s is a combination of, like I said [inaudible], ACMIs, operation, and also some of the routes that are always in the past 30 years, if I looked at it, they're always in demand like flights from Hong Kong or China or South Korea or some of these far east places today to reduce the dependence on the Chinese market. There's a lot of flights coming in from Vietnam and even Thailand. So our customers are branching into some of those Asian countries where the lift is not as much.

So we have an opportunity on these 777s to operate from the Far East. Any of those destinations today, even if we fly to one destination, you can only always connect from other destinations on an interline basis feeding into that. So we would look at probably Far East of our initial plans, call it flights going as far as Far East, coming back into Vancouver, then going over to Europe and maybe to India. And then the 767 network would probably be more suitable to bring in the Europe to connect in with again, to connect in with our 777s to Europe and also 777s to South and Latin America as well.

So CargoJet plans to be a truly global airline serving all five continents. So 777s would be long hauls and 767s would be medium hauls. And again, as I said, 777s we have opportunities in discussion, which I'm can't say right now because there's nothing concluded, but there is definite interest in terms of some ACMI operation of these and then a few for commercial, just like we do with the domestic network, on block space agreements with certain users.

So I think as we move forward, you will see a lot more clarity on our business plan because of competitive factors and some of the stuff that we haven't finalized. So we can't totally come out on that as well. But all I can assure you is, CargoJet does not go out and put money if we didn't believe in ourselves and didn't believe in the business plan. And on top of it, we have backup plans.

Kevin Chiang: Right. And you also have a strong track record there. But maybe just the last one for me, just again on the fleet. Do you have any intentions – do you see the need to add aircraft that are smaller than the 757 payload? I think a number of OEMs have started to push through freighter conversions of some of the larger narrow-body aircraft. I think like Embraer is doing something and Airbus with the A321. Are those things that you think need to be – do you think that's an asset that needs to be utilized or could be utilized within your fleet? Or is 757 kind of the line of the standard in terms of how small you want to go?

Ajay Virmani: Jamie.

Jamie Porteous: Yeah, Kevin, we always have entertained looking at other aircraft types. There are some markets that a smaller aircraft might be more suitable. But really the benefits that we have with the 767 or the 757 with the common cockpit the same flight crews can interchange between aircraft provides us a lot of both operational efficiencies and cost efficiencies. So I think it would – our intent would be more into entering into the agreements in the wide-body or the 777 aircraft because we feel there's certainly global opportunities driven by the increased demand, the lack of belly cargo capacity.

As Ajay said, the 767 is ideally suited aircraft for certain lanes. But when we talk about long-range intercontinental from Asia to Canada, a 777 is more conducive to operating on those lanes. We continue to look at it, but it's not something that in the short term horizon that we're looking at smaller aircraft.

Kevin Chiang: Excellent. Thank you very much. That's all for me.

Ajay Virmani: Thanks, Kevin.

Operator: We'll move on to our next question from David Ocampo of Cormark Securities. Please go ahead. Your line is open.

David Ocampo: Thank you. Good morning, everyone. I just wanted to circle back on the fleet, and maybe, Jamie, you can answer this, but the 757s that are coming in. You mentioned that it's going to free up some 767s. Is that going to be on a one for one basis or should we think about five aircraft that's maybe freeing up three 767s for ACMI?

Ajay Virmani: Yes. For every two 757s, you free up one 767. So that's the kind of formula. Jamie, you want to add something to that?

Jamie Porteous: Yeah, I was going to say it's not a one-to-one, it's really, if you could look at it in terms of capacity, 757 is about an proximately 80,000-pound gross payload aircraft where the 767-300 is 125,000. So it's certainly not a one-to-one. It's more, as Ajay suggested, two to one. There are some times where we could add three 757s and potentially free up two 757s.

David Ocampo: Okay. That's helpful for us. And then just a quick one for me, last one. On the B2B volumes, you guys noted that it picked up in the Q4. Where was that relative to pre-pandemic levels and how do you see that trending throughout the year?

Jamie Porteous: Yeah, it's hard to – really hard to pinpoint, David, only because as I think we've said before, we don't have clear transparency from all of our customers unless they're strictly in one space, either the B2C or Amazon as an example, is strictly in e-commerce place. So we know 100% of their business is B2C, where a lot of our other customers have volume in both spaces. And it's really – and they don't differentiate between a container of B2C volume or B2B volume.

We have very little business that are – very few customers that participate strictly in the B2B sector, although from dialogue and communication and conversations with them. As more and more businesses and economies were reopening, they were indicating they were seeing the return of B2B business that they hadn't seen for a while. I think certainly the last couple of years as a percentage of our overall domestic revenues, I would suggest that the B2C certainly is the majority now, and I think that's going to continue to be so going forward.

David Ocampo: Okay. That's helpful. That's it for me. Thanks, guys.

Ajay Virmani: Thanks, David.

Operator: We'll take our next question from Matthew Lee of Concord. Please go ahead. Your line is open.

Matthew Lee: Hey, morning, guys. Just in terms of the varying economics for plane, is part of the reason you're taking on those 777s because you're getting them in a relatively attractive price, just given the number that are being shown in the international community? And then just similarly, is the strategy of adding 757s related to your ability to get those at an affordable rate, maybe again, 767?

Ajay Virmani: Jamie.

Jamie Porteous: Yeah, no, I would say, it's not necessarily driven by discounts on freight or aircraft. Freight or aircraft are an extremely strong demand. There's certainly a large pool of available what we call feedstock, where passenger aircraft that have been retired either early or prematurely and there's a huge pool of feedstock sitting around the world. But pricing, we haven't seen pricing really drop on the feedstock yet, primarily because the demand to convert those aircraft into freighters remains extremely high globally, and there's a limited capacity to actually convert the aircraft.

There's only a few facilities around the world that do freighter conversions. All of them are rapidly trying to expand their conversion capabilities, but even just expanding their facility is going to take them a couple of years. So demand is going to stay strong, and I think pricing is going to remain strong for the next several years. The second part of your question – sorry repeat the second part of your question, Matthew.

Matthew Lee: Yeah, just in terms of the 757s, is their smaller size, just a more efficient way to transport, or is it you see the feedstock there at a relatively affordable rate?

Jamie Porteous: So again, it's really trying to fit the right aircraft to the right market. And we've realized over the last couple of years that we've made some adjustments and sort of re-engineered some of our domestic network flying by adding a couple of direct routes with a 757. And it's had a significant impact on service to our domestic customers. So piggybacking on that, we looked – and it freed up some 767s out of our domestic network that allowed us to utilize those aircraft to either take on additional new ACMI business in advance of taking delivery of a converted aircraft or to use those operational spares.

And with the additional 757s that we found that came available that we're acquiring this year. The intent as Ajay suggested earlier, was to continue to enhance our domestic network for our overall domestic customers by flying more direct points. And if that, in turn, frees up which it likely will some 767s, we think there's some opportunities to put those into either as spares to back up our domestic flying or to put those into new ACMI flying potentially earlier than we otherwise would by waiting for delivery of a converted aircraft.

Matthew Lee: Hey, great. And then in terms of your contract with DHL, as passenger-cargo comes back a little bit more are you seeing any slowdown in terms of their desire to add routes?

Ajay Virmani: Well, as I've always said, that look, when passenger-cargo comes back or belly cargo comes back, keep in mind that also the fuel prices paid by the passenger carriers are pretty well the same as we pay. So even if the cargo comes back, would it be in the same form what the pricing would be and looking at the fuel prices and fuel surcharges. Nobody can afford to give those away like they used to. So that's one thing.

Second thing is also the size of the passenger aircraft coming back. A lot of triple 777s are being sold out, so a lot of A380s are not coming back. 747s are not coming back. So a 737 MAX can do Toronto, London, for example. So you will see a lot more narrow body, less belly cargo, not palletized freight. You'll see some of those changes that are going to be in the marketplace. So we feel that there will be some erosion of demand with the belly cargo. It has to happen. But also a lot of our customers, including DHL and others are now experiencing higher levels of service, and they've built their own competitive situations in their marketplace based on the service they have been providing for a year and a half two years.

So to go back to if you're buying stuff on e-commerce today of daily necessities, would you go back to the store and buy your toothpaste from again or would you keep ordering it? So similarly, our customers feel they've formed a certain habit. They've got a certain discipline of service through their dedicated capacity, which they're making them more competitive with their competitors. So yes, there will be a little bit, but we don't expect it to be huge to create any kind of imbalance that will be harmful.

So there's always an adjustment period when things come back to totally normal. But we also got to be very aware of the fact that what's going to come back is passenger traffic not necessarily belly associated with what it used to be. So if 100 777s are being taken out of the marketplace, that capacity is not being replaced by any other aircraft. Yes, there is 777X, but that's a $250, $300 million aircraft. And the demand of that aircraft is not going to be on routes with 737 MAX conservatives, for example.

So we believe confident that any analysis we have done from Boeing and Airbus and some of the other industry pundits, we certainly believe that there will be some stuff going back to belly, but also keep in mind that service that we have provided and people have now adjusted their service levels. It'll be extremely difficult now for these companies to go back, and that's the feedback we consistently get.

Matthew Lee: All right, thanks. That's great color.

Operator: We'll take our next question from Cameron Dawson of National Bank Financial. Please go ahead. Your line is open.

Cameron Dawson: Thanks very much. Good morning. I guess first question just on the ACMI contracts, in your sort of more recent discussions with potential ACMI customers, are you seeing a desire for longer-term ACMI contracts and just wondering how that might have compared to, say, three years ago on the kind of typical length of an ACMI contract? Are you seeing some desire for there to be a longer-term for those contracts?

Ajay Virmani: Yes, we are absolutely seeing that compared to what it used to be. Definitely.

Cameron Dawson: And is there any, I guess, sort of detail you can provide around that, what would a typical ACMI contract be a few years ago versus the discussions that you're having today?

Ajay Virmani: Well, they used to be more like 30, 60, 90-day contracts, and today they are at least we're talking anywhere from one to three years and even five years contract. So there's a definite shift in that direction. We don't want to dwell on too much competitive information, but yes, the trend is certainly for longer-term contracts.

Cameron Dawson: Okay. No, that's fair enough. And just the second question for me, just with regards to the pilots and the cost, it certainly sounds like you're seeing some easing there just based on reading through the MDNA. Maybe you could just talk about your sort of expectation for I guess, some of the higher costs you've seen on the pilots the last couple of years. And whether you're still very confident in pilot availability as you grow your fleet

Ajay Virmani: In constantly hiring, there's not a month goes by where we're not adding 15 to 20 pilots to the team. We'll continue to do that. Yes, there is some erosion. Some people love to fly cargo and some people hate to fly cargo. So people that love to fly cargo are the people who like to fly at night and they don't want to be bothered with all the going through airports and all the changes that go through cargo has better schedules. Their life is a lot better in cargo.

And yes, we did find that in the past three to four months that we had a number of people to leave to go back to cargo carriers. And that puts a little bit of cost pressure and people pressure as well, but I think so far we have been able to attract a lot of ex-pats who want to come back to Canada. And they find that in cargo that's a great home. They have wide-body aircraft.

Although there is a pressure, there is a shortage of every kind of trade today, whether it's maintenance, whether it's pilots, whether it's accountants, whether it's IT. So pilots are no different than other sectors that are facing a shortfall in, but CargoJet remains an attractive place for people to apply and work. So far, as I said, we've been having pilot training courses and new pilots about 15 to 20 every month and we will continue to do that.

Cameron Dawson: Okay. No, that's great. Thanks very much.

Operator: And it appears there are no further questions over the audio at this time, I'd like to turn the conference back for any additional or closing remarks.

Ajay Virmani: Yeah, thank you everybody for joining us today. Our heart goes out to what's happening in Russia, Ukraine crisis when we see the images on TV, and CargoJet is not handling any in line with the government guidelines and some of the mandates. We're not handling any of your product line or any of that stuff, which we never did anyway, but we're more conscious of it than we ever were. Our sympathies and our heart goes out to the people that are suffering, especially in Ukraine.

And we will continue to help as a company and as good corporate citizens, we will also be doing some relief flights for all the refugees that are coming into Poland and some of the neighboring countries. We have had a number of requests. We obviously, can't meet every request, but wherever we can, CargoJet will do its part and it's always done. We did it during Lebanon crisis. We did it during India crisis. We've done it in many parts of the world. And CargoJet will do its fair share as a Canadian spirit to make sure that we do our part to help out.

So thank you again for everybody who's joined us today and we appreciate the support that we get from you guys. Thank you.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.