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Conference Title: **CargoJet Conference Call**

Moderator: **Pauline Dhillon**

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Operator: Today and welcome to the CargoJet Second quarter 2022 Results Conference Call. Today's conference is being recorded. And at this time I would like to turn it over to Pauline Dhillon, Chief Corporate Officer. Please go ahead.

Pauline Dhillon: Thank you Operator. 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; Scott Calver, our Chief Financial Officer; Sanjeev Maini, Vice President of Finance. After opening remarks about the quarter we will open the call 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 the 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 and MDA[?] for 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 Virmani.

Ajay Virmani: Thank you, Pauline. I will cover the industry and general background involving our business and the recent quarter results, and turn over the meeting to Scott Calver for detailed financial update. We are certainly and definitely living in very interesting and challenging times. Just as we are putting the pandemic behind us, there are several new challenges facing the economy and all of our lives. Inflation, rising interest rates, high fuel costs, Ukraine war is still continuing and the risk of recession. All these things are lining up at the same time. One of the most affected sectors is the aviation sector, which is in an extreme turmoil all around the world. As for airlines that carry cargo in their bellies, there is simply too much turmoil. You have all seen the news of jammed air force[?], undelivered baggage, stranded passengers, canceled flights, and no doubt, the cargo portion of their businesses is the silent sufferer, but I must say not at CargoJet.

One major passenger airline has even announced their plans to abandon their strategy to pursue wide-body aircrafts on international routes and shift their focus and retrench from Eastern Canada into Western Canada. Many other large passenger airlines are also focused on fixing its passenger side of the business. Many of the resources that typically focus on cargo, including people, are being deployed on the passenger side to help stabilize their core business. Hence the cargo business is just an orphan at the present time with these kind of carriers. But let me say it very clearly.

CargoJet does one thing and does it very well. We fly across Canada and internationally. We do not have any other distractions. Cargo is and all we do, and we do it well with over 20 years of experience, we have a cargo culture, we have a cargo pedigree where minutes count. The reason CargoJet was born was primarily to serve customers who could not depend on the unpredictability to belly space availability. We have never wavered from that mission.

We are executing for our customers and our on-time service track record for 2022 has been as strong as ever in spite of all the industry issues. We are fully staffed. We have extremely highly qualified and very professional pilot group, very professional and qualified maintenance, and ground handling teams. And we are squarely focused on one thing, serving our customers and on-time performance. If you are a major air cargo customer, which airline would you rather be on? One what that is a single-mindedly focused on air cargo, which is 100% of their business, or you would be with an airline that is juggling between passengers and cargo and baggage where cargo represents only 5% of their business. As an air cargo customer, the answer is simple. You will only get 5% of their attention from these carriers.

This challenging environment has also allowed us to demonstrate to our long-term customer whose business depends on on-time delivery that CargoJet indeed is the right partner for them and their customers. Our customer's growth is our growth. We were tested at the start of the pandemic. We were tested when supply chains were disrupted due to floods forest fires, affecting railways, we are being tested as passenger airlines juggled with the reopening. CargoJet continues to rise to the challenge, and we believe these are important examples which our long-term customers value immensely. While we feel confident about the long-term growth opportunities, but CargoJet is also not immune to the broader economic headwinds, such as inflation, rising interest rates, general economic cycles, and somewhat of a slowdown on the e-commerce sector at the present time. While we still believe that e-commerce customers are taking a bit of a break, flocking to the stores, we still feel that Canada has a lot to catch up with the world and we feel this segment continuously to grow from what we are seeing.

This is exactly why we are watching all of our key metrics very closely and will remain prudent as we continue to strike the right balance between investing in future growth and maintaining a strong balance sheet. We have the best balance sheet of any airline in the world. We have almost $1 billion worth of equity, or liquidity, I should say. And I must say that we are the most and best equipped airline to weather any storm or headwinds that might be on the way.

We are also continuing to attract the best talent in the industry. And I'm very pleased to welcome Scott Calver as our new CFO. He's no longer a stranger to the transportation industry, who will be addressing shortly. We also remain focused on building some strong management team in each of our growth segments with a focus on succession planning.

Our diversification strategy is working well and totally on course. We are achieving what we set out to achieve in this area. At the end of the day, people drive results. And I'm a firm believer if you take care of the people, they'll take care of your customers. I must say that I'm extremely proud of the group of people – whether it's maintenance, whether it's ground handler, whether it's finance and our fine pilots, I can assure you that we do not compromise in getting the best talent that's available.

Thank you very much. I will now pass on to our CFO, Scott Calver, for an update on the business.

Scott Calver: Thanks Ajay. And good morning, everyone. First off, let me start with saying how thrilled I am to be part of the amazing team here at CargoJet. And I am delighted to have the opportunity to share a few thoughts on the business. While many companies have been caught off guard with the reopening of the economy, it is worth noting that we spent the last 18 months preparing for potential uncertain economic climate. Let me give you a few examples. As Ajay just mentioned, we strengthened our balance sheet and we currently have all-time low leverage. We added flagship customers such as DHL to a long list of relationships that include Canada Post, Purolator, UPS, and Amazon. With strong growth in ACMI and charters, our business is now more diversified than prior to 2020 and this provides a balanced portfolio.

We do not take risks with fuel. All of our customer contracts are fully indexed to the changes in the cost of fuel. Our fleet now stands at 34 aircraft. We have strong risk management strategies in place for our $1 billion CAPEX program. In June, we announced the expansion of our normal course issuer bid program to 1.5 million shares. We also announced the completion of our financing plans with a USD400 million delay draw term loan with attractive rates, terms, and conditions. Lastly, we recently announced a dividend increase of 10% for our shareholders.

The world is still adjusting to global supply chain disruptions in the future of passenger air travel, and belly capacity on international lanes remains uncertain. These factors continue to create tailwinds for CargoJet. One example of supply chain challenges is showing up in excess inventory at major retailers. As these retailers clear their overstock, we expect many of these items to float through the e-commerce channel. Furthermore, despite the short term volatility in e-commerce volumes, we remain bullish in our view on the long-term growth cycle of online shopping. Many shopping malls are being redeveloped for residential and commercial use. These stores are gone forever.

The last bull cycle for mail order business lasted from 1870 to 1940. This period was dominated by mail order catalogs by large department stores, such as Eatons, Simpsons, and Sears. The transportation winners of the last cycle were railways for the middle mile and trucking. We expect a new e-commerce cycle that began in 2000 to have a similar life cycle. This is a generational shift, but the big difference is that e-commerce is driven by small businesses, as well as major brands, such as Amazon, Walmart, and Best Buy.

This is much larger than the last mail order cycle. The transportation winners of this cycle will be air cargo for the middle mile and trucking. This is why we are excited about the new economy, and we feel confident in our long-term growth strategy.

Now turning to our second quarter results. We posted another strong quarter with revenue growth of 43.3% compared to prior year, or 31.9% when excluding fuel. While we are pleased with double-digit growth in all of our lines of business, we are particularly pleased with the fact that our diversification strategy continues to allow us to leverage our various offerings that are meeting a diverse set of customer requirements. The adjusted EBITDA for the quarter came in strong at $81.1 million compared to $67.4 million for the same period in 2021, AN increase of 20.3%, despite Q2 having one less operating day compared to prior year. Adjusted free cash flow for the quarter stood at $44.8 million, up 24.4% compared to prior year. Our on-time performance remains in the high 90s as percentage of total flights. This is a critical deliverable, given the importance placed on this target by our customers.

This concludes our opening remarks, and we will now open the call to questions.

Operator: Thank you. If you would like to a question over the phone at this time, please press star one on your telephone keypad. That's star one to ask a question and we will pause for just a moment to assemble the queue.

And we will take our first question from Matthew Lee at Canaccord. Please go ahead.

Matthew Lee: Hi, thanks for taking my question. Maybe we can start with your broader expectations for volume across the domestic network for the next couple quarters. You mentioned e-commerce customers are taking a bit of a break. Would you say you've seen any contraction on the e-commerce side, or maybe just to the celebration[?] and growth? And have you heard any commentary from your partners that just maybe they're tapering their needs?

Ajay Virmani: It's Ajay. Just a quick comment on that. I don't think e-commerce customers are taking a break. What the break is happening is a shift of what they're buying. Yeah, previously there's a lot of luxury items were being bought previously. There were a lot of items that were of not necessity. The e-commerce is taking a break from buying expensive and luxury items and shifting to daily necessities. So, you definitely need your daily necessities. You can postpone if there are [inaudible] or some of the things that you don't need right away. So what we are seeing is a lot of shift towards e-commerce towards daily necessities, not necessarily taking a break.

Our customers, we are still – in the middle of next month, we would be looking at probably peak forecast and some of the other stuff that we do plan, around this time. So far our business is steady. We have not seen – might have seen a little drop here there on an odd day. But we saw a strong demand during the Amazon Prime Day. We continue to see our forecast coming from our customers that are not showing any major decline from their customers in e-commerce. But certainly the mix of traffic has changed. For us, it doesn't matter whether you got a nice pair of Nike's in it, or you got a bottle of oil in it. It's a shipment for us.

Matthew Lee: That's helpful. And then in the quarter, it looks like fuel costs actually surpass fuel revenues. I know there's some delay in terms of the timing. Should we expect the profitability, [inaudible] to occur in the back half of the year, fuel costs stabilize or decline?

Ajay Virmani: I think it always happens. It's been cyclical for the past 20 years where there is some kind of a lag that follows. And we expect that that'll make up as the time goes in the normal course, as it has done in the past 20 years.

Matthew Lee: Okay. Thanks. That's it for me.

Operator: Thank you. Next question is from Chris Murray at ATB Capital Markets.

Chris Murray: Yeah. Thanks folks. Scott, maybe if you can touch a bit on the new US dollar term structure and just, how does that dovetail into the capital plan? Certainly, we're a little concerned about what the longer range forecast could look like and the movements, but can you just explain how you intend to use that facility?

Scott Calver: Yeah, yeah. Thanks Chris. Yeah, first off, let me start by saying that our goal here – we call it, our guiding North Star, is to maintain leverage below two times EBITDA. So that's the target going forward. We wanted to have enough committed capacity for any scenario. This is more than we currently need, but it gives us flexibility with any opportunistic growth capital. Potentially we can look at calling[?] the hybrid debentures at some point if that made sense economically. So it's committed. It improved the conditions on the revolver as well. We just wanted to have everything in place so that we have certainty going forward, and we thought it'd be prudent to do that at this time.

Chris Murray: Okay. But it doesn't really change your thoughts around the timing of aircraft we've talked about in previous quarters.

Scott Calver: No, no, nothing's changed. We just have certainty on committed financing.

Chris Murray: Okay. And then just with the number of disruptions and all the interruptions that have been in an airport, things like that, just looking at your website, you're talking about an OTP on-time performance around, 98, 99%. Are you guys still seeing good operational performance or are there any issues around ground handling at airports that are impacting you folks? And if you don't mind, what was the actual on-time performance number for Q2?

Ajay Virmani: Well, let me say this, that we are probably seeing one of the best on-time performance that we have ever delivered. Yes, there is a manpower shortage. There's no question, we continue to recruit. We continue to recruit good people, but also by managing through better planning. Obviously some overtime, I wouldn't say that we're not immune to having no overtime, but I think we have a very motivated workforce that understands that minutes are important and customers count on us on a daily basis to make sure we deliver on-time performance.

So far, I could tell you, not only in the past – this quarter, when all the turmoil started, the turmoil started two years ago when the COVID happened. And I can tell you that we do not have one container that, out of the hundreds of thousand containers we've handled in two years, that missed a flight or was running late because of any of the headwinds that we see. So our on-time performance is certainly over 98%, that I can tell you, I don't have it exactly broken down. It is over 98 points right now, and we have never had performance that good, touch wood, I don't want to jinx it, in the past two years.

Chris Murray: All right. That's helpful. Thanks. I'll turn it over.

Operator: Thank you. Next question from Walter Spracklin at RBC Capital Markets.

Walter Spracklin: Yeah. Thanks very much. Good morning, everyone. So Ajay, just back on the disruption of the passenger airline and the belly space that is becoming increasingly unavailable, do you feel like, or have you taken advantage of this in terms of winning share? Can you lock in long-term contracts with customers that perhaps wouldn't otherwise have been available? Or are you seeing, or are you doing it more on a spot basis, one-off basis, or do you just not have the aircraft capacity right now?

Ajay Virmani: Well, a number of things, we have limited aircraft capacity, and we can also turn more[?] in flights, which is still better than two to three or four or five-day service that's out there in the market. So yes, we have been entertaining, we have moved some extra flights selectively. We recognize some customers that are just using us because there's turmoil right now and they will go back to – those are our least desired customers to help at the time. But people who have some customers that are existing customers that use both levels of service with wide-bodies and with CargoJet, we have certainly given preference to those. I think it's solidified more relationships. We have not taken advantage of gouging at this time and charging them an arm and a leg because they're stuck.

I think with helping those customers that are probably – uses both services, they see clearly the benefit of switching things over to us in the longer term. So yes, there has been short-term opportunities. We have created space. We have looked after our existing customers, and we have also looked after customers that are partial CargoJet and partial wide-body. And I think that the message is very clear, Walter, I must say that in 1985 to 2000, I was a user of cargo services as a freight forwarder. And I constantly was buying product from – services from cargo airlines.

In those 15 years, there was 14 cargo airlines that were in existence in Canada at one time. They all went broke, merged with somebody, or closed down their doors. And they had one thing common; they were all related to some kind of a passenger operation.

And our product is cargo. We do not sell business class. As I said in the last meeting, we do not sell duty free. We're not interject[?] in package[?]. That's one place where we make money is cargo. And I think our cargo culture, our category[?], over 6,000 pieces of ground support, [inaudible] 400 maintenance people, over 400 pilots, our own simulators starting for pilot training in the next month in Hamilton. These are some of the tools that has made CargoJet a competitive force. And all I can tell you is that we are extremely happy with the progress we have made in the marketplace, with our people being the first and the foremost.

Walter Spracklin: That's great, Ajay. And you touched on another part of my question, and I think I heard you, right, but I just want to make sure. Your prior flight schedule really revolved around your next-day delivery customers and operating outside of just once-a-night for maybe – back in the day, it was four nights a week. Didn't make sense. But now as e-commerce customers have been coming on, you've extended the number of nights per week that you fly. My question is, is there avenue with the new type of customer that's coming on now, perhaps traditional belly capacity or belly space customers who don't necessarily need to be there next night or next day, can you start to offer maybe second – twice-a-day service? In other words, look for avenues to increase capacity utilization of your current aircraft without having to add more aircraft, to be able to take advantage of some of these different types of customers.

Jamie Porteous: Yeah. Good morning, Walter, this is Jamie, I can take that one. Yeah. I think you've seen that in the last few years, we've done that really as a result of the growth of e-commerce, but as you're indicating, with additional ad hoc customers on the domestic side, we've expanded our network to really seven days a week. We operate two flights on Sundays, so there's plenty of opportunity for additional capacity and additional utilization. I think I've noted before that we could theoretically duplicate our entire domestic schedule during the day, there's enough downtime. Our average utilization on the domestic network aircraft is only about four and a half to five hours – four and a half to five block hours a day. So theoretically we could double that capacity if the demand was there.

Walter Spracklin: That's great. Jamie, appreciate that. Last question here. I cover a lot of other transportation companies that are just suffering from lack of labor. Ajay, I think I heard you say the words 'fully staffed'. And is that correct? Are you not impacted – is it fair to say that a lot of the supply chain issues that are impacting rail, impacting truck, impacting passenger belly space capacity, you're not seeing as much of those specifically as it relates to labor availability?

Ajay Virmani: Well, a couple of months ago, yes, we were short 40, 50, 60 people, mostly in the ground handling, some maintenance people, and some pilot people in every category. We have over 71 pilots in training today, we have – which will be released every few months. We also have a number of maintenance people that are on board. And we also have narrowed the gap on ground handling staff.

Now, I must say that if you looked at the numbers today, we'd probably be short, maybe, 20, 30, 40 people on the ground handling side, but the way we have rearranged the shifts, the way that we have managed the overtime situation, the way we have organized moving certain things in a certain way, call it, in other words, planning, has negated that impact. So yes, we might have some shortage a little bit, but we are managing it well with the resources we have and I think it's a lot better than what the situation was three months ago.

Walter Spracklin: Fantastic. Thanks for all the color. Appreciate it.

Operator: Thank you. Next question from Konark Gupta at Scotia Bank.

Konark Gupta: Thanks operator. Good morning, everyone. My first question is on warehouse capacity. A lot of transportation companies have been talking about how the warehouses in Canada, especially, they are so tight on capacity at this point, but just impacting their ability to pull in freight volumes. So relative to demand, I mean, demand is pretty strong, but it's just the capacity. What are you seeing from your perspective, and from your customer's perspective?

Jamie Porteous: Yeah, good morning, Konark, this is Jamie, we're not as affected from a warehousing standpoint. As you've seen in our facilities, most of them are literally an airport ground side to airside cross-stock[?] operation, and many of the airports, especially the big airports in our hub in Hamilton, a number of our major customers operate their own facilities on airport. So we haven't seen any restriction in terms of capacity or capabilities at our facilities anywhere in the country.

Konark Gupta: Okay. That's very good. Thanks Jamie. And then moving on to the margin profile, perhaps more for Scott here, and Scott, welcome to the earnings call. Just on the mix of the business, if I look at the ACMI, the proportion of ACMI has gone up this quarter versus last year's Q2, as well as this year's Q1. And yet the EBITDA margin has compressed versus both peers. I know obviously fuel mathematically has an impact on the margin profile, right, and create some noise there. Is there anything else you would call out?

Scott Calver: No, nothing has changed compared to prior quarters. Really the noise that we talked about earlier that Ajay explained is the fuel in Q2. But other than that, it's really quite stable and we've had growth in ACMI, which has always been the plan.

Ajay Virmani: And that's why we had the extra planes that we ordered to expand ACMI business. So it's in line with our business plan and business thinking and deploy the assets that we signed up.

Konark Gupta: Perfect. That's great. And last for me, fleet, I noticed you have signed an LOI in April, I think for leasing 1767-300, as well as you have probably extended the 767-200 lease, which I think was due later on, but it's extended to 2025 now. Any thoughts on what are sort of the intentions or the plans behind those two leases here? Like, do you see perhaps further delays in converted aircraft or do you need more capacity? So yeah, any thoughts there.

Ajay Virmani: No, our planes are totally counted for against the contract. We obviously, as I've explained in the past, that with the size of the fleet, we are getting – going to be – we have 34 fleet and soon to be 40, and then soon to be 50. We do need spares to make sure that our planes performs are on-time performance, which is critical to our business. So that means we will need some additional maintenance capabilities on our planes and for them – for us to maintain that on-time performance, we need downtime on the planes. So we can keep getting greedy, but it'll have two impacts. One is a safety and security. And the second thing is the on-time performance. They go hand in hand with the maintenance.

So a couple of planes that are coming free are strictly going to be ensuring that our fleet stays in good health. If we do need to do a fleet campaign, if something's wrong in one plane, we want to make sure that all planes are checked for the same. So this is how the business works, and we are going to be expanding our operational and maintenance spare[?] by one plane. And that's all part of our plan. So in order to answer[?] the question, there is not going to be any extra planes. As a matter of fact, every plane that comes offline is sold[?] and is wanted, but at some stage we also have to balance it out with our needs maintenance wise and ensuring that the KPIs are delivered to the customers performance. So we have it all balanced. There is no spare planes that are going to be sitting around.

Konark Gupta: Perfect. That's great color. Thanks, Ajay.

Ajay Virmani: And in fact, we have extended the lease on it. I would rather return that plane and buy it, but we needed so badly that we ended up having to extend the lease on it. So.

Konark Gupta: Makes sense. Thank you.

Ajay Virmani: Thank you. That's the only leased plane we have and it's been around – that was our first 767 that we got in 2008 and I was hoping it'll be gone, but every time we try to return that plane, we end up with a contract, which is nice problem to have.

Konark Gupta: Great. Thank you.

Operator: Thank you. Next question from Kelvin Chan in CIBC.

Kelvin Chan: Hi, good morning. Thanks for taking my question. Hi, Ajay and team. I appreciate the comments in your prepared remarks about the ebbs and flows, I guess, in the economy and with the consumer. And obviously there's been some noise with some retailers and some of the difficulties you're facing as spending normalizes. But when I look at your results, you continue to show, at least on a year-over-year basis, good growth here. So, it does feel like I guess there's still a mismatch between demand for your capacity versus the amount of capacity you put up there. And I'm not sure how you want to frame it, but like, do you have a sense of how many block hours you think there is demand for your product versus the block hours you put up there? Or if you want to look at it by number of planes, like if you had extra X number of planes that would fulfill the demand you see, so you're running below that? Is there a way to frame the demand-supply situation you're facing today? Just given how you've performed in the first half of this year.

Jamie Porteous: Yeah. Good morning, Kevin, it's Jamie. I think I understand your question, but as I said earlier to the answer one of the other analyst questions, I don't think we're restricted in terms of capacity. If you look at all three segments of our business, utilization of aircraft is what we would've expected. Obviously was much greater than the year before. We saw significant growth in all three segments of our business – double-digit growth in all three segments of our business because of demand. We're not restricted or constrained by capacity, other than delivery of new aircraft to add to our ACMI business, which, as we've noted before due to supply chain issues and COVID-related delays, we've – delays in the conversion of the 767 aircraft particularly, have impacted when we've started new ACMI routes. The routes that – we just started a new route to Brazil earlier this month. It was initially slated to start in April but was delayed because of some regulatory issues and the late delivery of the aircraft. But we're not constrained in terms of capacity to meet the demand other than late delivery of aircraft.

Kelvin Chan: Okay. That's helpful. I know you don't give earnings guidance, but if I just look at the historical seasonality of your EBITDA, generally, let's say 43 to 45% of it, you generated in the first half and obviously the rest you generated the second half. So, if I look at the 164, is there any reason – the 164 of adjusted EBITDA you generated in the first half of this year, is there any reason why the seasonality would be any different this year? So that could represent about 45% of your annual total? Or are there things we should be cognizant of as we think of the back half of 2022?

Ajay Virmani: No, we expect the trend to continue and Kelvin, to be honest with you, guidance, or no guidance, all the analysts that are on the call and cover us pretty well, they have it right. They know what – whether guidance or no guidance, they're within 2 to 3% of what we do. So our books, although might not say – point to [inaudible] guidance, but it is pretty open to guess[?] what we are doing and what flights. I mean, some of the analysts that even follow flight radar and seeing how many hours we do and all that stuff. So it's a pretty open book. Short of using the word guidance, I think everybody is pretty well attuned to over business, which is good to see, especially guys like yourself, who do a thorough work on some of this stuff.

So, and as far as the trend is concerned, I do not see anything different in this back half to compared to the other back halfs of the previous years. So quarter three and quarter four are exceptionally strong for us. And all indications to us is that we have not heard anybody say they're not going to be utilizing their space or – we are expecting forecasts from our customers in the next one month and we'll be sitting down, plotting them out. And this year, we have a lot – we'll have an extra plane or two to carry even more product if the demand is there.

Kelvin Chan: Excellent. Sounds like you're setting up for a very strong second half here. Maybe just last one for me, just maybe just your thoughts on the NCIB, you did increase it, it's expected, it reflects just the pressure your stock has been under, especially this year. Just, I guess, how do you think about utilizing that NCIB, is there a percent you want to purchase? Is it purely tactical? Do you buy below a certain price? Just, is there any color you can provide there?

Ajay Virmani: Well, we started the NCIB. Obviously, we feel our stock was undervalued. We had the cash to do it. We had the liquidity to do it. We have an approval of, what, Scott, 1.5 million shares. But to be honest with you, right now I think we are in a blackout situation and this is a program that we started to make sure that if the stock we feel is strongly undervalued and we can get a good value in investing in the stock, we will. But we are also very practical. And if we found that the market is not where it should be, we would not hesitate to amend or to make changes to our NCIB. We are not going to go blindly because we said that's what we are going to do. We are going to be very prudent in managing that almost on a daily basis.

Kelvin Chan: Makes sense to me. That's it for me. Thank you for taking my questions

Operator: As a reminder, to ask a question, please press star one. And our next question is from Cameron Dirksen[?] in National Bank Financial, please go ahead.

Cameron Dirksen: Yeah, thanks very much. Good morning, everyone. Just wanted to come back to the announced new financing, the USD400 million. Are you able to say what the interest rate is on that? And can you just maybe talk more generally around your fixed versus variable exposure to interest rates?

Scott Calver: Yeah, that new USD 400 million is on the same spreads as what we had on our revolver. So really it's almost identical. We did take the opportunity to improve the existing revolver in that there was an additional security requirement and we had that changed to the benefit of the company. So yeah. I'm sorry, your second part of your question?

Walter Spracklin: Just on fixed versus variable exposure. I mean, I think maybe you've hedged to some of that, but maybe you could just talk about that.

Scott Calver: Yeah. That now that we've transitioned from having cash in the bank to starting to draw on credit, that is what we're looking at, because obviously with the hybrid debentures, we were all fixed and we're definitely not going to transition to being all variable as we start to draw on the other facilities. So as we progress and as leverage starts to support our growth strategy, that is definitely going to be something we consider in terms of having a policy for the board to consider on what's appropriate in our capital structure.

Cameron Dirksen: Okay. Makes sense. And maybe a second question for me, just on the CAPEX. Can you just maybe update whether there's been any changes on your CAPEX plan for this year and into next?

Sanjeev Maini: Hi Sanjeev here. Though we are still on target, although certain deliveries are getting postponed due to supply chain issue, but there's no change in our investment plan, as in asset acquisition plan.

Ajay Virmani: Yeah. We have not increased it. The plan is what it is and except for some late deliveries, we are pretty well on target on the rest of it and we have not added anything new.

Cameron Dirksen: Right, right. Okay. That's great. That's all I had. Thanks very much.

Ajay Virmani: Thank you.

Operator: Thank you. Next question from David DeCamp at Cormark Securities.

Ajay Virmani: Morning.

David DeCamp Thank you. Good morning, everyone. I just have the one question for me. When I think about the contracts that you guys have, they typically have CPI price adjustments, but I'm trying to get a sense of if there's any caps to that. And if the increases that you're seeing today are enough to offset inflationary pressures that you're seeing on labor and what have you.

Ajay Virmani: Most of our CPI provisions, as you know, we have had traditional contracts that were agreed upon on a CPI basis, but keep in mind that these contracts were – nobody had ever seen inflation of 7 or 8 or 9% and nobody ever had. We have provisions in there where we can pass on the portion of the CPI less energy because obviously the fuel is a different component that we get a fuel surcharge on. So we pass on whatever CPI, less energy, and some of them, you are correct, have minimum levels and some of them have maximum levels. It's a mixed bag. We also have a list of customers that we are not going to cover the full CPI. We would also look at probably when the contract renewal time comes, to make up some of it, depending on how long is this whole [inaudible] process going to last.

So, yes, we did have some minimums. Over the years we have got – when the CPI was low, we were able to get minimums, which were over the CPI level at that time. And sometimes you have to take good with the bad, and yes, we do have contracts that are not at 8%. As a matter of fact, we hardly have any contracts at 8%. So we feel that there will be some adjustment period in that. And we will be able to go to some customers at the renewal time, at some appropriate time, to ensure that we are made up for the difference. But at this time, [inaudible] every customer is going through the same situation, and I think we have a very long-term relationship with customers who've always been fair with us. We've been fair with them. And once they see that whatever costing structure is, I think we should be able to get a portion of whatever the shortfall might be at the right time.

David DeCamp: And I guess as a follow up, if I take a look at your domestic revenues is up 15% year-over-year. So is it fair to say 10% is volumes, 5% is pricing?

Ajay Virmani: Well, I haven't looked at it that way. To be honest with you, I can't answer that question off the top of my head. So Scott, can you…?

Scott Calver: I would say David, that I would suggest most of it is volume growth. Only a very small percentage would be inflationary increases.

David DeCamp: Okay. Sounds good. That's all I have for you guys. Thank you so much.

Operator: Next question is from Tim[?] James at TD Securities.

Tim James: Thank you. Good morning, everyone. I just want to try and connect the dots a little further and make sure I'm understanding the dynamic here in the domestic network revenue. So 15% growth year-over-year is very good. And then you talk about observing a slowing in consumer spending on goods in favor of services. I guess first, does that comment reflect a post-Q2 observation, or were you seeing that in Q2 and despite that, still generated 15% domestic revenue growth? Or maybe the more important part of this question, Ajay, you were talking earlier about sort of changes in mix. Does this observation about consumer spending really reflect the change in mix and therefore it actually doesn't really impact your revenue because you you're agnostic to mix shifts.

Ajay Virmani: Yeah, so in our case, I mean, the consumer spending has not shifted from goods to services. Certainly, that won't affect us. What we are saying is the consumer spending shifting from the type of goods that are being bought before to the type of goods that are being bought now. So with inflation running the way it is, people are buying and shipping necessities rather than luxury goods, a lot than goods that are not required. So there's more spending on the day-to-day stuff and necessities rather than – so that's where the shift is. So whether they want [inaudible] or toothpaste, or – we see a lot of those shipments which we never saw in the e-commerce. People are not going out and buying that product off the stores. They just know the prices and they order it and they have it delivered to their home.

So that convenience factor is the shift that we did not see in the past. So we feel that the e-commerce – obviously, we've read – we are not – we've seen the news with other companies that have had a bit of a slow down on their e-commerce vendors or whether e-commerce shipping or stuff like that. For us, shipping is the shipping, whether you are shipping, as I said, coffee mugs, or whether you're shipping shoes. So for us, the difference is the mix of product, mix of cargo rather than mix of services and goods.

Tim James: Okay. That's very helpful. Thank you. My second question, I'm just wondering, if we could return to another topic from earlier here and it's about what you're hearing from your customers in terms of volume that they've given to CargoJet since the start of the pandemic. And I'm trying to get at their thinking to the degree you have a sense for it around their plans for sending volume back to ground marine[?] or passenger belly space as those sources or modes of transportation come back or become less congested. It seems like those modes, those other modes continue to demonstrate reasons not to use them in the future, other than maybe price. Do you feel, if you look at all the volume that you have gained since the start of the pandemic, that most of it will stay with you as those other modes normalize because your customers are thinking about the future and saying, 'Hey, things are better now, but who knows in the future?'

Or do you think you retain some of that volume, but a lot of it goes back to its traditional modes of transportation?

Jamie Porteous: Yeah, good morning, Tim. No, I would say that none of it would go back – I would say none of the volume that we – with very little exception, there was some minor – when the floods happened in BC last year as an example, and some ground volume or rail volume may have shifted to air and that's subsequently gone back. But the biggest driver of growth really in all three segments of our business have been – on the domestic side, has been really driven by the growth of e-commerce as a percentage of overall retail sales in Canada. And as we've noted several times, we see that continuing, although the mix may change a little bit, but the demand is certainly still there. We're not seeing a shift – there's nobody using our services that would look at going back to ground, to rail. They're using air because it has to get their overnight.

Equally our ACMI business, the growth of that has been a combination of global e-commerce growth, but also particularly with DHL, a shift in – a significant strategic shift in their business from dependence on – a partial dependence on belly cargo capacity for their global network historically, or pre COVID, to ship to exclusively dedicated cargo aircraft. And that's subsequently why we've grown, particularly with them, and announced the significant agreements with them earlier this year. And then equally, our charter business is growing because of the lack of cargo capacity and the increasing demand globally. So I don't see any shift of any of our business back to other modes. I don't think that exists.

Ajay Virmani: And just as a reminder, ACMI business that we diversified into, there was a reason for it because it is not volume sensitive. We fly a certain number of hours at a certain price and not [inaudible] risk[?]. So, we don't find that that kind of business has any relevance. Sure, if the overall business goes down, it could, but since we have some guaranteed contracts on that, that business is not volume sensitive whatsoever.

Tim James: Okay. So if I could just summarize then to make sure I understand. So these other modes are a mess still today, if I can call it that, in terms of the service that they can provide. Once they get sorted out, whether that's 12 months from now or five years from now, even though they're not a mess at that point, you believe that your volume that you have won and taken over the years will stay with dedicated cargo and with CargoJet. Is that correct way to think about it?

Ajay Virmani: Yeah, the thing is that the days of building inventories are gone, where people would do B2B and sit on millions and millions of dollars of inventories. People are pretty spontaneous. I think the shopping habits have changed. If you follow the trend in Europe where over 20% of the retail sales are e-commerce. So that's a trend. I don't think people are going back to that, no e-commerce at all. If you look at Asia, it was over 30%. Canada was about half of what US is. So in five years, 10 years, I can tell you from my experience starting from 9/11 to recession 2008 to VC floods, forest fires, you name it, there's one every three years; we go through this cycle where people understand the importance of the air freight.

So I think that the speed today, the traditional air freight business, which is spare parts, medical supplies, perishables, lobsters and fruits, and essential spare parts, car parts, these are all traditionally air freight businesses. And we don't see that all of a sudden because the supply chains could be normal, that everything comes back to normal. As a matter of – people are now learned to live with next-day delivery on most of the stuff and cost is not an object. I'm sure people, any people we talk in our company and say, when they order stuff from, let's say, for example, Amazon or any of those media, they look for the fastest service. If you order something, you don't want it to be sitting in transit for six days. By signing up $150, $180 bucks for Prime, you're getting your shipments the next day.

Nobody ticks on the box that I can get it three days after. So I think these habits are hard to break, and that's what our research tells us that shipments that have traditionally shipped to the faster mode are going to stay, majority of them, in that direction. And there'll be new products and new market shares coming on as well. So there's never been, in the past 20 years of aviation, that I have seen that a trend continues on for five or 10 years. There's always a break of cycle of some sort, whether it's, as I said, some kind of world event that triggers that. So that's how we feel about it.

Tim James: Okay. That's great color. Thank you very much.

Operator: Thank you. Next question from Ahmad Shaath from Beacon Securities.

Ahmad Shaath: Yeah, hi guys, maybe my first question on the ACMI and all in charter. Strong performance, but I noticed you guys pointed towards change in, or reduction in scheduled charters and also ad hoc ACMI. Just wondering if that's a reflection of demand or just lack of capacity on your side and how we should think about that for the rest of the year.

Ajay Virmani: If there was any – and I think our ACMI certainly grew from what I saw, but we could have handled a lot more, if that's what you wanted to know, if we had the capacity. So Sanjeev, how much did our ACMI grow?

Sanjeev Maini: 62%.

Ajay Virmani: Yeah, so we did not – I thought we are seeing positive growth numbers on both of our businesses and the charters are reflection of if we have the aircraft available, we can keep the aircraft on spec and say, let's keep it if a charter happens, or we have a guaranteed ACMI deal. So obviously we take the guaranteed ACMI deal in those cases.

Sanjeev Maini: I think you are referring to a comment where it says that ad hoc ACMI charters had reduced, but that is one-time ACMI contracts which we get. Because since our scheduled ACMI charters with DHL grew at a considerable pace, we used all our regular aircraft on that lane. So there's no such thing to be concerned of.

Ajay Virmani: Yeah. It's traded off with regular ACMI business rather than ad hoc ACMI.

Ahmad Shaath: Yeah, exactly. No, that's what I was referring to. Thanks for clarifying, Ajay. And then maybe couple of housekeeping items. I noticed you guys stopped reporting the average volume number. Any reason behind that? Is it a change of the mix of the business that makes that number less reliable? Or what's the driver behind that?

Jamie Porteous: Yeah, you're referring to the average daily volume that we used to report. One of the reasons why we stopped reporting it, we can give it to you individually, I guess, but it's really a metric that we don't look at. It's a little deceiving because it was – we've historically done it. We didn't realize that a lot of analysts were taking that number and looking at the average daily volume compared to the average daily revenue. And really, that's not a fair metric because the way that our domestic business particularly is priced, we have – it would make sense if 100% of our domestic business was priced on a per pound basis. But it's not, there's significant differences between different contracts. Some are by pound, some are by containers, some are minimums per day. And with the volume fluctuations, we often got questions about – or not questions, we got comments that, oh, your yield has declined, or your yield has increased, when it's really not an accurate measurement.

Ahmad Shaath: That's great, Jamie, thanks for the clarification. I'll jump back on the queue.

Operator: Thank you. Next question from Nick [inaudible] at [inaudible] Capital.

Nick: Good morning. And thanks for taking my questions. Just the first question for me, it relates to the underlying demand of the domestic network. Is there any color you can share on Amazon

Prime Day and how might have compare to prior years, either in terms of total volume or maybe year-over-year growth in volumes?

Jamie Porteous: Yeah. Nick, it's Jamie. Good morning. One of the fundamental differences between Prime Week – Prime Week was very for Amazon both here in Canada and in the US. And one fundamental difference in Canada, it's the first year that they actually had Prime Week where they had their own dedicated aircraft. So the two CMI aircraft that we've been operating in Canada for them since last summer. And as you remember, they didn't have the Prime Week last year. So first amount of capacity demand would be to fill their own aircraft. And then the remainder of their demand would be filling our BSA flights and there, the volume was up significantly. I think it was up – the demand for our domestic network was up over 50% from what the average weeks would be before Prime Week.

Nick: Good color. And then maybe switching to ACMI. Is there any color you can provide on how your relationship with DHL's evolved and what near routes you might have had in the second or third quarters?

Ajay Virmani: Well, we did sign an agreement a couple of months ago with DHL. As you know, it involves some warrants and involve some revenue commitment, route commitment. Everything is on progress. I think as soon as the aircraft comes offline we have commitment that we announced at that time that four 777s are going to go to DHL and also additional 5767. So that stuff is – that business case and plan is on plan. And I think if we were to able to offer more planes to them, they would definitely use them. Some routes, some days we fly to Europe and other days they asked us to go to China or Brazil, or – our contract is more of number of block hours that we fly for aircraft for them, a number of aircraft. But we keep the flexibility within the contract, as their demand shifts, as the changes are needed, that they might have more cargo available in certain port where they're suffering. They will ask us to shift those into those routes.

So the relationship is strong. The relationship is a partnership and we value it. They value us. And I think part of the reason is that in the whole DHL mix, we are the highest performing on-time performance carrier for DHL, in all the carriers.

Nick: Great. That's all for me. Thanks.

Operator: There are no other questions in the queue at this time.

Ajay Virmani: Thank you very much for joining us on this second quarter call. Appreciate everybody's time and insightful questions. And we look forward to planning and communicating on our Investor Day, which should happen in the very near future. So till then, we look forward to seeing you guys.

Operator: This will conclude today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.