Good morning, ladies and gentlemen. Welcome to the Cargojet Fourth Quarter Year End Results Conference Call. I would like to turn the meeting over to Pauline Dillon. Please go ahead, Ms. Dhillon.

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Pauline Dhillon, Vice President Marketing, Public, and Government Relations, Cargojet

Thank you, Operator. Good morning, everyone, and thank you for joining us on the call today.

On the call are Ajay Virmani, President and Chief Executive Officer; Jamie Porteous, Chief Commercial Officer; and John Kim, Chief Financial Officer. After opening remarks by Ajay and Jamie, we will open the lines for questions.

At this point, I’d like to point out that certain statements 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 EBITDA and Adjusted EBITDAR. Please refer to our most recent press release and MD&A for important assumptions and cautionary statements relating to forward-looking information and for reconciliations of non-GAAP measures to GAAP income.

I’ll turn the call over to Ajay for his comments.

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Ajay Virmani, President and Chief Executive Officer, Cargojet

Thank you, Pauline, and thank you, everyone, for joining us this morning on the Cargojet conference call.

I’m very pleased to report another successful peak season delivered by the Cargojet team with record volumes and on-time solid performance. We delivered a strong quarter with 9.2 percent revenue growth, excluding fuel surcharges, improved our margins, and grew Adjusted EBITDA by 17.4 percent over last year.

As I mentioned before, we are focused on growing each segment of our business, be it overnight work, overnight network, ACMI, or charters. We believe there are growth opportunities in each of our segments, and fourth quarter is a clear example of our diversification strategy in action that I mentioned in our previous conference calls.

Despite softness in the interline business from various international countries, e-commerce remains very strong, and quarter four results show that. Jamie will make more comments on this right after myself. We continue to see a strong shift in shopping patterns. One-Day Prime by Amazon has been a great game-changer for the e-commerce industry as other retailers make (inaudible).
But online shopping has now moved to a 7-day week shopping pattern and is now allowing us to maximize asset utilization and improve margins.

Canada still lags behind U.S. and the international world out there on e-commerce shopping as a percentage of total sales. There is plenty of opportunity for Canada to grow within the e-commerce space in the coming years.

Peak season growth means tremendous focus on delivery and on-time performance, focus on quality and safety, especially when the weather is very bad. Our maintenance team works extremely hard to make sure that our fleet remains in top form. Once again, I’m pleased to report that quarter four our on-time performance exceeded our contractual commitments and was over 98 percent. This is a key metric for our customers because they have built their first and last mile networks that rely on our ability to meet our commitments. We are developing a culture of continuous improvement. This means managing our costs and cash flow prudently with an eye towards strengthening the balance sheet.

As I look back at 2019, it has been a transformational year for Cargojet. We delivered a solid 10 percent growth in overall revenues, excluding fuel surcharges. This growth was achieved through a strong overnight business, while strengthening our ACMI that posted a growth of 44 percent over full year. We entered into strategic relationships to build long-term growth. We redeemed our debentures early to further strengthen our balance sheet, and we invested in the business to lay a solid foundation for coming years.

I am as excited about Cargojet's future as I was when we first started the business 20 years ago. Once again, thanks for joining us this morning. We will continue to build our business in all segments. Diversification of new business lines, and other opportunities will be a key for us.

Now, I will ask Jamie to share his thoughts on our fourth quarter revenue and revenue trends.

Jamie Porteous, Chief Commercial Officer, Cargojet

Thanks, Ajay, and good morning, everyone.

Q4 continued to see tremendous growth in e-commerce demand on our overnight network, both directly from retailers such as Amazon and indirectly from the integrators and legacy couriers that participate in the e-commerce space in Canada. We also saw the continued growth and expansion of our higher-margin dedicated ACMI business with the addition of our sixth route, which began at the beginning of the quarter. This revenue growth was partially offset by declines in domestic overnight network volumes outside the e-commerce space to lower overall air cargo demand globally as a result of continuing international trade challenges and lower economic activity, and more recently, the impact of the coronavirus, especially on volumes out of Asia. We saw this reflected in the reduced demand for our scheduled international and ad hoc charter services and to lower interline revenues during the quarter.

As Ajay mentioned, we were proactive in reducing and suspending some of our scheduled international routes to Cologne and South America in the third quarter as a result of this lower demand. The reduction in operating expenses were reflected in overall margin improvements shown in Q4.

E-commerce continues to be the driving force in our overnight network growth. We continued to operate our Sunday night flights during Q4 and operated additional dedicated charters during the period to meet this growing demand.

E-commerce will continue to provide tremendous growth opportunities in 2020 as online retail sales continue to grow in Canada, and we plan on continuing to capitalize on this growth by offering value-added services on our domestic network and by continuing to grow our ACMI revenues and charter business.

Thank you and I'll now turn the call back over to the operator for any questions.

Operator

Thank you. We will now take questions from the telephone lines. If you have a question and you're using a speakerphone, please lift your handset before making your selection. If you have a question, please press star, one, on your telephone keypad. To cancel the question, please press the pound sign. Please press star, one, at this time if you have a question. There will be a brief pause while participants register. Thank you for your patience.

The first question is from David Ocampo from Cormark Securities. Please go ahead.
Good morning, David.

Ajay Virmani, President and Chief Executive Officer, Cargojet

Good morning, David.

Your other customers apart from Amazon, are they interested in the daytime flights as well?

Ajay Virmani, President and Chief Executive Officer, Cargojet

Right now daytime flights are—we do operate a daytime flight to Western Canada for our other customers. What we operate for Amazon is not—they're two separate flights. But at the end of the day, if there is space left over, we would definitely market it to other customers, which means that's a revenue for us and we could lower Amazon's cost if we can push the new states. It's kind of a win-win. We haven't had that situation yet because when we do the charters, they're pretty full.

Okay, that makes sense. On the new hours of service rules for pilots, the costs are going to increase this year. Do you guys have a sense on how much pricing will increase from this initiative in 2020?

Well, we have gone to our customers and implemented a pilot fatigue surcharge. Most of them have been implemented. There is a couple of them in terms of when people give you increases they want to make sure that they come and they have some other (inaudible) rights in terms of looking at—if you're asking why pilot cost went up $5 million and we want to spread it among the customer base, one or two customers have kind of done their due diligence. We're looking at our numbers, and we expect those to be sorted out in the next 30 days.

Cost increases by customers are never easy, but I think the good part of this cost increase is that everybody is aware of the safety issues regarding pilots, so why this surcharge is going in. At the end of the day, everybody also knows that there's a big pilot shortage in the country. Basically, we will recover all of our cost. It's a matter of, like, a month or so that once the due diligence by over a couple of our customers is over, we should be in good shape.

So, is the right way to think about this is you're going to get your traditional cost inflation on your contracts plus, say, another (inaudible) percent.
Yes, they are independent of this surcharge.

David Ocampo, Cormark Securities

Okay, that's all for me. I'll hand the call over.

Operator

Thank you. The next question is from Kevin Chiang from CIBC. Please go ahead.

Kevin Chiang, CIBC

Hi, thanks for taking my question here. Maybe if I were to follow-on on that last question from David. If I look at your margin expansion on the EBITDA line and accounting for some IFRS 16 noise, you're up about 180 basis points, if my math is correct year-over-year in 2019, despite some of those pilot fatigue costs you would have incurred. When I think of 2020, should I think of margin expansion being greater than that as you mentioned you implement some of these surcharges, or is the run rate we've seen this year kind of a good run rate over the next, I don't know, year or two?

Ajay Virmani, President and Chief Executive Officer, Cargojet

Yes. We're looking at—we're trying to cap it between $100 million to $110 million. Probably $100 million would make me happier.

Just keep in mind that we bought an aircraft, a 767-300, which we got at a very good deal from Air Canada. We were going to harvest this aircraft for parts. That was our strategy. But when we looked at every—all of our aircraft have been deployed. So that means that left us with no aircraft for charter opportunities and expansion of new routes. I think when you can—so we decided to convert that aircraft into cargo rather than part it for parts, because there is—the aircraft are in short supply today, as south of the border companies for Amazon keeps grabbing up anything that comes for sale. So, we found an opportunity. We said okay, we're not going to cut this up for parts, but let's convert it to cargo and have an aircraft ready for (inaudible) charters. I can easily say that right now, when the China market reopens, there is going to be a tremendous demand for cargo that has been backlogged over there for months to be shipped. We are already getting so many inquiries about would you be able to do two flights a week to China or three flights a week to China, and we sincerely hope that aircraft is ready for us and ready to go and take advantage of the strategic opportunities in the marketplace.

Our experience has been, Kevin, every time we call an aircraft a spare aircraft, we end up finding a route. I mean, that is a nice problem to have, that you always find work for that spare aircraft and that spare is not spare anymore. So we're getting this aircraft converted. It wasn't in our plans, but we felt that if we don't go out and convert this, our growth and our plans and our opportunities can be very limited, especially when we turn down charters. What happens is that next time people call other people. So we are being proactive in this expansion of one more aircraft at this time.

Kevin Chiang, CIBC

That's helpful. Maybe just last one for me. Jamie, you mentioned you're seeing some impact from the coronavirus, I suspect in your first quarter interline and maybe some of your charter business there. But if I think of your domestic network revenue now, it sounds like e-commerce, given the tailwinds there, you're probably offsetting any interline weakness with e-commerce...
volume, so you're kind of net neutral. Your all-in charter revenue, you've kind of shrunk that given what you've been seeing in the market over the past year. So, like, is the coronavirus something that we should be anticipating being at least—is it a headwind to earnings that we'll see in the next quarter or two? Is that something you can offset? Then, as Ajay mentioned, if you have all this backed-up volume from Asia coming in the back half of the year, is that over and above kind of a normal run rate revenue you can get on an annual basis?

Ajay Virmani, President and Chief Executive Officer, Cargojet

Jamie, go ahead.

Jamie Porteous, Chief Commercial Officer, Cargojet

Yes. Kevin, I think, as you're aware the interline volume as a percentage of overall revenue on our domestic is not great. It was already low because of low international global air cargo demand that we're seeing in 2019. It's just being compounded a little more by the coronavirus as we go into 2020, just when we thought it was coming back a little bit. But that's far being overshadowed by significant continued e-commerce growth.

Ajay Virmani, President and Chief Executive Officer, Cargojet

And the charter business for the rest of the world, and ACMI as well.

Kevin Chiang, CIBC

Okay. That's it from me. Thank you for taking my questions.

Operator

Thank you. Your next question is from Walter Spracklin from RBC Capital Markets. Please go ahead.

Walter Spracklin, RBC Capital Markets

Thanks very much. Good morning, everyone.
a month, so we know that the demand is going to be very heavy for that kind of flight.

Now, you asked the question can you expect the growth on all segments of our business. Yes, we expect certainly that the charter business, especially after the cleanup with the coronavirus and the global trade deals being panned—because they will at some stage have to sign a global trade deal, whether China-U.S. or India-U.S. Those are all pending deals and eventually they will get signed. We expect that the business will come back to normal when those are done, and that will be our mostly interline business first and then the charter business second.

In case of our growth for overnight business, or domestic business, let's call it, yes, e-commerce is growing. We certainly expect the growth of that particular business for sure because the country's still behind U.S. and other countries by—at least double digits growth is expected over the next five years in the e-commerce. So we expect that segment to grow as well.

The third segment is the ACMI segment. As I said, every time peak has a spare aircraft it's gone to an ACMI route. We continue to keep talking to our customers. Because of the service we provide and the flexibility, we continue to find ACMI routes that are profitable and we can do those. I expect that we will continue to monitor that situation. I don't have a route that I can announce today, but as any company would do, we continue to look for those opportunities. When we look for certain opportunities, majority of the time we find them. In other words, we expect all our lines of business to grow.

Walter Spracklin, RBC Capital Markets
Okay.

John Kim, Chief Financial Officer, Cargojet

Walter it's John. Just keep in mind we still had Bogota and Lima, those all-in charters in the first couple of quarters and part of the third quarter last year. That revenue stream won't be there at least first two quarters of this year, so you'll still see that variance.

Walter Spracklin, RBC Capital Markets

So probably we'll see a negative trend in the first half, and then assuming all these other issues are gone by the first half ended, we should see growth in the back half on the all-in charter side?

John Kim, Chief Financial Officer

Yes, that's what I would say.

Ajay Virmani, President and Chief Executive Officer, Cargojet

And we expect—actually, when global trade improves, we expect Bogota-Lima to come back up as well because traffic flows all over the world improve when these trade deals are done. If that demand comes back like it used to be two years ago, we could be back in that business as well.

Walter Spracklin, RBC Capital Markets

Okay. Then on the domestic side, you had very strong growth last year, up 11 percent and it kind of moderated this year, and even here in peak, up just over 4 percent for a total of just 2.5 percent, roughly, for the year. Obviously, e-commerce is a big driver, but largely being offset by some of the declines we're seeing in the domestic business related to those other issues. As we look out to next year, is it more likely we'll see a growth rate similar to 2019, or again, assuming some of the recovery and the other issues and the indirect impact that will have on domestic, could we see closer to your 2018 run rate?

Ajay Virmani, President and Chief Executive Officer, Cargojet

Well, we certainly expect that the growth of 2020 would be closer to 2019. But one of the biggest drivers in our domestic overnight business was also the interline business that we got from many international carriers moving domestically. If we maintain what we've got on e-commerce and add on the interline stuff, as we said, the world situation stabilizes, you could go back to 2018 type of growth, definitely. But it also depends on how quickly—right now, the freight is so restrictive even before the coronavirus, and now it's gone down to a halt. So the interline business is kind of our (inaudible) that moves on unutilized sectors and becoming higher margin and higher revenue. So that part, when it comes back along with the e-commerce growth, I think, you can certainly expect that the revenues would go up and the growth could go up to the 2018 level.

Walter Spracklin, RBC Capital Markets
So probably more prudent at this point to split the difference and call it kind of mid-single digit rather than…

Ajay Virmani, President and Chief Executive Officer, Cargojet

Yes, because it would take a few months for it to come back.

Walter Spracklin, RBC Capital Markets

Yes.

Walter Spracklin, RBC Capital Markets

Fair enough. That's all my questions. Thanks very much for your time.

Ajay Virmani, President and Chief Executive Officer, Cargojet

But we totally expect that the trade, once it gets normal, will make a big difference.

Walter Spracklin, RBC Capital Markets

Makes sense, okay.

Jamie Porteous, Chief Commercial Officer, Cargojet

Walter, it's Jamie. Just to add to Ajay's comments, the other thing that was fairly significant that we saw certainly at the last half of 2019 was—and I know we don't report individual customers' revenues, obviously, but there's certainly a difference between e-commerce revenue that we get directly from retailers or indirectly from sort of those legacy couriers that participate in the e-commerce space, and some of those that don't. The ones that don't participate in the e-commerce space, we're certainly seeing a softening of their volumes overall on the domestic side.

Walter Spracklin, RBC Capital Markets

Yes, okay. Thank you very much.

Operator

Thank you. The next question is from Konark Gupta from Scotiabank. Go ahead.

Konark Gupta, Scotiabank

Thanks and good morning, everyone.

Ajay Virmani, President and Chief Executive Officer, Cargojet

Good morning, Konark.

Konark Gupta, Scotiabank

I just wanted to get some more context on the 4 percent volume growth in Q4, especially because some of your top customers were calling out very significant double-digit volume growth in the peak season. I understand obviously there's softness in international and some non e-commerce domestic. Can you throw around some numbers that can at least help us understand how the e-commerce from these core customers shakes out compared to other guys?

Ajay Virmani, President and Chief Executive Officer, Cargojet

Jamie, go ahead.

Jamie Porteous, Chief Commercial Officer, Cargojet

Yes, Konark, I can give you—in terms of our overall, as you know, we don't report individual customers' volumes. But on the interline side and on the general cargo business, I would estimate 25 percent to 30 percent
reductions in volumes year-over-year as a result of all of the impact of various factors that Ajay and I mentioned earlier.

Certainly, the e-commerce growth we saw significant double-digit growth, both directly from retailers, indirectly from—again, from those legacy carriers that participate in the e-commerce space where we saw sort of single-digit declines in overall demand from sort of just the general courier business.

**Konark Gupta, Scotiabank**

Okay. That's very helpful, Jamie. Secondly, DHL, that’s your sort of biggest, I guess maybe the ACMI customer there. They’re investing heavily at Hamilton Airport and I think they are expecting, like, double-digit volume growth in cross-border. I know you’ve got six ACMI routes so far, and what are the conversations like and the opportunities in the year ahead in the ACMI routes, and would you need more aircraft to support that growth?

**Ajay Virmani, President and Chief Executive Officer, Cargojet**

Well, we’re certainly getting one 767-300 ready, which will help us do charters or if there’s a new route that comes available. We are certainly a very top-performing for DHL. They certainly want to—they like us and they want to expand the relationship with us. But keep in mind, we are somewhat limited with our licensing that we can fly trans-border flights or we can fly from U.S. to other countries. We cannot do intra-U.S. at this stage, because we're not licensed to fly in the U.S. as a U.S. carrier.

So whatever opportunities from U.S. to international come up, we get the first call. As they expand their business we certainly have been expanding with them. We certainly expect that we are on the top of the list to get expansion opportunities with DHL because of our service record and because of our relationships. As I said, we don't have any specific routes or discussions with them, but we are talking to them on a weekly or monthly basis about opportunities and improving how we can help them save some money on certain routes and fly certain ways. We will definitely continue to follow them, and we’ve also been talking to other customers about expanding our ACMI business as well. That's a key thing for us.

**Konark Gupta, Scotiabank**

Okay, that's great. Thanks, Ajay. On the 767-300 that I think Kevin had a question on that, you summed up the LOI that you signed last year that's coming from Air Canada. Is that for domestic—like weekday flights, or is that for some other aspect?

**Ajay Virmani, President and Chief Executive Officer, Cargojet**

First of all, it will act as a spare aircraft, because we have spare aircraft 767-200, which is kind of short. So first, it would act as a spare aircraft for our network. Second part of it will be used for charters, and third part of it is the day we sign up an ACMI business it will be gone, and then we'll look for another spare. That's been our routine for the past three to four years that we go—we need a spare aircraft, and then the next thing you know is we've sold that spare aircraft for a route. That's exactly what I anticipate.

If the history is any indication, it will certainly be the same route that—we have enough aircraft for our nightly business, because remember we can also rotate those aircraft for day flights. This particular aircraft is not marked for domestic because we have enough capacity and we can rotate the existing aircraft. This is a spare aircraft first; charter aircraft on ad hoc second; and number three, if you get an opportunity to plug it into an ACMI route, this aircraft is gone as well.

**Konark Gupta, Scotiabank**

Okay, that's perfect. I think, John, you talked about Capex numbers for this year, and Ajay as well. I just wanted to understand how do you think about the split between maintenance and growth Capex? I mean, how much of that $100 million to $110 million Capex is coming from aircraft additions this year?

**John Kim, Chief Financial Officer, Cargojet**

Konark, I think this year we're looking at roughly $55 million of maintenance Capex. The rest is growth. In terms of that additional aircraft, probably—and we're getting three aircraft deliveries this year. The first 767-200 came in about two weeks ago. We're getting another 767-200 out of conversion probably by the end of March or middle of April, and then the 767-300 is scheduled to come out of conversion, say, September or October. Altogether we're looking at, say, $50 million of growth Capex, $50 million of maintenance Capex. Those are pretty broad figures in terms of our current plan.
Konark Gupta, Scotiabank

Okay, that's perfect. Then lastly for me, on the number of operating days, obviously, I'm like we have one extra day this year, right? If you can help us understand what do you think about the number of operating days, and have you, are you, do you plan to update the definition that kind of e-commerce is kind of expanding? I think it's still Monday to Thursday, largely speaking.

John Kim, Chief Financial Officer, Cargojet

Yes, you're right, there is one extra operating day this year, I think because of the leap year. But in terms of changing the definition of operating day, I'm a little hesitant to do that only because it serves as sort of a good reference point to do comparisons to previous years. If we did, I think it's probably more useful—and look, I'll ask you and the other analysts whether it's more useful for us to change that definition, but I think right now it serves a really good purpose in terms of showing relative performance and revenue growth year-over-year.

Konark Gupta, Scotiabank

Okay, that makes sense. Perfect. Thanks a lot. That's all my question. Thank you.

John Kim, Chief Financial Officer, Cargojet

No, Mona. I think we have quite a large variance coming out of the warrant deal with Amazon. So the way you do the accounting...

Mona Nazir, Laurentian Bank

Okay. The net was 6. Is that correct if I'm reading that in the MD&A?

John Kim Chief Financial Officer, Cargojet

Yes.

Mona Nazir, Laurentian Bank

On Page 19, yes.

John Kim, Chief Financial Officer, Cargojet

Right. We break down the components of SG&A, but the costs associated with the pilots, that's all indirect costs.

Mona Nazir, Laurentian Bank

Okay. If I'm just going back to Ajay's comments on the majority of the uptick from new fatigue regulation has been passed through at this point, is that correct?

Ajay Virmani, President and Chief Executive Officer, Cargojet

Well, majority of it’s been passed through, and a couple of them are in the process of being order to make sure the costs are right, and so that due diligence is happening. It should be—our policy is that this is that pass-through regulation and it has to be shared with every customer, with no exceptions. So once we go through the due diligence, we don't anticipate any issues with it.

Mona Nazir, Laurentian Bank

My first one is just a clarification. If I'm looking at the quarter and I see the 27 percent increase in G&A costs, is that primarily from the initiative that you had taken around the new fatigue regulation? Would that be correct?
Okay. So I think just going through the last call transcript, there was one or two major customers remaining. So that would likely be the same at this point?

Ajay Virmani, President and Chief Executive Officer, Cargojet

Yes.

Mona Nazir, Laurentian Bank

Okay, perfect. My second question is, looking at the overall demand, and you touched on it in your prepared remarks and you just provided some numbers in regard to quantifying the reduction of interline cargo and currier, which I found very helpful. I'm just wondering, looking at the overall freight data continued to be very weak for the month of January and the ongoing coronavirus, what are you seeing for 2020 at this point? If you look at Q1 and Q2, is it looking like these declines might stick, or do you feel that the situation is improving?

Ajay Virmani, President and Chief Executive Officer, Cargojet

Jamie?

Jamie Porteous, Chief Commercial Officer, Cargojet

No, I think you would expect that we would continue to see similar results in terms of volumes that we saw in the latter end of Q4 going into the first quarter of 2020 and going forward. 

Mona Nazir, Laurentian Bank

Okay, perfect. Lastly for me, this is just more of a housekeeping item, but I'm just wondering what adjusted EPS would be? I just saw a number of one-time items in the MD&A, though. Some of that's included in the SG&A and some from the other line, including the fair value of adjustment for the warrant and FX. So if you could—we could take it offline as well.

John Kim, Chief Financial Officer, Cargojet

Yes. I think one of the—probably the adjustments that I expect everyone's making is the any gain or loss on the warrant liability. That can swing in a quarter by $10 million pretax. I think that's probably the only significant adjustment I would make.
chunky items that you expect to—we should take into consideration that are on the horizon?

Ajay Virmani, President and Chief Executive Officer, Cargojet

No, we don't anticipate any aircraft that are going to retire anytime soon. When we invest in this aircraft, we at least expect them to grow 10-plus years, and maybe up to 15. Our fleet is fairly young from a cargo perspective and it's in good shape. We take great care of it and we expect them to go on for a while. So no sort of—yes, there could be addition of aircraft because we are getting more business, but not because of replacement of aircraft.

Doug Taylor, Canaccord Genuity

Okay, that's helpful. Last question is just housekeeping, I guess. The added surcharges related to pilot fatigue regulations, do those flow through the core revenue, or are those broken out along with the fuel surcharges kind of below that core revenue line?

Ajay Virmani, President and Chief Executive Officer, Cargojet

John?

John Kim, Chief Financial Officer, Cargojet

Yes, I think it depends on our contract with the customer. I would expect that most of the fatigue surcharge will come through—we'll categorize as surcharge. But, of course, you have a customer where you negotiate the increase through their base rate, then we don't split that out. It's been a bit of an internal debate, I guess, whether or not we actually should even separate the surcharges from the gross revenue. But it's something that we've always done, but there are anomalies where you won't see the surcharge coming through the surcharge line.

Doug Taylor, Canaccord Genuity

When you lap a contract or something like that, it would kind of move it up into what you'd consider core…

John Kim, Chief Financial Officer, Cargojet

A base rate, yes. Probably over the years it has become less useful because of the way that our contracts have evolved.

Doug Taylor, Canaccord Genuity

Understood. Thank you. I'll pass line.

Operator

Thank you. The next question is from Chris Murray from AltaCorp Capital. Please go ahead.

Chris Murray, AltaCorp

Thanks, good morning. Just turning back and looking maybe at some of your comments around volumes, but also thinking about your economic dependence, I was wondering if you've had any opportunities to maybe extend your direct relationships in e-commerce with any other clients. I know that you're seeing the growth come through other channels and into your network, but I was just wondering if you had any thoughts about how that might progress in 2020.

Ajay Virmani, President and Chief Executive Officer, Cargojet

Well, one of the things is that we have a policy that we do not like to go out and expand our commercial and business relationship with our customers’ customers. So, as we go out to some retailers that are already shipping to our existing customers, it wouldn't be very ethical and accepted in the marketplace. Amazon becomes a different story because of their size and their needs and their demands because no one courier company can service their demands and they have always had a policy and strategy of having direct relationships with a carrier, as they have done in U.S.

So if we were to go after, for example, a Walmart, that would already be a customer for one of our customers, and we do not encourage that and we do not—it would be kind of raiding your own customers and cannibalizing from your own airplane and your own customers and we do not believe in doing that at this—not at this state, but we don't believe in doing that and we will never do that.

Chris Murray, AltaCorp
Yes, I was just going to say, like, Walmart yesterday was talking about having to change their network down in the U.S. in order to get some cost out, and this was sort of somewhat similar commentary around what Amazon was talking about, so I'm just wondering. I know you're probably not looking to go and move some customers around, but I was just wondering if the customers are starting to you and saying are there different ways that we can run our model?

**Ajay Virmani, President and Chief Executive Officer, Cargojet**

No. I don't think anybody is large enough to. Keep in mind, the country is very large in size. We have four time zones and Newfoundland to Victoria is a 7.5-hour flight. The density of our country, except for a few cities, is very low. For anybody to go out and service 16 major cities (inaudible) in the morning or middle of the night, it's very, very difficult. So it's not economical that a single network or a few planes for one customer will cover this kind of geographical area, and it wouldn't be economical for anybody to even look at that direction.

**Chris Murray, AltaCorp**

Okay, thanks. Just one other housekeeping question, John. On the adjustment to the warrant, is there any tax impact on that one, or is this just straight up cost?

**John Kim, Chief Financial Officer, Cargojet**

Yes, there's no tax effect on the warrants.

**Chris Murray, AltaCorp**

Okay. Thanks, folks. I'll turn it over.

**Operator**

Thank you. The next question is from Gianluca Tucci from Echelon Wealth Partners. Please go ahead.

**Gianluca Tucci, Echelon Wealth Partners**

I guess can you speak to what you're seeing so far in Q1 on a cross-border perspective and how advanced the Company is in additional ACMI possibilities this year?

**Ajay Virmani, President and Chief Executive Officer, Cargojet**

Jamie?

**Jamie Porteous, Chief Commercial Officer, Cargojet**

Good morning, Gianluca. I mean, we obviously continue to have dialogue with both existing ACMI customers, primarily DHL, and other potential customers that we could potentially provide service for. As Ajay noted before, it's kind of one of the reasons why we made the decision to convert that aircraft that we have bought, mainly for the engines earlier this year in anticipation of being able to take on some more business. So nothing to report at this point, but we're actively pursuing additional routes.

**Gianluca Tucci, Echelon Wealth Partners**

Okay, awesome. Thanks for that. Then in terms of the upcoming election in the U.S. this year, are any of your customers showing any possible cause for, like, hesitation to committing to additional routes or additional volumes until they have certainty into the trade policies of the successful candidate?

**Ajay Virmani, President and Chief Executive Officer, Cargojet**

You know what, nobody has ever brought up this issue and nobody has had any concerns on this. As a matter of fact, our customers are looking forward to (inaudible) the trade deals that have been pending and everybody is kind of trying to gear up for when the deals get signed. We start getting the normal cargo from international destinations, which we call it interline in our (inaudible), to get going. No sort of hesitation on the election side at all.
Okay, great. Then just a housekeeping item for me, John, in terms of expected tax rate for 2020, do you have a range for us?

John Kim, Chief Financial Officer, Cargojet

Yes. No, it's the same. I think that tax rate, roughly 27 percent, that's—we are definitely on the—we use the same tax rate in our financial statements when we disclose it, so no change in the tax rate.

Gianluca Tucci, Echelon Wealth Partners

Okay. Thanks, guys. Good work. Thank you.

Ajay Virmani, President and Chief Executive Officer, Cargojet

Thank you.

Operator

Thank you. Your next question is from Cameron Doerksen from National Bank Financial. Please go ahead.

Cameron Doerksen, National Bank Financial

Okay. No, that's great. Just secondly for me, Air Canada mentioned on their quarterly conference call earlier this week that they had captured a bit more domestic cargo business. I guess it's an offset to some of the weakness they've seen on the international side. I'm just wondering if you can comment on any impact you've seen competitively within Canada, any changes there, or any of the network airlines potentially pursuing any domestic cargo business that might affect you.

Ajay Virmani, President and Chief Executive Officer, Cargojet

Well, they are in a very different market than us. We do sensitive overnight e-commerce and we do stuff like spare parts. We do fresh produce. We do seafood. We do critical medical supplies because once they have to be there. Air Canada services operate during the day. They have security restrictions. It takes a bit of time for them. So their product line, what they handle on domestic cargo, they've always handled that. I'm sure there's a few pounds that cross between each other, but mostly they're in a very sort of different space. Their pricing levels are different, their service levels are different, and we—our service is very prime and it's 99 percent there. It's not dependent on passenger loads that can be offloaded, cargo can be offloaded.

They play in a very different market than (inaudible), so we don't—we have not seen any kind of major shift whatsoever that has impacted us at this stage.
Cameron Doerksen, National Bank Financial

Okay. No, that's great. That's all for me. Thanks very much.

Operator

Thank you. We do have one final question from Prakash Singh from Amazon. Please go ahead.

Prakash Singh, Amazon

Hey, Ajay and Jamie, good morning. My question is kind of along the lines where you spoke about Amazon and e-commerce being the key drivers for the growth. Can you talk about your other customers that played a greater role in these improved Q4 profits?

Ajay Virmani, President and Chief Executive Officer, Cargojet

Other customers? I mean, Amazon uses a lot of our customers for e-commerce and shipping as well, and they've been growing at pretty well the same rate as the growth. Any time we have met with Amazon, they've always told us that no one carrier can handle their growth and they have some very aggressive growth plans for Canada. With the help of the other customers that handle Amazon on our network and we're handling Amazon directly, I think, we've been able to fulfill the demand very nicely.

We expect that Amazon will grow with our customers and with ourselves, and as I said, no one company can handle it. There's the different product lines that Amazon ships, whether it's pick up and delivery's required or there's only middle mile required. So there are so many variables that I think there is room for everybody to grow.

Prakash Singh, Amazon

Thank you. Also, like someone mentioned, the problem of geography in Canada and bad weather. Any plans on expanding on the routes that currently don't require big planes but, like, smaller planes? (Inaudible) into this market, like, any expansion plans for those?

Ajay Virmani, President and Chief Executive Officer, Cargojet

We certainly will look at selected markets. We'll look into a network of somewhat smaller planes, like 737s or even CRJ freighters or ATR freighters. We do want to build on that. Obviously, we would like that kind of a network to be built in conjunction with all customers, because let's say, if we put on a flight to Prince George British Columbia just for 5,000, it's not going to pay.

Obviously, in the very near future we are looking at speaking to our customers to see—pick 10 or 12 major cities in Canada that are not serviced at the present time, like, for example, a city like Kelowna or Victoria or Quebec City, the secondary cities, and we will do—or we are in the middle of talking to our customers about if there is enough demand and what kind of size of aircraft would fit. Now, the key for us is that we want to make sure that we have one type of aircraft if we ever get into that business rather than 10 different cockpits and training and spare parts.

So yes, we certainly plan to expand in that area, but also go a little bit (inaudible) make sure that we are not putting on a 20,000 pound aircraft when there's only 5,000 pounds sort of capacity available.

We wouldn't grow into every market. For example, you wouldn't see us going into Kingston, Ontario for 2000 pounds a night. But certainly in places like, as I said, Victoria or Quebec City and those kinds of places are certainly on the map. Hopefully 2020 will be the year that we start looking at expanding into those regional routes on a select basis if we can drum up and carry the same principle of multi-customers, whole load network extending beyond our 16 major spaces.

Prakash Singh, Amazon

Thank you so much. That's it from my side.

Operator

Thank you. There are no further questions, at this time. I'd like to turn the meeting back to Ms. Dhillon.

Pauline Dhillon, Vice President Marketing, Public, and Government Relations, Cargojet

Thank you, everyone, for joining us on the call today. Any questions or any other information anyone needs, you can reach out to us directly. Have a good day.

Ajay Virmani, President and Chief Executive Officer, Cargojet
Thank you.

Operator
The conference has now ended. Please disconnect your lines at this time and thank you for your participation.