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FINANCIAL POST MAGAZINE

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**CANADA'S**  
**OUTSTANDING**  
**CEO OF**  
**THE**  
**YEAR**  
**CALIN**  
**ROVINESCU**

NOV.  
2016

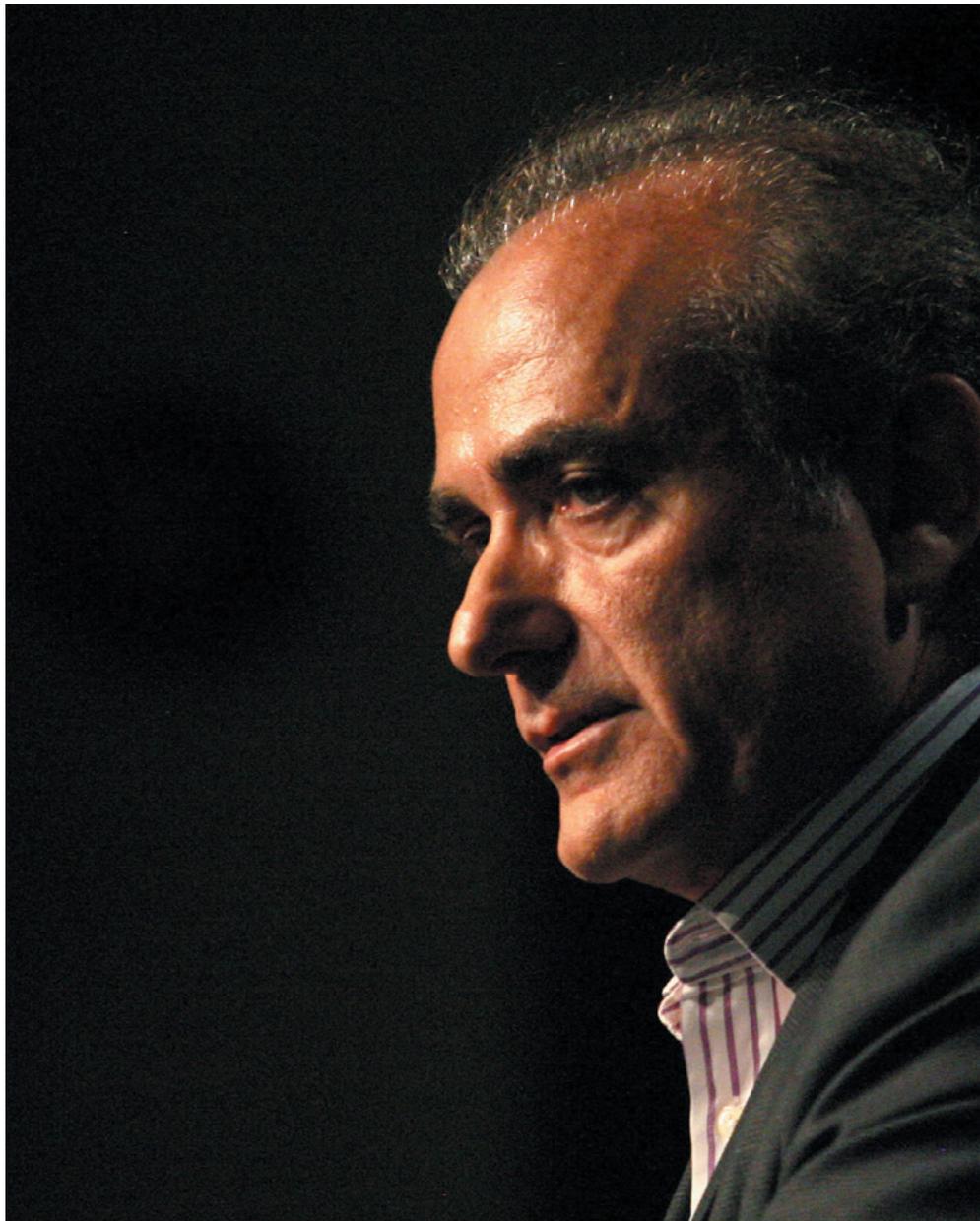
# OUTSTANDING CEO OF THE YEAR



Calin Rovinescu  
keeps a steady  
hand as he steers  
Air Canada  
through some  
turbulent times

The one thing that is immediately apparent when you look at what Calin Rovinescu has done during his seven years at the helm of Air Canada is that he never seems to stop seeking ways to improve the airline's bottom line. In late September, he announced a \$1.25-billion refinancing for the company. Just a few days later, he was reached by phone in Japan where he was exploring that country's aircraft financing market. "There's an interesting aviation aircraft financing market over here," he says. "They're quite interested in learning more about us and so we're examining that opportunity."

Cash-rich Japanese banks started becoming big players in the niche but lucrative aircraft financing market earlier this decade as it gets better spreads and is perceived to be safer than other corporate loans since a jet can be sold in the event of a default. A default by Air Canada seems unlikely these days, but it certainly wasn't always that way. The airline in 2003 filed for bankruptcy protection, emerging as part of ACE Aviation Holdings Inc. 18 months later. But five years after that, the airline ran into more troubles from the fallout from the global recession and a \$2.9-billion pension deficit position that made it a liquidity risk. Montie Brewer was replaced as CEO by Rovinescu on April 1, 2009, and Air Canada's finances have since been shored up, the pension deficit is now a surplus and a lower-cost vacation airline, Rouge, was successfully launched. Of course, there are always new issues to tackle, most notably increased competition from its major Canadian competitor, WestJet Airlines Ltd., a new generation of local startups and global players. On top of that, the economy needs constant attention and, to some extent, so do oil prices and labour costs. Rovinescu sounds pretty confident Air Canada is in the right position to combat anything and he deflects a big part of any praise for that onto his employees. "We have had amazing contributions from many, many amazing people," he says. "If somebody asks me what is it that I'm proudest of, it's the amazing team that I've had for the past seven years."



## Selecting Canada's Outstanding CEO of the Year

Canada's Outstanding CEO of the Year Award was founded in 1990. This year marks the 27th edition of this distinguished award. Presented by Bennett Jones, along with founding sponsor Caldwell Partners, and media sponsors *National Post* and Business News Network, the award celebrates a Canadian business chief executive who exemplifies leadership, excellence and integrity and who has built a globally com-

petitive organization. Canada's CEO of the Year independent advisory board comprises more than 20 of the country's most respected business leaders and academics, including past honorees of the award. The board meets annually to select the current year's recipient based on five key criteria: vision and leadership, corporate performance, global competitiveness, innovation and social responsibility.

The 2016 advisory board members are: Jim Balsillie; Peter Bentley, chairman emeritus and director, Canfor Corp.; Alain Bouchard, founder and executive chairman, Alimentation

Couche-Tard Inc.; Marie-P. Charette-Poulin, corporate director; George Cope, CEO and president, BCE Inc.; Patrick Daniel, former CEO and president (retired), Enbridge Inc.; J. Trevor Eytton, company director; Paul Godfrey, CEO and president, Postmedia Network Inc.; Ross Grieve, chairman, PCL Construction Holdings Ltd.; Krystyna Hoeg, corporate director; Dezső Horváth, dean, Schulich School of Business, York University; Harold (Hal) Kwisie, former CEO and president, TransCanada Corp. (retired); Jacques Lamarre; Jim Leech, chancellor, Queen's University; Hugh MacKinnon, chairman

## CEO ISSUE OUTSTANDING CEO

and CEO, Bennett Jones; Gordon Nixon; Philip Orsino; Jane Peverett, corporate director; Indira Samarasekera, president emerita, University of Alberta; Guylaine Saucier, corporate director; John Sheridan, corporate director; Edward Sonshine, CEO, RioCan REIT; Paul Tellier, corporate director; Don Walker, CEO, Magna International Inc.

### Q WHAT ARE YOU DOING IN JAPAN?

**A** We're looking at some financing alternatives here. You may have seen earlier in September we announced a major refinancing that our finance team put together, dramatically reducing our cost of capital. We'll continue to look at creative financing structures and meeting with some Japanese banks and investors and so on, and we've had an amazing reception here based on some of the transformation that's taken place. So a little bit of business like that and then spending the weekend... the wife's going to come down and we're going to poke around Kyoto for a couple of days.

### Q HOW DO YOUR DEBT REDUCTION STRATEGIES FIT INTO YOUR OVERALL PLAN TO CUT COSTS BY 21% BY THE END OF 2018?

**A** This is part of a fairly consistent message that we gave to the marketplace that we were going to provide some very definable financial metrics and be crystal clear with everyone as to our capability of achieving them. One was cost reduction, so we put in a 15% reduction target on CASM, cost per available seat mile, and as we were exceeding it, we've been reporting that we were now tracking towards 21%. All of these various cost strategies come into that. We announced earlier in the week that the approximate cost saving of this [\$1.25-billion] refinancing would be about \$60 million a year so it's all part and parcel of the same thing. The cost target reduction was both in respect of aircraft configuration as well as other strategies such as this one which will take the aggregate cost of operation down, so it's a combination of fuel consumption based on your aircraft, based on the additional seats per aircraft which we put on the Rouge flights, for example, and the higher density product. It's initiatives like this that are in our strategy to materially lower the cost of capital. That was one metric and then the other three metrics we announced at the time were the return on invested capital target, EBITDAR target, and adjusted net debt target.

### Q AT THE SAME TIME, AS YOU MENTIONED, YOU'RE GETTING SOME NEW AIRCRAFT. OBVIOUSLY THAT INVOLVES A HUGE CAPITAL OUTLAY.

**A** We're into our two most intensive capital expenditure years, this year and... well, actually, last year, this year and, to some degree, next year, and the bulk of that is on the 787 program. The 787s were ordered some time ago and started coming into the fleet in 2014 and this is where you see a lot of the route expansion that has proven to be an unbelievable game changer, enabling us to operate routes and destinations and frequencies that we could not have previously. This capital expenditure program, the bulk of that is through the 787 program, but then on the tail of that, we have the 737 MAX, and on the tail of that we have the CSeries. So we're going through a fundamental re-fleeting exercise that will give us one of the youngest

fleets in North America and that again will contribute both to a lower fuel burn as well as a more efficient and comfortable aircraft because they're all going to be newer-generation equipment.

### Q THE CSERIES HAS GENERATED A LOT OF CONTROVERSY OVER THE PAST FEW YEARS. WHY DID AIR CANADA MAKE THE DECISION TO PURCHASE FROM BOMBARDIER?

**A** We studied the CSeries for a long time and we had a very high opinion of it and we needed to obviously negotiate the right finance terms based on the significant capital that we're taking on. Our view on the CSeries, based on our fleet, is that it could be a significant contributor to the lower end of our narrow-body fleet as the 787 has become to the higher end of the wide-body fleet. That means both in terms of feeding our network more efficiently, as well as enabling us to undertake longer missions because of the range of the aircraft, the exceptional range of the aircraft, without having to put the larger equipment on the route. It's, again, similar to what the 787 has done in that it will enable us to open up some new markets and some new routes and obviously that will be North American travel.

### Q YOU MENTIONED NEW ROUTES AND NEW DESTINATIONS. WESTJET IS NOW FLYING TO EUROPE SO THE TRANSATLANTIC MARKET HAS BECOME QUITE COMPETITIVE



**FROM A CANADIAN POINT OF VIEW.**

**A** Look, we've been expanding dramatically, as you probably have seen over the last little while, internationally. In fact, one of the statistics that I've cited frequently is that we're going to be 80 years old next year and so we've had 75 years to get to one level of international growth and in the last five years, basically, we've added 50% more growth internationally. This has been fairly dramatic international growth for us and so when we look at competing with all of the other international carriers across the Atlantic and across the Pacific, there's a lot of competition there. But we're quite confident in our product, which has been seen as the best product in North America. We've had amazing recognition of our product and that's largely the result of many of our commercial initiatives and under the leadership of Ben Smith who is our president, Passenger Airlines, and some of the development that we have done on the product side has made it such that we compete with British Airways, we compete with Air France, we compete with Cathay Pacific, we compete with all of these carriers that have had very, very strong products and we are winning many of those battles. We'll continue to take competition as it comes and by having added Rouge into the mix, we're able to compete both at the lower end of the leisure end of the market as well as the higher end where we're investing in our premium product.

**Q AT THE SAME TIME, YOU ALSO HAVE NEW LOW-COST COMPETITORS SUCH AS NEWLEAF AND A COUPLE OF OTHERS.**

**A** Competition is competition and as long as the rules are clear and everyone follows the same rules when they enter a marketplace, we're very comfortable with any type of competition. In fact, this is again where Rouge has been helpful to us and it's enabled us to stay and compete in some markets where otherwise we could not compete before based on our cost structure. We'll see how that all transpires, but competition, provided that the rules are the same for everyone, is a very good thing. It makes us more focused, it provides a cost imperative to the entire organization and it's enabled us to do creative things and, frankly, risky things like starting a new brand over the past several years.



**Q BY FOLLOWING THE RULES, ARE YOU REFERRING TO THE FOREIGN OWNERSHIP RULES THAT JETLINES IS TRYING TO GET AN EXEMPTION FROM?**

**A** It's the foreign ownership rules, it's having requirements as to what the rules are respecting having contracted airlines, it's any of the aviation rules that apply to companies. This is a highly regulated industry and you can't really pick and choose which rules you want to follow so that's really, in our view, what we have made clear.

**Q IN TERMS OF GAINING NEW PASSENGERS, AIR CANADA ALSO HAS A SIXTH FREEDOM TRAFFIC STRATEGY, OR TRAFFIC FROM ONE COUNTRY TO ANOTHER THROUGH CANADA. HOW'S THAT STRATEGY GOING AND HOW BIG A MARKET DO YOU THINK THAT CAN BE FOR AIR CANADA?**

**A** That's a huge market. Canada is, of course, on the border of the United States and the United States represents a market in excess of 330 million people. We have open skies with the United States, so we're now operating that service into about 60 U.S. cities. I'd say that the sixth freedom traffic, the introduction of Rouge, the new equipment that we've brought in, and the launching of so many international routes, despite the economy being relatively weak, sort of proves out the business model. Sixth freedom is not restricted to the United States. It's also other traffic that we'll pick up, like, for example, Europeans connecting over our Canadian hubs to parts of South America and to Brazil, that sort of thing, which are very, very good markets for us. It's up to us to structure our network in consequence.

**Q IN THE SECOND QUARTER, YOU ANNOUNCED THAT YOUR YIELD AND REVENUE PER AVAILABLE SEAT MILE DROPPED. DO THOSE NUMBERS REALLY MATTER OR IS IT SOMETHING THAT YOU'RE ACTIVELY TRYING TO ADDRESS?**

**A** No, for us the reduction in RASM, revenue per available seat mile, is a specific part of our strategy. We are adding capacity which will be at a higher margin, at a higher EBITDAR margin, at a higher profitability margin, and the revenue per available seat mile is expected to go down and that means, for example, if I put more seats on the airplane the way we've done with Rouge — so we had a 767 and now we'll have extra seats on the 787 as a result of the configuration in Rouge — we will make more money on that trip. The average seat cost may have come down because we've offered a more competitive product on a per-seat basis, and, in many cases, the duration of the flight, what would be called the stage length, is longer. When you measure RASM, it's also calculated as a function of the distance flown. Because we're flying longer missions, and as we're adding more configurations, mathematically, the RASM is expected to come down, so this is very, very much part and parcel of our strategy and we're fully expecting that this continues. Now, that being said, obviously once we complete that transformation, the



## CEO ISSUE OUTSTANDING CEO

### The Essential Calin Rovinescu

**BORN:** 1955 in Bucharest, Romania **EDUCATION:** LL.B. from the University of Ottawa in 1980; LL.L. from the University of Montreal in 1978; D.E.C. from McGill University in 1974. He has also received Honorary Doctorate of Laws degrees from the University of Ottawa and University of Montreal, both awarded in 2014. **CAREER:** Appointed CEO and president of Air Canada on April 1, 2009. First joined Air Canada in 2000 as executive vice-president, Corporate Development

& Strategy, and oversaw the airline's loyalty management (Aeroplan), regional carriers (Jazz) and maintenance, repair and overhaul. He was also responsible for a number of corporate functions including legal, IT, e-commerce, people, labour, government affairs, communications, alliances and corporate secretariat. From 2003-2004, he was Air Canada's chief restructuring officer. In between his two tenures at Air Canada, he was co-founder and principal of Genuity Capital Markets. Prior to joining Air Canada, he was managing partner at law firm Stikeman Elliott in Mon-

tréal, where he practised law for more than 20 years in the areas of corporate finance and mergers and acquisitions. **2015 FIXED COMPENSATION:** \$6.4 million **BOARDS:** Chairman of the Star Alliance Chief Executive Board, the world's largest global airline alliance, International Air Transport Association and Business Council of Canada **AIR CANADA 2015 REVENUE:** \$13.9 billion **AIR CANADA 2015 PROFIT:** \$303 million **AIR CANADA 2015 ASSETS:** \$13.1 billion **FP500 RANK:** 28

expectation is that RASM should stay at stable levels, but I'm not at all concerned about that, quite frankly, as it's a very specific part of our business strategy.

#### **Q DO YOU THINK INVESTORS SORT OF UNDERSTAND THAT? THEY SEE THE NUMBER AND THEY SAY, OH, IT DROPPED, THAT CAN'T BE GOOD.**

**A** No, I think that there is that natural tendency in terms of investors to look at the notion that added capacity is a bad thing and, historically, some parts of the airline industry have large amounts of capacity and uncompetitive levels, but that is not what's going on here. I think part of that is the communication and the education that's going on in terms of making sure people understand our business plan. If you look at the bulk of the analysts covering our stock and the expectations, most of them absolutely get this message. In fact, a new analyst started following us last week, a U.S. analyst, and they wrote a fairly detailed report explaining this particular point in great detail.

#### **Q DID YOU HAVE ANY DOUBTS IN 2009 WHEN YOU REJOINED THE COMPANY THAT THIS IS WHERE YOU WOULD BE AT THIS POINT?**

**A** I was very confident that we had an amazing brand, we have, from a geographic perspective, great geography in terms of the capability of covering the world, and we have very, very strong management. This award that I've been fortunate to be given here, is not my award. I'm not saying this to be corny, but this is the award of the people who have made this happen. One of the things that I tell our people quite often is that we're a large company, of course — \$14 billion of revenue and 30,000 employees covering six continents of the world, etc. — but we need to be a large company that behaves more like a small company, that takes the entrepreneurial strengths that you see in small companies and can exploit them and jump on them and that's really what we've been doing since 2009. That means finding creative ways to grow our revenue base, finding creative ways to compete in markets where we couldn't compete before, improving dramatically the customer service offering and being named Best Airline in North America for five years running. We had so many of these strengths already embedded in the company and they just needed to be given the opportunity to flourish.

#### **Q IN THE PAST SEVEN-PLUS YEARS, YOU'VE DEFINITELY GONE THROUGH SOME TURBULENT TIMES. WHAT HAVE YOU LEARNED ABOUT YOURSELF?**

**A** Well, there's a line from a poem that somebody, my sister, in fact, gave me on my high school graduation and it's stuck with me: Out of adversity comes strength. You have that notion that the greater the adversity, the greater that people's personalities are going to come out, and you don't have to compromise your values and your principles as you're actually going through that level of adversity. Look at where we were with labour before I came in

and where we are with labour today in terms of long-term 10-year deals, listening to people and having that kind of understanding of where the product was then and where the product is now, and how accepted the Air Canada brand is and how powerful it is almost anywhere on the planet. If you were to go into many of the countries that we operate in and ask someone to name the companies in Canada they're familiar with, Air Canada would be on many, many lists. Communication was another lesson that I learned here, that there's no substitute for consistent, transparent and repetitive communication to your various stakeholders. We've changed many, many, many dynamics of our business and we had to do it in real time and we couldn't wait for one chapter to be completed before getting onto the next.

#### **Q CANADA GOOSE'S DANNY REISS ONCE SAID ONE OF THE BIG THINGS ABOUT HIS COMPANY IS THAT IT HAS CANADA IN THE NAME AND THE WORLD NEEDS MORE CANADA.**

**A** Obviously, Canada denotes values that are very, very powerful and that people like. People often write to me and they say that just getting on an Air Canada plane in Shanghai or in Seoul or São Paulo or in some part of the world, or now in Delhi, seeing our tail, sitting down in the seat, that they sort of feel that they're home. We are looking to ensure that we convey that and that the brand lives up to that promise. **FPM**