

# Chorus Aviation details Falko sale proceeds

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31/10/2024

Chorus Aviation expects proceeds from the disposal of its regional aircraft leasing (RAL) segment, which includes Falko Regional Aircraft, to HPS Investment Partners will total C\$814 million (\$594 million).

It expects the transaction to be completed by the end of 2024.

In a proxy report, the company noted that the proceeds are net of aircraft-related debt in the RAL segment that will be retained or prepaid by the Falko Group.

Chorus [entered the deal with HPS on 30 July](#) for C\$1.9 billion. The transaction includes C\$814 million in cash (net of estimated transaction expenses), C\$1.1 billion in aircraft debt to be assumed or prepaid by the buyers at closing, and the value of the non-controlling interest.

The transaction will result in the disposal of Falko Group and Chorus' ownership of the aircraft in the RAL segment and its interests in the aircraft investment funds in the RAL segment, which the Falko Group managed.

## From Azif to Cruise

As part of the proxy, Chorus provided background on the sale of its RAL segment, which began as the sale of assets belonging to Chorus Aviation Capital.

Falko was acquired in 2022 and merged with Chorus Aviation Capital shortly after. However, later that year, Chorus noted that management had "intensified the focus on options for accelerating the transition to an asset-light leasing model."

As such, it began working with Goldman Sachs to market a portfolio of aircraft acquired years before the Falko acquisition.

This initiative became known as 'Project Azif'.

During the summer of 2023, Goldman Sachs and the Falko management team discussed Project Azif with 16 potential bidders, including HPS Investment Partners.

In early October 2023, Goldman Sachs met with the board to review the non-binding bids received. They advised that there were five bids in total, one of which was from HPS Investment Partners.

At that time, all non-binding bids received on behalf of Chorus expressed interest in Chorus' entire RAL segment, and only two bids were focused on the Azif portfolio specifically.

Both bids for the Azif portfolio fell below Chorus' target price.

Based on the indicative values received, the board reviewed management's analysis of the implications of selling the Azif portfolio and the entire RAL segment.

The board directed Goldman Sachs to engage further with bidders to determine if other transaction structures were available to improve the bids.

In mid-October 2023, the board met for an annual strategy session. Goldman Sachs attended part of the meeting.

During the meeting, management reviewed several alternatives with the board, including selling on-balance sheet aircraft gradually over time, selling the Azif portfolio below Chorus' target price, and a full divestiture of the RAL segment (which would include the Falko Group).

## Deal exclusivity

The board determined that it would be beneficial to obtain indicative bids for Chorus' entire RAL segment (including Falko Group) and that management should be authorised to provide additional information to bidders to enable them to form those views.

The board met in December 2023, and representatives of Goldman Sachs joined the meeting to provide an update on the sale process, now termed 'Project Cruise', to denote the expanded scope of the sale perimeter.

After the meeting, the board resolved that management should expand the engagement with Goldman Sachs and retain other advisers as needed for Project Cruise.

The goal was to obtain binding offers for acquiring the RAL segment on the best possible terms for consideration by the board.

## Higher values

In February, the board met with Goldman Sachs and instructed them to engage further with bidders to increase the bid values.

Following an update, management advised the board that although several bidders, including HPS Investment Partners, remained in the process, each bidder insisted upon being granted exclusivity or receiving confirmation that they would be one of no more than two bidders to advance to the final round in the process.

Also, two of the bidders had requested consent to bid jointly, which had been granted by management in consultation with representatives of Goldman Sachs, as it was believed that a joint bid could be stronger than independent bids by such parties.

The newly combined bidder ([which Airfinance Global revealed as Warburg Pincus/Davidson Kempner](#)), together with HPS Investment Partners, which had demonstrated a strong interest in the transaction, had been chosen to proceed to the final phase.

The board met with management twice in April 2024. It was noted during discussions that HPS Investment Partners "was less advanced than the other bidder" in its confirmatory due diligence and review of the transaction documents, but it "demonstrated strong intent to deploy resources to conclude those work streams" in an expeditious manner.

The board discussed whether to grant a period of exclusive negotiation to HPS Investment Partners, given the higher value of its bid and determined that management should first attempt to "resolve the critical commercial issues" with the company.

Also, it advised management to engage in further discussion with the other bidder to determine if there is any opportunity to increase the price.

The board discussed the difference in value between the two bids, noting that HPS Investment Partners requested exclusivity as a condition to continue work on the proposed transaction.

Management then discussed the bids with the board "without representatives of Goldman Sachs present", noting that the most significant commercial issues arising from HPS Investment Partners' mark-up of the then-current draft of the sale and purchase agreement had been discussed and largely resolved.

As such, management did not foresee a material risk of reaching an impasse over the negotiation of the definitive agreements.

The board then authorised management to enter exclusive negotiations with HPS Investment Partners in May.

On 30 July, Chorus issued a press release announcing the execution and delivery of the sale and purchase agreement.

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