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Air Transport Services' (ATSG) CEO Joe Hete on Q4 2016 Results - Earnings Call Transcript

Mar. 7, 2017 2:30 PM ET
by: SA Transcripts

Q4: 03-06-17 Earnings Summary

SEC 10-K News

Air Transport Services Group, Inc (NASDAQ:ATSG)

Q4 2016 Earnings Conference Call

March 7, 2017 10:00 am ET

Executives

Joe Hete - President and Chief Executive Officer

Quint Turner - Chief Financial Officer

Joe Payne - Chief Legal Officer

Rich Corrado - Chief Commercial Officer

Analysts

Jack Atkins - Stephens Inc.

Kevin Sterling - Seaport Global

Bruce Chan - Stifel, Nicolaus & Company

Steve O'Hara - Sidoti & Company

Christopher Hillary - Roubaix Capital

Operator

Welcome to the Q4 2016 Air Transport Services Group Inc. Earnings Conference Call. My name is Jason and I will be your operator. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and please note this conference is being recorded.

I will now turn the call over to Joe Hete, President and CEO of Air Transport Services. Mr. Hete, you may begin.

Joe Hete

Thank you, Jason. Good morning, and welcome to our fourth quarter 2016 earnings conference call. With me today are Quint Turner, our Chief Financial Officer; and on the phone with us is Rich Corrado, our Chief Commercial Officer. We issued our earnings release yesterday after the market closed. It's on our website, atsginc.com. We expect to file our Form 10-K with the SEC later this week.

In 2016, ATSG achieved its best year-over-year revenue growth under the business model we adopted in 2010 and one of the best growth years in our history. Revenues rose 24% or $150 million as we substantially expanded our 767 fleet and placed more of them with key global companies. That growth was spread across our principal business units.

It stemmed largely from ground-breaking agreements we signed in March with our newest customer, Amazon Fulfillment Services. Because of our unique positioning and key investments, we were ready to go when Amazon asked for our help to create its own dedicated air network. By the end of last year, we were able to supply them with fourteen of the twenty 767 it will lease from us. We leased the 15th to them in early January; the remaining five will be deployed by early this summer.

All told, we expect to add a record 11 767 converted freighters to our in-service fleet in 2017 together with two 737s that will give us a total of 73 owned aircraft in-service most on multi-year lease deployments.

Our bottom-line in 2016 reflected the cost ramp up operations for Amazon and our GAAP earnings continue to include a big negative non-cash impact from the warrants we issued them and from items such as pension expense related to our frozen legacy plants. Even with those extra ramp up costs, we generated $212 million in adjusted EBITDA last year, a 7% gain from 2015. Our adjusted pre-tax earnings were up by the same percentage.

And finally, our adjusted EPS is $0.19 for the fourth quarter and $0.58 for the year we are on track with expectations. You are aware that last fall, pilots for ABX Air represented by the Teamsters initiated a work stoppage over what they claimed rescheduling issues. A Federal Judge determined they were engaged in interlegal strike and ordered them back to work.

But the two-day event hurt ABX’s customers and caused $7 million in forfeited revenues and pretax profits in ACMI services. I am pleased to say that ABX has resolved those issues. We expect normalized crude cost after first quarter as we reach our pilot staffing targets. Achieving break-even or better results from our airlines will be a significant factor in reaching our $260 million target for adjusted EBITDA in 2017, which will be a 23% increase over last year.

Another factor will be accretive results from PEMCO which we acquired at year end to expand our aircraft maintenance capacity and add conversion capabilities.

That’s a quick summary of 2016 events. I’ll let Quint summarize our financial results for the year and return for some operating comments and more about our exceptional growth outlook which is still in its early stages. Quint?

Quint Turner

Thanks, Joe, and good morning everybody. As always, I’ll start by saying that during the course of the call, we will make projections or other forward-looking statements that involve risks and uncertainties. Our actual results and other future events may differ materially from those we describe here. These forward-looking statements are based on information, plans and estimates as of the date of this call and Air Transport Services Group undertakes no obligation to update any forward-looking statements to reflect changes in underlying assumptions, factors, new information or other changes.

These factors include, but are not limited to, changes in market demand for our assets and services, our operating airline's ability to maintain on-time service and control costs, the cost and timing with respect to which we are able to purchase and modify aircrafts to a cargo configuration, the number and timing of deployments and redeployments of our aircraft to customers, the successful implementation and operation of the new air network for Amazon, the ability and timeliness with which the joint venture is able to secure the necessary approvals from the People’s Republic of China can execute its business plans, and other factors as contained from time-to-time in our filings with the SEC including the Form 10-K we will file later this week.

We will also refer to non-GAAP financial measures from continuing operations, including adjusted earnings per share, adjusted earnings per share, adjusted pre-tax earnings, and adjusted EBITDA. Management believes these metrics are useful to investors in assessing ATSG's financial position and results. These non-GAAP measures are not meant to be a substitute for our GAAP financials and we advise you to refer to the reconciliations to GAAP measures, which are included in our earnings release and on our website.

Joe described ATSG as a company in the early stages of a strong growth trajectory and our recent results and solid opportunities certainly support that case.

Revenue growth of $150 million for the year and $40 million for the quarter stem from our earlier and ongoing investments to acquire and place aircrafts for Amazon, DHL and other key customers. Our growth also speaks volumes about the talent and efforts of the employees of our ATSG businesses.

That growth will remain strong through 2018. The freighter feedstock we have purchased and are converting is already spoken for and we will buy more this year. But we recognize that the air cargo business is cyclical. Air craft repurchase and modify now are in response to demand we anticipate and enquiries from customers with strong track records of their own.

Aside from the work stoppage effects Joe mentioned, our fourth quarter results benefited from a very good peak season. All of our freighters were deployed in accordance with our customers’ requirements. But on a GAAP basis, including the effects of accounting for our warrant issuances, our bottom-line doesn’t fully reflect our progress.

Consolidated net earnings from continuing operations on a GAAP basis in 2016 were $21.1 million or $0.33 per share diluted. Comparable results for the fourth quarter were a small loss of $755,000 or a penny per share.

Adjusted earnings from continuing operations which exclude the after-tax effects of the Amazon warrant revaluation and lease incentive amortization were $37.5 million for the year or $0.58 per share on an adjusted basis. For the fourth quarter on the same basis, adjusted earnings were $12 million or $0.19 per share.

Once again the ramp up cost and effect of the pilot work stoppage are still in our adjusted results. The work stoppage alone caused us $7 million pretax or $0.07 per diluted share. Overall, those costs and revenue impacts were about $20 million pretax last year. A table in our earnings release shows the effect of the warrant-related adjustments on our earnings per share.

Our GAAP basis pretax earnings from continuing operations were $34.5 million for 2016 and $420,000 for the fourth quarter. On an adjusted basis, pretax earnings were $65.1 million for the year and $17.4 million for the quarter.

Adjusted pretax for 2016 excludes several non-cash items. A net loss of $18.1 million for re-measurements of financial instruments to fair values which is mainly the Amazon warrant revaluation adjusted for our stock price appreciation. $6.8 million in non-cash post-retirement expense, the $4.5 million lease incentive amortization and $1.2 million as our portion of a debt issuance charge by our non-consolidating affiliate West Atlantic.

2016 adjusted EBITDA was up 7% from 2015 to $211.8 million. Fourth quarter adjusted EBITDA was $56.4 million, roughly equal with last year. Our leasing company CAM ended 2016 with 11 more freighters dry leased to external customers. That reflects 14 that were dry leased to Amazon, minus three returned from our airlines or other lease customers.

That leasing activity accelerated last April after we signed agreements with Amazon in March to convert the five aircraft trial network we had operated during the 2015 peak season into long-term agreements involving leases and operating agreements for twenty 767 freighters, plus warrants for 19.9% of our shares.

Twelve of the fourteen 767s CAM leased to Amazon last year were 767 200s already in our fleet. So we were able to meet the majority of our fleet commitment in a matter of months by leasing them for five year terms. The other eight are 767-300s we quickly sourced and began modifying for delivery by mid-2017 under seven year terms.

CAM also received 767 orders from other customers last year. That meant they were very active scatting out good freighter feedstock prospects and booking conversion slots before prices adjusted to additional market demand.

Our bank group agreed to expand our revolver credit line last May for fleet expansion and other purposes. By mid-2016, CAM had arranged terms for the purchase out eleven 767 airframes plus options for others it expects to deploy this year. As the largest customer of its 767 conversion vendor II CAM also obtained prime positioning for conversion slots.

CAM’s pretax earnings increased 19% for the year to $68.6 million and 11% in the fourth quarter to $16.8 million. Incremental lease revenues from more externally leased aircrafts were somewhat offset by higher depreciation plus the inevitable transition costs and revenue gaps when aircrafts are returned and redeployed.

CAM will benefit from a full revenues from the net 11 additional 767s that leased externally in 2016, plus 11 more expects to leased during 2017. Our airlines are benefiting from more CMI flying and achieved revenue growth for 2016. Billable block hours rose 18% as the airlines operated six more CAM-owned freighters than they did at the start of 2016.

When all twenty of the aircrafts are deployed for Amazon by mid-year, we also anticipate a substantial improvement in our ACMI services margins. The businesses we collectively refer to as other activities contributed a large portion of our 2016 revenue gain. Their revenues were up more than $100 million to $262.5 million from 2015 and up $29 million to $84.9 million for the fourth quarter.

Our logistics services for Amazon and the US Postal Service increased sharply during the year. Pretax earnings from other activities increased by $8 million to $16.6 million for the year and by $2 million to $3.5 million for the fourth quarter. Those results did not include any contribution from PEMCO the Florida-based maintenance and conversion business we acquired last December.

We bought PEMCO for about what we paid for our minority investment in West Atlantic and it will be accretive in 2017. PEMCO has both Boeing and Airbus airframe maintenance capabilities and extensive 737 freighter conversion experience that we expect to leverage for our own fleet as well as others.

In 2016, we spent $264 million of our capital mostly for growth. It included $185 million to buy eleven 767-300 passenger aircrafts and for ongoing conversion costs. We spent $30 million on capitalized heavy maintenance and nearly $50 million for ground and other support equipment.

On a net basis, we drew $175 million from our revolving credit facility to help pay for those purchases. Even with all of that investment, we still ended the year with a debt to EBITDA ratio of about 2.2 times. We are projecting a CapEx spend for 2017 of about $355 million including about $285 million for growth-related investments and most of the rest for capitalized maintenance costs.

Even with that level of investment, our plan keeps our debt ratio well below three times EBITDA throughout 2017. Given our smaller growth CapEx commitments for next year, we will have more flexibility to allocate that increasing cash flow.

To accommodate our fleet growth, we expect to complete arrangements with our lenders later this month to extend our credit facility another year into 2022, exercise the $100 million Accordion option under our current agreement and replace it with a new one of the same amount. We will provide more details when that amendment is completed by the end of the first quarter.

We spent $64 million last year to repurchase 4.8 million ATSG shares including the 3.8

million shares purchased from an affiliate Red Mountain Capital in July. Our current share repurchase authorization increased last year from $50 million to $100 million and about $25 million of that authorization remains.

We are unlikely to approach that ceiling anytime soon, but our demand-driven fleet program will not deter us from maintaining a prudent ratio of investments, share buybacks and debt repayments with the cash at our disposal.

We and others have talked about the challenges of forecasting the diluted share effects and tax implications of the Amazon warrants and the merits of paying more attention to adjusted earnings. But we also understand the Street's demand for analysts' models that yield an EPS forecast.

We will continue to report adjusted EPS and share accounts net of the warrant effects in our earnings releases. Assuming the additional warrant issuances and other factors, we currently project that our non-GAAP adjusted shares will increase by about $2 million to $2.5 million this year.

I'll be happy to take any questions you have on this and other matters in Q&A or after the call. Again, we are thrilled with the great portfolio of customers and assets we have today and pleased with the progress we are making to convert those advantages into even more good returns for our shareholders. Joe?

Joe Hete

Thanks, Quint. Our results for 2016 were good overall, but we expect to do far better this year as the benefit of several years of fleet investments and repositioning flow through our earnings. Amazon and DHL, global companies that together use 36 of our 59 cargo aircrafts and service at the end of 2016 account for 29% and 34% respectively of our 2016 revenues.

Along with our lease placements at AmeriJet, West Atlantic and elsewhere, nearly 80% of our 767 fleet was leased externally under long-term commitments at year end and that percentage will grow again in 2017. Our businesses are collectively strong and growing. CAM is now a powerful cash generator with prospects in both the mid-size and narrow-body freighter markets.

Our other businesses are growing rapidly too. Our aircraft maintenance business AMES is now substantially larger with the addition of PEMCO as a division. PEMCO's conversion resources are focused on the 737 freighter market in China where the 73 is the preferred option.

Last month PEMCO agreed to convert three 737s for YTO Cargo Airlines in China. PEMCO will convert two more that CAM will acquire and lease to Okay Airways. Okay will put them in its own fleet until regulators approve our joint venture hopefully later this year. As a reference point, we project that all-in cost for a converted 737-400 freighter at about $8 million.

PEMCO's heavy maintenance capabilities and hanger space in Tampa are good complements for those at AMES and we expect to use their facilities to handle a significant share of our airlines' expanding heavy maintenance requirements.

Logistic services, our material handling, sorting and ground support business expanded significantly in 2016 as it adds cargo handling and refueling for Amazon at our hub facilities here in Wilmington along with this ongoing postal service sort center operations.

Amazon's decision last month to shift its hub to new facilities will build at the Cincinnati Regional Airport in Kentucky will affect that growth of logistics when the shift occurs in a few months.

We had hoped that Amazon will prefer the ready availability of the cargo focus facilities here, but we always assume that when they are ready to scale up to a full national hub, they would take it in-house. These hub operations in Wilmington contributed about $5 million in revenues for logistics in the fourth quarter of 2016.

Our airlines, ABX Air and Air Transport International expanded last year as more CMI aircrafts were deployed. Because we couldn't be certain how many additional pilots we would need until last March, we had a very tight window to recruit and train them to meet challenging new route requirements.

ABX and ATI had budgeted for higher pilot compensation expense to get through the ramp up period. But we did not expect the Teamsters' union leaders would use a minor dispute over pilot scheduling to justify a two-day walkout which resulted in significant forfeited revenue. That and the premium pay expenses that Quint described were two of the largest contributors to our loss in ACMI services last year.

ATI whose pilots are represented by ALPA and did not support the strike will crew all of the remaining aircrafts we deployed for Amazon. Altogether, we have added over a 160 pilots in the last 12 months and are due to add another 20 or so this year as our Amazon deployments continue. Premium pay will continue to impact our results in the first quarter.

With these issues now largely behind us, we expect that the scale of our growing CMI fleet, continuing ACMI customers, and combi support for the US military will bring improved margins for an operating platform backed by key long-term commitments. We are cautiously optimistic about a profitable year for our ACMI Services segment.

I shared with the outset that we are targeting $216 million in adjusted EBITDA for 2017, which would be a more than 20% increase and our strongest ever annual growth in that measure. Thanks to disciplined financial management, we were ready to step-up our fleet expansion when Amazon backed our key role in its new air network.

Our balanced capital allocation philosophy that we also had enough dry powder to buy back 4.8 million of our shares last year for $64 million and pickup a complementary aircraft maintenance and conversion business at the same time.

Those of you who have supported our efforts over the last years have been well rewarded as our stock price has nearly doubled in just the last two. I acknowledge that we should have executed better in some areas but the plain facts are is that by the standard of adjusted EBITDA, the $260 million we are targeting for 2017 represents a strong two year growth cliff from $197 million in 2015.

Looking out even further, our growth phase is in its early stages and potential lease customers are still approaching us with their plans. Keep in mind that in 2016, many of the leases CAM added were for 767-200s. In 2017, all of the 767 leases will be 300s with longer-terms and higher monthly rates.

Assuming extensions of expiring leases, it's not hard to envision continued growth with solid margins well into the next decades.

That concludes our prepared remarks, Jason. We are ready for the first question.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Our first question comes from Jack Atkins from Stephens Inc.

Jack Atkins

So first off, on the 2017 EBITDA guidance. Joe or Quint, is there any way you can provide some color on kind of how that progresses through the year? And it might be easier to talk about kind of the fleet deployments you expect throughout the year, kind of by quarter if that's easier for you?

Quint Turner

Thanks, Andrew. This is Quint. In terms of kind of – we've guided to $260 million for the year and as you guys have seen in our business, typically there is some momentum for the latter part of the year, certainly fourth quarter with peak season and so, I think one way to think about the first half versus the second half in that guidance, I would weight roughly 40% of that in the first half and the second half about 60% of that number roughly and of course, fourth quarter is typically the strongest quarter.

First quarter is usually the weakest quarter and I think you'll see that trend again play out in 2017. First quarter in particular as it's – we are in the middle of it here. I would kind of think of EBITDA very similar to what you saw in first quarter of 2016 on an adjusted basis in that same vein would be how I would approach it.

Jack Atkins

Okay.

Quint Turner

As far as the aircraft deployments and I may get these a little bit out of sorts here, but the Amazon, the remaining six leases to Amazon, I believe will all have begun by the end of July, call it. The first one was on January 4, I think, first of those six.

Joe Hete

If you think about, Andrew, the first one was in January, that was one it should have been deployed in December, but because of the work stoppage it got delayed and then we'll put one in at April, two in May, one in June and one in July. And that will cover the Amazon piece and then after that you can figure one tail a month essentially for the August through the end of the year period.

Jack Atkins

Okay. That is helpful. And then, on the cost for 2017, you guys mentioned in your prepared comments about, I think after the first quarter that kind of, the premium pay for the pilots will go away. So I guess, is that first quarter level kind of a run rate we should use going forward? Or do we see a step-down back to I guess, closer to historical levels there?

Joe Hete

Yes, if you think about the last two quarters of last year, that we said the impact of the premium pay was about $4.5 million above what we normally would have expected per quarter. So the figure is going to have a duplicate of that for roughly in the fourth quarter then after that that will go down, but obviously we will have more pilots on the payroll to staff up the aircrafts. So, you will see the run rates for pilots' hours drop from first quarter to second and then kind of straight-line from thereon out.

Jack Atkins

Perfect. That is helpful. That's all from us guys. Thanks for the time.

Joe Hete

Thanks, Andrew.

Operator

Thank you. And next we have Kevin Sterling from Seaport Global.

Kevin Sterling

Thank you. Good morning, Joe and Quint.

Joe Hete

Hey, Kevin.

Quint Turner

Hey, Kevin.

Kevin Sterling

Quint, one housekeeping item here. You may have mentioned this, so I am sorry if I missed it. How many ACMI block hours that you guys fly in the quarter?

Quint Turner

For the quarter, we flew 21,369 total block hours. It's a combination of CMI, ACMI.

Kevin Sterling

Okay. Great, great. And, Joe, you talked about the preliminary injunction with the pilots what the judge recently ruled. Where does that stand? What's the next step of following this preliminary injunction?

Joe Hete

As we noted in the – I think in the earnings release, Kevin, we did reached a settlement with the pilot group, last week or the week before. So all of that's kind of behind us at this point in time. There was a preliminary injunction out there. We basically backed away from that at this point in time and so, it's back to business as usual at this point in time.

Kevin Sterling

Okay, so, it's all settled. No more court issues, and like you said kind of back to business, is that fair?

Joe Hete

That's correct.

Kevin Sterling

Okay, great. Awesome. And the PEMCO acquisition, I know you touched on that a little bit, that seems like a really an asset for you guys and they seem to have a leg up in the Chinese conversion freighter market. What's the secret sauce there? What makes them so successful as the leading cargo converter in China?

Joe Hete

I am going to throw that one to Rich who is out at the ISTAT Conference in San Diego. Rich, if you want to handle that one?

Rich Corrado

Yes, I think, PEMCO got in the game early and began converting 737-300s and 737-400s and it was a real proliferation of the use of the 737-300 in the passenger market within China. And so, taking those available freighters out of - keeping those planes in China, it is a much prefer method to have a Chinese feedstock become a Chinese freighter than import feedstock.

So, the fact that they got in the game early. They were able to build a good customer base and they've got majority market share currently in China. When we told our joint venture partner that we had made that acquisition, they are extremely happy and thought that was a very wise move in our part.

Kevin Sterling

Yes, now that's great. Thank you, Rich and I see, Joe and Quint making get up early there in San Diego this morning. And Joe, if a customer comes to you and you guys just been acquiring so much feedstock, but if a customer comes to you whether new or existing, and they say they want some additional lift, are you able to secure additional feedstock?

Quint Turner

We haven't – as we noted in our earnings release and the table in the back we have six aircrafts that we will still be going through the modification process at year end. So we have some feedstock that basically if you look at it would give us one tail available per month going into 2018.

That said, we haven't been very active at this point in time in pursuing additional, obviously the folks at CAM keep their ear to the ground in terms of looking for where the right opportunity might pop up and if it does, they bring it to us. But I think, right now, we've got sufficient feedstock available that unless customer came back with a really large demand, we can meet their requirements.

Kevin Sterling

That's fair. It sounds like, you've got some kind of dry powder available then, just one or two aircrafts. Okay, so that's all I had. Congrats to you guys on how much you have changed and improved the business and your positive outlook. Take care.

Quint Turner

Thanks, Kevin.

Operator

Thank you. And our next question comes from Bruce Chan from Stifel.

Bruce Chan

Yes, good morning gentlemen. Just a couple quick ones from me. First is a follow-up on

PEMCO. I know that you've discussed it being a contributor to earnings in 2017. I am wondering if you can provide any color on the magnitude of that impact. And then maybe somatically, what does the demand opportunity look like going forward for them, maybe in terms of 737 growth in China, whether there is an ability to kind of step that up into some of the 67s in the Chinese market there?

Joe Hete

So the first part of the question in regard to the impact for 2017, one of the things if you look at it and what people think about 2017, as you know well – no doubt, know is, we are going to have the Amazon hub leave Wilmington go to CBG. So we will lose that piece of business and right now you can figure that the EBITDA impact for that is probably $7 million or $8 million on an annualized basis that we'll have it through the end of April.

If you think about the PEMCO, it will probably replace roughly half of that amount from an EBITDA perspective. So call it, that $3 million to $4 million in EBITDA range distributing backward for the PEMCO piece. As far as the market for the conversions, Rich, you want to take that one?

Rich Corrado

Yes, the Chinese market remains very good, particularly for the narrow-body freighters at this point. There is only one airline right now SFA that is flying the 767s. But we anticipate just through the growth - the ongoing growth in China the e-commerce business in particular that that will quickly ramp into some other operators probably in the next – by the end of 2018, you'll probably see 767s start to grow a little bit more in China.

The 757 is still a strong airframe in China as well. But right now, you've got a something like YTO that's only been in the airline business one or two years with their AOC and projecting very good fleet growth as, as the other regional players in China.

Bruce Chan

Great. Thanks and my second question was going to be on the EBITDA impacts from the logistics business, but you already answered that, Joe. So, appreciate it very much.

Joe Hete

Thanks, Bruce.

Operator

Thank you. And our next question comes from Steve O'Hara from Sidoti & Company.

Steve O'Hara

Yes, hi, good morning.

Joe Hete

Hi, Steve.

Steve O'Hara

Just on the aircraft that you, I guess, currently have in mod and expect to have in mod by year end, the 2017, I wasn't sure what you said in terms of how many or kind of spec versus customers have already signed up and then how much wiggle room is there on that front on your end to defer purchases if – like you said the industry is cyclical and if things change? Thank you.

Joe Hete

Yes, if you think about the aircraft, obviously, like I say, there will be eleven 767s added into service in 2017. Six of those are going to Amazon. So that leaves five hanging out there. Out of those five, right now, we've got customers that are lined up to take those five. So if you think about available feedstock from the 76, we would have the six tails that are references being in modification at year end.

Now that said, we could move pieces around if a customer came through the dry lease opportunity and an aircraft is currently in an ACMI deployment, we have the flexibility depending upon the timing to convert that from a ACMI to a dry lease if necessary.

Steve O'Hara

Okay. And then just, so, I mean, the aircrafts - you expect to deliver eleven this year and then you are going to have another six, I guess in mod at year end? Is that correct?

Joe Hete

That's correct.

Steve O'Hara

Okay. And then, so those six are more speculative or you've customers for those as well?

Joe Hete

I think, Steve, there are customers who we've been talking to about those aircrafts, it's just – as you might expect they are farther out. So those, I guess, the progress of those discussions is less advanced certainly than it is on the ones come in the latter half of this year. No one has signed a lease or anything on the six aircrafts. So, until that happen, I mean, technically, certainly they are open for best and first opportunity.

Steve O'Hara

Okay. And then, just on the aircraft pricing, could you talk about where the aircrafts, 767-300 pricing is? And I mean, that would seem to think there was a pretty good supply out there. Can you touch on that if you can? If you did, I missed it, I am sorry.

Joe Hete

Well, I think, the supply of aircraft is dependent upon what your price point is in terms of what you want to make into service cost. There were well over thousand 767s that were built over time and there is always something available if you are willing to pay the asking price for it and we try to hit that sweet spot as we referenced in the past that where it goes into service in that $23 million to $25 million range.

So, we are looking at aircrafts today that are – call it the early part of the 90s in terms of its manufactured date and as time goes on, obviously, people will be pulling them out of their fleets, but right now, demand for retaining the 767 from what we've seen in the existing passenger fleet has been pretty strong.

Steve O'Hara

Okay. And then, just maybe on the Chinese joint venture. I think you would expect it something by mid-summer of 2017 in terms of the approval process, but I could be mistaken. But can you just update us on that when do you expect something on that end?

Joe Hete

Rich, you want to do it?

Rich Corrado

Yes, thank you. We are in a regulatory approval process and it involves several layers and we've gotten through some of those layers so far. But some of the – you just can't predict what portions of the application that they may have additional enquiry on and things like that. So it's a little hard to predict. There were no AOCs, cargo AOCs that were put into service in 2016.

And so, it is a long process. We are probably looking more towards the end of the year as of 2017. That's one of the reasons why, Okay, our partner in China, JV partner in China had made the decision to deploy two 737s under their own operating certificate. They already operate on freighter. They made that decision because we are also talking on the commercial side to several of the operators whom the joint venture would fly for and they need lift.

And so, rather than let these opportunities continue to pass by, Okay made a wise decision to put those two aircrafts on a certificate. When the AOC is finally approved and we are up and flying, we'll just take the freighters the two ones that we are putting in this year and the one that Okay already has and we'll just port them over to the joint venture along with crews and management personnel and we'll have that operation ready to go. The good news is that, when the JV starts, it will have freighters already flying and it will have customer revenue from day one.

Steve O'Hara

Okay. All right. Thank you very much.

Operator

Thank you. [Operator Instructions] Next we have Christopher Hillary from Roubaix Capital.

Christopher Hillary

Hi, good morning. Thank you for taking my question. I wanted to ask on your EBITDA guidance about starting 2018 at the $300 million, but that doesn't include the impact of growth CapEx. Is there a way you can frame what the implications might be of the $285 million in growth CapEx to be online in 2017?

Quint Turner

Yes, Chris, we – your connection is a little bad for some reason. But I think we got your question. You are asking about 2018 and what we had said was that, as kind of we enter the year, we are on a pace based upon where we would expect to be at the end of this year of a $300 million cliff.

And then, as Joe mentioned, we will have these six aircrafts in progress at the end of the year at some stage of conversion. So those will come online, call it, through the first – the first half of 2018 and that certainly – they will be contributors then on top of that $300 million cliff for the full year.

So, we try to encompass the contribution of the aircrafts that are going online during 2017 by characterizing our pace at the end of the year as a $300 million pace. What that does not include then would be those contributions from the additional aircraft and whatever others there might be that we decide to add based on customer interest through 2018.

Christopher Hillary

Okay. And then, just given the growing demand that you are seeing for your services, is that having any impact on how you are able to price out incremental contracts going forward?

Quint Turner

I think whatever connection you've got, Christopher is dying on it. So we are going to have to take your question perhaps after the call or something. So, we are not clear on what you are asking.

Operator

Thank you. [Operator Instructions] And it appears we have no further questions today. I will now turn the call back to Joe Hete for closing remarks.

Joe Hete

Thanks, Jason. We have had some great discussions with many of you over the last several weeks at conferences and over the phone and Quint and I appreciate how many new investors are taking time to study our value proposition. The $260 million in adjusted EBITDA we intend to deliver this year is just the first big step towards multi-year superior cash returns our business model can achieve. We look forward to providing you with updates on our progress as the year unfolds. Thank you and have a quality day.

Operator

Thank you ladies and gentlemen, this concludes today's conference. Thank you for participating. You may now disconnect.