ACE boss prepares to make his exit

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Four years ago, Robert Milton took a pay cut as Air Canada suffered from the airline's version of the Four Horsemen of the Apocalypse - war in Iraq, SARS outbreak, large pension deficit and lingering fallout from the Sept. 11 terrorist attacks.

Today, Mr. Milton is heading for the exit with $23.1-million in stock option gains, poised to complete what has arguably been a successful corporate restructuring at Air Canada's parent, **ACE Aviation Holdings Inc.** where he has overseen the creation of more than $4-billion in stock market value since 2004.

Regulatory filings show Mr. Milton had ACE option gains of $5.5-million in 2005, $3.5-million in 2006, $11.2-million in 2007 and $2.9-million so far this year.

For his next move, the ACE chairman and chief executive officer plans to sell the company's remaining 22.8-per-cent stake in its aircraft repair division to private equity.

This summer, Mr. Milton is expected to choose from a range of options to wind down ACE, perhaps finding a private equity buyer for the country's largest airline or approving a yet-to-be-determined paper swap that would cancel ACE stock while preserving Air Canada shares, industry experts say.

His pending departure is already drawing a wide range of reaction. While union leaders love to hate him, analysts credit Mr. Milton for guiding ACE through an innovative business strategy that created and then busted up ACE, bolstering investors' portfolios.

Montreal-based ACE was created in October, 2004, after Air Canada emerged from bankruptcy protection - an 18-month process that shaved wages, slashed long-term debt, chopped plane lease payments and protected the pension plan.

ACE shareholders have reaped stellar gains even as many major foreign carriers are teetering on the brink of collapse amid skyrocketing oil prices.

ACE, which began as a $2-billion holding company, is now valued at $6.5-billion: ACE ($1.2-billion), Air Canada ($876-million), customer loyalty program Aeroplan Income Fund ($3.5-billion) and regional carrier Jazz Air Income Fund ($918-million).

"Early investors in ACE have done well in the Milton era. He has done a great job by carving out the divisions and giving investors pure plays," said ***Veritas Investment Research Corp.*** analyst ***Peter Holden.***

Having offered praise, ***Mr. Holden*** also pointed out that many frustrated consumers and original Air Canada investors whose shares were wiped out in 2004 won't be shedding any tears when Mr. Milton leaves ACE for good.

In 2006, ACE floated 25 per cent of new Air Canada shares in an initial public offering, and the holding company still owns 75 per cent of the airline.

Air Canada shares have dropped 58 per cent since the IPO, crushed by soaring jet fuel prices.

But in a broader review that factors in Aeroplan's strength, "when you put all these things together, ACE has been a success for surfacing value," said Research Capital Corp. analyst Jacques Kavafian. "Robert Milton has earned his keep."

Mr. Kavafian cautioned that it's too early to write the final chapter on the ACE chairman's legacy, saying it will depend on whether Air Canada's depressed stock price is able to recover over the next three or four years, operating at arm's-length from Aeroplan.

Aeroplan and Jazz, formerly wholly owned by ACE, are now widely held by institutional and retail investors, with ACE selling its remaining stakes in the trusts last week.

CIBC World Markets Inc. analyst Chris Murray reckons that Mr. Milton steered the airline through some tough times, giving Air Canada CEO Montie Brewer the flexibility to order new Boeing planes.

Mr. Murray calculates that investors who bought ACE shares for $24.76 each on their first day of trading in October, 2004, and have held the stock, now have gains of 74 per cent.Aeroplan accounts for 71 per cent of total ACE gains since the holding company's inception, Mr. Murray said.

Jazz represents 10 per cent of ACE gains, trust distributions chip in 7 per cent while the price of ACE stock itself has slipped 13 per cent since the first day of trading in 2004, he said.

Institutional investors who received ACE shares at $20 apiece prior to the first day of trading have enjoyed a total return of 120 per cent, his analysis shows.

"Mr. Milton broke up the company, and there's more value now," Mr. Murray said.

Analysts give kudos to Mr. Milton for piloting ACE's strategy to unlock "hidden value," and also credit him for shrewd timing on investments in US Airways Group Inc., acquiring and selling shares for a $248-million gain, before the Tempe, Ariz.-based airline hit hard times.

Union leaders remain unimpressed. Paul Lefebvre, president of Local 2323 in Toronto at the International Association of Machinists and Aerospace Workers, said he's looking forward to Mr. Milton's flight out of Canada to England, where his family lives.

"He took a virtual domestic monopoly and crashed it," said Mr. Lefebvre, noting the rise of WestJet Airlines Ltd.

Air Canada employees reluctantly agreed to belt-tightening measures that reduced wages during restructuring, said Mr. Lefebvre, who now warns that union negotiators will push hard for raises when six-year contracts expire in mid-2009.

"Maybe some crumbs will fall off the table for employees for a change," he said.

At a glance

Holding company: ACE Aviation Holdings Inc.

ACE divisions: Owns 75 per cent of Air Canada and 22.8 per cent of ACTS Aero Technical Support & Services Inc.

Former ACE divisions: Aeroplan Income Fund and Jazz Air Income Fund

Current buyback: ACE is offering to repurchase $500-million worth of ACE common shares for between $21 and $24 a share, with a June 18 deadline. At the midpoint of $22.50, that would represent a buyback of 22.2 million shares, or about 40 per cent of total ACE common stock outstanding, said Nick Morton, an analyst at RBC Dominion Securities Inc.