

August 25, 2015

## Bombardier struggles to avoid penny-stock status amid lack of new C Series orders

By NICOLAS VAN PRAET

*Bombardier hasn't announced a new order for the C Series, its largest-ever jet and flagship product, since September, 2014*

Bombardier Inc.'s struggle to avoid penny-stock status hinges largely on how quickly its chief plane salesman can clinch another order for the company's new C Series aircraft as it approaches a one-year drought.

Without a new deal by Colin Bole, the Montreal plane and train maker is almost sure to test new lows on the Toronto Stock Exchange. The stock tumbled to \$1.11 Monday amid a larger market selloff, half the \$2.21 price investors paid for Bombardier equity during a share sale in February.

"I'm still holding out for aircraft sales but if Mr. Bole doesn't get it done, we're going to get a front row seat to an ugly and very sad, sad show," said AltaCorp Capital analyst Chris Murray.

Bombardier hasn't announced a new order for the C Series, its largest-ever jet and flagship product, since September, 2014. The plane program is two years behind schedule and more than \$2-billion over its initial budget. The smaller CS100 is on track to win regulatory certification this year and make its first commercial flight for launch operator Swiss in the first half of 2016.

The cost to insure Bombardier's debt from default has blown out past financial crisis levels to record highs as investors fret about the company's cash burn and new order intake. Ten-year bonds Bombardier issued in March with an initial coupon of 7.5 per cent are now yielding 13 per cent. According to **Veritas Investment Research** of Toronto, Bombardier's overall debt had an average yield of 8.7 per cent as of July 30, suggesting the markets are heavily discounting the company's revival prospects.

"The time has come for Bombardier to prove to the market that it can get orders on its self-proclaimed world-class planes, improve its margins and fix its balance sheet before asking investors to further believe in the company," **Veritas's Varun Mehrotra** said in a recent research note. "All we have seen up until now is a plethora of empty promises."

Bombardier chief executive Alain Bellemare hired Mr. Bole as senior vice-president of sales for Bombardier Commercial Aircraft in May to help the company rev up its sputtering sales effort for passenger planes, including the \$31.3-million (U.S.) Q400 turboprop, the \$46-million CRJ900 regional jet and the all-new C Series. Mr. Bellemare said last month that his team is aggressively courting a half-dozen potential customers that have shown interest in the 100- to 150-seat C Series but he cautioned another firm sale could take time.

An engineer by training, the U.K.-born Mr. Bole previously worked at aircraft leasing firms Intrepid Aviation and International Lease Finance Corp. and brings to Bombardier a keen understanding of airline strategy and operations. He also spent some time at rival Airbus, which developed its A320neo jet as a competitive response to the C Series but is on track to beat the Canadian-made plane to market.

Bombardier currently has 243 firm orders for the C Series plus commitments for another 360 units. It might have won more orders were it not for a series of challenges that has hampered the program's success, says Sammamish, Wash.-based aerospace consultancy Leeham Co.

"A weak balance sheet impacted the ability to do creative deals to win orders. An aggressive Airbus underpriced the C Series in several campaigns. Events completely outside Bombardier's control killed deals it was poised to win, such as the global recession" in 2008, Leeham said in an Aug. 10 analysis.

The consultancy says it believes Bombardier's current customer base for the C Series remains of "iffy quality," with more than half of nearly 200 C Series jet deliveries scheduled over the next two years at risk of falling through. Leeham says clients on slippery ground include U.S. regional carrier Republic Airways Holdings, which is locked in a dispute with its pilots and is working to avoid a bankruptcy protection filing.

With China's economy showing weakness, the shadow of another global recession looms. Slowing demand for business jets in China has already forced Bombardier to reduce the production rate on its Global 5000 and 6000 corporate aircraft. The decline could spill over to other sales campaign efforts, such as the C Series, and to other manufacturers as well, says aerospace consultant Ernie Arvai of Airlsight.

Mr. Arvai says narrow-body aircraft like Boeing's 737 and Airbus's A320 would be particularly affected by a downturn as around half of the current orders for those models come from the Asia-Pacific region, many from carriers that might not survive a slump. He estimates roughly one quarter of those orders could be cancelled when the next Asian economic correction arrives.

"We're looking at a cyclical recession for the aviation industry," Mr. Arvai said. "I would set expectations low for everybody, but Bombardier does need an order. It's been a while."