

May 3, 2021

## Bombardier disputes unnamed bondholder's claims it breached pledges over sale of train unit

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Bombardier Inc. BBD-B-T -2.11% decrease is making a surprise approach to bondholders asking for permission to change the terms of their debt after an unnamed investor claimed the plane maker's sale of its train business and other assets breached pledges made under its indenture.

The company said Monday it has launched consent solicitations asking bondholders to change the original deal for eight separate tranches of senior debentures with maturities from 2022 to 2034. Bombardier is seeking approval to clarify language stating that the asset sales, which are already completed, are permitted by the contract terms and to waive any alleged default in connection with the sales.

Bondholders who consent to the changes will receive a consent payment from Bombardier worth US\$1.25 for every US\$1,000 of principal except one series of debt due in 2026 that will be paid in Canadian dollars, Bombardier said. Creditors have until May 11 to agree.

"I think it's a shakedown" by an opportunistic investor that appears to be angling for a payout, said analyst **Dan Fong** of **Veritas Investment Research** in Toronto. The allegations "cloud Bombardier's turnaround plans" but the issue appears solvable at a reasonable cost, he said.

The development marks a new complication for chief executive Eric Martel, who is trying to restore profitability at Bombardier after years of crisis. The company is now a standalone maker of private luxury jets after it sold off its commercial-aircraft manufacturing capability to Airbus, Mitsubishi Heavy Industries Ltd.

The decision to approach bondholders was made after Bombardier received a letter in late April from lawyers for a holder of bonds due in 2034 claiming that the company's decision to divest its train unit as well as other assets such as its regional jet program "constitute a breach of certain covenants" under the terms of the security agreement. Bombardier did not name the investor. The indentures are not public documents.

Bombardier said it believes the allegations are without merit and that it has not breached any covenant. It said it weighed a number of options with the help of outside advisers and concluded that launching consent solicitations is the most "expedient and efficient path to maintain value and protect the corporation and its stakeholders."

Creditors holding a simple majority of 50 per cent or more by bond value must agree to the proposed changes for the amendments to go through, Bombardier spokesman Mark Masluch said. That's true for every series of bonds except one, where a two-thirds majority is required, he said.

If the consent strategy plays out in Bombardier's favour and it obtains the approvals it seeks, the cost to the company for the consent fees would be about US\$10-million, **Mr. Fong** estimates, a "low price to pay" to resolve the issue. He said he wouldn't be surprised if the company extends the May 11 deadline or increases the fees to cement approvals.

Things could also sour for the company. The company's bond indentures could contain cross-default provisions or identical language as it relates to asset divestitures. If so and the unnamed bondholder's allegations are proven true, the company would face an across-the-board default event and bondholders could demand full repayment, **Mr. Fong** said.

A worst-case scenario is unlikely to materialize because most bondholders have little incentive to push the company into default, **Mr. Fong** said. The bulk of Bombardier's bonds are trading near par – either slightly below or slightly above – and creditors are unlikely to gain much, if anything, in a default, he said. Bombardier could negotiate with the 2034 class of bondholders directly and pay them out, he said.

The 2034 bonds had a fair value of US\$248-million at the end of last year and represented 2.5 per cent of the total interest-bearing debt on Bombardier's balance sheet at the time, according to analyst Walter Spracklin of Royal Bank of Canada. He said he believes Bombardier is taking the appropriate action to successfully refute the claim but that the issue could put pressure on the shares in the near term.

Mr. Martel is trying to stage a recovery for the company that hinges on paying down debt, cutting costs and pushing to capture more business from selling and servicing jets. Comments and reported results from Bombardier rivals Gulfstream, Textron and Embraer in recent days suggests demand for private planes has picked up significantly in recent months.

Bombardier is scheduled to report first-quarter financials later in the week but offered a preview Monday, which was better than analysts expected. Bombardier said it will post earnings before interest and taxes of US\$19-million and tally an 18-per-cent increase in revenue, to US\$1.3-billion for the quarter ended March 31. The company said it delivered 26 jets during the three-month period and remains on track to ship between 110 and 120 aircraft for the year.