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## Sweeping changes at Bombardier aim to stem downward spiral

By NICOLAS VAN PRAET

*Amid rising debts, Montreal-based manufacturer shuffles executive ranks, brings in outsider as CEO*

The face of Bombardier Inc. is changing. But the family that built a global transportation giant is still in the driver's seat.

Reeling from rising debts, a plummeting stock and ballooning costs for its most important project, the company announced sweeping changes Thursday that are designed to calm mounting concerns over the future.

"It's the moment of truth," said Anthony Scilipoti of Veritas Investment Research in Toronto.

In a sweeping set of moves designed to restore market confidence, Bombardier announced that Pierre Beaudoin would step down as CEO to become executive chairman, while his father, current chairman Laurent Beaudoin, shifts down a gear to chairman emeritus.

The company also said it would scrap its dividend, raise \$600-million (U.S.) in shares and up to \$1.5-billion in debt, and explore what it called "other initiatives," including "potential participation in industry consolidation."

The shares tumbled 12 per cent in afternoon trading on the Toronto Stock Exchange as investors digested the risk of the equity issue not passing a special shareholder vote as well as the magnitude of the challenges.

Bombardier is handing the CEO reins to industry veteran Alain Bellemare, who joins after leaving United Technologies Corp. last month.

While the front man will change, the Montreal manufacturer's controlling family remains firmly in charge. The family said it has no plans to give up control through its current dual-class share structure – a system that has been "a strength" in tough times, Mr. Beaudoin said.

As executive chairman, Mr. Beaudoin will take over responsibility for mergers and acquisitions as well as financing, he said, allowing Mr. Bellemare to focus on operations and execution.

Bombardier has been down this road before, hiring outsider Paul Tellier as CEO a decade ago to lead a turnaround at that time. His tenure lasted less than two years.

Mr. Beaudoin moved into the corner office in June, 2008. Marked by delays and earnings misses, his six-year reign saw the company's stock fall by 70 per cent as concerns mounted over the company's future.

He delayed the C Series program at least four times, giving rivals Boeing and Airbus the chance to develop

competing jets. He also made downward revisions to profit guidance twice over the past year alone.

"It hasn't worked out" for shareholders under Mr. Beaudoin's tenure but it's not yet finished, said Ernie Arvai with boutique U.S. consultancy AirInsight. "They've bet the company on the C Series. Will it pay off for them is the real question."

The C Series was supposed to be the company's saviour – and hopes remain high that the jet will be launched by the end of this year, helping Bombardier double its sales by the end of the decade.

But numerous delays and mounting costs have taken a bite out of both the company's share price and investor confidence. And the company said Thursday that costs related to the 130-seat commercial jet's development have risen to \$5.4-billion, a 29-per-cent increase from last year's estimate.

Meanwhile, the manufacturer's guidance on profit for 2015 was far from robust. Its corporate jet business is slipping from a lack of orders. Commercial aircraft is waiting for a revenue jump from the C Series. And the train unit is rumbling along with only slight improvement on profit margins. The loss for its latest fourth quarter was \$1.6-billion, mostly due to a special charge from suspending the development program for the new Learjet 85 business aircraft.

Ratings agency Moody's lowered Bombardier's credit rating to single-B-1 from single-B-a3, citing its high free cash burn and plan to increase debt.

The hope now among some observers is that management will scale back the company's still-lofty industrial ambitions – before it's too late.

While Mr. Bellemare has a strong track record, there are a number of issues that seem to be very pressing and need attention in a very short order," said Altacorp Capital analyst Chris Murray. "And then the question becomes: How much can we trust *his* credibility at this particular point?"

Hiring Mr. Bellemare as CEO was Pierre Beaudoin's idea, a company source said. Bombardier wasn't formally looking for a replacement but when Mr. Bellemare became available, it was an opportunistic talent grab, the source said. Mr. Bellemare had just left United Technologies Corp. when Pierre Beaudoin called.

"I knew he could execute very well," said Mr. Beaudoin, who's known Mr. Bellemare for about 20 years. "It's an opportunity I took when Alain became available."

Veritas analyst Mr. Scilipoti said he believes Bombardier is at a crossroads, and could parcel off its train business as it re-evaluates its priorities after a weak performance over the past two years in particular.

"They've got to now decide what they're going to do as a business. Because they can't do everything."

Having sold the businesses that don't make up an obvious core part of Bombardier's strategy, like its military aviation training unit, Mr. Beaudoin now intends to turn his attention to examining the possibility of more formal commercial partnerships. He was vague in his intentions on a conference call Thursday, giving the example of the merger of China's CSR and CNR train makers as one industry development currently under way.

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