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BBD.B.TO - Q4 2017 Bombardier Inc Earnings Call

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OVERVIEW:

Co. reported 2017 consolidated revenues of \$16.2b and adjusted EPS of \$0.03. 4Q17 adjusted EPS was \$0.02. Expects 2018 revenue to be \$17.0-17.5b.



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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Bombardier's Fourth Quarter and Full Year 2017 Results Conference Call. Please be advised that this call is being recorded.

At this time, I'd like to turn the discussion over to Mr. Patrick Ghoche, Vice President, Investor Relations for Bombardier. Please go ahead, Mr. Ghoche.

Patrick Ghoche - *Bombardier Inc. - VP of IR*

Thank you. Good morning, everyone, and welcome to Bombardier's Fourth Quarter 2017 Earnings Call. This conference call is broadcast live on the Internet. For copies of our earnings release and supporting documents in both English and French, or to retrieve the webcast archive of this call available later today, please visit our website at bombardier.com.

All dollar values expressed during this call are in U.S. dollars, unless stated otherwise. I also wish to remind you that during the course of this call, we may make projections or other forward-looking statements regarding future events or the future financial performance of the corporation.

I bring your attention to Page 2 of our presentations. Several assumptions were made in preparing these statements and we wish to emphasize that there are risks that actual events or results may differ materially from these statements. For additional information on such assumptions, please refer to the MD&A. I'm making this cautionary statement on behalf of each speaker whose remarks today will contain forward-looking statements.

With me today is our President and Chief Executive Officer, Alain Bellemare; and our Chief Financial Officer, John Di Bert, to review our financial results for the fourth quarter and year-end December 31, 2017.

I'd now like to turn over the discussion to Alain.



Alain M. Bellemare - Bombardier Inc. - President, CEO & Director

Well, thank you, Patrick, and good morning, everyone, and thank you for joining us today. As you all saw in our press release, we close out the second full year of our turnaround plan with very strong performance. The team did a remarkable job in 2017. We delivered high-quality financial results exceeding our commitments. We announced a game-changing partnership with Airbus for the C Series. We made solid progress with our largest development program, the Global 7000, which is on track for EIS later this year. And we demonstrated the growth potential at BT, growing the backlog by 14%.

Turning to the numbers. Adjusted earnings in the fourth quarter more than doubled year-over-year. This resulted in full-year earnings growth of more than 57%. Adjusted EBIT margins were better than guidance on all fronts, all exceeded 8% in Rail, Business Aircraft and Aerostructures. And we beat our free cash flow guidance by more than \$200 million. In Q4 alone, we generated almost \$900 million of free cash flow.

We're starting 2018 with great momentum. Our operational transformation is in full motion, our growth programs are on track, we have a clear line of sight to our 2020 objectives, and we expect to reach free cash flow breakeven this year, a key objective of our 5-year turnaround plan.

As I mentioned at our December Investor Conference, 2018 will be a pivotal year for Bombardier. We are moving from an investment cycle into a strong growth phase. And as we do this, our focus is on flawless execution, bring the Global 7000 into service, delivering on all major rail projects and closing the Airbus partnership following regulatory approval.

On the Airbus partnership, integration planning is going extremely well. Strong dedicated teams have been established to ensure that we are ready to hit the ground running once we close, including construction of the Alabama final assembly line as soon as possible.

A few words on the ITC ruling, which clears the path for us to support Delta this year, as we work to close our partnership with Airbus. The ITC's ruling is a victory for innovation, competition and the rule of law. The ITC correctly recognized that the 737 family of aircraft with a deep backlog and record profits is not under threat from our sale to Delta. The C Series serves a smaller aircraft market that Boeing abandoned years ago. We look forward to bring this innovative plane to the U.S. market. With this issue behind us, we are moving full speed ahead with finalizing our partnership with Airbus. And we look forward to delivering the C Series to the U.S. market so that U.S. airlines and the U.S. flying public can enjoy the many benefits of this remarkable aircraft.

Turning now to our train business, which had excellent performance in 2017. By all measures, Laurent and the BT team did a great job in 2017. They delivered strong revenue growth, they improved margins, and they increased the size and quality of the backlog. Revenue growth accelerated in the second half, up 24% year-over-year, driven by the ramp up of key projects. This revenue growth is set to continue into 2018. We expect to grow the top line by another \$500 million or 6%, supported by a solid backlog. In 2017, the backlog grew by 14% to over \$34 billion. Full year book-to-bill exceeded 1.2. This is the fourth year in a row where book-to-bill has been over 1. And we still continue to see a strong pipeline of opportunities. BT's solid order book, combined with a strong market outlook, gives us clear visibility to our \$10 billion revenue target by 2020. Along with strong orders came solid margin improvement. BT has now delivered 5 straight quarters with margins above 8%. And as our transformation actions continued to pay off, we are confident in our new ROS target of 9% plus by 2020. BT's strong performance in 2017 exceeded the incentive targets in the CDPQ investment agreement. As a result, we are increasing our ownership in BT from 70% to 72.5%. This is a very positive result as it means strong business performance and more upside for Bombardier shareholders.

Turning now to Business Aircraft, which also had a very strong year. At Business Aircraft, the focus is on strong execution. We are leveraging growth opportunities, while also improving profitability. For the year, Business Aircraft exceeded both its delivery and margin targets. ROS for the full year was 8.4%. This is 200 basis points of margin expansion. BBA delivered 140 aircraft, leading the industry. This included the 3,000 Learjet and the first Global 6000 with a premier cabin, which set a new standard merging ultimate comforts, exceptional styling and the fastest satellite connectivity in business aviation. This strong performance reflect our strong focus on operational transformation and aftermarket and a great work that David and his team are doing. We have clearly demonstrated that Business Aircraft can perform in any market environment, and the BBA is now well-positioned to deliver strong earnings growth as the market recovers. Overall, the business jet market continues to show signs of improvement. Preowned inventory has reached the lowest level in a decade. Aircraft utilization levels and market sentiment are increasingly positive. And in Q4,

we saw an increase in new aircraft sales activity across the board, which is continuing into Q1. So positive market momentum and an industry-leading backlog as we prepared for entering to service of the Global 7000.

Flight testing of the Global 7000 is going extremely well. All flight test aircraft are now flying. We are surpassing 1,500 hours of flight testing. And the aircraft is showing very high levels of maturity and reliability as we entered into the final phases of the development.

Another important growth driver for BBA is the aftermarket. This was a key focus in 2017. We launched new facilities in London, in Tianjin and expanded our line maintenance and mobile repair capabilities in Europe and North America. This added capacity is the foundation of our efforts to better support our install base of more than 4,700 jets. Across the network, we are focused on enhancing the overall customer experience. We will talk more about our aftermarket growth strategy throughout the year.

Okay. I will stop here and conclude by saying that, I am incredibly proud of our 2017 achievements and very excited about the opportunities ahead. As we reached the midpoint of our turnaround plan, we have established a very strong foundation for future growth. We have a clear path to achieve our 2020 goals and to fully unlock the value of the Bombardier portfolio. With our investment cycle coming to an end, 2018 will be a year of execution. We know what needs to be done, and we have a great team at place.

With that, I will turn it over to John to review Q4 and full-year financial results.

John Di Bert - Bombardier Inc. - Senior VP & CFO

Thank you, Alain. Good morning, everyone. Let me start on Slide 3, with some financial highlights to demonstrate the earnings and cash flow momentum we built over the last year. Consolidated revenues for the year were \$16.2 billion, in line with our guidance and stable year-over-year. Underlying this performance is a 24% revenue acceleration in the Transportation segment in the second half of the year. EBIT before special items was \$672 million, while exceeding guidance of \$630 million plus.

Moving to Slide 4. The fourth quarter earnings performance was particularly strong with adjusted EBIT reaching \$215 million, doubling the \$104 million for the same quarter in the prior year. This past quarter represented the fifth straight quarter of earnings growth, even through seasonality. This demonstrates the earnings power improvement of the business since we launched the turnaround plan.

Looking at the business units. BT and BBA each delivered EBIT margins before special items of 8.4% for the year, while Aerostructures hit an impressive 10% and Commercial Aircraft achieved its earnings guidance. Adjusted EPS was positive for both the fourth quarter and the full year coming in at \$0.02 and \$0.03, respectively.

Turning to Slide 5. The highlight of our fourth quarter financial performance is the \$872 million of free cash flow generation. Free cash flow was driven by better earnings and strong order flow at BT, leading to more cash advances. Compounding this effect in December were key operational achievements on certain large rail projects, including homologations and successful in-service tests, which accelerated certain milestone payments. The strong finish contributed to a better-than-expected free cash flow performance for the year. Usage amounted to \$786 million, significantly better than the \$1 billion guidance.

We closed the year with 3.4 -- \$3.1 billion cash on hand and a full \$1.2 billion cash -- lines of credit available under our revolving credit facilities. Our cash position includes the Pratt & Whitney advance offsetting the C Series inventory build-up, resulting from engine delivery delays. Remember, this supply advance is not part of our free cash flow, which makes our Q4 cash performance even more promising. We also recently completed the refinancing of the 2019 bonds, leaving us with no debt maturities before 2020 and proven access to capital markets with improving terms.

The fourth quarter was an outstanding finish to 2017, positioning us for improving performance as we continue to drive our turnaround plan.

Before I turn to a review of performance by business segment, I want to point out 2 operational achievements made in 2017 that set the stage to grow the business in line with 2018 and 2020 plan. First, to support production in the acceleration in train deliveries, we invested \$1.1 billion in inventory in 2017. With a continued ramp-up, the 2018 delivery cycle will benefit from improving inventory turns, contributing to free cash flow

generation. We funded this working capital increase with customer advances by reaching key milestones and through related accounts payable growth. We also made significant progress on our ongoing multiyear restructuring and site specialization strategy. In aggregate, over the past 2 years, we funded \$250 million in restructuring to increase our competitiveness by leaning out our cost structure. We are seeing the benefits on margins and with the execution of the remaining initiatives, we are right on the path to continue reshaping the business.

And as Alain highlighted, we are progressing towards entering the service of the Global 7000 this year, which once completed will contribute to align CapEx with amortization, resulting in free cash flow tailwind. With the strength of our results and the operational progress realized, we are well-positioned to grow revenues and margins and reach our 2018 free cash flow breakeven objective.

Let me now turn to a review of each segment's performance on Slide 6. Starting with our rail business, which revealed this past year, its strong potential for top line and earnings growth. As I mentioned last quarter, Transportation is reaching a turning point on its path to consistent sales growth in the mid-single digits. This expected growth largely resides in the \$34.4 billion backlog at year-end, resulting from the 20% growth in orders. Transportation's full-year revenues totaled \$8.5 billion and Q4 contributed the most of this number with \$2.5 billion in sales, a 22% year-over-year increase before any currency benefits.

As I highlighted, the rail business is gearing up for an acceleration of delivery activities into 2018, contributing to future cash inflows. Several large projects prompting this intensification of activities are supported by milestones reached in the last few months. To give a few examples, in New York City, the subway train passed its in-service test in December. In Switzerland, the TWINDEXX Swiss express received its operating permit for the Swiss networks, in each case, clearing the way for deliveries. Two other projects recently entered passenger service in Southeast Queensland network in Australia and the San Francisco Area Rapid Transit District. These projects are part of the ramp up in delivery activities we are planning for the next few quarters.

Turning to earnings for BT. For the quarter, EBIT before special items was \$217 million and \$712 million for the year. This represented a 27% increase year-over-year, resulting in an 8.4% margin. Of note, BT realized an adjusted EBIT margin of 8% or above in each of the last 5 consecutive quarters. This was mainly driven by the better productivity from transformation initiatives and a \$50 million stronger contribution in 2017 from our Chinese JVs. Our restructuring actions continued to make progress at Transportation, paving the way towards industry-leading margins above 9%. In 2017, we recorded a \$285 million provision, mostly related to the execution of BT's site specialization strategy.

Transportation also focused on improving free cash flow generation in 2017. We reached a full-year cash conversion at BT near \$1 of cash for \$1 of earnings. And we realized this even as we fueled future revenue growth through investments and inventory. Our strong free cash flow enabled the dividend payment of \$282 million for the year from the division.

In summary, BT continues to outperform, ramping up key projects and securing new ones for the future. With the accretion to our BT ownership to 72.5%, we are positioned to capture a slightly higher share of future dividends and value creation.

Our Business Aircraft franchise is also positioned to grow up with focus on Global 7000 and its aftermarket. During the past year, BBA continued to drive stronger financial performance. Deliveries reached 44 aircraft in the quarter, capturing year-end opportunities as we maintain alignment of production to market demand. Total deliveries for the year were ahead of our guidance at a 140 aircraft balancing light, medium and large jets. At 45 Global and 81 Challenger deliveries, our medium and large business jet platforms were leaders in their respective categories. Our Learjet business delivered 14 aircraft, also slightly ahead of our expectations. As early improvement is felt across the business aviation market, the fourth quarter was one of our strongest order intake periods over the last few years. BBA's backlog continue to be healthy at \$14 billion. Our stable delivery outlook in the short-term and better production rate flexibility ensure we can capture incremental demand rapidly.

Revenues at Business Aircraft reached \$5 billion during the period in line with guidance. With planned lower deliveries and fewer preowned aircraft available for sale, revenues were \$780 million lower than 2016. Also of note during the year, we generated double-digit growth from our aftermarket business, fueled by our recent investment in service network capacity. Our aftermarket strategy leverages 3 pillars: capacity increase; broadening of the offerings portfolio; and a focus on customer satisfaction.



On the earnings front, adjusted EBIT grew 30% in 2017 to \$416 million and 8.4% margin. This second consecutive year of meaningful earnings growth was delivered on planned lower revenues as we manage through the cycle. We produced a 200 basis point margin improvement versus last year on the back of aftermarket growth and a leaner cost structure.

In summary, our Business Aircraft franchise continues to operate with discipline, while it execute on the Global 7000 development and production ramp-up.

Moving to Commercial Aircraft. Deliveries at BCA totaled 73 aircraft for the year, within guidance, but with a higher mix of Q400s and lower C Series deliveries. At 30 Q400 deliveries in the year and 42 new firm orders coming mainly from Asia and Africa, the Q400 is better positioned for 2018, particularly as we maintain disciplined production rates. CRJ saw 26 deliveries in line with the plan, but lower than the 46 deliveries of the prior year. Orders for the year coming mainly from CityJet, totaled 16 aircraft. Our lower production output going into 2018 is aligned with the current environment as we draw near to an industry-wide replacement cycle.

C Series deliveries in the quarter totaled 5 aircraft, totaling 17 for the year, slightly below our 20 to 22 aircraft forecast. With delays in engine deliveries earlier in Q4, we are working to recover a steady production and delivery ramp-up likely in the second half of 2018.

From a financial standpoint, fewer C Series deliveries in Q4 resulted in revenues of \$2.4 billion for the year, slightly below our \$2.5 billion guidance and 2016 performance. BCA managed through the production ramp-up while improving the EBIT loss before special items by \$40 million to \$377 million ahead of the \$400 million guidance we had provided. Learning curve benefits and better contribution from preowned aircraft and aftermarket activities also contributed to BCA's financial results.

Progress on the C Series ramp-up was also evident in our Aerostructures segment, where EBIT before special items increased to 15.3% in the quarter and 10% for the year. Q4 over performance was driven by the reduction in anticipated C Series component costs under program accounting. It's important to mention that this element did not favor our consolidated profit given intersegment elimination. Normalizing for this accounting element at BAES, EBIT before special items for Q4 and for the full year would have otherwise been closer to 7% and 8%, respectively, in line with full-year guidance.

On revenues, the fourth quarter saw a \$100 million increase in intersegment revenues for Aerostructures, driven by C Series and Global 7000 production ramp-up. We ended the year with a \$1.6 billion top line, generally in line with guidance and prior year.

A few details about our cash flow performance in 2017 and how this will shape our path to breakeven in 2018. In 2017, free cash flow usage came in at the top end of our original guidance range at \$786 million. Meaning, we absorbed the inventory build up related to the C Series engine delivery delay, we funded development capital of \$1.3 billion, largely towards the Global 7000, and we also spent approximately \$100 million against our ongoing transformation. While Global 7000 and restructuring investments will continue in 2018, the C Series inventory drag should convert to cash in the coming quarters. The same will be true for the inventory build up at BT. For the first half of 2018, we expect free cash flow usage to be similar to the first half of 2017. And as we continue to ramp up C Series production, we invest in the Global 7000 certification and entering to service and as production intensifies on large train projects. In the back half of the year, our free cash flow breakeven objective will be driven by earnings growth conversion, the certification of the Global 7000 and inventory reduction from increasing deliveries. 2018 execution will put us on solid ground to generate up to \$1 billion of free cash flow by 2020.

Before I conclude, I want to highlight a couple of accounting items that will change how the information is reported and presented. First, looking at the balance sheet at year-end, in light of the Airbus partnership transaction, the C Series has been classified as an asset held for sale. This entails that its receivables, inventory and payables, as well as other assets and liabilities, are now grouped into a separate line, providing a preview of our balance sheet going forward. Second is the impact on the income statement from the adoption of IFRS 15. While this change will come into effect as of January 1, 2018, we provide in the notes to the statements the pro forma impact for the first 3 quarters of 2017. In essence, for this period, adjusted EBIT would have been \$115 million higher than the reported number. This is coming mainly from the timing of recognition of contractual options exercised at BT. For the full year, we expect this positive adjustment to be less than \$100 million.

Let me now wrap up. As I look back to 2017, I get confidence in our ability to perform and this performance further validates the assumptions we made going into 2018. As such, we affirm our 2018 guidance released in December and as shown on Slide 7. As a reminder, for 2018, revenue is expected to grow by approximately \$1 billion to between \$17 billion to \$17.5 billion. That will include a mid-single-digit growth in rail, backended growth at BCA and a positive effect to BBA's top line from the introduction of the Global 7000. We also guided EBITDA at \$1.15 billion to \$1.25 billion and EBIT between \$800 million and \$900 million. Both metrics should gradually improve through the year. And finally, we are focused on free cash flow breakeven, with a range of plus or minus \$150 million, including a similar level of CapEx for 2017.

In summary, we have positioned the company to deliver growth from its strong and invigorated product and service portfolio. We are exactly where we wanted to be with a leaner cost structure designed to accelerate earnings and to drive stronger cash conversion. Our priorities for 2018 are clear. We continue to be disciplined and proactive in our approach, and our focus is on execution.

With that operator, we're ready for our first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Turan Quettawala from Scotiabank.

Turan Quettawala - *Scotiabank Global Banking and Markets, Research Division - Director, Transportation and Aerospace, Equity Research*

I guess, Alian, I was wondering if you can talk a little bit about the business jet market. Obviously, you said on your prepared remarks that order activity has picked up nicely here in Q4. We obviously heard that from some of the other OEMs as well. Can you comment a little bit on pricing trends in that market? And I guess, is it exciting enough yet that you may look at production levels? Or is that not there yet?

Alain M. Bellemare - *Bombardier Inc. - President, CEO & Director*

Good morning, Turan. As you just said, what we're seeing now is like a better momentum in business aircraft. As I was seeing last year, I am pretty confident that we've reached the bottom here of the barrel and there's activities picking up and -- obviously, in the U.S., but also in Europe and other parts of the world. So you have like the -- a level of a preowned that is at the lowest it has been in many years. There is -- like the number of flight hours are increasing. So -- which all -- which is all good news. In term of how this convert from higher volume and higher pricing, that has yet to be seen. But we are ready to increase volume. We've maintained flexibility in our system to respond to the market demand. The same way that we adjusted our rate very quickly in 2015 when it was time to bring it down, we're ready to take it up if the market can support this. And obviously, the focus is always on preserving the value of our aircraft. So if the market gets better, we'll see how we extract more value out of our great products.

Turan Quettawala - *Scotiabank Global Banking and Markets, Research Division - Director, Transportation and Aerospace, Equity Research*

And I guess, maybe if I could ask one more on BCA. You talked about the Delta deliveries potentially in 2018. And I know that's kind of been on and off here because of the ITC. I was wondering, considering the engine has been a bottleneck here, are you comfortable with your ability to deliver like those planes to Delta? And are those included in the deliveries guidance for 2018?

Alain M. Bellemare - *Bombardier Inc. - President, CEO & Director*

Clearly, the Delta aircraft are in this skyline for 2018, they have always been. So the written report from ITC was a real good news when we got it last night. It gives us now flexibility to ship the aircraft out of Mirabel to Delta. So now at this stage, we have to work through the logistics of it,

work this with the Delta team to really understand the timing and the volume for 2018 with more precision. But I would say -- I mean, we've closed the loop here on 1 year a little bit of turmoil into our system with a great, great outcome. This ITC win is going to help us a lot. It will increase confidence for customers -- existing and potential customers. It is very well-received by the industry, the airlines and consumers will benefit from it. So last night, like the ruling 40 was a great moment and seeing the written report last night was even better. So it clears the way to finalize our plan with the Delta team, and that's what the team are actually working on as we speak this morning.

Operator

Our following question is from Rob Spingarn from Crédit Suisse.

Robert Michael Spingarn - *Crédit Suisse AG, Research Division - Aerospace and Defense Analyst*

Two quick things. Going back to biz jet, could you talk a little bit about the mix of the 135 aircraft that you expect this year? And to what extent the 7000 might adjust the numbers? Do we see 5000/6000 coming down? How do we think about that? And then -- so that's for Alain. And then, John, I wanted to ask you if you could talk a little bit about the progress that you keep making on the residual value guarantees, those continue to come down nicely.

Alain M. Bellemare - *Bombardier Inc. - President, CEO & Director*

Yes, good morning, Robert. The mix is going to be about the same, pretty stable. When you look at our different product families in Business Aircraft, and we are going to deliver a handful of 7000 this year. We don't expect much cannibalization if any to be honest with you. I mean, we're talking about products that are really in different classes. So -- and we have a very strong backlog on the 7000 as we've been saying for a few years now. So we feel very good about where we are and where we're going. So I mean, I don't think there is much more to add. We think that the market is really starting to recover nicely. Remember, I mean, there was no recovery post-2008 in business aircraft. That's been kind of a flattish market for many, many years. And now that the economy is doing much, much better, we believe that we will see the benefit of that, and we are starting to see the benefit of that.

Robert Michael Spingarn - *Crédit Suisse AG, Research Division - Aerospace and Defense Analyst*

Alain before John answers the other question, just in addition to the cannibalization question with 7000, do we have anything to worry about with that G500 or the G600 this year with the 5000/6000?

Alain M. Bellemare - *Bombardier Inc. - President, CEO & Director*

No, I think that we have like -- between our Global 5000 and 6000, we have 2 amazing products that are very well-positioned. They offer the best cabin in the industry, very good performance. We just upgraded the cabin that has like a very stylish interior, very beautiful. So I think that we are in a very good place. And we strongly believe that we'll be able to compete very successfully against that G500 and 600.

John Di Bert - *Bombardier Inc. - Senior VP & CFO*

Good morning, Rob. I'll maybe just touch the second part of your question very quick. I think you're asking about RBGs. So I mean, couple of things there is, one, just in terms of data. We've now taken this exposure down from about \$1.7 billion couple of years back probably closer to about \$1 billion, \$1.1 billion now where we speak. So that's event have been significant, and I'll talk a little bit about how we did that. But ultimately, also, on -- from a provisioning point of view, we continue to be a prudent and approximately half of that is provided fully. So the -- what we've done is, we've actually set up a team a couple years back that is focused completely on asset management and managing the RBGs, working directly with airlines and opportunities that are out there. So they do all kinds of things from working with customers on extending the usage life of the aircraft



with those fleets as well as repositioning aircraft in the market, and that's been quite successful. At the same time, the product continues to perform very well. So it's maintaining in some cases, especially the larger CRJs, maintaining their fair values. And so all of that together means that we are able to work through some of the RBGs with our customers in a very effective way on win-win for them and for us. Two, is that the fleet continues to be a prominent and flies. And three, I think we have the exposure well-managed not only on the balance sheet, but also as we look forward on cash flows. We do a pretty good job of actually forecasting that. So within the plans that we give to you guys, we're well-covered in terms of the ability to fund what we believe will become due.

Operator

Our following question is from Ronald Epstein from Bank of America Merrill Lynch.

Kristine Tan Liwag - *BofA Merrill Lynch, Research Division - VP*

It's Kristine Liwag. I was wondering for the C Series, how much do you expect the C Series final assembly facility in Mobile, Alabama will cost? And also with the favorable ruling of the U.S. International Trade Commission, does that change your plan in having a final assembly facility in the U.S.?

Alain M. Bellemare - *Bombardier Inc. - President, CEO & Director*

Good morning. No, it does not. Actually, we're moving full steam ahead with our new assembly line in Mobile, Alabama. The cost of it was estimated to be in the range of \$250 million to \$300 million, that's part of our plan, and there is no change there. So I mean, we believe it's the right strategy to have a U.S. (inaudible) to serve U.S. customers. So we've committed to doing that and that's what we're doing. We're in full planning. And as we close our deal with Airbus, I mean, this will accelerate the construction of that line in Mobile.

Kristine Tan Liwag - *BofA Merrill Lynch, Research Division - VP*

And just to confirm and follow-up. That expected cost of the plant is included in your \$700 million cap with the CSALP investment with Airbus, is that correct?

Alain M. Bellemare - *Bombardier Inc. - President, CEO & Director*

Yes, it is.

Operator

Our following question is from Walter Spracklin from RBC.

Walter Noel Spracklin - *RBC Capital Markets, LLC, Research Division - Analyst*

So just on the business jet market and the improvement you're seeing, I know you got the question with regards to production ramp-up potential. But could you talk a bit about the capacity that you have in a best case scenario of how much you could ramp up to? And if that's a difficult one to answer, if investors were to look back at prior periods of peak production, what would you say is the flaw to that? Or what we might have to consider when looking back at those peak periods given the different nature of the aircraft that would suggest we should look at rates that would be less or more than the prior period peaks?



John Di Bert - Bombardier Inc. - Senior VP & CFO

Good morning, Walter. It's John. I don't want to speculate, right, because I mean, this market is continuing to evolve. I think we all feel like there is opportunities ahead of us, and I think that makes us feel very good. All the indicators are in place for growth. So I don't want to kind of speculate on what could be maximum rates or such. But we did peak at, I think, it was 199 aircraft that are business aircraft in 2014 or '15. It was couple of years where we were bumping up against close to 200 aircraft. And I think ultimately, we have a pretty good capability here of taking up any additional demand as it produce itself. So of course, there's little bit of start-up and lead. But ultimately, as the market develops itself, I think we'd be able to take up the demand that's out there. And we're coming into a low point, right to 135 guidance here. 135 was the guidance. Last year, we delivered 140. I think it showed that we can take advantage of opportunities. We finished with virtually no aircraft kind of complete. So we're doing a good job of matching both. We did 163 last year. It showed that we can work any number that the market pushes out. And we're out there also aggressively making sure that our product continues to lead all segments. So I think with that combination, if you see market improvement, we're going to be there, and we'll have the aircraft to deliver. We're also bringing on capacity as the 7000 goes online here. So it's -- I think we may have some very good timing as this thing develops.

Walter Noel Spracklin - RBC Capital Markets, LLC, Research Division - Analyst

Okay. And as a follow-up on Transportation, 1.2 is extremely strong. Can you talk about the sustainability of that? Is that a -- is that just a function of what happened in the orders that came in this year in the market environment for it and then going into next year more of a moderation? Or is this something that we could see continuing into 2018? I know you mentioned the momentum is there and just 1.2 seems very strong.

John Di Bert - Bombardier Inc. - Senior VP & CFO

Yes. So Walter, what I would say is that, we went through a bit of a stealth development cycle, very deep investments over the last 5 to 7 years. And as we created those innovative products, they are having success in the market in positioning themselves on new projects. So ultimately, I think it speaks to the breadth of our offerings. It speaks to our strategy to grow the aftermarket and service components of our business. It speaks to the ability to generate signaling the contract revenues. And all of that together is really what's providing the lift to our order book. And we're many, many years into here book-to-bills at over 1. I think it's the fourth or fifth year potentially of a book-to-bill that's greater than our sales. And so you see a consistent pattern here. Q4 was a very strong quarter. The year was a very strong year. But I don't think that fundamentally anything changes in '18. We're continuing to be very focused on the market. We have great access to all parts of the world, great Chinese business as well. So with all those things together, I think we have -- and an infrastructure environment that continues to improve, right? So there is work for everybody to some degree, and I think we're better positioned than all others. So I think that combination means that we expect to see, continue to see good order growth. Maybe not the kind of bang out quarter we had in Q4, but it'll be good, and I think that's the takeaway.

Operator

Our following question is from Seth Seifman from JPMorgan.

Seth Michael Seifman - JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst

John, you had mentioned in Transportation that the cash conversion for 2017, I think, was fairly close to \$1. As we move to 2018, do you expect that to get better? Or does cash growth in Transportation come from growth in the business with similar conversion? Or is it both?

John Di Bert - Bombardier Inc. - Senior VP & CFO

I think you're going to see a continued strength in cash flow conversion at BT. I think that, that number -- I mean, we also expect to have nice top line -- sorry, earnings conversion -- or sorry, earnings growth, which means that both will benefit, right, you'll have higher earnings and you'll have higher cash as well. So we like the alignment. They're going through a period of build-up now and then deleveraging, but we expect that the

growth to continue for several years in terms of top line as we go towards \$10 billion. So you'll see a continued reinvestment in inventory. So as far as BT is concerned, strong earnings growth will generate more cash and that'll continue to stay correlated. And then, the remaining part of our businesses are also improving their own earnings profile. And we continue to drive cash flow to earnings for the Aerospace side of the business as well. So I think you'll start to see some conversion there. We do a little bit lower 7000 spend on CapEx, and we'll see, I think, inventory build as we get the production rates up. We'll also see a nice push on advances from customers on the BBA side relative to the 7000 program. So I think we have good elements there that really support good conversion from earnings to cash, and it gives us the backdrop to hit that breakeven number.

Seth Michael Seifman - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

All right. And then thinking about Transportation maybe a little bit more strategically, you guys have talked in the past about always looking for opportunities to participate in whatever kind of consolidation is going on in the industry. It seems like you've found a way to make the business work pretty well on its own right now in terms of above-average growth and getting to margins that it seems like you think these are sustainable margins above what you've been able to do historically. Is there a need for much strategic change at Transportation?

Alain M. Bellemare - *Bombardier Inc. - President, CEO & Director*

Well, we'll see. As I said last year, we are in a good place to the focus on making our own business very strong, performing extremely well. And that is what Laurent and the team are doing. We saw some significant runway internally in term of increasing productivity and that's what the team is doing, improving our overall performance, and that's the primary focus. Now we're going to keep watching the competitive landscape. There is like clearly some M&A activities out there. We are fully in tune with what's going on, and we're looking at options. But the good news here is we're looking at options from a position of strength. And that is the reason why we're going to take our time, and we're going to make a move that would only add value to shareholders. So I'm very pleased with where we are. And I'm confident that we have multiple options in front of us that will continue to create value for shareholders moving forward.

Operator

Our following question is from Stephen Trent from Citi.

Stephen Trent - *Citigroup Inc, Research Division - Director*

Just one or two quick ones from me. The first was just looking at the 700-seat commercial aircraft segment. You've had a very successful CRJ program over the years and Q400. And I'm kind of wondering as you're going to have some R&D rolling off here, whether you're thinking about doing something innovative in that space?

Alain M. Bellemare - *Bombardier Inc. - President, CEO & Director*

Oh, for the time being, the focus was or has been on the C Series. Now that we are completing the partnership with Airbus, it gives us the ability to think about the other platforms that we have. We were successful last year in rebuilding the backlog on the queue. We got the largest ever order on the Q400. And now we're spending time on the CRJ. We have a brand new cabin on the CRJ that we're showing customers. It's a cabin that's got the biggest volume, the best legroom, the most luggage carrying capacity, overhead bin. So it's something that we are out there right now and marketing with airline customers. So we'll see what we do more of moving forward. But for the time being, focus is on completing the C Series deal with Airbus. And then looking at how do we make our other commercial aircraft stronger and better to be able to compete successfully in the marketplace.



Stephen Trent - Citigroup Inc, Research Division - Director

Okay. Great color, Alain. And just one very quick follow-up. I think I heard you gentlemen mention that you increased your ownership stake in the Transport division. And I was wondering if you could just trouble me for just what the percentage move was there?

John Di Bert - Bombardier Inc. - Senior VP & CFO

Sure. So we had 70% of the equity at BT and the Caisse de dépôt had 30%. And we have now earned a 2.5% increase in our ownership by hitting certain performance targets that were in the original agreement for 2017. And as a result, now we have 72.5% of the ownership of BT.

Operator

Our following question is from Tim James from TD Securities.

Tim James - TD Securities Equity Research - Research Analyst

Over the long term, what level of leverage, John, do you feel is ideal for Bombardier as it's structured today given the asset today? And I'm trying to have a view on what you will be working towards before contemplating ramping up capital investment again or return of capital to shareholders?

John Di Bert - Bombardier Inc. - Senior VP & CFO

I think there is not going to be a hard and fast rule. I think we'll do what's right for the business, and we've always maintained that approach. But I'd say that for (inaudible) the 2020 objective in plan, we grow into a lot of our debt, first of all. We are expecting EBITDA over \$2 billion and likely, the net debt, if you think about what cash on hand might be, probably around \$7 billion or less. So when it's all said and done, a 3x leverage, I think starts to feel like a really good number. We'll see. There is not maybe like I said, a perfect science on that. I think what we're going to show now is that we have ability to generate cash on a very consistent basis. And in my view, we'll be able to build a business that can deliver \$1 billion of recurring cash on a regular basis, surpass 2020. And with that, that'll put us in the driver seat, right, with respect to debt cost. It'll put us in the driver seat with respect to capital allocation decisions. And I think we have great opportunities ahead of us. And that'll also put us in the driver seat with respect to our leverage ratios and kind of credit ratings. So this plan really has reflected on some of the things you're asking about. And fundamentally, we've made very good progress. And I like where we are today as well. We've got \$3 billion of cash. We're starting to really walk the talk in that regard.

Tim James - TD Securities Equity Research - Research Analyst

Okay. And if I could just ask a second question quickly. Where do you think your biggest challenges are in reaching 2020 targets, either segment-specific or revenue or cost-specific, where do the risks lie?

John Di Bert - Bombardier Inc. - Senior VP & CFO

So I mean, Tim, the way we look at it -- and I'll let Alain add any color you'd like to hear. But I think for us, it's really about execution in '18. I think that's really where the focus is. And structurally, once you get through the heavy execution of '18, and that's -- what I'm talking about here is 7000 into service really nicely ramped up for 2019 deliveries and then getting a little bit more mature in terms of volumes in 2020 on the 7000. I think about the rail business really coming and hitting the peak of it, it's kind of delivery cycle from some of these larger contracts that we've been working on for the last several years. And then after that, there is a nice rhythm to the business as we get towards that \$10 billion target. So there's -- like I said, execution in -- on the train side that I feel very good about as well. We've already start to show that second half '17. And then, completing the transaction, strategically setting up the C Series for what, I think, is going to be tremendous success with Airbus. Those are the things that are fundamental in '18. And once you think about our situation post those accomplishments, I think, you get a structure of a business that very naturally is a \$20 billion business, very naturally can deliver \$752 billion of cash and very naturally can deliver margins of over 8%. And we've proven that

we can do the transformation, we've proven the margins. So really now it's focused on execution. We got 4, 5 big quarters ahead of us here and make sure we hit all of our targets. And then, from that point on, I think we'll, obviously, always keep around the (inaudible) well, I think that sets up 2020 nicely.

Operator

Our following question is from Cameron Doersken from National Bank Financial.

Cameron Doersken - *National Bank Financial, Inc., Research Division - Analyst*

Just a follow-up question on the ITC ruling. I mean, you mentioned that the details last night in their reports were pretty positive and you think that there'd be not a huge amount of basis for an appeal from Boeing based on the details in the ruling. But what happens if they do appeal? I mean, do duties stay in place? And if that's case, what does that mean for your, I guess, plans with Delta?

Alain M. Bellemare - *Bombardier Inc. - President, CEO & Director*

Good morning. I wouldn't speculate on what Boeing is going to do or not to do. But one thing that we know for a fact now is like, we had a real good outcome. We have clear sky in front of us for a few years. And on top of it, we are still moving forward with our strategy to have a final assembly line in Mobile. So we're all set.

Cameron Doersken - *National Bank Financial, Inc., Research Division - Analyst*

Okay. Fair enough. Maybe just second quick question. I mean, there's been some -- I guess, some news in the media, especially about potential divestiture of your footprint in Downsview. I know you are not going to comment specifically on that. But I'm just wondering if you can talk about what the timeline is for some decisions on your, I guess, manufacturing footprint? And whether there is maybe other properties out there where it might make sense for you to extract some value? I'm just wondering if we should expect that some of the reviews on these assets might be completed in this year?

Alain M. Bellemare - *Bombardier Inc. - President, CEO & Director*

Downsview is the primary focus right now. We've been working on this for quite a while. It's an amazing piece of land, right in Downtown Toronto, that's got huge value. We have been -- it's for us, it's an underutilized asset. We can do the same type of work somewhere else. And really on the huge value for Bombardier and also create value for other people that would be able to do better with that amazing piece of land. So this is ongoing as we speak right now, and hopefully, we can close something relatively quickly in 2018. As for other pieces, honestly, I would not speculate on this as always. I mean, as I keep saying, we are looking at all options all the time. M&A, it's part of our DNA. If we think that there is some good strategic actions to take, we'll take them.

Operator

Our following question is from Konark Gupta from Macquarie Capital.

Konark Gupta - *Macquarie Research - Analyst*

Alain, I wanted to ask you a question about the business jet. So I'm, like, you are talking about business jet environment improving here. We saw you delivered more than what you anticipated. So I'm, like, you are guiding 5 deliveries less in 2018. So I'm, like, there is apparently some conservatism

there, I guess. So my key question is, how has the book-to-bill progressed during 2017 on quarterly basis, if you can? And what keeps you on the conservative side on the deliveries for this year?

Alain M. Bellemare - *Bombardier Inc. - President, CEO & Director*

So our book-to-bill -- good morning. Our book-to-bill, I mean, was the strongest in Q4 versus the past 3 years. So we are starting to see strength rebuilding in Business Aircraft. We had like -- we have a 135 aircraft into production skyline. Book-to-bill for the full year was below 1, very consistent with the industry by the way. So I mean, we started to see a pickup in Q4. There was also -- net orders were a bit impacted with like 1 customer, Jeddah Jet, that went bankrupt. So we had to do a little bit of cleaning on that front. But if you look at like the fundamental, the basics were pretty solid, and they are still pretty good in Q1 of this year. So we're optimistic. We think that this is a segment of the market where we took some aggressive action in 2015 to readjust the rates in line with the demand at that time, and we feel, again, that we are at a good place. And we're now thinking what's next, and we want to be ready for what we believe there's like an up cycle coming. So we believe that we've guided at the right place. We took a proactive, but at the same time, a little bit more conservative approach. And if the market gets better more quickly, we would adjust also very promptly.

Konark Gupta - *Macquarie Research - Analyst*

And quickly for John. John, can you speak about the mix on the BT side for the margin? So there were some lower margin or lower gross margin project historically because of execution issues we have seen. And there are new projects that are coming up, and they are probably normal margin. So what's the mix like between those projects? How is that changing? And should we sort of see a significant margin improvement here as the mix kind of gets better over time? Because you are already kind of closing to your 9% margin goal here.

John Di Bert - *Bombardier Inc. - Senior VP & CFO*

Yes, thanks, Konark. I would say that to some degree we're right in the middle of delivering some of those larger, perhaps more dilutive projects. And I'd say that, that element of the total portfolio in terms of actual output and delivery is probably a touch higher as we move from kind of engineering phases into the real industrial and inventory build and then the train deliveries that I talked about. Some of the projects where we delivered first article or prototype are in service. And so I don't -- it's not really -- this is not really the turnover of the interim margin products that's driving the margin. I'd say that that's fairly consistent, maybe even a little higher to be frank. But the overall performance of the business, I think, it's just -- Laurent's done an extraordinarily good job of reshaping the business fundamentally. Those actions are bringing benefit. We continue to see very good activity in China with our JVs. Those are producing profitability as well that's helping us. And I think that the growth of the business to your point adds some better margin business and that in the long run is going to be excellent for the business, which is why now, we've drifted our targets to 9% for 2020, where they were about 8%. So I think you're seeing it come through. And ultimately, I think, we've got good balance in the portfolio. So nothing that really distorted margins up or down, it's just good performance.

Patrick Ghoche - *Bombardier Inc. - VP of IR*

Operator, we'll take one last question, please.

Operator

Our last question is from Benoit Poirier from Desjardins Capital Markets.

Benoit Poirier - *Desjardins Securities Inc., Research Division - VP and Industrials, Transportation, Aerospace, Industrial Products & Special Situation Analyst*

John, one question on BT. Could you talk a little bit about the potential to buyback CDPQ's stake? And how would you rank this cash deployment opportunity versus the other opportunities you see from a ROIC standpoint?

John Di Bert - *Bombardier Inc. - Senior VP & CFO*

Good morning, Benoit. Thanks for your question. So I think, I mean, I talked a little bit about it before. We're coming out here of -- I guess, into a heavy execution and into a phase where we're going to start to generate cash flows over the next couple of years. I like what that does for us in terms of creating some ability to look at options as to how we deploy capital. Clearly, the train business is a very good asset. We believe that that's something that we do very well. Now, we've shown that we can really perform in that segment. And I think that we would like to continue to participate with our bigger shares, so that's clear. We're going to focus now on execution. We've had a good partner with CDPQ, and they continue to be an excellent partner. So that has worked very well and will continue to work well. In terms of capital allocation, yes, we would definitely put that on the list of important opportunities for us. And we have the availability or the optionality within the agreements do so. So that's a win-win for both investors, when we get there if we get the opportunity over the next couple of years. So it's a high-ranking opportunity for sure.

Benoit Poirier - *Desjardins Securities Inc., Research Division - VP and Industrials, Transportation, Aerospace, Industrial Products & Special Situation Analyst*

Okay. That's great. And quickly on Aerostructure. Obviously, very strong margin in the quarter driven by cost reductions on components for the C Series. So I was wondering how sustainable it is? And what could we expect from the Airbus partnership on further cost-saving or further potential?

John Di Bert - *Bombardier Inc. - Senior VP & CFO*

So I think that what you see in the quarter, that's a bit of -- it's kind of a onetime impact here, and this is why we also gave you in the commentary the normalized margin would have probably been right bang on to the guidance. Doesn't change anything for the 2020 targets. I think, we'll start seeing something close to double-digit there on a consistent basis as we get through the learning curves. And I would say that the fourth quarter performance at BAES is reassuring in the sense that the team is now starting to accelerate and really hitting cost targets. They have quite a bit of a lead time, so they are already building aircraft for almost the next cycle of production here. And that means that our cost is starting to come in where it needs to be in terms of major components from our internal unit. I'd just take that as a very good signal for the quarter that they were able to look through the whole program cost and be able to take one-time reduction of costs. On a long-term basis, 2020 plan holds, and I think that's in line with the business, and they continue to be a very strong cash delivery as well.

Alain M. Bellemare - *Bombardier Inc. - President, CEO & Director*

Well, I'll just conclude by saying that we are really approaching the midpoint of our 5-year turnaround journey. We are exceeding our commitments. We feel very good about what we have done in 2017 and what we have done in the turnaround so far. We have line of sight to our 2020 targets. And there is a reason why we're confident is because we have a great product portfolio, we have a great team, we have a strong backlog supporting mid- to high-single digit growth. We see \$4 billion of potential revenue growth to over \$20 billion by 2020. And we have also have a solid path to earnings growth of 30% plus per year until 2020. So -- and we should be able to deliver solid free cash flow of \$750 million to \$1 billion a year in 2019, 2020. So significant potential value creation ahead for our shareholders. So we are committed as a team to keep on delivering and unleashing the value of the Bombardier's portfolio. I want to thank you, all, for your time, and I look forward to seeing you soon. Thank you.

Operator

Thank you. The conference has now ended. Please disconnect your lines at this time, and we thank you for your participation.

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