

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

BBD.B.TO - Q1 2018 Bombardier Inc Earnings Call

EVENT DATE/TIME: MAY 03, 2018 / 12:00PM GMT

OVERVIEW:

Co. reported 1Q18 consolidated revenues of \$4b and adjusted EPS of \$0.01.



CORPORATE PARTICIPANTS

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

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

Patrick Ghoche *Bombardier Inc. - VP of IR*

CONFERENCE CALL PARTICIPANTS

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

David Bruce Tyerman *Cormark Securities Inc., Research Division - Analyst of Institutional Equity Research*

Fadi Chamoun *BMO Capital Markets Equity Research - MD and Analyst*

Jose Caiado De Sousa *Crédit Suisse AG, Research Division - Research Analyst*

Konark Gupta *Macquarie Research - Analyst*

Ronald Jay Epstein *BofA Merrill Lynch, Research Division - Industry Analyst*

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

Stephen Trent *Citigroup Inc, Research Division - Director*

Steven P. Hansen *Raymond James Ltd., Research Division - SVP*

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

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Bombardier's First Quarter 2018 Financial 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 thank you for joining us for this review of our first quarter's performance. 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 presentation. 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.

In a few moments, Alain Bellemare, our President and Chief Executive Officer, will address our performance for the quarter and the announcements made this morning. John Di Bert, our Chief Financial Officer, will then review our financial results for the first quarter ended March 31, 2018.

I would 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 for today. As you all saw in our press release, we continue to make solid progress executing our turnaround plan, our growth programs and our strategic initiatives. We also continue to deliver on our financial commitments.

In the first quarter, we had strong 12% top line growth. We grew profits by 16%, and we expanded our backlogs across the portfolio. Cash usage was consistent with our plan as we transitioned from our heavy investment cycle into a strong growth phase. We've also taken a number of strategic actions to support our long-term growth objectives, including an equity offering in March and the sale of our Downsview property. The Downsview property is an amazing piece of land in the core of Toronto, but it is underutilized by Bombardier. The sale allowed us to fully monetize the asset with a positive cash impact of more than USD 550 million. Together, the land sale and equity offering will net us around \$1 billion in cash, about half from the equity offering and half from the land sale, which we expect to close in Q2. This cash infusion significantly strengthens our balance sheet, giving us the flexibility and capacity to successfully complete our turnaround plan to accelerate our deleveraging to invest in our future and to unleash the full value of our portfolio.

Turning now to our Commercial Aircraft segment, which we are fundamentally reshaping. The biggest strategic move, of course, is our partnership with Airbus, which we expect to close later this quarter, ahead of our original schedule. This is a good news for shareholders. It accelerates the time line for leveraging Airbus scale and reach, including a world-class sales and marketing organization, very strong supply chain expertise to make the C Series more competitive and an extensive customer service network to support customers around the world. Integration planning is going very well. Together with Airbus, we have identified a world-class team to lead this partnership, and we are very confident that we'll be able to hit the ground running once we close.

In parallel, customer interest in the C Series remains very strong, and the aircraft continues to perform very well. There are 31 aircraft in service today. We have completed almost 40,000 revenue flights and carried more than 4 million passengers. Beyond the C Series partnership, we are reenergizing and refocusing our attention on our regional platforms, the Q400 and the CRJ regional jets. And I'm happy to announce that Fred Cromer will continue to lead our regional aircraft business. Fred has over 25 years of experience in the airline industry, strong customer relationships, and he is the right person for the job.

Over the next 20 years, our market forecast calls for 2,500 new turboprops and more than 3,000 regional jets. And we are positioning ourselves to capitalize on these opportunities by pursuing product enhancement, by driving cost reduction, by optimizing our aftermarket network to drive additional revenues and profitability.

Starting with our CRJs, we have successful -- we have the most successful regional jet family with more than 1,500 aircraft in service around the world. And we have the largest cabin volume for a scope-compliant aircraft, and our new upgraded cabin is starting to gain market traction. This morning, we announced a new CRJ order from American Airlines for 15 firm CRJ900 and options for 15 additional aircraft. This brings our firm CRJ backlog to 51 aircraft.

For the Q400, our firm backlog has grown to 55 aircraft, including the recent order from Ethiopian Airlines. And looking ahead, we see additional Q400 opportunities in developing markets, including China, India and Africa. With our recent product enhancement, we have 2 proven aircraft to successfully compete around the world. Between our turboprops and regional jets, we have more than 2,000 Bombardier regional aircraft in service today, and we see additional opportunity for value creation with aftermarket services.

Turning to Business Aircraft, which started the year with strong momentum, we delivered an industry-leading 31 aircraft and grew both new aircraft and aftermarket revenues by 9%. Business Aircraft also grew its industry-leading backlog to \$14.3 billion, and we continue to see strong sales activity building on the positive momentum from last year. Margin improved 80 basis points year-over-year to 8.8%. This strong performance reflects a positive product mix, growing aftermarket sales and our operational transformation. Overall, the business jet market is showing increasing signs of improvement.



Preowned inventories are at their lowest level in over a decade. Residual values are up across almost every market segment, and aircraft utilization level and market sentiment are trending positive.

Flight testing of our Global 7000 is progressing very well as we enter the final development stage. And because of the outstanding performance last month, we increased the range to 7,700 nautical miles. That is 300 nautical miles more than our original commitment to customers. This range is unmatched in the industry. It is in a class of its own. The Global 7000 is the only business aircraft that can connect nonstop city pairs like New York to Hong Kong, Montréal to Bangkok and Toronto to Mumbai. We look forward to the entering to service of the Global 7000 with great excitement later this year.

We're also very happy to announce that we will build a brand-new, state-of-the-art Centre of Excellence for our Global business jet family. This cutting-edge facility will be built at Pearson Airport in Toronto. It will have the capacity to build up to 100 aircraft per year, and it will give us the opportunity to further streamline and optimize our Business Aircraft operations.

Turning now to our train business, which is continuing to deliver strong growth. For the third consecutive quarter, Bombardier Transportation delivered double-digit organic revenue growth. Revenues reached \$2.4 billion for the quarter. And we saw increases across all segments, rolling-start signaling and services, demonstrating our strong competitive position and ability to win in markets around the world. First quarter book-to-bill was 1, and our backlog grew to \$35.7 billion. Orders were driven in large part by extensions and option exercises from existing customers. This shows high customer confidence of Bombardier. It also reduces execution risk, and it allows us to leverage our past investments and reuse existing platforms. Looking ahead, we continue to see a strong pipeline of opportunities across many regions. BT's solid order growth, combined with a strong market outlook, gives us visibility to our \$10 billion revenue target for 2020 with further margin expansion and value creation.

Okay. Let me stop here and conclude by saying this was a strong quarter for Bombardier. We continued to execute on our plan, delivered on our commitments and made the strategic moves necessary to unleash the full value of our portfolio. With these actions, our foundation is solid, and the path forward is clear. As we reach the midpoint of our turnaround plan, we have profoundly reshaped and strengthened our business. We are focused on execution, well positioned for growth and confident in our ability to deliver.

Okay. Let me turn it over to John now to review the first quarter performance.

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

Thank you, Alain. Good morning, everyone. As we near the midpoint of our plan, we continue to make steady progress towards our 2020 financial goals. The first quarter of 2018 was no exception, continuing on our path to sustainable revenue and earnings growth. Let's take a closer look at this past quarter's results on Slide 3.

Consolidated revenues totaled \$4 billion, growing 12% year-over-year or 6% before currency translation, driven by the ramp-up of large projects at BT and stronger Q1 deliveries at BBA. EBITDA was \$265 million, an increase of \$14 million over the prior year. EBIT was up 16% to \$201 million, reaching the 5% mark for the first time in 3 years. EBIT margin increased 20 basis points over last year, notwithstanding the margin dilution from the C Series. The overall profitability increase is the result of improving margins at BBA and the rail structures and the benefit of scale at Transportation.

From a business segment earnings standpoint, we delivered strong EBIT margins before special items, 8% at BT, 8.8% at BBA and 10.5% at Aerostructures. Commercial Aircraft reported a \$73 million loss attributable to the C Series ramp-up costs.

Net income was positive with adjusted EPS of \$0.01 for the quarter, in line with last year.

On free cash flow, usage came in at \$721 million for the quarter, including \$600 million in working capital investments, largely concentrated at BT. These investments support the increase in production required to meet the acceleration in train deliveries in the second half. They also reflect the timing of some milestone payments. In addition, in the first quarter, we invested \$250 million in development capital, mainly for the Global 7000 program as we move towards certification later this year.



As shown on Slide 4, which you'll recognize from our Investor Day in December, first quarter performance is consistent with our full year guidance to break even on free cash flow, requiring significant investments in the first half of the year, followed by greater cash inflows from stronger deliveries and reduced development capital in the second half.

Considering this cash flow profile, we remain on track towards our planned cash usage of approximately \$1.2 billion for the first 6 months of 2018, in line with last year. We therefore expect the second quarter cash usage to improve sequentially and year-over-year before we see a more measured improvement in Q3. Over the last few months, we also made steady progress on executing our 2018 strategic priorities. Slide 5 highlights actions we took in Q1 and the one we announced this morning. Let me highlight the financial implications of these actions.

First, with the earlier closing of the Airbus partnership, our full year profitability is expected to increase as we deconsolidate the C Series JV losses from our results. Today, our 2018 guidance assumes the full \$350 million BCA loss in our consolidated results. Once the transaction closes, we will remove CSALP's post-close revenues and EBIT, but we will add back the equity pickup for our approximately 33% share of those 2018 losses.

Another key development is the sale of our Downsview site in the Toronto region. The sales price is equivalent to approximately USD 635 million and is expected to yield net proceeds and a gain of over \$550 million for Bombardier. The sale of the land and facility entails a move of production over the next few years to a new purpose-built facility at Pearson Airport, providing an opportunity to further optimize our operations. The new location is expected to be leased, allowing us to redeploy the net proceeds from the sale strategically.

One more highlight of the quarter is the \$500 million equity offering closed in March. This deal, together with the recent extension of our revolving credit facilities through 2021 and the absence of any bond maturities before 2020, enhances our operating flexibility. With the new equity, we finished the quarter with \$2.9 billion of cash on hand and \$4 billion of liquidity. These recent developments will shape our future financial performance. Together, they strengthen our balance sheet with approximately \$1 billion in net proceeds expected by mid-year. They help drive our 5-year plan, and they even accelerate the deleveraging phase. Bombardier is now fully in control of its destiny, expanding our options to maximize value.

Let's now turn to a review of the business units performance on Chart 6.

Starting with Transportation, which continue to grow at a strong pace. Revenues in the quarter reached \$2.4 billion, growing organically by \$200 million year-over-year or 10% before the impact of currency translation. This growth is driven by the continued ramp-up of key projects. And as Alain mentioned, our order intake continues to be strong and supports sustained long-term growth.

For the quarter, EBIT before special items was \$189 million, increasing 3% year-over-year, mostly due to favorable currency translation. Again, in Q1, BT produced margins of 8% or better, even as the quarter was marked by lower JV income due to timing and an overall unfavorable contract mix as we worked through the recovery projects. We expect these items to normalize as we target greater than 8.5% full year margins.

Business Aircraft is also off to a good start. Q1 saw 31 deliveries compared to 29 a year ago, with a strong mix of 18 Challengers and 10 Global aircraft. We recorded revenue of \$1.1 billion in the first quarter, a 9% increase year-over-year. This was balanced between higher aircraft sales and aftermarket growth. Preowned aircraft revenues were a year-over-year headwind as we are seeing all-time low aircraft inventory available-for-sale. We view the tighter preowned market as a promising signal for new aircraft demand and pricing stability. Strong earnings momentum was also noticeable in the quarter at BBA as higher volumes, favorable mix and strong aftermarket generated EBIT before special items of \$98 million. EBIT margins before special items grew to 8.8%, representing an 80 basis point improvement versus a year ago.

Backlog also increased by \$100 million during the first quarter to an industry-leading \$14.3 billion, implying a revenue book-to-bill above 1.0 as market activity intensified. Orders during the quarter included Global 7000 aircraft as the approaching entry into service of this amazing business jet generates excitement and greater interest. The Global 7000 is the largest and longest range of business jet ever built. Its skyline is sold out through 2021, and its success will make a great contribution to our long-term financial performance. In the short term, BBA will continue to invest some \$200 million in quarterly development costs for the Global 7000. But as certification is obtained later this year, we expect a material improvement in cash profile of our Business Aircraft segment.



Continuing with Commercial Aircraft. In the first 3 months, we delivered 5 C Series, 6 CRJs and 2 Q400s for a total of 13 aircraft. Revenues totaled \$463 million, 12% lower than last year, as a result of planned lower deliveries. In recent days, we announced new orders for 15 CRJ aircraft with American Airlines and an additional 10 Q400 aircraft with Ethiopian Airlines. These orders replenish the CRJ and Q400 backlog to over 50 aircraft each, further supporting current production levels.

On the C Series front, as production flow gradually stabilizes, we saw monthly deliveries average 3 aircraft per month in March and April. We expect the outlook level to increase gradually, tracking to our plan of 40 deliveries for the full year.

For the quarter, BCA reported a \$73 million EBIT loss, higher than last year, as activity increased, and as we further ramp up C Series production. EBIT this year also includes a \$10 million benefit from lower depreciation, as the C Series intangible asset is no longer amortized, given it is accounted for as an asset held for sale.

Now looking at Aerostructures. Revenue for the quarter was \$446 million, a 12% increase, driven by intersegment activities. And C Series component deliveries increased to support higher BCA output in the second half of the year.

On the profitability side, first quarter EBIT margin before special items was 10.5%. This was a very strong performance against a low compare of 3.8% realized in Q1 2017. The stronger profitability stems from the improvement on the C Series component learning curve.

In summary, with 2018 well underway, our priorities set to deliver on 2018 guidance, we remain focused on execution to accelerate train deliveries and to convert Transportation's high-working capital levels into free cash flow; to certify and deliver the first Global 7000 aircraft, ending the heavy Aerospace investment cycle; to close the Airbus transaction and convert strong market interest into orders; and to continue operating the business with discipline and with a focus on long-term value creation.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Fadi Chamoun from BMO.

Fadi Chamoun - BMO Capital Markets Equity Research - MD and Analyst

So a quick question on the business jet side first. If you can elaborate a little bit about the orders that you are seeing. Is this across all the kind of business jet family of products? Is it -- if you can also kind of talk about if it's spread across region, just to kind of understand, the depth of this improvement in demand?

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

Fadi, it's Alain. I would say we're seeing this pretty much across all segment of the business as small medium and large, very strong in medium and large. And from a region standpoint, U.S. is good. It's solid, but we're seeing also order picking up and increasing steadily pretty much in all our regions of Western Europe, Middle East, Asia as well. So our book-to-bill was about 1 in the first quarter. If you look at this, our used inventory level is at the lowest point in over about 10 years. So it gives us confidence now that we are really trending in the right way.



Fadi Chamoun - *BMO Capital Markets Equity Research - MD and Analyst*

Okay. Do you foresee a decision to raise production in business jet being kind of close? Or do you want to see the backlog get a little bit stronger before you kind of go there?

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

Well, the second. We've been super disciplined. As you remember, we were the first one in the industry to proactively adjust rates in line with market demand. And as we are very positive and optimistic about where we are and what we see right now, we also want to be very disciplined on the way up as well. So we are going to keep monitoring the market very closely, while we'll be watching demand. And as we see fit and appropriate, then we'll adjust our rates up.

Fadi Chamoun - *BMO Capital Markets Equity Research - MD and Analyst*

Okay. One quick one for me. On the accelerated deleveraging, I mean, you've -- like you mentioned, the equity issue in the Downsvue sale, and you're coming to the end of the CapEx cycle here, is there an opportunity for Bombardier to maybe take 1- or 2-year kind of growth CapEx holiday in 2019 to kind of begin repaying the debt a little bit faster? Is there an opportunity for 2019 CapEx to be a little bit lower? Because I know you've mentioned in the past an \$800 million kind of placeholder for CapEx, but that includes a bit of growth CapEx in there.

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

Yes. So Fadi, it's John. I'll take that question. I think in the end, we've said it, and we will continue to be disciplined in terms of how we allocate capital. We clearly want to also make sure that we continue to keep a very strong balance sheet and improve the overall leverage situation of the company. With that, I don't think we have to kind of make any big decisions today. What we're doing is continuing to make sure that we perform. We deliver on our commitments. We'll be focused on the free cash flow breakeven. We want to put a strong war chest of cash on the balance sheet as we go through that, and then we'll look at options on how we deploy it. And I think we have several options. I think that's really the other key here, is that we're looking to create value for shareholders, and we have a very good eye for what investments are the best investments for Bombardier. We will make those decisions, and we always keep you guys well abreast of how we think about the business. And we'll do that as we get closer to Investor Day later this year. Ultimately, for now, the good news is that we've planned the business to give us the option to either deploy capital to the product, which is already a very strong portfolio across the board, or fundamentally to attack the balance sheet and as well opportunities in terms of pieces of assets that we've sold over time.

Operator

Our following question is from Seth Seifman from JPMorgan.

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

I guess, John, the cash flow you talked about in the second quarter, it seems like the usage will be probably a little bit less than \$0.5 billion. And can you talk a little bit about the improvement exactly, how you bridge the improvement from the usage in Q1 to Q2? It sounds like CapEx is going to be about flat, but maybe talk about some of the other elements.

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

Sure. I think in the end, the first quarter, heavily focused on ramping up trains. And so we continue to make sure that we're investing in the acceleration of revenues. And you've seen that now. I mean, quarter over quarter over quarter, we're starting to really accelerate BT. And we knew that was going to happen that we've planned for that. So I think what you'll see is kind of a leveling off as you start getting more output in terms



of actually trains delivered to customers. And so that will be a little bit of a relief. We had some milestone payments also that pushed from Q1 into Q2. So that should kind of be just a natural adjustment in terms of just having some design freezes that come in April versus March. So that'll be kind of its own just technical adjustment. And then fundamentally, we're starting to get a little closer to 7000 deliveries, not only for this year but also next year. And that does draw some deposits. So we'll be investing in working capital on the 7000. We'll also be receiving cash a little bit more pronounced in the -- as we get to the second half of the year, including Q2. So overall, I mean, really, we've planned it this way. It's developing exactly as we had expected it to. And Alain and I still remain very, very focused on free cash flow breakeven for the year. And we think this business is ready to grow, and we've made the investments to make that happen.

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

Great. And then maybe just a quick follow-up on Global 7000, I noticed over 1,800 hours flown. Can you talk at all, even in qualitative terms, about how much is left to go? And then when you think about the certification, and then kind of in parallel to that, the completion process in getting jets ready to deliver to customers this year, how is that completion process going?

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

Yes. We've -- the certification is progressing extremely well. We're really entering the final phase before final cert. On the completion center, we've done a ton of work. I mean, we're building a brand-new completion center right here in Montréal. We are getting ready. We're ramping up. We are ready to receive the first aircraft soon in Montréal, and we'll start completion. We have quite a bit of asset already on the production line in Toronto. We have people that have been trained. They are actively building production aircraft. And we have the same thing here in Montréal in our completion center, so things are progressing very well. So I mean, we're still confident, and we're still on track right now for EIS later this year.

Operator

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

Ronald Jay Epstein - *BofA Merrill Lynch, Research Division - Industry Analyst*

So Alain, maybe a couple of big-picture questions for you. When you look at the Aerostructures business, do you view that as core? Is that a business that ultimately down the road Bombardier is going to try to grow? Or is it not core?

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

Ron, I think that Aerostructures is a great business. It will soon be a \$2 billion business. We have amazing capabilities in that business. 75% of the work we do is for our own products. So we'll see some natural growth coming from organic growth on the Aerospace, i.e. the Global 7000, the C Series. And then from a strategic standpoint, we'll look at options moving forward. And we've said that we wanted to keep improving operating performance. That's what Michael Ryan is doing with his team. They're doing a great job. We want to make sure that we fully support the ramp-up of our own programs. That's #1 priority, and then we'll see. But there's clearly a lot of value in that business.

Ronald Jay Epstein - *BofA Merrill Lynch, Research Division - Industry Analyst*

Okay, okay. And then maybe moving back to biz jets for a moment, a conversation we don't seem to have much on these quarterly calls. What are you thinking about Learjet? To some extent, it seems like, at this point, Learjet's a bit of an afterthought. Are you going to reinvest there? You've got a lot of users in the field, a big aftermarket there. When we think about where we're just going to go over the next several years, how should we think about that?

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

So it's interesting. I think that you're saying like Learjet is an afterthought. We see that, as Learjet being an aftermarket, a revenue-generating asset. So we have a very large installed base, and we are fully leveraging that. It's a good franchise. We have adjusted rates down, and we did that purposely to protect the value of the franchise as we were like in a more -- during like softer market conditions. So we are selling the Lear's right now. And actually, the team is doing a great job. We said that we're going to monitor the market and see where it was going to go. But clearly, as we increase, as we increase the focus in our business on aftermarket, clearly, I mean, the large installed base of over 2,500 aircraft is really giving us a good base to work from. So that's kind of it for Learjet. We like the franchise. The quality of the aircraft is the best. By the way, it's the most best-performing aircraft for that size. So it's just -- it was a little bit more of a difficult market. We've kept this going, and we'll see where it goes. But right now, we like it, and we'll keep selling it.

Ronald Jay Epstein - BofA Merrill Lynch, Research Division - Industry Analyst

Okay. And then, John, if I may, one question for you. With the debt you guys raised earlier this year, and then the equity, and then the sale of Downsview, that's a lot of liquidity. And if there's any way you can give us some more color on what you're thinking about that. I mean, I know you've given an explanation probably on why you guys did the equity raise. But to be candid, a lot of investors were kind of scratching their head around, why did they really do this? I mean, are you guys open to buying back all of BT? I mean, how should we think about all of that liquidity that was generally raised in a pretty short period of time?

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

Well, I think, Ron, a couple of things. One is that we were very clear, even as we went into Investor Day last year, that this was a pivotal year in terms of execution. And we made no bones about the fact that we've wanted to focus on delivering on our commitments with respect to the programs, completing the Airbus deal, and making sure we ramp up trains. So that's how we went into the year. And essentially, based on that, we decided that operating flexibility was important to us. It's very hard to time land sale deals and other elements that come in, whether it be the acceleration of the Airbus closure, the JV. So we, I think, did the right thing for the business, and we wanted to make sure that there were no distractions. With that, we've always had an eye on being fully performing and, therefore, delivering our casual breakeven this year. So job number one, make sure the business focuses. We've done that. Two, monetize noncore assets that have value that can be utilized to strengthen the business in the midterm. We're doing that. Three is that we'll -- once we get past 2018, we'll have an opportunity to sort of allocate this capital properly, and with the greatest return. And there are many options for us at this point in time. We've also cleared our debt through 2020. That will give us a chance to assess markets to understand the bigger macroeconomic environment and make decisions relative to the debt, whether we chip away or otherwise. It will also give us options to look directly at the investment that we have with -- sold with CDPQ for BT. And that also has an attractive value to us. We've said that the train business is a great business. We're delivering and performing on that business. And obviously, that has some attraction to us. So it's not to be coy about it, it's just to say that we've set ourselves up here to do the things and sequence that have to be done, deliver the turnaround, execute on all the critical operational and strategic plans that we had, and then turn it into '19 and '20 into the deleveraging phase. We have options, and we're going to keep you guys abreast as we go through that.

Operator

Our following question is from Robert Spingarn from Credit Suisse.

Jose Caiado De Sousa - Crédit Suisse AG, Research Division - Research Analyst

This is Joe on for Rob. I wanted to ask about the Global 7000 order trends and, specifically, the composition of the customers for that platform. Can you talk a little bit about whether the majority of buyers are existing BBA customers, who are maybe trading up into a 7000 from a 5000 or 6000 or if you're winning over current customers of other manufacturers or even concept buyers? Any detail there would be great.

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

It's Alain. So I would say that, as John mentioned earlier, the backlog on the 7000 is solid until 2021. And we've seen it's a mix. We have existing buyer going up in size with the Global 7000 from the 5000 and 6000. We have new customers coming in, and we're basically chipping away market share. So I think that's -- I think this is a combination of both.

Jose Caiado De Sousa - Crédit Suisse AG, Research Division - Research Analyst

Okay. Understood. That's helpful. And Alain, Delta recently said that they take delivery of a handful of C Series in Q4. I know that Delta aircraft were included in the delivery skyline coming into the year, but perhaps the quantity was a bit uncertain a few months ago. It sounds like there's a little bit more clarity on that now. Any impact, any change to the C Series delivery targets for the year?

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

No. So we're committed to the 40 aircraft. And we have a production plan that's tracking that 40 aircraft commitment. Delta is clearly in the delivery skyline for the year, and we're very synchronized with them in terms of when and how they need aircraft. So it's all hands on deck, and we continue to be very focused. We had a good couple of months. We delivered 6 aircraft between March and April, and we'll continue to focus on accelerating the rate as we go through the year. Second half of the year, we're going to be more intense with deliveries. And we've also aligned that with Pratt & Whitney, who by the way is continuing to meet their ramp schedule with us as well after we released it last year.

Jose Caiado De Sousa - Crédit Suisse AG, Research Division - Research Analyst

Okay. Just one last one for me, John. Can you just remind us of the mechanics of potentially buying out the Québec stake in the C Series JV down the road? I think 2022 or 2023 of the JV, you can buy them out. Would that essentially be an equal split between you and Airbus? Would it be kind of prorated based on your levels of ownership? I know it's way down the road, but can you just remind us of the mechanics there?

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

Yes, sure. So I guess, the big takeaway there is that the CSALP itself, the JV will generate cash flows. And those cash flows will be used to redeem the shares of Québec, the investment arm of Québec, the branch of the Québec government that made the investments. So really, fundamentally, it comes from performance at CSALP, which we believe is going to be very strong as we get into those years past 2021, '22. That would give them the options to buy out the stake. And eventually, it will leave ownership between Bombardier and Airbus.

Operator

Our following question is from Steve Hansen from Raymond James.

Steven P. Hansen - Raymond James Ltd., Research Division - SVP

Just on the back of the Downsvue sale, I just thought I'd inquire. Do you have any additional real estate maneuvers planned in the future? Is there an additional surplus real estate and/or -- or how does your position look in the mirror better? You can stream there now with the C Series ramp-up. Just a broader portfolio sense for whether we should expect any further actions on that front.

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

So I can take that on. I mean, Downsview was the largest asset land that we had. We're very pleased with that. I think that it will enable us to monetize the full value of this asset at a very good time for us. We don't have any big other asset of that size left or so.

Steven P. Hansen - Raymond James Ltd., Research Division - SVP

Okay. So nothing else further planned then? Just one more. Could you remind us the delivery cadence for the Global 7000 as we move into service here? I don't recall having guidance into '19 and '20 offhand.

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

Right. So I mean, at this point in time, we're focused, first of all, this year, back end of the year, we're going to deliver our first aircraft. So we'll deliver a couple in 2018. And then our expectation is to ramp towards something in the neighborhood of probably around 20 aircraft next year. So -- but we'll let that call be made as we kind of get through the back end of the year here. Our expectation is probably by 2020, 2021. In that range, you'll see the mature level of production. And we think it's going to be something that will contribute up to \$3 billion of revenue to the top line at BBA. So if you do some quick math, that will give you about 40 aircraft or so when we're pumping out normal production. And we'll go with market demand. If there's more, we'll take it from that point.

Operator

Our following question is from Stephen Trent from Citi.

Stephen Trent - Citigroup Inc, Research Division - Director

Just one or 2 for me. When I think about this agreement with Airbus with the C Series -- and apologies, I joined the call a few minutes late, so I'm not sure if you already mentioned, but in terms of you guys finishing a couple of months early, I'm just wondering down the road what this could also mean for your other commercial products. I mean, could we possibly expect Airbus to go into RFPs, broader RFPs and maybe phone you guys? And maybe customer X, Y or Z needs sub-100-seat planes as well? Is this something that's within the realm of possibility?

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

I think that if you go at it by step. The first step here is to finalize, close the deal with Airbus on the C Series. As we do that, we are refocusing our efforts and energy on our regional aircraft, the Q and the CRJ. So I mean, that's what Fred and the team will be doing over the next few years. We have a large installed base. So I mean, there's -- we have got nice aftermarket opportunities. Moving past that, if there are further opportunities with Airbus, we will clearly be open to explore them. But I think the first step here is to make the C Series joint venture a success.

Stephen Trent - Citigroup Inc, Research Division - Director

Okay. I appreciate that, Alain. And just one more follow-up for me. When I think about the CRJs as well, how should we think about maybe what regions we could see longer-term demand? There's this, I guess, issue in the U.S. market that next-generation aircraft go beyond maximum takeoff weight limitations. And long term, should we think about some of the emerging markets, where you guys are seeing solid transport demand? Should we think of emerging markets as places for long-term CRJ demand as well?



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

I think you've got that right. I think that the first step here is a U.S. replacement cycle that is on the [come] for a scope-compliant aircraft. And that is the reason why we're excited about the CRJ, because we believe that we have the right size aircraft to meet the demand in the U.S. market. And with the new cabin that we just developed, we have -- we believe that we're in a very good position. And this order today from American is very encouraging. So I think that U.S. replacement cycle, good -- there's a good demand that will come from that over the next 20 years. And then as the Asian market -- I mean, we see great opportunities. And we are exploring it, and we're working with a number of customers. And we will see, but we believe that as the world keep demanding more aircraft of 70, 90 seats, the CRJs is a family that is well positioned for that.

Operator

Our following question is from Konark Gupta from Macquarie.

Konark Gupta - Macquarie Research - Analyst

I just had a quick question. On the Downsview sale and the \$700 million free cash that you are expecting in the next 3 quarters, John, your cash position could probably go to \$4 billion by the year-end. So once the Global 7000 is certified, would you need more than \$2 billion of cash at the beginning of each year going forward?

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

Yes. Again, I mean, I think that's a fair question and fair conversation. I think we'll refine that number probably as we lay out '19 and '20 expectations. But I think that, we've said in the past, probably a lower level of cash on hand would be an acceptable position for us and for the reasons you mentioned. One is that we'd be coming off a major investment cycle. And at the same time, that will be contingent on how we view the market in terms of the debt refinancing for 2020, '21. And we'll make sure that we set ourselves up for both, and as I made comments before about actually deploying capital maybe differently as well. So yes, I think that number around \$2 billion is probably something that makes sense, but subject to further thinking on that on our part, and probably more of a conversation as we get into 2019.

Konark Gupta - Macquarie Research - Analyst

Okay. And just a follow-up, John, on the Airbus C Series deal. I know your maximum, call it, funding liability is about \$700 million until June 2021 if the deal closes in June this year. So you previously guided to about \$500 million is left for C Series cash fund over the next 3 years. Would you expect that \$500 million to change over the cost savings being explored by Airbus? And any upcoming Alabama facility-related investments?

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

So I think you'll have some puts and takes. I think we've looked at our stand-alone plan, and now, very soon, we'll be talking to Airbus and incorporating their views on the operating plan for the next couple of years. So I'd like to give them the opportunity as well to really get themselves set up and settled as they look at how they want to accelerate. And I'm very confident about the program as well, and I want to make sure that together with Airbus we really accelerate our attack on the market and our readiness for U.S. production as well. So we've put the \$700 million out there. I think our plan would suggest that we need a little bit less. And the timing and the profile of all that, and now perhaps accelerates a bit with 2018 being 6 months of that and kind of a working together integration. So over the next couple of months, we'll give you guys some color on it. Overall, I'm comfortable however this goes. I think in the end, we've made our planning around the assumption that we can handle a pretty good range of investments. And the most important thing for us is that we're going to create a ton of value with the program working with Airbus.



Operator

Our following question is from David Tyerman from Cormark Securities.

David Bruce Tyerman - *Cormark Securities Inc., Research Division - Analyst of Institutional Equity Research*

Yes. My first question's on the Downsview replacement site. John, do you have a capital equivalent number? I know you're going to use leases, but you're going to have to capitalize those on your balance sheet. So I'm just wondering what the capital equivalent would be for that facility.

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

The capital equivalent? I'm not sure I understand.

David Bruce Tyerman - *Cormark Securities Inc., Research Division - Analyst of Institutional Equity Research*

So you're going to take operating leases. I believe under accounting rules, you're going to have to capitalize accounting leases going forward?

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

Correct, yes. So we'll do that probably starting 2019. So it's a bit early for us to -- I mean, today is not a day probably for me to give so much reliable color on that. We're working with our technical teams in accounting and over the next few months with DNY. So we'll give you guys more color as we get down to the nitty-gritty on the IFRS changes.

David Bruce Tyerman - *Cormark Securities Inc., Research Division - Analyst of Institutional Equity Research*

Okay. Second question, just related to it, and maybe I missed it in the disclosures. I saw that you're moving, and you commented you're moving the business jets to Pearson. I didn't see anything about the Q production though. I'm wondering what the story is there.

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

Yes. So I think, I mean, what we did here with this deal -- very favorable for us to continue to assess how we want to optimize our footprint and operations. But we have up to 5 years of occupancy rights there, so 3 plus 2 options. And I think, fundamentally, we're looking here as a Centre of Excellence for Globals. We think that's going to offer great operational effectiveness, and also help the franchise continue to grow in a very efficient way. And then we'll look at the overall footprint and, over the next few months here and into next year, make the right decisions about how and where we drive production for the Q. But we're committed to the program. We've got a great backlog now. We've got an aircraft that competes very, very well. And as Alain said, we've got a tremendous aftermarket out there as well. So overall with the program and Fred's leadership, I'm pretty excited about the opportunity to create value, and we've got the time to make the decisions that are the right ones.

David Bruce Tyerman - *Cormark Securities Inc., Research Division - Analyst of Institutional Equity Research*

Okay. And the last question. Just I think you said that you would be taking 28% share of the losses on the C Series with the change overcoming. I thought you're now up to 33% interest?

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

Yes, that's exactly it, though I'm not sure if I missed a quarter or if I came up wrong, but 33% has always been the number that we anticipate as being our ownership share, really roughly down from about 65%, 66% pre transaction. And then that will be halved. So 33% for us, 17%, 18% for the Québec investment arm, the investment arm of Québec, and the 50% plus 1 for Airbus. That's the way we view the transaction at close.

David Bruce Tyerman - Cormark Securities Inc., Research Division - Analyst of Institutional Equity Research

Okay. So we should take 33% of the \$350 million?

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

Yes, yes. If it's been quoted any other way, then it was misspoken, but 33% has always been our number.

Operator

Our following question is from Turan Quettawala from Scotiabank.

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

I guess, maybe a quick follow-up there on the last question on the Q400 line. Alain, is it a possibility that maybe potentially you can, with all these changes, consider maybe moving all of commercial Aerospace into Montréal, and maybe pushing all of Global into Toronto, just to kind of maybe consolidate the operations a little bit?

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

I don't know. The answer is, as John said, we're committed to the Q. We have a good backlog now. We're up to 55 aircraft. We're seeing good opportunities, especially in emerging regions like China, India and Africa. We have time. We have like 5 years that we can keep operating the Q in Downsview, and we'll be looking at all of our options. So the good news is we've got a great aircraft performance, is recognized around the world. We have -- and we have options in front of us. So I think that we'll see where it goes, but this is a product line that we'll keep pushing.

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

Okay. And I guess, maybe I'll ask a question on BT. If I look at the order flow there, obviously, you've been outperforming the industry growth rate quite a bit here over the last little while. I'm just wondering if you can -- I think you mentioned some execution on the option side. Just wondering if you can talk a little bit about how many more options there are maybe that you can potentially get exercised here. Or do you think that maybe that growth rate needs to slow a little bit closer to the industry growth rate on BT?

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

Turan, this is John. So clearly, on trains, I mean, we have an amazing competitive product portfolio. And there's been a little bit of pain in the last 5 years as we developed that technology and the innovation and the projects that had to carry via the product development. But that thing offers now, and you're seeing it in orders that are essentially reuse of the technology in many ways as we deploy it in different regions. And so we expect growth to continue. Options are a natural part of the portfolio. So I wouldn't look at them as overly cyclical necessarily. There may be some ebbs and flows, but really, we have a very, very broad portfolio. At any given time, we may have 1,500 projects active in different states and sizes. So the reality is that the excise of options is kind of very consistent with the continued growth in urban centers and the need for capacity. So once we establish ourselves in these ecosystems, they become an opportunity for us to continue to support the ecosystem. And that generates growth,



and that growth is typically a little bit lower risk as it's option-related. A natural part of the portfolio, not overly cyclical. The real focus here is that we've got great products. And we've really been able to make our operations efficient, which makes us very competitive in the market with anybody.

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

John, so I guess, the net takeaway then, the bid pipeline's still pretty strong?

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

It's still pretty strong, and we still expect to outpace the industry with our own franchise.

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

Great. And if I may slide just last one in there. With all the equity issue as well as, obviously, with the sale of Downsview here, is it fair to assume, John, that you have enough sort of dollars here, at least on the equity side, for the BT stake buyback if indeed you wanted to go in that direction?

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

I think, I mean -- and it's not -- like I said, not to be cute, really honestly, it's just because we want to give ourselves the ability to make decisions and look for the best return on capital. And we'll do that. But clearly, we would give ourselves the opportunity to make those decisions, including the BT buyback, and we'll continue to run the business so that it creates options. And I mean, when it's all said and done, we had a very clear plan. We want to derisk the business. We want to really demonstrate the power of this P&L in terms of cash and earnings. We're doing that. And then we want to ensure that we're ready for the deleveraging. Deleveraging comes in many different shapes, if I can say it that way. And it's taking back dilution potentially. It's potentially chipping away at the debt. In the end, we're going to do what's right for the business. But clearly, with the actions we're taking, we will have options to do what is right for the business.

Operator

Our last question is from Cameron Doerksen from National Bank Financial.

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

Just a couple of, I guess, small ones for me. I guess, first, just on the Global -- the new Global plant at Pearson. Is it safe to assume that you would expect to have that plant kind of up and running 3 years from now?

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

I think it's about the right time frame. So obviously, we're starting the planning now, but I would say pretty much around that.

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

Okay. And just on the CRJ and Q400, you've had a couple of decent orders recently. The production rate on both those aircraft are still pretty low for this year. I think you've talked about 35 planes total in regional this year. Can you just maybe talk about what you think the upside could be on delivery rates in 2019 and beyond if you get some more traction out there in selling these planes?



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

So Cameron, I guess, on that one, right now, we're planning for kind of steady production rates. So that's really the takeaway. We're excited that there's a ton of potential out there for the replacement cycle, as Alain said, on the CRJ for some very unique properties to the Q400 that can compete in some very specific regions like no other aircraft. And then we have an aftermarket that really, I think, now we can focus on exploiting even more with the large fleet that we have installed. So not going to make a decision today or anytime soon on production rate adjustments. I think what's most important here is that we've got a solid backlog. We've solidified it, and if you think this is more of our focus on making sure that the business is stable, derisked, and then setting ourselves up for value creation, which is what we're doing from this point on.

Operator

Thank you. That concludes today's conference call. Thank you for joining us, and you may now hang up your lines. Goodbye.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2018, Thomson Reuters. All Rights Reserved.