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BBD.B.TO - Q2 2018 Bombardier Inc Earnings Call

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OVERVIEW:

Co. reported 2Q18 consolidated revenues of \$4.3b and adjusted EPS of \$0.03.
Expects 2018 revenue to be \$16.5-17.0b.



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 Egon Strauss *Barclays Bank PLC, Research Division - Research Analyst*

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

Jonathan Phaff Raviv *Citigroup Inc, Research Division - VP*

Noah Poponak *Goldman Sachs Group Inc., Research Division - Equity Analyst*

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

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

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

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

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Bombardier Second Quarter 2018 Earnings 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 second 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 I 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 am making this cautionary statement on behalf of each speaker whose remarks today will contain forward-looking statements.

In a moment, Alain Bellemare, our President and Chief Executive Officer, will address our performance for the first half of the year. John Di Bert, our Chief Financial Officer, will then review our financial results for the second quarter ended June 30, 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 today. As you saw in the press release this morning, we continue to make solid progress executing our turnaround plan, and positioning the company for the future.

Halfway through the year and more than halfway through our 5-year turnaround plan, we are on-track to achieve our full-year 2018 and 2020 targets. We are reaching an important inflection point, where our heavy investment cycle is winding down and our new programs are ramping up. The focus is now on increasing production capacity, improving operational efficiency, and accelerating growth.

In Q2, we had solid financial performance. Top line grew by 3%; earnings grew by an impressive 18%; margins expanded by 80 basis points; and our backlogs increased across all businesses. Cash usage also continues to improve, keeping us on track to achieve free cash flow break-even for the year, and John will go through it in more detail.

In addition to achieving our financial goals, we concluded a number of strategic actions, setting the stage for strong growth well into the next decade. We successfully closed the Airbus partnership well ahead of schedule. The transition has been flawless. The team hit the ground running on day one. New orders from JetBlue, and the startup airline led by David Neeleman, clearly demonstrate the power of our partnership. We have the best aircraft in the 100-to-150-seat class, and with Airbus' scale and reach to accelerate sales and drive costs down, we have the best partner to create value for all shareholders.

In the second quarter, we also closed the Downsview sale. The \$600 million of cash infusion strengthens our balance sheet. This is a big deal. It positions us well as we approach the deleveraging phase of our turnaround plan. It also gives us flexibility to look at value-creating opportunities in the near term, and it allows us to further optimize our business aircraft operations with a new center of excellence at Pearson Airport in Toronto.

Today, we have the best business jet portfolio in the industry, and we're making it even stronger with the launch of our new Global 5500 and 6500 aircraft, and by increasing the range of our Global 7500 to 7,700 nautical miles. Together, these new aircraft solidify our leadership position in the large-cabin business jets. Our global family meets all customer missions and requirements. We have the longest ranges, largest cabins, best economics, and by far the smoothest rides in the industry.

On the Global 7500, flight testing is nearly complete. We expect certification shortly, with first delivery before year-end. With EIS on the horizon and nearly 20 aircraft at different stages on the production line, David and the team are laser-focused on the ramp-up and coming down the learning curve.

In addition to the great work on our development programs, Business Aircraft posted another very strong quarter. We delivered 34 aircraft, the best in our industry segment. We also grew the backlog to \$14.1 billion, again, the best in the industry. Overall, the business jet market continues to show signs of recovery. Sales activity is improving in North America, Europe, and Asia. Pre-owned inventories are lower. Residual values are up, and aircraft utilization levels and market sentiment continue to trend in the right direction.

In the aftermarket, our past investments to expand capacity and enhance service offering are paying off. In the second quarter, aftermarket revenues grew 21% year-over-year. Aftermarket will continue to be an important part of the BBA growth story, as we look to capture a greater share of our in-service fleet of more than 4,800 aircraft, one of the largest in the industry.

Today, we only service about a third of this fleet, so this is a tremendous growth opportunity for us. Along with this growth potential, we have the best product portfolio, market-leading deliveries, and the largest backlog in the industry. Bombardier is clearly the premium brand in business jets.

Turning now to commercial aircraft, where we have 2 clear goals: first, to work closely with Airbus to make the A220 a huge commercial and financial success; and second, to create value with our original platforms. Fred and the team are focused on reducing our cost structure, increasing volumes, optimizing the aftermarket, and returning the segment to profitability. With respect to increasing volumes, in the second quarter we announced 2 significant CRJ orders, 15 firm from American and 20 from Delta. These aircraft feature our new Atmosphere cabin, which we publicly displayed at Farnborough. The feedback from customers and the industry was very positive. Today, our firm CRJ backlog is 60 aircraft and A200 backlog is 56 aircraft.

Turning now to our train business, which continues to deliver, for the third consecutive quarter Bombardier Transportation posted strong organic revenue growth, 6% for the quarter. Revenues reached \$2.3 billion, putting us on track to achieve our full-year \$9 billion target. We saw growth across all segments, rolling stock, signaling, and services, demonstrating our strong competitive position and ability to win major contracts in markets around the world.

Significant recent wins include being selected to provide the new automated People Mover system at Los Angeles International Airport, and winning a very large contract in Singapore to provide 396 MOVIA Metro cars. Today, Laurent and the team are focused on execution and delivering on our strong and growing backlog.

Recently, Laurent named Jim Vounassis as his Chief Operating Officer, to help drive operational efficiency across BT. Looking ahead, we continue to see a strong pipeline of opportunities. BT's solid order book, combined with the strong market outlook, gave us clear visibility to our \$10 billion revenue target for 2020 with further margin expansion opportunities.

Okay, let me stop here and conclude by saying that Bombardier delivered strong performance in the first half of 2018, and we have great momentum heading in the second half of the year. Our foundation is solid, the path forward is clear, and we have a great team. With that, I will turn it over to John to review our second quarter performance.

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

Thank you, Alain. Good morning, everyone. Our second quarter financial performance produced one of our best quarters since launching our turnaround plan. Revenue growth, earnings strength, and free cash flow improvements are all tracking to climb, and we delivered on our 2018 priorities.

We booked strong orders across all businesses; we closed the value-creating partnership with Airbus; we completed the Downsview sale, injecting \$600 million of cash; we continued to make rapid progress towards the Global 7500 certification; and we are strengthening our global family lineup with the unveiling of the 5500 and 6500.

Our solid performance positions us to achieve our free cash flow break-even target for this year, and more importantly, to sustain cash generation well into the future.

Now let's review the second quarter results and 2018 guidance on slide 4.

Consolidated revenues totaled \$4.3 billion, growing 3% year-over-year. This increase is led by an 11% increase at Transportation, as it continues to industrialize several major projects in preparation for the acceleration in deliveries. On a year-to-date basis, revenues reached \$8.3 billion, 7% higher than prior year, driven equally by organic growth and currency translation benefits at Transportation.

Revenue guidance for the full year now stands at \$16.5 billion to \$17 billion, including C Series results for the first 6 months of the year. With the Airbus transaction in place, we will no longer consolidate C Series results starting in the third quarter.

On the earnings front, profitability was particularly strong, with EBIT before special items growing 18% year-over-year to \$271 million. This produced a 6.4% margin, our best quarterly performance in years. Profits were strong across all business units. BT's margins reached an impressive 9.2%. BBA trends at about 8.5% and Aerostructures delivered 12.5%, mainly from strong operating performance. At Commercial Aircraft, we reduced the loss to \$66 million, compared to last year's \$118 million loss on higher volumes.

Looking out to the full year, we recently increased the 2018 EBIT outlook by \$100 million to reflect the deconsolidation of a portion of the C Series losses. This is net of the equity pickup reflecting our 33.55% share of CSALP results going forward.



With year-to-date EBIT before special items of \$472 million, we are well-positioned to deliver on our \$900 million to \$1 billion guidance for 2018. This range excludes any gains and losses from the C Series partnership and the Downsview sale. Further, year-to-date EBITDA was \$601 million before any special items, also tracking to the updated guidance for the full year of \$1.25 billion to \$1.35 billion.

Free cash flow usage for the quarter was exactly as planned, at approximately \$370 million, improving materially versus last quarter and initiating our shift towards sustainable free cash flow generation. When including approximately \$600 million in proceeds from the Downsview sale, reported free cash flow was \$232 million of cash generation.

Turning to slide 5, as planned, the \$1.1 billion free cash flow usage in the first half of 2018 was to support the C Series ramp-up, the Global 7500 certification, and as well as \$400 million investment in BT project inventories.

As we go forward, we are moving out of this investment phase, and naturally transitioning to growth and strong cash conversion. Our free cash flow break-even target for 2018 implies second-half free cash flow generation of more or less \$1.1 billion, with most of that cash inflow expected in the fourth quarter, supported by seasonally-stronger months at BT and BBA, and working capital conversion to cash.

The free cash flow goal for the year includes approximately \$1.4 billion in tooling CapEx and excludes any investment made towards the C Series partnership cap at \$225. With cash on hand of approximately \$2.8 billion, we aim to finish the year even stronger, with cash between \$3.25 billion and \$3.5 billion reflecting our free cash flow expectations by year-end as well as certain non-free-cash-flow items such as any investment in CSALP and the payment of dividends to CDPQ from BT. This would position us well for the third phase of our plan, deleveraging.

In fact, with net debt of approximately \$6 billion, and full-year EBITDA growing, our leverage ratio is already improving. Finally, we delivered a \$0.03 EPS in the second quarter on an adjusted basis, fueled by stronger earnings performance.

Before I turn to a review of the business units, I want to touch on the special items recorded in the quarter, mainly associated with the Airbus and Downsview transactions. Upon the closing of the CSAL partnership, we recorded a net after-tax charge of \$535 million, including the fair value of the warrant issued to Airbus, and the off-market return expected on future equity investments Bombardier will make in the C Series partnership. This charge is a non-cash item.

In addition, offsetting the charge, we recorded an accounting gain of \$561 million on the sale of the Downsview line.

Now, let me turn to each unit's performance review on Slide 6.

Starting with our rail business, which reported revenues of \$2.3 billion in the quarter and \$4.6 billion year-to-date. Organic growth during the first 2 quarters of the year was 8% and 6% respectively, coming from all parts of the business. Transportation is well-positioned to reach or exceed the \$9 billion revenue guidance for the year, taking into account normal seasonality and assuming a stable 1.15 Euro-to-USD exchange rate for the balance of the year.

As a reminder, after 6 months, positive currency translation added approximately \$300 million to BT's revenues. Earnings are also trending positively with EBIT before special items of \$207 million for the quarter, representing a margin of 9.2%. This quarter's EBIT includes better margins from services and lower JV income versus last year. Year-to-date margin is 8.6% in line with guidance for the full year.

Book-to-bill in the quarter was 1.1, contributing to the \$34 billion backlog. As the backlog continues to improve by rolling off low-margin projects, and by increasing the share of signaling and service contracts, we are enhancing the business' future margin potential. In summary, BT continues to perform while positioning itself well for future growth.

Business Aircraft also continued its strong performance and execution, delivering 34 aircraft in the quarter. Q2 deliveries included 2 Lear jets, 20 Challengers, and a dozen Globals. At 65 aircraft deliveries at the half-way point, we are on a climb and tracking to the 135 aircraft full-year target. Revenues for BBA totaled \$1.3 billion in the quarter, reflecting a slightly higher proportion of Challenger deliveries versus last year. This result also



emphasizes a strong performance from our aftermarket business, which has grown 21% in Q2, sustaining a double-digit growth trend for the fourth consecutive quarter.

While our business jet unit is positioned for growth, we are seeing lower revenues from pre-owned aircraft, with a minimal effect on our profitability. The current limited supply remains very positive for new aircraft demand. With the year-to-date revenues of \$2.4 billion in line with last year, we continue to expect full-year revenues at or above \$5 billion, including the first Global 7500 as it is expected to enter service toward the end of this year.

Looking at BBA's operating performance during the quarter, EBIT before special items was \$111 million, or 8.5%, supported by higher aftermarket revenues. With year-to-date margin at 8.7%, we are comfortably above the low end of guidance of 8% guidance for the year.

Looking forward to the rest of the year, the normal margin dilution associated with the introduction of the Global 7500 will bring us closer to our full-year guidance. We expect the Global 7500 ramp-up to further pressure BBA's EBIT margin in 2019, as volumes rise, adding significant revenues with low early unit profitability. For 2020, the second year of production after entry into service, we maintain BBA's margin targets of 8% to 10% with further upside as we move along the learning curve.

From a market demand perspective, orders exceeded revenues by \$200 million in the quarter, leading to an industry-leading backlog of \$14.1 billion. This implies our revenue book-to-bill approaching 1.2 for the quarter. We are encouraged by the ongoing market activity combined with our strengthening portfolio.

Moving to Commercial Aircraft, where order flow was the highlight of the past few months on the CRJ and C Series platforms, we delivered a total of 18 aircraft in the quarter including 8 C Series, 5 CRJs, and 5 Q400s. This was the C Series' best quarterly output since the aircraft entered into service. With regards to our regional aircraft, we are well on track to deliver 35 aircraft this year, as per guidance.

For the second quarter and year-to-date, our revenues totaled \$616 million and \$1.1 billion, respectively, in each case including the C Series. As previously indicated, starting in Q3, we will no longer record those revenues and simply account for our share of the partnership's net result in commercial aircraft EBIT. As such, BCA's revenue guidance for the year has been revised to \$1.7 billion.

After 6 months, BCA's EBIT loss is \$139 million, improving as expected relative to last year, on significantly more C Series volume. And with the deconsolidation of the C Series going forward, being replaced by the equity pickup, we see BCA's EBIT loss for the year reducing by \$100 million to approximately \$250 million.

Moving forward, we are working to improve our regional aircraft business cost structure to drive better volumes and gradually restore its profitability.

Now looking at Aerostructures, revenues for the quarter totaled \$455 million, 3% increase year-over-year, driven by internal programs. On a year-to-date basis, revenues were \$900 million, tracking to full-year guidance at approximately \$2 billion. Growth in the second half of this year is mainly driven by the Global 7500 work packages.

For the first 6 months, inter-segment revenues increased from approximately 75% to 80%, as C Series and Global 7500 production ramped up. This is expected to reduce to approximately 70% by year-end, as C Series revenues became third-party sales starting July 1. Consequently, revenue eliminations will be closer to \$1.4 billion for the year, being \$2 billion revenues times 70%.

On the profitability side, second quarter EBIT before special items was particularly strong at 12.5%, including a 200-basis-point one-time inter-segment gain associated with the closing of the C Series partnership. With normalized margins around 10% year-to-date and integrating the early ramp-up costs of the Global 7500, we are confident Aerostructures will deliver better than 8.5% margins for the full year.

Let me now provide you with color on the outlook for the rest of the year. On revenues, in addition to the deconsolidation of this C Series, we expect the typical Q3 reduction, particularly at [BTA], before the seasonal pickup and deliveries in the last few months of the year.

Further, with demonstrated EBIT margin performance of 5.7% through June 30, we are well on our way to maintain this level of profitability in this second half of the year with typical Q4 strength and stronger volumes.

Finally, as we head towards free cash flow break-even, we expect sequential and year-over-year cash flow improvements in each of the next 2 quarters. This is driven by improving earnings and working capital reductions, particularly towards year-end. We are reiterating the guidance updated last month.

To conclude, we are demonstrating our focus on executing our plan. This past quarter highlights our commitment to grow the business profitably, and with discipline. The flexibility we are building positions us well to create further shareholder value.

With that, Operator, we are ready for our first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Robert Spingarn with Credit Suisse.

Jonathan Phaff Raviv - Citigroup Inc, Research Division - VP

This is Joe on for Rob. First, on commercial aircraft, very impressive order haul for the CRJ product in the quarter. It's nice to see that momentum. I think the backlog more than doubled in the quarter, now stands at nearly 3 years of production at the current rates, give or take. What I really wanted to ask about is what you both alluded to in your remarks, which is the future profitability of the segment, and specifically part one of my question is, if you're contemplating at this point raising the production rates on the CRJ now that the backlog is expanded? But I also know that volumes are only part of that equation, so part 2 is really what you both said that the team is very focused on, which is reducing cost. Can you give us some more specifics or examples of the kinds of things that you're looking at? I think rightsizing the footprint with Downsview is clearly a part of that, but what else can be done?

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

So, I'll take that in a couple of pieces. First is that this year, we're looking for 35 regional jets and props together. That's our guidance, and we feel confident we'll achieve it. So my expectation on CRJ next year is that yes, likely we'll have some additional volume added to production, and I think that reflects the good work that Fred and his team have done here in gaining market share and really positioned the Atmosphere Cabin for more growth. I think that the equation on profitability, I mean, there's going to be some typical playbook, here. We're going to really look at the footprint, the BCA business now that it is ex-C Series, so we make sure we have a lean structure across both programs. And I think that adding a little bit of volume here also is very beneficial to those programs, as you add units, especially at the current rates that does bring improved cost structure. Don't forget, also, that we have a very impressive installed base, over 1,200 CRJs in service today, and we also have over 1,000 Q Series aircraft on the prop side. So, that also is an opportunity for margin expansion and top-line growth. In both cases, that'll be good for profitability. So across the board, I think it's really about continuing to focus on adding volume and the team's well on their way there. It's about leaning out the cost structure, make sure we have very efficient programs, really focusing on that aftermarket. And then, you know, we'll take it from there, but that's where we're spending the next several months of our work.

Jonathan Phaff Raviv - Citigroup Inc, Research Division - VP

If I may, just another quick one on Transportation. You said the strength was pretty broad-based, or if it crossed the different lines of business. Can you just give us a quick update on those various pieces individually, the trends that you're seeing in rolling stock, versus signaling, versus services, and just the latest on the competitive behavior that you're seeing in the marketplace?



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

Clearly, as I said, it's pretty much across the board. It's on the rolling stock, on signaling and service. Clearly, signaling is a growing part of that business. There is no doubt about that. And service as well. So, we are focused on all 3 pieces to make sure that we keep on growing successfully.

This is a very competitive market you're seeing in this reconsolidation. We are focused on improving productivity, making our operations more efficient, so that we can compete successfully in the marketplace. You're seeing significant margin expansions over the past 3 years. We're very pleased with that. At the same time, we're making sure that we get a -- provide the right resources to the team to keep on growing top line, as well. So that's kind of where we stand right now, so good business, strong backlog, execution, with a focus on growing it and moving forward.

Operator

Our next question is from Fadi Chamoun with BMO Capital Markets.

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

A couple of questions on business jets. So can you give us an idea about the demand that you're seeing across the various family of aircraft? Is it more [suited] toward a higher end? And secondly, when we think about the introduction of the 6500 and 5500, at the end of 2019, are you seeing upgrade from the current book of business? I'm just wondering whether the production rate as it relates to the old 5000 and 6000 will come off a little bit as you kind of go into ramping up the newer aircraft, and how are these aircraft received generally in terms of order this quarter?

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

I think what we're seeing, is like a very strong activities. It's the best we've seen in the past 4 years, and we're seeing that in North America, Europe, and Asia. And if you look across the product mix, obviously super-midsize, large cabin and long-range aircraft, stronger at the bottom end for us at Bombardier. So, the good news there is we keep on increasing the backlogs, and we have a very strong backlog right now. And we are -- we've just launched the 5500 and 6500, so I mean, we're just starting to get traction. The response from the market was very positive. We're getting significant customer traction. In terms of how this will phase from the 5000-6000 to the 5500-6500, I think it's too early to tell. So we will see, you know, how we build the backlog on the new family, the 5500 and 6500, and at that time we'll be in a better position to understand what the production mix will be.

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

Okay, but are you seeing a conversion of orders from 5000 to like, upgrade to the new updated aircraft?

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

Right now we're not seeing that. I mean obviously what is available is the 5000-6000, they bring a real good value proposition to customers, and the 5500-6500, they bring a different value proposition to customers. So we're not seeing any shift right now. There's a reason why I'm saying it's a little bit too early to tell. I mean, we just made the announcement at EBACE, so I mean just a few weeks ago. So I think that we need to get a bit more traction here on the 5500-6500 before we really understand how this thing will move from one to the next, if it does. Maybe it will not, so it's too early to tell.



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

Okay. One more question on Business Aircraft, so you've mentioned the aftermarket was up 21% and you're kind of serving about a third of your active installed base. If you look at this going out 3 to 5 years out, what is the potential that you can achieve in terms of service of the install base? Is this typical for an OEM to do what, half of the install base, more than half? I'm just trying to understand the scope of the opportunity here.

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

I think the scope is significant. I mean, we can do much better than this, and we can probably go easily above 40%. And to do that, we are investing. I mean, we are investing in building our customer support network. We have opened operations in London City, in Biggin Hill. We have some in Tianjin, China, and we're looking at more investment around the world. So we have some good expansion ongoing as well in Singapore. So, all-in-all, we are positioning ourselves to be able to capture more of our own aircraft and growing it, and we are confident that we can double sales, on aftermarket sales, from where we are today by 2020.

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

Okay, and are the margins on these revenues kind of what we understand them to be, in the higher teens, or are these investments you're making now take time to kind of mature the margin over time?

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

Yes, I think that it's typical aftermarket margins, which are typically solid and often better than OEM margins. So for us, this is a margin expansion opportunity and the investments we're making, really it's about bringing the fleet back home which allows us to offer all kinds of services and our engineering capability and upgrades, and those typically have good margins, and also create a lot of value for customers.

Operator

Our next question is from Noah Poponak with Goldman Sachs.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

John, it looks like you maybe had about \$100 million bucks, maybe a little more, of outperformance in free cash, ex-Downsview, versus what you said just a quarter ago. If that's true, could you speak to the drivers of that? And does it make you feel like you're more likely the positive 150 than the negative 150 for the year, or is it just back-end-loaded enough to just kind of think, break even? And then I also wanted to ask, on free cash, as we move out of '18 into '19, you have pretty specific '18 guidance and pretty specific '20 guidance. I'm starting to wonder if you'd maybe speak to some finer points on '19, because even if not a specific number, just some of the bigger moving pieces we should be calibrating for that kind of transition year in the free cash?

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

Okay, that's a mouthful there, Noah, but I'm going to try to take a stab at the 2 parts of your question here. So I'd say that the performance in the front end or the first half of 2018 on free cash flow I would say is bang-on plan. When we talked last year, we said we'd be first half of '18 would look like the first half of '17. The first half of '17 I think was 1160, so 1160 of usage or somewhere, there. So we come in at 1.1. I feel very good about that. Obviously, these things are hard to calibrate down to \$50 million or \$100 million. So the strength in Q2 is really about just us doing what we set out to do, and the annual, what I like is that for example on the 7500 driving the program very well, so disciplined on development, progressing nicely. You saw that we even improved the performance characteristics of the aircraft at EBACE with better range. So all of that is working as planned. In addition I would say that the team's doing a good job in terms of advances on the 7500, so that was an important piece, and we have the right



level of investment in BT. So, I'd say par for the course doing what we said we wanted to do, and that sets us up very nicely for second half strength and really Q4 finishing strong to drive that break-even. So as a comment on the full year, no changes. We still expect the range, break-even plus or minus 150. I think that's still the appropriate guidance, and we will focus on execution and deliveries in the second half. I think that when we talk a little bit further out for '19 as an example, as you said for 2020 we remain very focused on our objectives and targets. What you can expect, I guess very broadly, we'll get into the guidance later this year. But we have development reduction, that should be good for free cash flow. So that means that CapEx will come down. The 7500 will start to deliver aircraft, so we'll continue to add inventories there, but I expect the 7500 then to start to stabilize over time with respect to investment and inventories. And then, overall I mean, the key takeaways I think are that you can expect some incremental cash flow year-over-year. You can expect improved earnings to continue year-over-year. I think margins will continue to get better. Most of the businesses, like I said in my commentary, I think that you'll see some dilution from the 7500. But other than that, I think we continue to do what we're doing, which is growing profitability.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Between the EBITDA from the program and then customer advances coming in, seemingly offset by I would guess working capital building, maybe not, is the 7500 cash-flow positive '19 versus '18?

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

This one I'd rather take later in the year. I mean, we're going to figure out exactly what production rates we want not only for '19, but for '20 as well. I think that's going to have an impact on cash generation from the program next year, as we will be adding volume obviously in 2020 towards maturity. So, we'll work through all those things, but I would say that what you can expect from the 7500 likely is EBITDA growth. So, we'll be adding EBITDA for sure. I think from overall margins and all that, that'll be a de minimus kind of contribution. So overall for the program, I think where we expected it to be today, and also online where we expect it to produce for 2020, which is strong top line, improving margins, and then obviously a cash contribution in the 2020 plan.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Got it, and I just had one more, which is when you were speaking to the BA margin you talked about the ramp-up for 7500 next year maybe being a little dilutive, getting in the 8% to 10% 2020, and then I think you said upside beyond that. And I think you've spoken to that a little bit in the past, but I wondered if you could maybe just provide a little bit more detail on what you mean, there? What are the moving pieces? I guess, I'm guessing just 7500 fully-ramped at its run rate margin is pretty accretive to the margin, given the price of the airplane. But can you put a little more color on that comment?

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

Yea for sure. I mean, I think the [French] the BBA has runway past 2020. We're not going to introduce new guidance here, but the reality is we've given ourselves a range of 8% to 10%. That kind of contemplates a little bit of volatility or range for us to be able to have a full mature 7500 production in 2020. But once you get beyond that, you've got a business adding aftermarket revenues. That's going to be accretive to margins in the longer-term. You've got a business that has sized itself very efficiently, is nice and lean, at about 135, 140 aircraft a year. You've got scale coming from the 7500, and then you potentially have at some point in time, some improvement in overall volumes. So, for the 5500 and 6500, another good example of what we think can be margin-accretive, we've got 2 premium value aircraft there in the sense they will add customer value and with that, I think obviously better pricing. So for us, BBA is very well positioned to work right into a double-digit margins and up.

Operator

Our next question is from David Strauss with Barclays.



David Egon Strauss - *Barclays Bank PLC, Research Division - Research Analyst*

Hey John, did I hear you say CapEx this year at \$1.4 billion? Was that correct?

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

Yes. You did.

David Egon Strauss - *Barclays Bank PLC, Research Division - Research Analyst*

Is that higher than -- I thought before, you were kind of talking \$1.2 billion. Did something change there?

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

I think we had indicated something around \$1.3 billion if I recall correctly. You know what, one thing that you'll expect, that Q4 will probably have in excess of a hundred -- well you know, in the \$100 million to \$200 million range of what we call vendor non-recurring. Or essentially, it's a non-cash CapEx where development in the supply chain gets capitalized at certification of the program, and then becomes part of long-term part pricing. So essentially, vendors pay for development of components and then after that, receive a premium on the part delivery. So there's a capitalization that happens there that's non-cash, so in the end I mean, for us for all intents and purposes, you're still talking \$1.2 billion, \$1.3 billion of cash outlet for the year on CapEx.

David Egon Strauss - *Barclays Bank PLC, Research Division - Research Analyst*

Okay, got it. And then what about incremental investment to get the Global 5500 and 6500 to market? Have you already funded a fair amount of that, or how does that profile look?

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

Yes, there's quite a bit of that's behind us. So I think whatever remaining CapEx required here over the 18 months is well-contemplated in our cash flow guidance. It's also within the shape of our CapEx curve, which will come down.

David Egon Strauss - *Barclays Bank PLC, Research Division - Research Analyst*

Okay, and last one for me on the Global 7500 certification. Recently we've seen some slippage in expected certification dates for some other programs from some other manufacturers, and they cited paperwork just being more complexity in the process. Are you seeing anything similar to that from your standpoint? Are you seeing -- I know you're still on-track to get certification this year, but have you seen any sort of slippage at all within that?

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

Right now, we're in final phase of certification. We've all, we're almost done with flight testing. We're going through the paperwork as you just said. So I mean, certification is expected soon. We are getting ready for full production so the team is hard at work ramping up. We have about like almost 20 ship set on the production on the assembly line right now. So, we still are tracking for certification very soon, and entering service by the end of the year.

Operator

Our next question is from Seth Seifman with JPMorgan.

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

Alain, in the MD&A you guys discuss trying to -- is it sort of improve or come to a better arrangement with Triumph, the wing supplier on Global 7500, and it's not that typical to see suppliers mentioned by name. And so I was wondering if you could talk a little bit about the dynamics there, and what the opportunities might be?

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

For sure. The first thing here, Seth, is we have a great wing, and the design is complete. The performance is solid. In fact, the performance of the aircraft, including the wing, was such that we expanded the range of the aircraft to 7,700 nautical miles. So this is very good. We are in business discussions with Triumph. That's the reason why you're seeing this in our MD&A. We are working with them in a very collaborative way to make sure that we find the best long-term solution for the program and for both Triumph and for us. The good news right now is, like as I just said, is we have almost 20 wing sets at different stages of completion in our production facility, and we are all focused, Triumph and us, on ramping up the program successfully.

Operator

Our next question is from Cameron Doerksen with National Bank Financial.

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

Just a couple of quick questions for me on the BT margin for the first half of the year. The margin's been quite, quite strong, and really trending ahead of the full-year target. I'm just wondering if there's anything in the back half of the year in BT that would from a mix perspective, that would result in margins that are lower than what you've been reporting in the first half of the year?

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

Yes, so I think that one thing that we have been doing very intensely here is building up capability and capacity to get into intense deliveries. And in there you know that we have a product mix that relates back to some more challenging, larger projects in the past. And those are coming into an intense delivery phase. So you do see a little bit of that, and you'll continue to see some balance to the product mix over '18, '19, as we get into '20 and we kind of complete some of these large framework agreements. Essentially yes, I think that guidance still here is right. We've got expectations of being over 8.5% margin for the business, and second half coming down probably a little bit. Seasonally, Q3 obviously a little bit lighter and then Q4 typically stronger. But we feel good about the business, so we'll see where we end up at the end of the year. For now, greater than 8.5% still feels right. I'm pleased with the performance in the front half, for sure.

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

Okay. And are we actually seeing sort of the full impact yet of the transformation that BT's undergone? I'm just thinking about some of the workforce, the changes you've made there. I mean, is that fully flowing through yet, or is there more to come from that later this year, or into 2019?

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

I'd say that at BT we're about kind of 70% through the restructuring, so probably better than 2/3, back end of '18 but certainly into '19 still some additional work to do. This is really about the center of excellence optimization, and that does take some time. You plan it right and obviously you have alignment with the labor and you have some really good plans for a lot of major centers. And so working through all of that does take a little bit of time. The good news there is that that kind of, that's a balancing factor as well. We add continuous productivity and improvement to the cost structure. We get better, focused on delighting customers and ramping up production, and growing the top line. And at the same time, working through some of the more challenging contracts. Overall what it really leads us to, is the 2020 targets which is a \$10 billion franchise, 9%-plus margins, and delivering a dollar of cash for a dollar of earnings, and we like that business.

Operator

Our next question is from Ronald Epstein of Bank of America.

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

I have a couple quick questions for you. So, one for John, first. How do you think about closing the funding gap with [the Caisse]? Right? I mean there's what, about \$1 billion funding gap and it's pretty expensive. How do you think about closing it, and if you were, how would you finance it?

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

Well, we're going to work on that, Ron. So maybe I won't do the whole debriefing right here, but I think there's opportunities for us in the sense that I think capital markets are open to us. Obviously internally here, we're going to look at our own ability to generate organic cash, our own cash. And then we have a good relationship, as well, with [the Caisse] so depending on how they see things, maybe there's a conversation to have as well, on how to do this in phases. But ultimately, these are all options that are open to us, and as you said, the current cost of that capital is a little bit high. So at 15%, there are I think a multitude of options open to us that are more cost-effective, and we'll look at all of them. So, we have our first opportunity in kind of the spring of '19, so right now we're going to focus on making sure we finish the year strong, get the job done on free cash flow break-even. That'll put us in a position where we've got about \$3.25 billion, maybe \$3.5 billion of our own cash on the balance sheet. And that's a lot of agility for us. So to your point, I think there's options out there to finance it or work with the Caisse directly.

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

Okay, and then Alain, just following up on one of your comments, you mentioned in the prepared remarks that you were seeing increasing in the signaling contracts in BT. What's going on there? Why are you seeing that? And then, B, if you were to really try to focus more on signaling, what could you do?

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

More and more when you bid for packages, the signaling becomes a significant piece of the contract. So, we're seeing that increasing from contract to contract. We are focused on signaling. We have a good solid signaling business today, and working with Laurent, we're looking at how do we keep growing it. So it's too early to tell, but we are clearly looking at making this, our signaling business, stronger moving forward.

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

Okay, and then family back to bizjets. Everybody was kind of talking bizjets. But nobody's talking about Lear, right? So you delivered a couple airplanes. Lear seems like it's sort of limping along. What's the plan with Lear? Are you seeing any increased demand for the Lear product? Do you



want to invest in that business to kind of revitalize it? Do you want to sell it? How do we think about Lear, because it seems to be sort of the forgotten piece of the portfolio. At least externally it looks that way.

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

You know, this is a great franchise to start with, and as I said -- I've been saying this many times -- we have over 2,000 aircraft in all, 2,000 Lears flying today. So it brings a very strong aftermarket revenue stream, and we like that, and that is part of our plan to keep growing aftermarket moving forward. So, as for the production line itself, as I said, there's clearly some pricing pressure in the light category. And we have kept the production line going, at a much lower rate, and we've been pretty successful at balancing supply and demand at the level where we are right now, where we'll produce about a dozen aircraft a year. It is the best aircraft in its class, by a long shot. It costs a little bit more. So I mean, for customers that are a bit more price-sensitive, they might be looking at other options. But if they're looking for the best aircraft in the light category, the Lear is. So, that's the reason why, I mean, we haven't made any decision yet. The decision that we've made, de facto, by not doing anything else, is to keep it going. And we are keeping it going at a lower rate, and we're leveraging our great install base.

Operator

Our next question is from Walter Spracklin with RBC.

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

I'd like to come back to just to your -- on the regional side, you revised your BCA targets ex- the consolidation of the C Series for 2018. Can you give us the same targets now, just so we have them, for the 2020 ex- the C Series?

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

So it would be no change, right? If you recall, Walter, let me just calibrate here. We had called for a break-even program on the C Series in 2020, which would then suggest that consolidated or unconsolidated, the impact on the long-term is the same. We have a franchise here that I think now is positioned to gain a lot of momentum with Airbus. So the contribution of profitability will likely come post-2020, and then as you know, we have a put-call feature that allows us to essentially generate a lot of value from the program in the longer term. For BCA itself, of course there's going to be an impact on the line. So you should expect revenue in the \$1.5 billion range, and at the time we called break-even BCA, I would suggest now that it would be positive earnings at that time as Fred and the team kind of restructure and grow the business.

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

Okay, that's helpful. And just going back to the business jet commentary, your prepared remarks, John, you kind of indicated that with the ramp-up we would see margins kind of dip in the fourth quarter of the ramp-up. And then probably trend, we'd see that same kind of pressure in 2019, but I think you still said you're going to hit the 8% to 10% despite the pressure. So can you frame that to me in that, were you - are you probably coming in at the low end of that 8% to 10% range in 2019, and then get to the high end of the range by 2020? Is that -- I'm just looking at the cadence, so that we frame expectations appropriately given some of the moving parts between aftermarket service contribution and the offsetting impact of the ramp-up of the new aircraft.

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

Sure, so Walter, so I think this is just some math here, essentially. You're going to have a production rate in 2019 that will probably be somewhere in 15-20 aircraft, in that range, for the 7500. That's going to bring some significant top line. We talk about a \$70 million aircraft. And I would say that the profitability on those aircraft is going to be very limited, particularly the front end of deliveries. So, I expect an EBITDA contribution, not



so much from an EBIT point of view in '19. And then as we get to a mature production rate, and obviously we get to a more standard unit cost in 2020 and beyond, you'll see profitability and then you'll see accretive profitability and margin expansion from the program. So the 8% to 10% for 2020 stands, and I would say that at this point in time that's still a good range, and it could be upper-lower end. We're not differentiating at this point. I think it's too early. But I feel good about kind of the high single digits. For 2019, I expect that BBA will be able to continue to grow profitability but margins will dilute. So, I would say that yes, you could conceivably come in below the 8% for '19, but that's okay because the earnings and cash flow will continue to grow, and we'll position the program for mature production thereafter. And like I said, when I spoke to Noah about BBA, we see tremendous opportunity past 2020.

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

Yes, and I guess that's -- just to kind of reflect in, I mean, I think when you provided year 2020 targets, many of those back in 2015 investors looked at kind of those targets as a means of valuing the company given how strong they were, those 2020 targets relative to where you were in 2015. Now that you're delivering on that, and the share price has been reflecting it I think as we go into 2020 many of the divisions within your 2020 target are at a run rate basis. But I would put the exception there being on your business jet division, given some of the trends that you just mentioned with respect to the ramp-up of the 7500 and the aftermarket contribution that's also ramping. So, just to say that I now you're not prepared right now to give post-2020, but that would be a great number to have given that it will -- 2020 is not a normalized basis for business jet, and any indication as to long-run EBIT margins in that division, which again I think are depressed in 2020 given where you are, just even a target range or what you would consider a normalized EBIT margin on that post-2020 would be very helpful.

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

We entertained I think a very good dialog when we have our investor days, and typically you have a good chance to talk about those kind of longer-term goals and objectives. I'd say for now, to be very honest, we feel really good about where we are at the midway point. Had lots of progress, you mentioned it. In 2015, not a lot of people wrote down the numbers we gave them for 2020, and I think now people can feel pretty confident that we're well on our way. And that's a great foundation for post-2020 performance, and you can see that a lot of the things that we're doing, do have runway past 2020. So you guys are also pretty smart, and you can also sort of start to anticipate some of the potential. But we'll keep the conversation for our investor days and where we can get into a little bit more broader detail.

Operator

Our last question is from Turan Quettawala with Scotiabank.

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

John, if I could just talk a little bit about margins again, I understand that the margin target or the dilution in margin at BBA obviously next year because of the 7500. But did I hear you correctly in saying that consolidated margin is still potentially going to be flat-to-up next year, I think in one of your comments? And if that's the case, could you talk a little bit about maybe the offset, because it probably implies a pretty strong margin in BT.

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

Yes, so you guys really want to get this investor day done today, you want 2019, it's clear. But you know, let's focus on where we are, which is great first half honestly, right on track for '18. And Turan, I'll keep my comments light on this, but yes, I do expect margins to begin to improve into '19 across the business, as I said, notwithstanding dilution of BBA. We'll have a very well-positioned BCA franchise now given the consolidation of C Series, teams are going to be working very effectively here on trying to improve profitability with our Q and our CRJ. That should be a contribution. Of course, we do continue to see strength at BT, and we'd like to continue to see another step forward there, but that's to be determined at investor day. And overall, the business will continue to focus on productivity, cost-effectiveness, and top-line growth. That usually brings some scale, as



well. So, all those things, I think, are pushing us in the right direction and we'll give you guys a little bit more color in December. In fairness to everybody, I think by then we'll have completed our planning cycle and we'll have better authority on what we can say for '19.

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

If I may ask just one more quickly here, I don't know if you can really comment on it, but Alain, do you want to talk a little bit about maybe potentially Boeing's potential involvement here in E-Jets, and how you're thinking about the competitive environment maybe on the CRJ?

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

Honestly, I'm not going to comment, Turan, on our competitors. I mean, I would just say that the first thing is, I'm very pleased with the partnership we have with Airbus on the 100-to-150-seat-class aircraft. It is the best that -- the Airbus 220 is simply the best, better aircraft out there. So there's a great opportunity there, there's potential value creation for all. So we're excited by that. So I mean, that has been the focus. On the CRJ, this is a market that we know, we have a large install base, we have a great customer base, and we now have improved the cabin to provide passengers with a great experience. It has been very well-received by airlines, and we -- as John said earlier, Fred and the team, they are focused right now on creating value by increasing volume and reducing costs. And that's what we will keep doing. So, I think there is not much more to add to this.

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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