

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

BBD.B.TO - Bombardier Inc Investor Day

EVENT DATE/TIME: DECEMBER 06, 2018 / 7:00PM GMT



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PRESENTATION

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

Okay. Ready to start. All right. Good afternoon, everyone. I guess there's no more music, so I have to come on stage. Welcome to Bombardier's 2018 Investor Day. It's a pleasure to be here once again this year to show the progress we've made in '18, but also as we look forward to complete the turnaround plan.

Format-wise, for the first hour, Alain Bellemare and John Di Bert will provide details about the 2020 plan and how we're focused on creating value. In the second hour, we'll have all the business unit leaders talk about each of their businesses, their competitive strengths, but also where they're headed. And we'll finish with our newly appointed Head of Transformation, Sam Abdelmalek. He's going to talk about ongoing productivity and efficiency initiatives.

So to be efficient, we'll keep the Q&A session for the end. We'll take the last hour for that. And we'll take questions both from the room and online.

So before we begin, I want to draw your attention to usual disclaimer pages, Page 2 and 3 of the deck. I wish to remind you that during the course of this presentation, we may make projections or other forward-looking statements regarding future events or the future financial performance of the corporation. No way am I reading the entire page.

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. I'm making this cautionary statement on behalf of each speaker, whose remarks today contain forward-looking statements.

So for those of you in the room, in case of emergency, there's going to be an alarm. We ask you to please wait for instructions. But for your information, exits are located behind the scene and in the back of the room.

So now without any further ado, as I welcome our President and CEO, Mr. Alain Bellemare, we will play a very short video.

(presentation)

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

Wow, I hope you all agree with me (inaudible) beautiful products. Good afternoon, everyone. Thank you for being here with us in New York again this year. Today, my message is very simple. Three years into our turnaround journey, Bombardier is a much stronger company in 2018. We are confident in achieving our 2020 objectives. And beyond that, we're seeing tremendous opportunities. This year, we successfully reached a very critical milestone in our turnaround journey. Our [every] investment cycle is now complete. And we're now transitioning to a growth cycle, growth that will be driven by our new products entering into service, executing on our strong backlog and increasing focus on customer service and aftermarket. We will also continue to drive efficiency across the entire organization.

Today, the team will share with you the actions that we're taking to deliver on our commitments and to create shareholder value.

Before going to the presentations, I want to address the AMF review of our Automatic Securities Disposition Plan. You will recall, most of the team came on board in 2015, and the long-term incentive received in 2015 vested in August 2018. That was the reason for the timing of the plan. The plan, which is very similar to a 10b-5 plan in the U.S. provides for an orderly way to monetize equity grants. We work with outside experts to set up the plan. Some shares were sold under the 2-year plan. In my case, this represents only a small portion of my total long-term incentive awards.

Today, I am still holding more than 80% of my LTIs. And on average, the same is true for the rest of our team. So this team, our team and I are fully committed to the turnaround and to the long-term success of Bombardier, and you will see that throughout our presentations today.

As for the AMF review, they are doing their job. It's normal to have this type of review given our stock price fluctuation. We are fully cooperating with the AMF. We are confident that we did everything the right way. And we now look forward to a quick conclusion.

Bombardier is a global industry leader with a great portfolio, and we have significant scale, targeting revenues of \$16.5 billion in 2018. We have best-in-class products and great businesses, a strong global rail business, the best Business Aircraft franchise in the industry, world-class design and aerostructures manufacturing capabilities, a proven regional jet business and a value-creating partnership with Airbus on the new Airbus 220. As we continue to execute on our turnaround plan, we will fully unlock the value of this great portfolio.

We are now a little bit more than halfway through our 5-year turnaround journey, and we have made huge progress. We are coming out of a major investment cycle, and we have retired large program risk. Today, we have great products, talented employees, strong backlog and clear growth opportunities, and we also have the right level of liquidity to execute our turnaround plan and to start the deleveraging phase. All of this gives us confidence in achieving our 2020 goals.

We've made significant progress in 2018, and the list of accomplishments is very impressive. We successfully closed our partnership with Airbus on the Airbus 220 ahead of plan. We achieved FAA and Transport Canada certification for our brand-new Global 7500 as per plan, and the aircraft is scheduled to enter its service in the coming days.

We have strengthened our Business Aircraft franchise with the launch on our new Global 5500 and 6500, and we have made solid progress executing our aftermarket strategy for both trains and planes.

At Transportation, we've continued to win in the global market with a book-to-bill above 1. Output has increased by 20% this year. And as part of the significant ramp-up at BT, we had a free cash flow setback, mostly timing, due to significant delivery challenges that Laurent and the team are working through, and Laurent will cover this in detail later.

As we delivered this major milestone in 2018, we have remained focused on productivity, earnings and cash, and we are on track to achieve 8% ROS across our core businesses. We are adding \$2 billion of liquidity, coming mostly from asset sales, the Downsview property, the Q400 programs and the BBA Training business. And we just launched a reenergized, enterprise-wide productivity initiative to further improve margin and to make Bombardier more competitive in the long run. As a result of these actions and the many more that we've taken over the past 3 years, Bombardier is in a much better place today.

And our overall financial performance reflects this. We have double EBIT since 2015 to 2018, expanded operating margins by 300 basis points. Our free cash flow has continued to improve and is moving closer to breakeven with a clear path to positive and sustainable cash flow in 2019 and 2020. And at the same time, we have taken, in a proactive manner, the action necessary to maintain the right level of liquidity to be able to execute the turnaround plan and to support the production ramp up.

And finally, our leverage ratio has improved and will continue to improve as we grow. And John will cover this in greater detail later. So again, Bombardier is fundamentally a much stronger company today in 2018.

We are now transitioning from this heavy investment cycle into a strong growth cycle. And as this chart shows, we are going through a structural shift. CapEx is coming down as we are phasing out of our large development programs, and EBITDA is going up as revenue grows and as we continue to drive transformation. This is a major inflection point at Bombardier.

Over the next 2 years, we are targeting to grow revenues from \$16.5 billion this year to \$20 billion in 2020. This is all-organic growth, driven by our new products entering into service, executing on our solid rail backlog, ramping up new programs in Aerostructures and increasing our focus on aftermarket. At the same time, we are driving margin expansion and free cash flow generation.

Since 2015, we have expanded operating margins by 300 basis points. That's 100 basis points per year, which remains our target for the next 2 years, leading to an 8% ROS business by 2020. And we're taking very specific actions to make this happen. First, we are rightsizing our engineering organization, in line with a lower investment profile moving forward. We also just announced a major productivity effort to streamline the organization and make us more competitive. And finally, we've launched specific initiatives, targeting product cost, and right goods and services and inventory management. Our new Chief Transformation and Supply Chain officer, Sam Abdelmalek, will cover this later.

So at this time, I'd like to talk to you about our great franchises, starting with our rail business. This is a great business with solid fundamentals. It is operating in a growing market that is supported by powerful megatrends, a market that has shown resilience through economic fluctuations. And as you can see on this graph here, the total rail market value has grown steadily over the past 10 years despite some significant GDP fluctuations. This is a market that is closely linked to infrastructure spending. And moving forward, the global rail infrastructure spend is projected to grow between 3% to 4% per year for the coming years. And all of this is supported by urbanization, the increasing demand for public transportation, the need for more efficient mobility and a growing awareness for environmental consideration.

And at BT, given our past investments, we are very well positioned to keep winning and growing in this market. In fact, BT has a solid plan to become a \$10 billion business by 2020. And as you can see here on this graph, a significant portion of our 2019 and 2020 revenues over 80% is already in our impressive \$34 billion backlog, which provide a very strong foundation to build upon.

And our LT book-to-bill above 1 reflects our ability to keep winning and growing in the marketplace. And this is driven by the investment that we've done to refresh our product portfolio over the past few years. Our ability to offer integrated solution, our strong global footprint, combined with local presence close to customers. Laurent and Jim will share with you later how they continue to transform BT, obviously, addressing our short-term working capital challenge, while positioning BT for long-term success.

Turning now to Business Aircraft where we are very well positioned. Simply put, we have the best product family in the industry with our Learjets, Challengers and Global. And this is a great franchise that is getting even stronger as our brand-new, state-of-the-art Global 7500 will enter service in the coming days, setting a new standard in the industry, unmatched in terms of speed, range, comfort and cabin size.

As you can see on this chart, there has been a decoupling between larger and lighter Business Aircraft. The large Business Aircraft segment, where we have a leadership position, has seen better growth and stronger resilience over the past few years. And we expect this trend to continue moving forward. And David will cover this great business later.

You will also hear from Danny Di Perna, our new President of Aerostructures, this business doesn't always get the attention it deserves. So Danny will talk about the value of our world-class design and manufacturing capabilities. And he will also discuss how he is planning to drive growth by leveraging our strong global footprint with centers of excellence in Montréal and Belfast, and best cost location in Morocco and Mexico. The growth in Aerostructures is anchored on new programs that are poised for commercial success and that -- which are at the very early stage of their life cycle: our Bombardier Business Jet, the Airbus 220 and the Airbus 320neo.

Another very exciting growth opportunity is aftermarket services. Our focus on customer services and aftermarket has significantly increased over the past 2 years, and this is expected to contribute \$3.5 billion to our total 2018 revenues. And it's forecasted to grow to \$4 billion by 2020, roughly a 7% CAGR over the next 2 years. This growth is driven by our large and growing installed base of great products, more than 100,000 railcars in service today around the globe, 4,700 Business Aircraft and 1,250 regional jets. So there's tremendous opportunity here, and we are already hard at work, opening new service centers at BBA, optimizing our commercial aftermarket operations and by securing more long-term maintenance contract in our train operations.

Okay. A few words now on our partnership with Airbus. By now, the entire world knows that the Airbus 220 is simply the best commercial aircraft in the 100- to 150-seat class. And the in-service performance has been remarkable. It also has a very strong order book and marquee airline customers. And now, with Airbus in the lead, this program is really poised for success. By combining this great product with Airbus' extensive customer base, deep supply chain expertise and a strong global service network, this will fully unleash the value of this remarkable aircraft. And you will hear more from Fred later today.

In 2015, we embarked on a major 5-year turnaround journey. With 2 years to go, we feel very confident in achieving our objectives. Revenue is targeted to grow at 10% CAGR, EBITDA to grow even faster at 30% CAGR, generating strong and sustainable free cash flow. And all of this is supported by the multiple actions that we are driving day-to-day and by our proactive discipline and focused approach to execution.

Let me conclude by saying that Bombardier is a much stronger company in 2018. We're confident in our ability to deliver on our 2020 objectives. And we're even more excited by the runway that we're trading and the value that lies beyond 2020. We are building a Bombardier with great products, strong backlog and a lean cost structure, capable of delivering superior financial performance for years to come, a company with talented employees and tremendous opportunity. While 2020 will mark the endpoint of our 5-year turnaround journey, it will also mark the beginning of a new high-performing Bombardier.

I want to thank you, and now it's my pleasure to turn it over to John. Thank you.

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

Okay. Thanks, Alain. Good afternoon, everybody. It's a real pressure to be back here in New York this year to share more details about our stronger financial performance and our clear path to 2020 objectives.

So I have 3 messages for you today. One, we have a proven track record as a management team to deliver on our commitments. Two, we spent the last 3 years preparing for the growth cycle ahead by growing backlogs with quality contracts, and while also improving our cost structure. And third, we're entering 2019 with a business that structurally generates meaningful free cash flows.

We've made tremendous progress since we started our turnaround in 2015. We've driven over 100 basis points of EBITDA margin improvement over each of the last 3 years. We've taken this business ex C Series from less than 7% to over 10% margins in 2018, and that's ex C Series drag. We are moving closer to our EBITDA margin target of 11% over the next 24 months. The earnings power of our core businesses is getting stronger. Remember that the \$400 million of EBITDA increase since 2015 shown on this slide is being delivered on a \$1.7 billion lower revenues. We've resized our businesses and streamlined our portfolio to focus on profitable growth and free cash flow generation.

Improvements have been significant across each business unit. Today, BT, BBA and Aerostructures each generate EBIT margins in excess of 8%. And BCA is poised for profit generation beyond 2018, as we complete the recent announced strategic initiatives.

Now let's look at what's ahead. 2019 is a defining year in our turnaround journey. It reflects the significant accomplishments of the last 3 years. The 10% revenue growth is largely coming from a stronger and healthier backlog at BT, the entry into service of the Global 7500, which is also supported by a sold-out order book through 2021. We see another 50 basis points of margin expansion from our continued push towards benchmark profitability. This supports a 20% EBITDA acceleration and a 30% EBITDA growth year-over-year.

Most importantly, free cash flow now reflects the sustainable transformation of our business and its structural shift from an investment phase to a growth cycle. This drives the ability to convert earnings to cash generation.

In 2019, Bombardier expects to generate between \$250 million and \$500 million of recurring free cash flows, those from normal operations, and that is before nonrecurring items or one-timers. In that regard, 2019 is a transition year as we continued to focus on positioning the business to deliver on our 2020 goals and unleash longer-term value creation opportunities.

As such, we plan to invest \$250 million to drive productivity through restructuring. We are also planning another \$250 million, if required, largely to provide our Business Aircraft franchise some additional flexibility as it ramps up production and services our customers. Hence, after considering these nonrecurring items, our 2019 free cash flow guidance is breakeven, plus or minus \$250 million.

The improving outlook reflects the progress across each of the units in our portfolio in 2019. Now let me summarize by telling you what we're seeing in each segment, driving this confidence towards the 2020 plan.

BT is growing revenue by 6% to \$9.5 billion, while delivering industry-leading margins of 9%, and achieving their base 2020 target 1 year early. Business Aircraft initiates its substantial growth phase by introducing the Global 7500, increasing revenues by 25% to approximately \$6.25 billion, this while remaining disciplined on the production rates across our portfolio. BBA margins are estimated at 7.5%, reflecting some dilution from the early deliveries of the Global 7500. Notwithstanding this temporary margin dilution, absolute EBIT will improve versus 2018 as aftermarket profits continue to grow.

Aerostructures continues its steady production ramp for the A220 and the Global 7500, producing \$2 billion in revenues, while delivering approximately 9% EBIT margins, here again at Aerostructures, achieving the low end of its 2020 guidance range. And at BCA, with the reshaped portfolio, we hold revenue stable at \$1.4 billion for the CRJ and the Q400.

In 2019, we reduced our 2018 losses by half to a forecasted \$125 million. And this, for the most part, reflects our equity pickup of CSALP losses. Our BCA guidance also includes the residual impact of stranded overhead costs, which we are addressing through our restructuring initiatives as we align our cost structure towards a profitable CRJ program in 2020.

Let's now walk through the revenue earnings and free cash flow bridges for 2019 and 2020 and start with revenues. Growth at Bombardier comes from a solid and diversified backlog, built on the innovations that are now proven and certified across our portfolio. Revenue growth over the next

2 years is anchored on 3 major drivers. First, the entry to service of the Global 7500 puts us on a \$2.5 billion growth trajectory, contributing over 60% of the increase to the \$20 billion of revenues by 2020. The aircraft backlog sold out to 2021 provides a strong visibility to future deliveries.

At Transportation, revenues continue to grow, adding an additional \$1 billion of top line over the next 2 years. Again, here, we have great visibility to this growth, with more than 80% of 2019 and 2020 revenues in our industry-leading \$34 billion backlog. And consistent with our strategy to leverage the power of our large installed base of aircraft and trains in service, we expect to further grow our aftermarket revenues from \$3.5 billion in 2018 to \$4 billion in 2020, representing in 2020, approximately 20% of our total revenues. Together, aftermarket and Aerostructures revenues are expected to contribute \$750 million to Bombardier's revenue growth.

With the overall strength of our backlog, we have a clear roadmap to increase revenues by \$4 billion towards the 2020 objective of greater than \$20 billion.

Beyond revenue growth is the transformation efforts of the past 3 years that create the cost structure that we will leverage to increase earnings in '19 and in 2020. Here, again, there are 3 fundamental factors driving earnings acceleration, and they start with revenue conversion. Our current 10% EBITDA margins convert the more than \$4 billion in new revenues to over \$400 million in increased profits. This includes contribution to EBITDA from the Global 7500 even during the ramp-up phase. We also aim to expand margins further as we have done for the last 3 years, consecutively. Over the next 2 years, we strive to increase EBITDA by a recurring \$300 million coming from, one, an improving product mix and a real project portfolio that has quality as well as from aftermarket products and services.

From continued transformation activities across the portfolio, which Sam will talk to you about a little bit later on his presentation, and from the partial benefits of the recently announced restructuring actions we are taking.

Finally, the strategically shaping of BCA is a key catalyst to address 2018 losses as we create a path to positive earnings for the CRJ business in 2020. We are now seeing a clear path to our over \$2.25 billion objective, in line with the goal set as far back as 2015.

So I'll just pause for a moment here, and I'd like to walk -- before I walk through the cash flow guidance for next year, and I'd like to tackle the working capital situation at BT.

The movements in the second half of 2018 have raised questions that I'd like to address with this slide. Fundamentally, the 2018 free cash flow breakeven guidance included a \$350 million working capital release, this mainly at BT. In 2018, we had a large concentration of legacy projects achieving predelivery milestones and accelerated delivery rates in the second half. And this is where we missed.

Let me position the cash flow shift in the greater context at BT over our turnaround plan. When we started this turnaround plan, we needed to reset and stabilize a handful of large innovation projects. In 2015 and 2016, we focused the organization on final engineering and configuration of those train designs. By doing this, we slowed the supply chain as evidenced by the lower revenues in 2016 and lower working capital.

In 2017, with the final designs in hand, we launched the industrialization phase of these projects, and we accumulated significant inventory from the internal and external supply chain ramp-ups. Over the following months, we grew invention by approximately \$1.6 billion.

As we caught up on these projects and drove significant revenue growth in 2017 on the percentage of completion accounting, we plan to continue to do this through the first half of 2018, and we did. We reached working capital levels' peaks at the end of Q2. In the second half of 2018, BT expected that both higher delivery rates and the achievement of significant predelivery milestones would relieve working capital and provide strong second half cash flows. While we do receive customer progress payments to finance inventory buildup, final deliveries to customers result in cash inflows and initial deliveries also trigger payments for acceptance and homologation milestones. This is not occurring at a level that we had expected. And as a result, we recently revised our free cash flow target down by approximately \$600 million for 2018.

We expect \$300 million to \$400 million of the timing miss to be recovered in 2019. Laurent will discuss the key contracts, share details about the delays and express why we feel confident in our ability to recover next year.



Importantly, as legacy projects gradually phase out, we have a broad and diversified portfolio of some 500 rail contracts projects. A large number of those projects have been signed since 2016, reflecting transportation strategy to increase reuse of technologies under our product platform approach.

Platform-based contracts have a shorter development cycle. They reach delivery phase quicker, and, therefore, they convert earnings into cash earlier. This, in turn, leads to an inventory turn acceleration, producing a multiyear working capital tailwind. Jim will walk you through the shift in the business model that has been underway for the last 3 years.

Today, the business is going through a transition from large framework agreements, to harvesting the healthier backlogs of contract signed since 2016. As this transition occurs, we expect the business to come down from 2018 peak gross working capital levels. And going forward, we expect BT to generate solid, sustaining cash flows with long-term working capital tailwinds from efficiency.

Now that I've showed our confidence in growth and the earnings outlook and I've highlighted how our working capital supports this growth, I want to shift your attention to our solid path to free cash flow generation.

We are now entering the structural cash generation phase of our plan. We're confident that Bombardier can deliver between \$250 million and \$500 million of normalized recurring free cash flows, as highlighted on this chart. We start with EBITDA, guided at \$1.65 billion to \$1.8 billion. We then add back the noncash effect of the equity pick up of losses at CSALP for about \$100 million. We then deduct the known elements of our business. First, \$750 million of targeted cash, interest and taxes; and secondly, \$800 million or less of sustainable CapEx spend. And finally, as mentioned, we do expect that working capital efficiencies across the businesses will start to generate a free cash flow tailwind in 2019 and beyond of between \$50 million and \$150 million per year. These elements deliver a sustainable \$250 million to \$500 million free cash flow generation base for 2019.

Moving on to the next chart. I'd like to reconcile the normalized free cash flow to our 2019 guidance. We'll start with normalized cash of \$250 million to \$500 million from the previous chart. We then recovered a \$300 million to \$400 million of BT working capital for the 2018 timing miss. This means that 2019 net cash inflows will total between \$550 million and \$900 million. We then earmarked some onetime items that support our objective to generate sustainable free cash flow in 2020 and beyond. This covered the cash cost of restructuring actions that support our earnings growth and, if required, working capital investments largely to cater to the intense ramp-up of the Global 7500. Finally, because we guided earlier than usual, we introduced a \$150 million to \$300 million cushion to protect 2019 guidance against the a partial recovery in the fourth quarter of 2018 of the forecasted BT miss, as it would not then flow through 2019. This buffer will also serve to absorb any volatility as we grow our businesses through 2019. I want to emphasize that we've also proactively ensured that we have the right amount of liquidity to support our investments through '19.

To summarize, our breakeven plus or minus \$250 million in 2019 reflects solid, sustainable free cash flow generation from the business, the recovery of our 2018 BT working capital miss and the funding of onetime investments supporting growth and cost reduction.

As we enter 2019, the fourth year of our turnaround journey, we're confident in our goal for 2020 of \$750 million to \$1 billion of sustainable free cash flow. And there are 3 key components on our 2-year roadmap. We aim to leverage our revenue growth and margin expansion to convert earnings to free cash flow. With EBITDA growth of up to \$900 million over 2 years, earnings conversion is the main driver of free cash flow generation.

We're also achieving normalized CapEx levels of \$800 million or less in 2019 and 2020, producing a recurring cash flow improvement of \$300 million or more versus 2018. Finally, as mentioned earlier, we see working capital efficiencies from maturing production levels, shorter train development cycles and operational excellence initiatives. We expect those efficiencies to create a multiyear working capital tailwind for Bombardier.

By 2020, we expect our business units to produce a dollar of cash to a dollar of earnings, and we expect the cash generation to be nicely balanced between our Aerospace and Transportation segments.

I want to take a few minutes to lay out our targeted liquidity levels over the next 2 years. I'll go through some of the puts and takes that evolve our cash-on-hand balances. But the key takeaways are the following. First, we have strong liquidity, and it's improving further. Second, our leverage



continues to rapidly improve, and we see a path to a leverage ratio below 3x EBITDA by 2020. And third, post-2020, free cash flow generation will be largely available for debt reduction.

Now let me walk you quickly through the cash-on-hand bridge that I've put up here from '18 to '20. We expect approximately \$3 billion of cash on hand at the end of 2018, and growing in each of '19 and '20. I will walk in beds the free cash flow targets of the 2 years, supplemented by the \$900 million of M&A proceeds from the sale of the Q400 and the Training business at BBA. It also assumes the full funding obligation for CSALP at \$350 million in '19 and in '20. As well, it includes the expected dividend payment to the CDPQ minority shareholder at BT. With the structural shift to cash generation and a rapidly improving credit profile, we will be in a position to address our debt maturities beyond 2020 in due time. It also means that we will opportunistically look to refinance our 2020 bonds over the next 12 months.

The power of the turnaround plan is best summarized right on this chart. By 2020, we see a clear path to \$20 billion in revenues, producing EBITDA of more than \$2.25 billion, with EBIT in excess of \$1.6 billion and generating a sustainable \$750 million to \$1 billion of free cash flows. This performance will drive liquidity of \$4.5 billion or more, producing net debt leverage ratios below 3x EBITDA.

Moreover, 2020 is simply the final year of our turnaround plan. But it also forms the backbone of the future of Bombardier. Our business has runway well past 2020. We see potential growth in revenues, further margin expansion and the ability to generate significant sustainable free cash flow. And there's many factors for our confidence. Revenues, we feel well positioned in rail as the megatrends towards transportation infrastructure investments will continue. Our business jet franchise has the best business jets in the world. Our products are winning and our tremendous installed base of products allows us for further opportunities in the aftermarket through services and maintenance. Our Aerostructures franchise is anchored on major programs that have yet to reach their full potential.

On the earnings front, the transformed BT business model is already reflected in our backlog, and we will see benefits for many years to come. At BBA, our new best-in-class aircraft will be in mature production and should see improving margins well past 2020. And our bottom line will benefit from a healthier aftermarket and services margins business as well as the full benefit of our cost-reduction initiatives started in 2019 and fully reflected in 2021 earnings.

Of course, all of these will drive strong sustainable free cash flow, free cash flow that is supported by a disciplined approach to capital allocation and a focus on operational excellence, where we will reduce inventory and working capital needs.

As we approach our debt maturities with increasing liquidity and improving credit quality, we expect to be very well positioned to reduce our debt service cost, producing further free cash flow tailwind.

As we look 2020 and beyond, Bombardier is driving towards world-class financial performance focused on unleashing the full potential of its portfolio. In a few minutes -- in a few moments, you'll hear from the business unit leaders. And they will emphasize the actions taken over the past few years and -- that derisk and support our plan, particularly as they ramp up for the growth phase ahead of us and turn profits into cash flows.

With this, I'll turn it over to Laurent and to Jim to discuss our Transportation business. Thank you.

Laurent René Octave Troger - Bombardier Inc. - President of Transportation

Thank you, John. Can you hear me? Thank you, John. Good afternoon, everybody. I'm very happy to be here with you again in New York. I know that there is a pulse for mobility also in New York, I can hear that each time I'm coming here. It's very, very great to be with you, and I really enjoy this time.

So today, Jim and myself, we will talk about capturing the next wave of mobility growth, and the growth is really there. And I just want to share with you my passion about trains. I've been in this industry for 30 years, and every day is a challenge, and there is so much to do for the next year to come. Before we go into the presentation, I would like to share with you a short video that we prepared for the InnoTrans event in Berlin in September. It is a short video, but it'll give you the pulse of what is happening in the world around train.

(presentation)

Laurent René Octave Troger - *Bombardier Inc. - President of Transportation*

Together we move, that's the new motto for Bombardier Transportation. When I shared this with our customers, they were absolutely delighted because in fact, we are sharing the same challenge, which is to move people every day in cities and between cities. And the challenge is increasingly more important than ever. And you can see that and you can feel that wherever you travel. It could be into existing cities, but it is also with emerging cities. And the demand is really there.

In this video, you can also feel the pulse that mobility is not a question of product, it's more and more a question of performance and how you deliver at the end of the day a very, very sophisticated transportation that brings safety, capacity and reliability and service. And we are more and more moving into this. To achieve that, you need to integrate, in fact, different part of the first world into one integrated solution. And we -- at Bombardier, we are uniquely positioned to bring all the pieces together and to deliver performance. And I would just want to convey this message to you today, how we are uniquely positioned to deliver that.

So Alain said that this market is resilient to crisis, and this is very, very true. And in fact, most of the politicians on the planet are convinced that there is today a very strong link between economic growth and transportation. And you can see that most of the politicians, so they are ready to invest into right infrastructure. And when they go into right infrastructure, in fact, what you have -- you need trains as well. And we are both positioned into the infrastructure and also in the train, and we are also a very, very strong partner of the cities.

Those investments are getting now into another phase of acceleration because the demand is really urgent, and some cities are even surprised by how much the pressure is coming to move more people. I will not give you example that you can refer to Los Angeles and even in New York that are in emergency situation because they need to move more and more people every day from office to home, but also from any other need that passenger may require.

The resilience is also supported by a 3% to 4% growth year-on-year. And this growth has never, never stopped. And what I can see when I travel, I travel quite a lot, I can see that this trend is just accelerating when you take, of course, emerging countries. The megatrends are the same everywhere. And the urbanization is one part of it that you know, but there is another one which is important. This is the inclusiveness, which is how you bring the community together and you ensure that you include all the people into one mobility solution.

So if I focus only on one point, which is urbanization, you need to know that every week, 1 million people will be urbanized over the next 30 years. So it gives you an idea of the pulse of the urbanization, how you are going to translate that into a mobility demand, and to this mobility demand how you bring the mobility solution.

So as far as we are concerned, we can see more and more megacities, and we are present in 40% of the megacities on the planet that are now very, very pushing to get mobility solution efficient and fast mobility solution. Those solutions have to be efficient, but also clean and safe, and they have to address the major public concern, the people they don't want to bother about whether or not it's going to work or not, they just want to be moved with this performance. What I can see is that, today, we, at Bombardier, we have a long-term experience with those cities. Because to develop a solution, you need to understand the key parameters of the equation. But it does not come up until you really understand and consequently where and how the demand come from. And we've been partnering with those cities for more than 25 years. If you take the case of New York, we started in the 20th century, in the late 90s. The same in London or in Paris. And we've been working with the cities to develop the mobility solution. And we are still working with more than 25 years experience. And now we are leveraging this experience to go to other cities that are facing the same situation because cities are developing the same way. You start by an urban center, and then the cities are growing, and you go to commuting. And then after you need to connect cities one to the other, then you go to regional or you go to another city and the equation is quite the same everywhere. But we are leveraging all these experience now all across the globe with our organization.

Bombardier, we are, in fact, impacting 500 million people every day. This is our job. And here I want to take a pause to thank all our people in BT that are providing the service, so that those people can be moved in a safe and efficient way. But 500 million people gives you an idea about the pulse that we are facing every day.



We can build on our global presence. We are in more than 70 countries and more than 200 cities. And in there, we are very local. We speak the language. We understand the specific rules there. We know how to deliver solutions. And we've been there for many years, and we will be there for many years. So we are part of the ecosystem, and the customers love to discuss with us about their long-term strategy. As I said to you, we are present in more than 40% of the megacities on the planet. So we are also taking a lot of experience of how those megacities are developing to, in fact, define and develop the solution of the future.

So we are being perceived as a long-term strategic partner of the cities. And this is who we are. And I would like to really emphasize on this. Mobility is not about one day, it's about a long-term trust relationship.

So as you can see, we have a global experience and we have a global reach. But of course, the key conversation today is less and less about product, but it's more and more about an integrated solution. So we have a portfolio of products and services that is large. We cover all the segment on the rail, from train to metro to enter a city, but most of the conversation that we have right now with our customers is all about performance. And here we are entering into another conversation, which is about the safety, the capacity, the reliability and service or the connectivity. And working with our customers on those parameters then, of course, you shift the equation from buying a product and sometimes just focusing on the capital cost of the product to buying a solution and the value-add of the solution. And of course, the value of the solution is more on the integration and the performance than on the capital cost of each of the component.

So as far as we are concerned, we, at Bombardier, because of the experience that we have had over the past years to develop the portfolio to integrate it and to leverage it, we are one of the best company positioned to deliver this mobility solution. And when we go into the performance criteria, our performance in the field speak by itself. So safety, absolute safety today, moving 500 million people every day, we've been doing that for decades. We keep that at a very high level in our organization. The reliability and service, we are achieving 99.5% reliability in service. And we are one of the industry lead in this area, so that we do not expect to fail with our train and service. And here this requirement is going to increase, unless you could accept to have a train failing at big cost in the megacities.

We're also increasing capacity by more than 75%, and we do that in twofold. We do that with our train, where we bring more and more passenger on our train. I will give you an example. But we are also increasing the number of train on existing infrastructure by, in fact, moving automatically the train. And we are also ensuring the connectivity between the urban and the suburban by reducing the travel time and also bringing maximum comfort. So our customers are more and more working with us into a solution. And here I would like to give an example, which is in Singapore city. Singapore is being perceived in the world as a role model in the development as a city. We've started with them a while ago, and we've been their partner for 25 years to a point that we have more and more focused with them on what performance means. One of the performance they are looking for is the availability in service, where they want to have the minimum impact of 5-minute delay of their trains for 300,000 kilometer per train. This means that they are progressively reducing the failure in service. And we are one of the best in this area, and our fleet are performing well to a point that we continue with our MOVIA and INNOVIA platform there, and we have been selected this year to continue deliver on new trains.

So when we look at this, there is a significant shift that is going to come. And why there is a shift because it's time to provide solution. And the value is in the integration and then in how you operate and maintain this solution.

So now I would like to hand over to Jim, who is going to come back about our transformation, what I've launched 3 years ago, where we are, and then I will give you a conclusion. Thank you, Jim.

Dimitrios Vounassis - Bombardier Inc. - COO for Bombardier Transportation

Thank you, Laurent. Good afternoon, everyone. As Laurent explained, BT is uniquely positioned to capture the growth in mobility needs around the globe. Over the next few slides, I will go into the how. How are we doing this? And the how really starts with the 3 core pillars of the transformation that we started with Laurent in 2015. The first pillar is all about local customer organizations. And as Laurent just explained, this is in the historic DNA of our organization. I mean, we've been local forever in all the megacities working with our customers. The differences over the past few years, we've been injecting more and more talent into our local organizations around services and systems integration to be able to deliver these integrated solutions. So what do I mean by that? Let me give you an example. Recently, we had a customer in the U.K. The customer had a fleet of trains. And



what they wanted to do was they wanted to service 20% more routes, and they also wanted to change the passenger experience on their fleet. So our local U.K. staff, working closely with the customers, were able to, a, redesign part of the rolling stock, part of the train to enhance the consumer experience. We were also then able to bring digital technologies, both on the track and in the train, to reduce the maintenance time that was applied to the train. And when the train had to go into the maintenance depot, we were able to pull best-in-class procedures to reduce the maintenance time. End result, customer is using the same equipment, servicing 20% more routes. The customer's very happy. Their passenger experience has gone up, and this is just an example of how our local teams are now pulling on global solution to meet the customers' requirements.

The next big pillar is the standardization of our products. And this is all about us at BT reusing the great innovation that we've already developed as well as we fully recognize we need to continue to innovate. And when we innovate going forward, we want to make sure that innovation goes across our products. I will come back to this pillar in the next few slides and go a little deeper.

The third pillar, you have heard me discuss often times, the last 3 years with you, which is all about our global operations and basically taking cost out of our global operations. Here with the BT team, we continue to go down the path of working with our select key suppliers. We've done tremendous job of leveraging the global footprint of BT in our supply base, with a net result of us having increased by over 50%, the best cost content in our BT products today versus 2015. And I'm very confident we're going to continue driving this forward. We're going to go further into our best cost supply chain, and we're going to continue to work with Sam as we go into the next phase of transformation and really drive a lot of operational efficiency.

Now let me go back to the second pillar, all about reusing our products, because I believe this is an industry-leading transformation that we're doing here. And what is this all about? Well, if I take you back to the pre-2015 days, our regional organizations had their engineering organizations, had their manufacturing organizations and delivered to the customer local designs. So we found ourselves with over 50 designs that were designed basically for unique applications. And you could imagine, with a book-to-bill greater than 1, over time, this should just explode. So we were basically reinventing the wheel multiple times around the globe. So what we did between 2016 and 2018 is we physically and virtually disconnected and reconnected our marketing, our engineering, our systems integration, our sourcing and our industrialization people behind these product platforms that you see behind me, which are somewhat self-explanatory intercity, urban, locomotive. And then starting in late 2016, every bid that comes in from anywhere in the world goes to the appropriate product platform. And their responsibility's basically, first and foremost, to start with, the proven technology that BT has already developed. And then whenever we have to innovate, let's make sure the innovation we do applies across the entire product platform.

So coming from these product platforms, we have brand names that Laurent just talked about: MOVIA, FLEXITY and INNOVIA. These are all for urban solutions of transportation. I'll give you an example of what I mean with ZEFIRO. ZEFIRO is Bombardier's platform for very high-speed, high-speed intercity connectivity. That is whenever anyone of our customers wants a solution around this connectivity, we now bid with the ZEFIRO platform. The beauty of it is we are seeing in the marketplace that our platform-based approach doesn't reuse 100% of everything, but we're in that 65% to 75% reuse. And that's great because that allows us to basically provide the customer with an integrated solution. We have ZEFIROs running in multiple places in the world. We know how to maintain them. We know how to service them. So we've moved from adjusting a product platform or a product family to an application versus creating a whole new product for that application. And that is a big change in the way we are doing business, and it will significantly derisk us going forward. So what's the value to the customer of reusing a great technology?

First and foremost, let me take a few minutes to tell you what happens when you design and build the train from the ground up. It's about a 5- to 8-year journey. You start by developing all these subsystems, like your bogies, your propulsion systems. Then you integrate them altogether into your car, and then you integrate your cars into your trains. And because you're starting from a -- with a very long time horizon, usually your customers, what they ask you for is a relatively high cadence of deliveries once you get your product approved, which is homologated, right? Now homologation is a big word, even for me, who's a native English speaker. What does it really mean? Homologation really at its heart is 2 things, right? One is, please prove to me that your product does what your product says. So does the door of the train open and close when the door of the train is supposed to open and close? The second big thing is prove to me that your train integrates well into my rail infrastructure, i.e. safely and reliably. Now for those of you in the room that are like me, coming from an aerospace background, that's equivalent to basically saying, "Please prove to me that the plane integrates well with the air traffic control system." The difference in the rail business is every region has its unique infrastructure. So you can imagine, as you come towards this approval cycle with the authorities in a region, if you've created everything, all your mechanical, all your software, everything from scratch, it's a lengthy process. And as the world goes more and more towards digitalization, you could see how the



authorities and us are spending more time here. So the reuse piece certainly gives us data to come to the table with. I know I have the subsystem already running in your country. This is how it behaves. You start to get it approved, but now you come to the table with much more facts, right? So the reuse element allows us basically to get speed-to-market because we take this long 5-year cycle and we break it down to a 2- to 3-year cycle. And as I mentioned before, as we continue to reuse the technology, of course, the technology becomes more and more reliable because we have field data on the technology, and we are able to get it more and more reliable. And then because we have customers that we're working with, that are operating this technology and were maintaining this technology, now we can give the customer an end-to-end fully integrated solution, which is what they are looking for.

Now beyond the value to the customer of reusing technology, what does it mean to the shareholder? Well, as we reuse technology, and as we see in our order book, on the rolling stock side, go from about 20% reuse pre-2015 to around 70% today, we're seeing economies of scale coming because we're buying things for the same thing. The operations people, the maintenance people are turning wrenches on similar types of products, and we're lowering our reintegration risk. So we're seeing margin increase, and you guys are seeing the margin increase.

The second thing that we're seeing is a change in the cash profile because if you look at a 5- to 8-year-long project, while you start in year 1 and if in your last position you look great in year 1 because your customer gives you a down payment. But then you'd expend the next 4, 5 years expending money on engineering, building whip, getting ready for testing. We run multiple test strains, et cetera. So you have a high consumption of cash for a long time. That's not the same when you sell an option or you reuse technology because you don't have to expend so much in engineering and so much in testing. So your cash cycle becomes shorter, and you get the acceleration that John was talking about. So in essence, the 3 pillars of our transformation are derisking our go-forward backlog and, at the same time, creating the value proposition that our customers are looking for, which is integrated end-to-end solutions. And with that, I'll pass it back to Laurent.

Laurent René Octave Troger - Bombardier Inc. - President of Transportation

Thanks, Jim. So staying a bit on this slide. Actually, you can see that we have started to deliver on our reuse factor. We are increasing our signaling and service business, and we are getting more option. And in fact, we have done that faster than we were expecting. And if you go back to the orders that we have signed over the last 3 years, you can see that there is an acceleration. So it's a very positive shift. It's in line with our strategy, more signaling, more services, more reuse option. But typically, when you go into this business, you have lower advances. But on the long run, you transfer faster or you convert faster your revenue into cash and you provide also higher margin. So this is good for long-term goals. But in fact, we are at that shift in '18 in our order book that contributed to \$200 million of working capital out of the \$600 million that we -- John discussed. So -- but please remember one thing when we are speaking about this \$200 million shift is that we are bidding for \$20 billion per year. We are expecting to get 50% win. And today, we have a book-to-bill greater than 1. And we are still growing. And we've been doing that for the fifth consecutive year. So why the \$200 million is significant, it remains relatively small. This was the big picture in our business.

So now let me turn about the other challenge that we have had, and let me give you some color about what has happened during this year.

So you know that the transformation journey that I have started is, in fact, a very significant piece of transformation in the industry. And as you can see, we are transforming on the operation. We are also transforming on the product in the platform. We are transforming our global sales, but I have also to deliver on some legacy project that have been with us for a while. And here I have selected 5 of them that are quite well known, and they have impacted us for around \$400 million of working capital this year. And there are 3 major reason for this. The first one is the ramp cadence and the system integration, the second one is the certification of the homologation and the third one is the infrastructure that we need to integrate in.

So if I take the first piece on the delivery on the ramp cadence, and I take the example that we have in New York, which is well known, where we are being light, so I pushed the team this year to significantly increase the capacity by more than 20% for this project and where we have planned to build one car a day. We were producing 2 cars per week. We moved to 4 cars, and we are getting to the 5 car now, but we have been a bit late. So we have made great progress on this, and we have started to deliver to New York those cars, and they are now into revenue service. And those cars are now, in fact, the -- one of the backbone of the city. And we are expecting to fully deliver this contract next year. So here we have faced, in fact, a delay on the ramp-up.

The second example is on low train. The situation is a bit different here. We have built the train, but we are facing an integration issue in term of getting the authorization. So the train have been built, and they are into our inventory, but we have to conclude the authorization. And to do that, we need to work with our customers and with the operator in order to get there. Most of the trains have been built, and we are expecting to deliver those trains next year. So we are expecting here to recover the cash next year.

Now the second part is about the certification and the authorization. This industry is shifting in terms of authorization, and it's going to be more and more complex authorization as we go into, as you can imagine, complex integration. So here I have selected 2 big project that have been signed in 2010, multibillion project, one in Switzerland and another one in Germany. The one in Germany, we have gone through significant ramp-up over the years. We have delivered 546 cars out of 697. We have gone through multiple iteration of authorization, and we have gone into the last one in -- at the beginning of the first quarter.

And for Switzerland, the same. We have built a significant amount of trains that are being now -- we have reached the homologation at the beginning of Q4, and we are now entering into the delivery phase for next year. So here, again, this is not free cash flow that is being lost. This is a timely issue, and we are confident to deliver '19 for 2 reasons. First of all, we have achieved the engineering. We have completed the engineering phase. We have got the authorization, and now we're entering into the delivery cycle.

The last one is more on external factor, which is a Crossrail project that maybe you know in London. This is one of the most complex and largest infrastructure project. We are working here on the very modern new trains that integrate 3 signaling system. We have built 483 cars. We have delivered 269. The project we have already started commercial service on the East and West part of London, but the central section of the -- of London has not been opened. We have not been able to complete our integrated test there, and we are now working with the customer how to continue this project. You are aware that they have announced a delay on the infrastructure until next year, and we are trying to find a way to complete this program with our customers. Here, again, we are confident to recover the cash next year and to finish the production of the train. You can understand that in some of our projects, some external factors, such as the infrastructure, that may impact the working capital, but does not impact the overall free cash flow.

So as far as I am concerned, I gave you those 5 example because they are, in fact, a clear illustration of what could happen into a project business, but I am also confident to recover this cash next year mainly for some same reason. The train have been engineered. We have got through the authorization, and we are entering into the delivery cycle.

So now I just want to come back on the transformation. So Jim insisted on it very well. The transformation is on track, and we have not changed this transformation. It's a very ambitious plan, but I think that this plan is the right plan to ensure long-term sustainable growth for BT. At the same time that we are completing the delivery of this legacy project, we can replace this by more profitable orders in signaling, in services and in earnings stock. We can stay now focused on our key pillars of our transformation, which is to build a profitable backlog, which is to complete our journey towards product and platforms and to expand our footprint in best cost countries. So the transformation is a significant enabler toward profitable growth. And this is what you can see in the guidance that we gave you, which is a book-to-bill superior to 1, which is to drive the revenue towards the \$10 billion, and then to achieve a profitability above 9%.

So to conclude about BT, you can see that we have gone through the last 3 years a very, very challenging time. And then this is why I'm always very happy to be here with you every year because we can give you progress. But we are transforming into a world-class company, a global company. We are working with our customers. And as I said, our customers are looking for integrated solution. We are driving the industry to global product and platform, and we think that we are one of the very few to do that. And those customers will receive from us shorter cycle time, higher reliability and integrated solution. And this will meet their rising demands in mobility. And this is true for cities, for region and for countries.

At the same time, we continue to work on our operational excellence to lean out our processes and to drive the production up. And we want also to leverage the best cost region because we want also to assure, at the same time, the cost competitiveness of our organization.

So I just want to tell you we are well on track for 2020. We are really accelerating our transformation, and we are focusing in delivering on time, on quality, on course to our customer. Thank you very much. Dave?



David M. Coleal - Bombardier Inc. - President of Business Aircraft

Thank you, Laurent. Good afternoon, everybody. Great to be back with you again in 2018, and I appreciate the opportunity I have to spend time with all of you and many of you at both EBACE and NBAA of this year to talk about how we're tracking to our plan and how we're looking towards 2019, which Alain said, basically the strongest portfolio in the business positioned well for growth.

Next. Thank you. So in 2018, really meeting our commitments and more. If you think about the Global 7500 receiving Transport Canada certification in September and FAA certification shortly after that, we're on plan to meet the first delivery in the coming days. Invitations will be sent out. Make sure you don't miss yours because it will be a great ceremony. We're getting closer to our customers all around the world, which means that we're doing innovative products and services that's allowing us to continue to have double-digit aftermarket growth. And we took the industry by storm with the announcement of the Global 5500 and 6500 at EBACE. Surprised everybody. We're well on track through flight testing and expect to deliver 2, 3 aircraft at the end of 2019, all the time focused on execution and productivity, which has allowed us to have quarter-over-quarter performance while investing in our future.

This is the strongest portfolio in the business. When you look at the right-hand side all the way from the Global 7500 with class-leading performance through unprecedented range with the Global 5500 and 6500, the Premier cabin, our current Global 5000/6000, we basically set the standard for the large-cabin aircraft and well positioned in this market space. When we move to the Challenger aircraft, the Challenger 650 continues to outdeliver the competition 2:1., and we just launched Ka-band connectivity to keep you connected around the world no matter where you go. The Challenger 350, best-selling aircraft in the industry last 10 years, we continue to enhance that product with heads-up display, steep approach capability and short-field takeoff capability. And rounding up the lineup with the Learjet 75, best cabin in its class, quietest cabin in its class, and we just launched the fourth avionics upgrade with the Garmin suite that's in there now. Now with that said, we look at all the market indicators like you do. We're pleased with many of them, reduced pre-owned inventories, lowest level in the past decade, which is great because when the customer can't find a high-quality preowned, they turn to the new market. Strong aircraft utilization trends also. Now with that said, as you've seen, we've been very prudent in how we look at the market. We have disciplined production output. We make sure we match our demand with what we see the market doing -- and I'll tell you more about that in 2019. All along, we also try to focus on ensuring we have the industry's leading backlog with book to bills of 1 or greater than 1 on a quarterly basis. So with this, I think we're well positioned to lead the industry into 2019.

So when you think about our guidance moving from 2018 to 2019, I'll start with the guidance in 2019 on revenue. We're going to add \$1.25 billion in revenue coming into 2 forms: continued aftermarket service revenue growth and the incremental deliveries of the Global 7500. If I move down to the deliveries, as John mentioned, we're going to produce 15 to 20 Global 7500s in the calendar year of 2019. So that will take me from 135 to 150 to 155. What this also means is I'm going to keep my current sustaining business flat from '18 to '19. That's, again, being prudent and thoughtful and disciplined about our production approach. I will have 2 to 3 6500s within that delivery profile. They'll displace a couple of the 6000s that are currently in that plan. So we feel very good about how we're positioned to move from 2018 to 2019. We will double our production rate on the 7500 from '19 to '20, which allows me to continue my revenue growth to \$8.5 billion, along with my aftermarket service revenue and continue my climb to 8% to 10%.

In 2019, I have a bit of dilution, as John mentioned, with the entry into service of the 7500, but in absolute EBIT dollars, I will generate more in 2019 than in '18.

So when you think about the Global 7500, it is an amazing aircraft. With transport certification, FAA certification occurring, it opens the door for first deliveries with unprecedented speed, range and agility. We surpassed Mach. 925 in a flight testing, being able to fly New York-Hong Kong nonstop in this aircraft. And this aircraft has the ability to land in the same field as light aircraft. It's just amazing with a 10-foot longer cabin, all with the comfort that our customers expect, with low-pressure altitude and our signature smooth ride with our wing design that isolates turbulence from the cabin. So this is going to set the bar for what the industry expects for a large cabin aircraft.

This is the first aircraft. So here are pictures of the first interior. It's gone together incredibly well. We go down, we talk to the team building the aircraft. This is a view from the club seating looking aft. You see the industry's largest kitchen when you walk in, and this is the aft stateroom. What's heartening about this is after 20 years of experience of interiors and over 800 Globals built, this one has gone together in a faster cycle time that we're currently completing Global 6000 aircraft. So it's a testament to the engineering and our architecture and gives us confidence in our ramp-up.

So when you think about the 2019 ramp-up for the Global 7500, as John alluded to, one this year, 15 to 20 in '19 and doubling production in the 2020 time frame. All of 2019 materials, Aerostructures, avionics components are within my production system in Toronto through Montréal, either on the dock, in the green aircraft completion, in production flight test or in completions and paint as we speak. So we feel very good about how the production system is moving along.

Within the 2019 timeframe, the 15 to 20 will take the form and schedule looking like 3 to 5 in the first half of the year and 10 to 15 in the second half of the year. That's a conscious choice to make sure we're managing very thoughtfully the entry into service of this first aircraft, making sure we get real-time feedback and roll those into the sets of our aircraft to make sure our customers are delivered the highest quality of reliability and service. We will get faster in that acceleration as we learn more and ensure customer satisfaction entering the service. 2020 production materials are currently being built and are in shipment to our production line as we speak. So the supply base is in the midst of actually doubling their production rates to support the 2020 production ramp.

Well, EBACE 2018. It was a great event for us. We flew this aircraft across the Atlantic with the newly certified Pearl engine. That, coupled with our re-profiled trailing edge, gave us 13% more efficiency leading to best-in-class range compared to any aircraft in this category, doing it with the largest cabin and once again, with our smoothest ride. 74% of the flight testing is complete as we speak, and we're entering into service at the end of 2019. So we're very excited about this platform and as you can see, really investing in the large-cabin aircraft, and as Alain showed in his chart earlier, where the market is going to be growing.

We're very pleased with our aftermarket strategy, mainly because we're taking care of more of our customers around the world. We are the industry's largest fleet, 4,700 aircraft, and I talk to you before, several years ago, and I think every year I give the number, we started out with 135 aircraft in our service network on any given day of the year. I'm up to 200. How do we do that? We do that by getting closer to our customers and expanding our capability, with the opening of our tangent service center. We opened up Biggin Hill within the first week. It was packed. We expanded that. We continue to invest in the capabilities of our service networks, in Tucson, such as interior refurbishment, avionics and paint; changing the look and feel of our service network to appeal to the ambiance of what our customers expect.

With the groundbreaking of Miami-Dade Opa-locka, 300,000 square feet with paint capacity. And innovative ways to get closer to our customers, with line maintenance stations in Europe and more mobile repair trucks, which have 2 A&P mechanics and parts that can get to you anywhere in North America and Europe, real-time to turn your aircraft around if you have a problem. All of that allows us to get closer to customers and continues to drive double-digit aftermarket revenue growth, which we will continue year-over-year.

Now with that said, what's Investor Day without another video? So here we go.

(presentation)

David M. Coleal - *Bombardier Inc. - President of Business Aircraft*

So when you think about our product portfolio on the right, we have the largest, widest breadth of aircraft, with best-in-class performance of everyone, and we're making sure that we are sized around the world from a service capability to take care of our customers no matter where they are, and that's the secret to winning.

So with that, I'd like to turn it over to Mr. Danny Di Perna, our new President of Aerostructures. Danny?

(presentation)

Danny Di Perna - *Bombardier Inc. - President, Aerostructures & Engineering Services*

Good afternoon, everybody. Wow, [these are fire] conferences, but I know it's Investor Day. David was right. Let's -- what's an Investor Day without a video? Especially one from Aerostructures, David. So I totally agree.

Hey, I recently joined Bombardier. I'm Danny Di Perna. I'm thrilled to be here today, and I want to share with you our growth platform for the Aerostructures business. I want to explain to you a little bit about all the broad capabilities that we have across Aerostructures and all of our assembly sites and manufacturing sites. I also want to tell you a little bit about the operational excellence program that we're driving through lean manufacturing. It's going to focus on how we can grow profitably, how we can earn the right to increase Bombardier and third-party work packages, how we can be more cost competitive, it's work that we need to do so that we can continue to earn and how we can generate value for customers, Bombardier and ultimately, shareholders.

Alain mentioned earlier that Aerostructures doesn't always get the attention that it should get, and I'll tell you a little story. I mean, when I joined 80 days ago and I've gone around 3 times to every one of our manufacturing sites, it's like -- it's exciting. I'm an aerospace guy, grew up in aerospace for the last 25, 26 years, it truly is exciting. Great people, great capability across different sites. But also, as an engineer, it's like a kid in a garage. You've got the design capability to make something, you've got all the tools and somehow, you can cobble up some of the world's greatest airframe, Aerostructure and systems. And that's the value proposition that we have at Aerostructures as we're birthed from an airframer. It's a very unique position that we have, that very few other players in the Aerostructure fragmented market have because we come from an airframer.

As you can see on this slide, it's sharing with you we have broad capabilities, 750 engineering capability people that can go from end-to-end design, systems analysis, aerodynamic structural analysis for Aerostructures, all the way through manufacturing and assembly and finally, aftermarket services. As I said, it's inherent and unique, this capability. Not all of our competitors have it. We offer a full suite of capabilities.

We have a very balanced footprint. I'm amazed. We have great knowledge cost centers, both in Belfast and Montréal, great technology, great technology development for Aerostructures, but then we balance that with 2 tremendous capable best cross-country locations: one in Queretaro, Mexico; and the other one, that I just recently came out of, in Casablanca. Both exceptional locations, great people, focused on quality, focused on safety and wanting to grow.

And then finally, we have an aftermarket service network that we're continuing to develop and grow because that's where we can extract more value in the future, by leveraging our engineering, our manufacturing technology capability and bringing it to airlines and operators.

Four strategic priorities, that's what I want to focus on. Number one, core components and systems. What's absolutely core for Aerostructures as a business unit is our engineering capability all across the different disciplines that I mentioned earlier and the ability to partner with an airframer to do systems integration. More and more the all-electric aircraft, more and more digital connectivity, more and more wiring, more and more systems need to be integrated and having that engineering capability and then of course, making the structural components to enable the flight is a core capability that we're going to continue to invest in.

In terms of manufacturing, I'll show you in a few moments, we have core manufacturing capabilities that we've developed and invested in over many, many years. And these, we can leverage. And again, as I mentioned, I'm going to keep mentioning it, they're inherent, they're unique and very few players have this type of end-to-end capability.

Cost competitiveness and improving working capital, they go together. Here, it's really all -- goes hand-in-hand with lean manufacturing. We are kicking off and driving, as was mentioned several times, a productivity enterprise-wide system, and lean is at the center and heart of driving more productivity, more material flow and more cycle time reduction effort, and I'll cover that in a minute.

And finally, growing the business. And let me start with that one. We're positioned for natural growth. It was mentioned earlier on by Alain, that we're secured on positions, of course, on the A220 that came from Bombardier, the entire Global family, which is now with the Global 7500 that David just described to you is going to continue to grow as that enters into service. And recently, Bombardier was successful in securing the A320neo nacelle system.

If you look at the graph on the -- your right-hand side, the new programs are going to be driving the growth. Our legacy products will continue to slowly come down and the new programs are going to lift this up, and that's why Aerostructures over the next several years has a good growth trajectory. What you're seeing here is the A220 is in solid blue, the Global 7500, as David mentioned, is just entering the service and out there beyond, we're currently working on the A320neo nacelle system in conduction in partnership with Airbus, and that will hit production in 2021.

And as all of you know, that A320neo platform is a volume driver. So we get it right, we're working with Airbus and then the ramp will begin for the entire decade at a very, very steady and high rate.

Let me mention a little bit about lean. I've spent an eternity in operations, in supply chain and in a few different companies and I can tell you that recently, I've been very impressed with what our capabilities can be and are in certain locations. All of our sites have pockets of excellence. None of our sites have connected it all together. That's the opportunity. We know what to do, we see twinkling stars of great opportunity and performance but we haven't been able to stitch it all together and complete the sweater map of our manufacturing footprint. That's what we're going to go do.

This is just an example in Queretaro, Mexico. It's in development, this lean line, but as you can see, it's clean, it's mean and it's lean. And I love it. This is the way a manufacturing shop floor should look and should operate. With all of the lean tools that start with improving demand management, synchronizing with our customer and ensuring that we don't overproduce, which is the biggest sin of lean manufacturing; asking our partners in the supply base to support us and position material that we can pull at tack rate so that we're able to deliver to the customer demand, ensure that the operators and mechanics have the material at point of use and that we drive our success program. And then finally, focus like maniacs on cycle time reduction. And why? Because when you drive lead time, you increase speed and velocity manufacturing, you take down the total number of hours, it reduces your cost and it helps you turn your inventory. We need to turn our inventory. It will free up our cash flow, and I'm going to take that money and we're going to reinvest it in more engineering and reinvest it in more capability in manufacturing and go earn the business from -- internal Bombardier new programs in the future and of course, third-party airframers.

Let me take a minute to explain to you this Aerostructure market. This is interesting. I've not played in Aerostructures in my aerospace day. I'm an engine guy. But this was interesting. It's a \$50 billion, going to \$60 billion market. It grows 2% CAGR, and it's an incredible market pond for us to play in. We don't need to earn 80% market share or 50% market share to have a real good growth trajectory for the future. We just got to win our fair share. And when I say win, we're going to earn it by the technology capably that we have, design, manufacture and the effort we're going to make to lean out our factories and be more cost competitive.

So you complement the market that is growing with the trend from OEMs to outsource Aerostructure work, where we can now receive and be on the catching end of delivering that value and then you look at the 3 key areas of our technology and manufacturing differentiator: one, the advanced composite. The advanced composite work we have on domes and on the wings for the A220 program are absolutely world-class. Our partners have come through, they've seen it, of course, as we all know, Airbus has significant capability in composites as well. And together, it's a tremendous capability that we have. We're going to continue to leverage it. It provides structural strength at lower weight, and we want to continue to invest in this area.

Our nacelle systems business, quite an incredible nacelle systems business. We've been on the V2500 program, the RB211, the Trent, all the CRJs, the Challenger 605, the BR710. And of course, the Irkut MC-21 with the Pratt & Whitney engine. This is a tremendous capability. Add to that now that we've secured the position and partnership with Airbus on the A320neo, we're in nacelle systems business.

And finally, manufacturing capability. There's some pretty interesting manufacturing capability that we have inherently in making Aerostructures. There's a few key elements, of course, with our advanced composite as you can see in the image, it's world-class. And there's also some other really cool chemical milling manufacturing processes.

Let me step for a moment onto financial performance. For 2018, we're on track to deliver on \$2 billion of revenue, roughly 8.5% of EBIT. If I go to the other extreme in 2020, our business will grow to \$2.25 billion and be somewhere in the middle of the range that we're showing you, roughly 10% of EBIT.

In '19, as was mentioned by John, we're stable. Revenues are flat, and it's largely due to the some of the legacy programs coming down. I mentioned earlier that the V2500 program, the nacelle program, that one is winding down, as the geared turbofan moves in and other programs move in. And then entering to service production ramp, we're starting to move up on the A220 and of course, the -- we're entering the service right now with first customer delivery for the Global 7500, all of which is, of course, secured and will help us to grow. But at the same time, we're expanding margin. And we're expanding margin because we're driving down the learning curves. For some of the new programs, we are coming down very steep



learning curves. We are driving cost reduction, with the help of Sam, on the bill of material and supply chain. We're going to see the partial benefit of that announced structuring plan, and we're curtailing indirect and overhead spend.

Let me conclude by summing the following for this Aerostructures business, 4 key takeaways. We have a great franchise, with complete end-to-end engineering and manufacturing service offering. Two, we have a well-balanced global footprint, and that positions us to grow, be more cost competitive and balanced between our knowledge cost centers and our best cost centers so we have the best to offer value to our customer. We have great people, very smart people, eager to work and who've grown up in an aerospace world as an airframer maker focused on quality and safety. That's a competitive advantage. We are building a real cost competitive advantage through operational excellence and lean and so in summary, we are an Aerostructures company.

And with that, I'd like to turn it over to Mr. Fred Cromer, President of Commercial Aircraft.

Frederick S. Cromer - Bombardier Inc. - President of Commercial Aircraft

Good afternoon, everyone, it is a pleasure to be here again in -- here in New York to give you an update on the Commercial Aircraft business. Last month, you all saw that we announced the sale of our Q400, the Q-series platform, expected to close next year. So I'm going to focus my comments on the A220 partnership with Airbus and then give you an update on what we see for the CRJ platform as our brand-new Atmosphère interior takes to the skies in the Delta connection.

First, I'm happy to report that the A220 is off to a great start with Airbus, building on a very, very strong backlog and a very impressive entry into service performance. The A220, the latest and newest member of the Airbus single-aisle offering continues to build momentum and captures the attention of airlines around the world. As I mentioned, the reliability and what this airplane is doing for our customers is phenomenal. We have 1 customer that's flying longer flights, achieving a daily utilization of over 18 hours. And on the other spectrum, we've got a customer that is flying 13 hours or -- excuse me, 13 flights a day, shorter flights, getting incredible utilization in a different business model, again, really demonstrating the versatility of this aircraft going forward.

At the same time, we are extremely excited to have delivered the first airplane to Delta Air Lines in October, and we look forward to this airplane serving North America next month, delivering unparalleled passenger comfort in mid-sized aircraft to yet a whole another continent and group of traveling passengers. Delta has got great plans for this aircraft. They have announced service to some key cities that include New York, LaGuardia, Dallas, Detroit, Houston, among others. And we are so looking forward to seeing this airplane here in the U.S., again, providing a unique experience for passengers. And again, that airplane was delivered in October, first flights had been announced for the end of January.

Next up is Air Tanzania. Their delivery is expected -- their first delivery is expected later this month. And once they implement that aircraft into their network, we will have airlines with home bases in Europe, Asia, North America and Africa.

On the regional business, our full attention is on the CRJ program. With a history of over 1,900 aircraft ordered and 42% of the world market in service today, the CRJ series represents the largest common regional jet family, more than any other type. The CRJ continues to be a leader in dispatch reliability, a real workhorse for networks around the world, where reliability is critical for success, with the number of flights expected from this aircraft is something that demonstrates the workhorse and the capability of what the CRJ delivers day in and day out.

And we see more in the horizon. 3,000 regional jets will be required over the next 20 years to replace retiring aircraft and to satisfy the airline's growth requirements to keep pace with year-over-year passenger increases. 2/3 of the in-service CRJ fleet is in North America, which is important because the CRJ900 is 1 of only 2 large regional jets that meet the current pilot scope clause restrictions. Neither the new Mitsubishi MRJ90 nor the Embraer 175-E2 meet these requirements, meaning that the scope-compliant CRJ is perfectly positioned for the retirement cycle to replace both smaller regional jets as they are phased out and older large regional jets that can redeployed into other developing markets outside North America.

To ensure that the CRJ has what it takes to for many years to come, we listened to what airlines were telling us and developed a game-changing, brand-new interior, first ordered by American Airlines and first delivered to SkyWest for the Delta connection. We call it the Atmosphère cabin, and



it features the largest onboard storage capacity, spacious ambiance and contemporary design, and a much larger forward lavatory, making it possible for the first accessible lavatory in a regional jet. You will feel the difference from the moment you step into the cabin with a much more open and spacious entryway.

Not only does the Atmosphère cabin raise the bar in passenger comfort, it also gives airlines the ability to eliminate the gate check process for large carry-on bags by utilizing newly enlarged, overhead bins and enhanced onboard storage space. There's plenty of room now for passengers to bring their bags on the plane, eliminating the weight and congestion in the jetways, and the initial feedback that we're getting is phenomenal. This creates real economic value for airlines by enabling a faster turnaround time at the gate and better utilization of the ground crews.

Our CRJ Global footprint provides for great potential. The CRJ program currently has 130 customers in over 90 countries around the world. 25 of these customers were new to the CRJ program in the last 5 years. We continue to broaden this large installed customer base by delivering and supporting both new and used aircraft. This creates more revenue opportunity from our growing aftermarket business, an area of increasing focus for us, as we see additional opportunities to create value.

As we reshape the portfolio, revenue will come down as the A220 is deconsolidated for the full year in 2019 and as we close the sale of the Q400 program, also in 2019. So you can see that the EBIT, on the other hand, before special items and including the partnership equity pickup, is improving as we look forward to our 2020 objective of profitability for the CRJ program.

And finally, in summary, our key priorities for 2019 are clear, finalize the sale of the Q-series program, focus on reducing CRJ costs while increasing the order book and optimizing the opportunities we see in the aftermarket.

And with that, I will turn it over to the Sam Abdelmalek. Thank you all very much.

Sam Abdelmalek - Bombardier Inc. - Chief Transformation & Supply Chain Officer

Good afternoon. Can you hear me? So I want to tell you a story before I start. Here we are, talking about meeting effectiveness this morning with our Senior VP of Human Resources. And we're talking about how your focus and attention drops after 45 minutes. So that's supposed to comfort me -- Senior VP of HR is trying to comfort me before we start going. And then I started thinking that I'm the last one talking to you about transformation supply chain at the end of session. So that got me worried. That is okay. I'm going to go get a video. I saw Danny and Laurent and David go ahead with a video, but unfortunately, I couldn't find any inventory video that's exciting. So that really is -- so you're going to have to hear it in its raw form today. So I apologize about that.

But listen, I'm very happy to be here. On a personal note, I joined Bombardier early October, and excited to be part of this remarkable company. You know what, a lot of people asked me, "Well, what attracted you to Bombardier?" Well clearly, what attracted me, you saw the products today, the great people and effectively, the great legacy of Bombardier. But then really, honestly, what made me join Bombardier is absolutely this opportunity to join this leadership team that you saw today in front of you and the commitment that they have to this unique, once in a lifetime opportunity for a turnaround. So that's why I joined Bombardier. All right, let's get into it.

You heard from all the business units today all the strategies about Centre of Excellence creation, made by definition, productivity, lean initiatives, cost reductions, standardization of products. So all that to secure the 2020 plan. So what I'll be talking to you about today out here are further initiatives to complement these strategies that will accelerate our performance and bring us to the next level.

Our objective is simple. In our focus to achieve world-class financial performance and to grow efficiently, we must continue to deploy the most effective process and tools available to us in the industry. Now that we've de-risked the business, started the transformation and started contracting early wins, really, it's about moving into a phase what I call, driving sustainable productivity right into our culture and day-to-day operations.

This model will embed sustainable productivity in our culture as we talked about. As you heard from Alain and the other presenters, we still have lots of runway ahead of us, building on our success and our strategies, that, we already spoke to you about today and in previous years, I'd like to

focus on the following 4 major initiatives. I'll address a bit more in details and inventory and the indirect goods and services later. So let me talk to you about supply chain and productivity here on this slide.

First and foremost, as Alain indicated, we're putting in place an enterprise-wide productivity system that does the following: a, leverages our collective, financial and human capital skills; two, enable effective and sustainable deployment of common processes and tools in a connected and common fashion at the enterprise level to make sure we maximize our return of investment; and three, enable and accelerate the desired productivity level to achieve our financial commitments. Simply said, we want a system to drive productivity and performance right into our culture in our day-to-day operations. All right. Let's move into supply-chain.

As you can imagine, we spend billions of dollars with our suppliers per year in product and indirect procurement and thus, a significant portion of our cost structure. Vision is to further enhance the strategic and proactive nature of the supply chain organization, and our objective is really threefold: reduce cost of our products and goods; lower our operating cost; while we improve our performance to our customers. And to do so, we really got to do, while we leverage the scale of Bombardier, we must deploy the most efficient tools and processes in a common way across Bombardier so we can effectively get that scale. And you'll hear more about that in the near future. Now let's get more into the details on the indirect spend and inventory.

We've organized -- reorganized ourselves to centrally look at our indirect spend about a couple of years ago. And that reorganization has really positioned us well for the future. Now it's time to go ahead and further reduce our indirect spend while we're in a growth period. And that effect will have a huge positive multiplier effect on the bottom line. Listen folks, clear opportunities are here in front of us to reduce our procurement cost for indirect spend and so here's what we did about it.

I told you before -- excuse me, in the previous slide, to accelerate our journey for the indirect goods and services, we're taking the following 4 steps: first, we just partnered with Accenture to leverage their sourcing-to-pay operation, thus, enabling us to decrease our cost structure through more intelligent and efficient digital processes. Our combined sourcing efforts, with Accenture's scale that they manage over \$200 billion of indirect spend, will accelerate our journey to reduce our purchasing cost in order to achieve sustainable savings. So that's number one.

Furthermore, we continue to reduce the number of suppliers by negotiating long-term agreements and partnering with integrators like ENGIE to drive down our total operating cost. Today, we have multiple systems and processes, which makes it more challenging to effectively manage and leverage our indirect spend. So we're therefore deploying SAP Ariba across all of our sites so that we better manage and control our spend. This will be a significant enabler to our financial objectives. We will complement SAP Ariba with cloud-based business intelligence, business analytics and digitalization tools so that we facilitate tighter spend and get the right visibility to achieve our objectives.

So in summary, we partner with Accenture to accelerate our journey. Two, we're still negotiating long-term agreements with partners like ENGIE. Three, we're driving tools like SAP Ariba and business visualization, business analytics tools. And that's how we're going to effectively, not only support our 2020 objectives, but position us to go beyond.

All right. Everybody's favorite topic, inventory and working capital. So clearly, the aerospace ramp and transportation growth has clearly put stress on our working capital improvements. And you heard from Alain and all the presenters, certainly, our growth will continue well into 2020. Thus, increasing our focus to grow efficiently with the right working capital will be absolutely critical. As we've said to you in the past, our objective is to improve by a 0.25 to 0.5 point from '17 to 2020. We're absolutely well underway to do so. But what we had nevertheless decided to do is accelerate our journey using a common inventory reduction approach across Bombardier to complement and accelerate all the used business unit initiatives.

So we're presently forming teams of inventory and planning experts that will be deployed to strategic sites. These teams will also have IT experts, lean experts, project management experts to fully transform the sites one at a time. We want to do it in a standardized fashion, in an accelerated method, using best industry practices and common tools. Each team will stay at that site until they have demonstrated sufficient maturity to stand up on their own. And what do we mean by that? Before that team departs, we want to make sure they have the right organization with the right talent, make sure that they have the right processes deployed, the standard work that we created, with the right tools in place. And only when they're standing up on their own 2 feet that we'll leave that site and go. That's the plan of how we're going to take and accelerate effectively our working capital reduction objective.



We will also announce shortly a major partnership with a third-party consultant that will come and further enhance and accelerate our deployment plan. Listen, our vision is simple, really. Not only do we want to catch up to benchmarks, certainly we have a lot of runway there. But it's also this is a unique opportunity for us to surpass that and truly drive to world-class standards. So I'm very excited about how we're going to deploy our inventory initiatives and our working capital reduction.

So in summary, the key takeaways for you: a, an enterprise-wide productivity system that will focus on effective and sustainable deployment of processes and tools in order to drive performance and productivity into the culture and into our day-to-day work; two, we have started executing an aggressive plan to reduce our indirect spend, while we grow incredible leverage; three, we're accelerating our journey to world-class supply chain organization to be more strategic and proactive using common industry standard tools and processes. And finally, a clear approach to achieving benchmark inventory levels to release working capital.

So listen, I am absolutely energized by this mandate entrusted by me by Alain and my colleagues to drive Bombardier to the next phase and work with all of the business units to effectively accelerate that transformation by focusing on a step change in productivity.

With that, thank you for being here with us, Patrick, back to you.

Patrick Ghoche - Bombardier Inc. - VP of IR

All right, thank you, Sam. Hope you enjoyed the presentation. I'm sure you have a ton of questions for management. So maybe I'll ask the team to start to set up the stage for the Q&A. We'll have all of our speakers on stage at 1:00. We'll run through about 5:00. So for those in the room, we'll have a few mics going around. We'll ask you to probably just identify yourselves and ask your questions. For those of you that are on the webcast, live, there's also an opportunity to ask questions. So just follow the on-screen instructions.

I'll just move away here. Maybe while we wait for the setup, after the Q&A session, you'll have an opportunity to have more questions to management. We'll have a small cocktail outside in the foyer. There's also a room in the back you may have seen on your way in with some examples of the innovations that we have from our different divisions. Let me tell you a few things that we have over there. You probably saw a business jet seat, our new Nuage chair sitting right out there, so I invite you to try it. It's a very -- it's revolutionary, very comfortable. If you haven't been in a private jet, this is your opportunity to at least sit in the seat. There's also a configurator, so you can go look in the small room in the back. You can configure your own jet, choose your colors, your leathers and all that. So that's also exciting. From transportation, there's a virtual reality presentation. You can bridge on board the Bangkok driverless monorail, the Stockholm Metro and the 100% low floor Zürich streetcar. So that's also there. And finally, Aerostructures brought a one-piece fan cowl door. So you'll have firsthand experience of their unique capabilities. So Danny will be right next to it talking about that. So maybe on that, I'll invite over speakers to come on stage.

QUESTIONS AND ANSWERS

Patrick Ghoche - Bombardier Inc. - VP of IR

Okay. So just simply raise your hand and we'll bring the mic over to you. So maybe we'll start over here in front. Just wait for your question, let everyone set up first. All right, go ahead.

Konark Gupta - Macquarie Research - Analyst

Konark Gupta from Macquarie. So I think this is a question for you, John. On the free cash flow, you mentioned the \$150 million to \$300 million free cash flow cushion for 2019. So the question is, when will you reevaluate that cushion for 2019, at what point? And what will take you to reevaluate that? And what's the rationale behind the \$250 million contingency? You have capital -- working capital. Because that to me suggests about 4 to 5 Global 7500 units, roughly.



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

Yes. So I'll take them in order. So in the first instance, I think we set up \$150 million to \$300 million, as I mentioned: one, because we got it early; and two, because we're going to be driving growth next year across all the portfolio. You can expect us to comment during the year regularly but, I mean, I won't speculate now on making any adjustments. I think we'll just keep you guys informed, as we always do, transparently on how the business is doing. And then from that point on, we can always make an assessment as to the lower end of that range. But I think we're comfortable with the guidance right now where we have it. And then I think the second piece was on the \$250 million contingency, correct? The working capital, that's within our guidance? So I think that with respect to that, really, it's about just making sure we have the flexibility. We're really focused on making sure that this business can deliver the growth in 2020. So if you think about it, by the end of 2019, we expect to have a BT franchise that's going to be ready to deliver \$10 billion of sales in 2020, but also, and principally, a 7500 that can deliver up to 40 aircraft in 2020, which, as David said, the supply chain has a lead time. And it means that really effectively, by the middle or the end of 2019, you're going to need to be stocked up in terms of components and ready to assemble and complete for 2020 deliveries. We just want to make sure the business has the right flexibility and that's what we're focused on, and we've also planned liquidity appropriately, so we feel good. We feel good about the guidance. We feel good about the generation of the free cash flow from the structural operations of the business, and we know where we're allocating those short-term investments on a onetime basis.

Konark Gupta - Macquarie Research - Analyst

If I can just quickly follow up on BT. So given the recent working capital issues, has there been any change to the dividend policy at the BT side because I know it's still below 100% of the cash it generates, right, historically? And what do you do with the cash that's typically left at BT after you pay out dividend? Like, what you do really with that cash? Does it go towards the deployment of more trains or inventory or you pay it back to the corporate?

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

No, I think in the end, the businesses all have a free cash flow plan, right? So at the end of the day, their goal there is that they generate the cash flows associated with their business plan and then ultimately, how we deploy cash is done at a group corporate level. And whatever the business need is is contemplated within the business plan. So there's no kind of alternative use of that cash afterwards. With respect to the dividend policy, I would say that like every dividend policy, as we generate cash flows and make decisions on the size of dividends, we've had very good relationship with our minority shareholder as well, so we make those decisions as cash is generated. Of course, in the shorter term, with less cash flow, we'll make sure we have the appropriate dividend, but still generates cash and the dividend for Bombardier Inc. And of course, in 2018 -- 2019, we'll reassess that with the ability also to potentially a dividend a little bit more given the recovery.

Patrick Ghoche - Bombardier Inc. - VP of IR

Got the next question here from Fadi on the left.

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

This is Fadi Chamoun from BMO. Just a couple of questions. First on BT. So the European anti-trust authorities are talking about forcing Siemens-Alstom to divest some asset ultimately as a condition to approve the merger. And I'm not sure what to make of that because ultimately, it could be positive in a sense that it could release some assets that you can tap into but on the other hand, it could also fall into the hand of somebody else that could strengthen a third player in the European market. And just sort of given the financial situation you're in and your ability to kind of be in an M&A environment, I'm wondering what do you make of all this? What does this mean to your BT franchise, if there were to be some significant divestiture in closed down Alstom and Siemens?



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

Okay. I'll start and then Alain will complete. So first of all, you know that the -- this is an ongoing process. So in your question, there is a bit of speculation there. We don't know what type of structural remedies is being proposed to the market. So as far as we are concerned, we are waiting for the proposal and to see if there is any interesting target for us. And then we can understand that being a global leader and having a large product portfolio, we will assess that very carefully. Do you want to add anything?

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

I think that I've been very clear, we've said multiple times, the first priority is to make BT strong on a standalone basis and this is what Laurent and the team are doing. And we're going to keep doing this -- we're going to keep growing this business to \$10 billion by 2020. So I feel very good about what we're doing on a standalone basis. Having said that, I've also been very clear that we're going to look at strategic options along the way, and we're watching what's going on between Siemens and Alstom right now staying close to the commission. And we'll see where we go from there.

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

Okay. Just one also follow-up on the cash flow side maybe for John. So if we look at the cost for servicing the current debt, north of \$600 million, and ultimately, the cost of servicing the quasi-debt in terms of cash ripple, you're looking at something between \$900 million to \$1 billion of cash outflow roughly that is tied to that funding. So the question is, is there asset sale that you can ultimately tap into more to accelerate the deleveraging and reduce that burden? And what do you deem ultimately longer term the right amount of kind of cost for that -- the debt for Bombardier? Just trying to size up the opportunity over the next number of years from bringing the debt more in line with kind of investment grade.

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

Yes, so I would say that first of all, the kind of cash interest plus the dividend -- I mean, it's a little bit less than \$900 million, but the point I think is understood anyway. I think, from our point of view, we've built a plan, very kind of well thought through on the amount of liquidity necessary to take this business to turn around. And that's really what we're focusing on, and the ability to generate free cash flow's from that business as we get out past 2019 into 2020, '21, becomes very powerful. So we have the right amount of liquidity today that will take us through -- I mean, even some stress in the system, will take us through very nicely through cash generation of the business. So I'd say that that's more the focus than monetizing other assets to your question specifically. That doesn't mean that we don't assess regularly what our core assets, what our noncore assets. And because we want to be very strong capital allocators. So the conversation around those assets is much more about where do we want to invest, where do we think we can grow and what we do best? And should there be opportunities where we find assets where we don't meet those criteria, there's always an opportunity, of course, to use that as a step forward to a broader deleveraging or debt reduction phase. But I wouldn't speculate on anything in specific at this point in time. I think you've seen what we've done over the last 2, 3 years and I'd say, judge us on that perhaps more. But we feel very good about the liquidity we've built up. We have a nice stretch here in front of us between the next maturities into 2020. And we've shown also very strong access to debt markets in all kinds of conditions, and we will continue to do so. And as I said in my remarks, I feel that we have the appropriate runway here to probably refinance to 2020s. And then '21s, it will be really a conversation about, as we mentioned here debt reduction, the opportunity to start to deploy more of that cash flow in a targeted way towards chipping away the debt. It will be passed most of the investments in the A220 at that time as well. We'll be generating strong cash flows from a repeatable, sustainable set of franchises, and we'll have some inventory and working capital tailwinds helping, and I think that's the way we really attack the debt float here. And in the meantime, we manage prudently and always with an eye on good liquidity.

Patrick Ghoche - Bombardier Inc. - VP of IR

Okay. Next question, here in front.



William McGoldrick Mastoris - *Robert W. Baird & Co. Incorporated, Research Division - High Yield Desk Analyst*

Bill Mastoris with Baird. John, the question is for you. If I heard you correctly, you've assumed both the asset sales as well as the redemption of the PDQ stake and the minority share in BT throughout your projections, if I heard that correctly. So I'm just wondering, how are you thinking about what you do first? Do you go ahead, take those proceeds from the asset sale, pay down debt, strengthen your credit ratings? Or do you go ahead and take out the minority stake and increase that cash flow that comes back into the corporation? I'm just wondering, what's your -- what are the puts and takes? How are you thinking about that? Which do you think gets you that better rate ultimately that you can refinance your debt down the road?

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

I think that the strength that will get us to continued refinancing and strong credit access is going to be performing in the business, which is what we're focused on. Now that being said, there's the added benefit of the additional liquidity that we generated from the M&A transactions, that's got strength for us. I would say in the shorter-term, right, through 2020, we're going to be strong on the balance sheet, strong liquidity, so we can get through and make sure that we generate strong cash flows on a very consistent basis. So that is liquidity, that's strong for us, I'd say over the next 18, 24 months, as we exit 2020. In terms of the overall opportunity with respect to CDPQ, I think that in that regard, really, this is going to be about a value creation opportunity. We've built flexibly that we've gained through the agreement that we have with the CDPQ in terms of our rights with respect to being able to buy it out starting in February of 2019. That's something that we're going to look at if it creates value, so under the right set of conditions. And I would say that we'll use that flexibility that's available to us for the next couple of years. So job number one for this business is generating cash from operations, from the business. We spent a lot of time and a lot of energy in building a strong backlog, improving our margins and being able to convert that to cash flows. You look at our investment cycle, it's behind us. We're going to go from an average of \$1.5 billion of CapEx to \$800 million or better. That -- those are the catalyst. That's how we drive the debt, and we feel that we've created a runway in front of us in terms of the debt maturities to be able to work through that. We have the cash on hand to be able to manage through the interim. And at the same time, we'll create opportunities if they're available with respect to the CDPQ, but we won't do something that is rush. We have no obligation to do it.

William McGoldrick Mastoris - *Robert W. Baird & Co. Incorporated, Research Division - High Yield Desk Analyst*

Okay. So if I understand you correctly, kind of reading between the tea leaves, you do plan to use those proceeds from the asset sales to go ahead and reduce debt first?

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

No, I don't think that's what I'm saying. What I'm saying is that, that is liquidity to get through to our 2020, '21 cash flows. The cash flow from the business, as we start to generate sustainable \$750 million, \$1 billion and thereafter, cash flows, that are, I'll say, unhampered by whether it be the investments in CSALP or other onetime investments, as those become kind of free usable cash flows, that will be the path to debt reduction. In the meantime, that flexibility is a free access to situationally, what we might do when we come through the turnaround. So from sitting on significant amount of cash by 2020, and we've completed this turnaround in a very effective way, and I'm looking at that \$1 billion of cash or more, I can deploy, and that deployment will be a decision I'll make at that time with the team.

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

Let me just add, it's we're not ready to make any decision yet. Let's be very clear about that. It's a 5-year turnaround journey. We had 3 phases attached to that: a derisking phase, earnings growth, cash generation and then deleveraging the balance sheet. We're just getting to that point right now. We have successfully completed the first phase. We're smacked in the middle of that second phase. If you look at the performance of every one of our business unit, it's all moving up. We've been driving strong operating performance, and we're seeing this across all business units. So the C Series now, which used to be a huge drag in 2015, is largely being addressed, that 7000 has been certified and now is in the ramp-up mode. And we are going -- and then we've built the right level of liquidity to make sure that we get to the end of our turnaround journey, this --



where we're going to be generating strong, solid operating free cash flow. So over the next few months, we will continue to assess our options, our ways with the goal of creating shareholder value. And that has been our guiding principle since day 1. And we will continue that way. So I wouldn't jump to any conclusion today because we're not there.

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

Got the next question here in the front row.

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

Kristine Liwag from Bank of America Merrill Lynch. Laurent, the free cash flow movement in BT from 2Q -- 2H '18 to 2019 was really sizable, \$600 million. I think, that's a really big disappointment. So I have a 3-part question on that. I could go one by one or do them all at once. So first, the 5 contracts that you highlighted accounted for about \$400 million. So what happened to the remaining \$200 million? Can you provide a little bit more detail on that?

Laurent René Octave Troger - *Bombardier Inc. - President of Transportation*

Yes, I said that during my presentation, the \$200 million is lower advances in the order entry profile. I said to you that we have at beginning of this year very successful order intake into service and signaling and running subcontract based on option. We have a much lower advances on the spot but you know that then it creates higher profitability and we convert the cash with the sales. So this is the reason, equivalent around \$200 million.

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

And is it common for BT to have so many large projects reaching cash milestones at the same time?

Laurent René Octave Troger - *Bombardier Inc. - President of Transportation*

Could you repeat that?

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

Is it common for BT to have cash milestones occurring at the same time. I mean, these 5 contracts are pretty sizable. So in terms of the history of BT, is this an unusual period where you had so many at once? Or is this pretty common and it just so happens that these contracts are unique?

Laurent René Octave Troger - *Bombardier Inc. - President of Transportation*

We are running several hundred projects at the time. So here, what we have had in the late Q3, we had the synchronization of some key issues onto the 5 contracts. They represent the major part of the \$400 million for this year. When we plan the cash for the year, we are planning, for of course, success, we did not plan for these issues, and they have occurred like this. Most of the time, we are delivering on all our projects, so you can imagine several hundred projects, it's a big machine.

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

Maybe I can add a little bit here as well. If you recall back in 2015, '16, it was actually part of our conversation with the investor community, that we had, as part of the transformation of Bombardier, also focused in on the transformation at BT. And there was also a remediation, if you will, of some

large legacy projects. And as I mentioned in my comments, the important aspect of that is that we kind of reset those large projects to complete engineering. So you create a little bit of an inherent concentration over time by resetting into 2015 and '16, kind of slowing everything down, making sure you had the final design. Then we really did let the inventory and industrialization kind of flow very rapidly through '17. It does bring us to a concentration, which even if you recall on Investor Day last year we highlighted as being this inflection point and we had it across the business. As we said, 7500 certification, back half, very important inflection because certification creates advances coming in. And we also have the ramp of the programs starting with inventories. We talked about the C Series having aircraft without engines, if you will, at last year and having to burn that down. And at the same time, we needed to expend margin so we can convert profitability to cash flow. And lastly, we needed the train business to be able to hit those milestones in the back end of the year, where you would have not only the deliveries and the cash flow coming from those but also these milestone payments or pre-acceptance or homologation cash payments that do occur as well. So your question about inherently, this was, by definition, this infection point was going to be high risk, right? And frankly, looking back today without belaboring this point, 7500 in the box, certified, done. David's done a fantastic job of symmetry with respect to ramping up his inventory but also driving the advance on the schedule of deliveries. On the C Series, we were able to close that partnership very nicely and as a result, now have kind of put that behind us. Margins have responded very, very well. The ability to convert those margins has happened nicely, to cash. And with respect to the train business, we are kind of, and I'll say it, and not to sugarcoat it, but the reality -- or to mitigate it, but they are signpost of success. Because here we are, despite the fact that we haven't gotten through the hurdle completely, we have, as Laurent showed, many trains completed, waiting delivery, some integration challenges and moving around the projects. And frankly, on the ramp, we have ramped up 20% more trains in customers' hands this year than last year. And we would have probably needed 23% or 25% more deliveries to be able to achieve the entirety of that working capital relief along with the milestones. So long of it is that -- or the short of it is that I think you have a concentration, it's going to work its way through and we still remain very confident that overall, that business is going to generate that cash flow sustainability over time. And the portfolio with 500 projects at any given time starts to have a normal distribution again as you get past '19 into '20 and so on.

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

Okay. And so for -- so my last question related to this would be, so for 2019, if we exclude the reversal of this push-out working capital into 2019, if we look at just normalized BT cash, what's the seasonality in that? And then what are the embedded milestones in place for you to meet that normalized cash?

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

I don't know if I can quick take a quick shot at the -- maybe I'll take a shot at the overall business and kind of seasonality there and I'll let Laurent talk about -- more about sort of the key work through the year. But I would say that obviously, we're working very hard on the recovery. We'd like to see that land. I'm not going to make predictions now. I think there's some of these issues you've seen that we have to work through with customers and so on and so forth. So there's going to be a little bit of variability. I would expect some front-end relief with respect to the recovery, which would I think be a little bit of an offset to a normally distributed lower cash burn or a cash burn

in the front end of the year. Typically, we burn in excess of \$1 billion in the front end of the year. Now we have some mitigating factors this year. Last year, I think was \$1.2 billion. The same thing the year '18. Yes, '17 was \$1.2 billion. This year, about \$1.1 billion. So I would say that perhaps there \$1 billion or maybe a little bit less is what's in the cards for the coming year in '19, and that's helped by the fact that you have some recovery at BT. You have -- the fact that you have a little bit less engineering spend on the 7500, but the offset there is you are ramping up the 2020 delivery on the 7500 ramp. So you've got a little bit of puts and takes. So I would say without getting -- we don't guide quarters and we don't want to get too specific. But the reality is front end of next year, probably around \$1 billion, maybe a little bit better than that given how the recovery happens. I think that's what's in the cards for us next year. Then the second half of the year, nicely ramping up, and I would say that, that starts to get us some good momentum and then benefiting perhaps a little bit from some of the margin expansion again and the growth on the business.

Maybe just on the train business, if anything specific, what are the major projects to come?



Laurent René Octave Troger - *Bombardier Inc. - President of Transportation*

No. I think that what I mentioned to you is that all these critical projects I mentioned to you are entering into a delivery phase. We have achieved the engineering and the authorizations, so we are into the delivery cycle. So the level of predictability is much higher than this year.

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

We'll go to the question on the far right, and then we'll go...

Unidentified Analyst

[Markus Stockhart] from Swiss Re. Sorry, John, I have to bother you again with regard to free cash flow. You've given us a good smell about the uncertainties because we're seeing the range of \$500 million for next year. There are some rumor for special items. Could you be a little bit more precise why the range is so wide? And albeit we learned the lesson that derisking from the complete business model has been, over the last 3 years, one of key topics.

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

Sure. Like we said, I think that what you have to consider there is the fact that we are dealing with some moving parts with respect to the growth and the acceleration of the business. And not to kind of repeat myself, but you have to think about this business being a \$16.5 billion business this year roughly, growing to \$20 billion of revenue in 2020. We're fully focused on that. And as we go through our growth acceleration in '19, it really is about the lead time of our working capital and our overall business strength to 2020. So David will be going from what is in his pipeline now, 15, 20 aircraft, ready for '19 delivery. He'll need to double that. He'll need to be bringing in aircraft components and full inventory for what is up to 40 aircraft the following year. We have the recovery at BT, so we'd like to see that recovery and then normal working capital or reduction. So there is some tailwind that we expect next year. We showed you that, \$50 million to \$150 million. So the reality is that those are the components that we are just being a bit prudent on. So the simple answer is that -- is we guided in Q3 in advance of what we normally do. We had these moving parts with respect to BT. At that time, still not really able to tell when we get full recovery -- some recovery. I should never say full because partly it will not happen, but some recovery in Q4, that's something we're working on as a team. So we left a little bit of contingency there should there be any Q4 recovery of the BT miss. But more likely, if that doesn't happen, then that will be a little bit of cushion on the bottom end. So long and short of it is we're -- we've built the liquidity to make sure that we can grow this business to \$20 billion. We can restructure so that we can be more efficient. We can grow our ramp-up so that we can have the right rate of delivery in 2020, and we're going to run the business with a very prudent proactive approach. And then to the extent that we don't use the range, that's good for us in terms of liquidity and handling what was mentioned here before, which is our look forward towards the leveraging phase.

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

Okay. We'll go here to Walter, in here.

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

John, this is a question for you. I guess I'm going to go post 2020. You've put on the slide post-2020, so I guess that opens the door to that discussion a little bit. Your CapEx you indicated was \$600 million to \$800 million kind of a post-2020 level. Is that a trough level? Or is this something that is an average over the course of the projects that you might envision over a number of years? Or is it -- what is that \$600 million to \$800 million? And what might it encompass in terms of projects?

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

I mean, I won't comment too much on the projects side of it. I will tell you this, right? For me, a couple of quick comments. Number one, we are reshaping the company, and we've done so with the announcements we made in Q3. I think people have to understand exactly what we did there. We took engineering on the Aerospace side organization and have reshaped it now to put our talent and our critical capabilities into business jets where we believe that the future of capital deployment on the product and technology is predominantly. Now of course, on the Aerostructures side, they have their own organization. So one, we took out this common aircraft design organization and repatriated it in some way. That allows us to structurally reduce our overall cost structure with respect to development while still preserving capability to do great things. You've seen how we've done it with the 5500 or 6500, and I think those are great examples of how we continue to make sure that the product portfolio stays strong. In the broader context, the \$600 million to \$800 million, we talked about \$800 million or less today. And recall, in 2015, one of the comments we made was that we wanted to size the organization around depreciation, amortization, equal CapEx. We're ramping up the 7500. We're going to come into that zone over the next couple of years, probably in that \$600 million to \$800 million zone as we get to mature capacity on the 7500. So we are where we said we would be 3 years ago by design. Now how long that lasts and speculating on bigger projects, nothing in the foreseeable future, nothing to comment on here today. But I would tell you that, that's where we feel comfortable guiding the next couple of years.

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

And just a follow-up to that. You have put money onto the Lear 85 a while back. If the business -- to your comment where you want to focus on business jet, we saw nice turnaround in business jet recovery. Is that something that you can pull from? Is that -- or is that a project that's in the past? It's over, it's done with. We're not going to see anything more about it?

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

I'll let -- I don't know, Alain, if you want to take that.

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

Well, it's not in the card. The Lear 85?

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

Yes.

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

No, not in the card. I think this is a market segment that is more crowded today. And like John said, one thing that we are going to be very disciplined moving forward is where we're going to be allocating capital. So we like the train business. We like Business Aircraft. We like the high end of Business Aircraft. We have amazing products today. We have great franchises from the Lear, [up] Challenger and Global, and that is where we want to focus. We want to focus towards the high end of the product line.

Patrick Ghoche - Bombardier Inc. - VP of IR

Okay. We're going to the next question here on the left with Turan.

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

Yes. Turan Quettawala from Scotiabank. I guess I want to talk a little bit, maybe Alain, John, about some of the issues that you're facing in 2018 with regard to free cash flow. I guess, some of that you could argue with the cards that you were dealt when you get into the -- when you got on the turnaround initially, mainly because we had a bunch of stuff happening with the C Series, with the Global and with the BT projects all kind of hitting up in the same year. Is it fair to say that as we go forward here, as you plan into maybe post-2020 around that, are you managing the risk in a different way? Are you thinking about that conceptually? And can you actually do that conceptually to help that and so we don't get to a situation like this again?

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

Oh, absolutely. I mean, that is clear. And that is the reason why I'm saying if you look at where we are today in 2018 versus 2015, we're at a much different place. I mean, when we came in, in 2015, we had the Lear 85, we had the C Series, we had the still a mid-stage of development certification on the Global 7000. So we did -- we took a lot of actions. We saw the ramp coming up at BT. Last year, we've been super clear. I mean, I'm going to repeat again what John said, but we saw the risk in '18 being a delay on getting the deal completed close in time with Airbus was one of our risks, and we were managing this. Because I mean, it was putting a lot of burden on the organization. The second risk was the certification of the Global 7000 because I mean, most of you who cover aerospace understand how complicated it is to certify the new aircraft. And David and the team did a fabulous job getting the aircraft certified on target. So I mean, we had like 2 risks that basically we've mitigated, retired in a very nice way. And on the train side, I mean, we did build up a lot of capital to get the train out of the factory. And for reasons that had been said before, I mean, we could not release that working capital as expected. Moving forward, we are going to be very disciplined. If you look at what we've done here, we are refocusing the organization on Business Aircraft, the train, Aerostructures and we have now a small regional jet franchise that we're trying to sell aircraft and rebuild the backlog. But it's very clear where we are, what we've done. And the path forward is clear, and the path forward to 2020 is clear and exciting. And past that then you generate operating free cash flow. We have like \$600 million to \$800 million of allocation for CapEx on new projects, and we have time. We can think about how we want to best allocate capital moving forward. But the level of risk has significantly reduced versus where we were in '18 -- in '15. And I guarantee moving forward, we're not going to go back to where we were in the past. That has been a significant turnaround journey so far. I'm very proud of what this team has done. I think that we've accomplished a lot. We now have the past. We have the liquidity. We see where we're going. We understand where we want to focus short term, short term being '19 and '20. And as I said, past that, we're looking at all options. So we keep our options open. I mean, we're looking at competitive landscape. We're looking at what our competitors are doing, where the market is going. And we're very sensitive to where we are as a company. And we want to make sure that post-2020, Bombardier is going to have strong financial capabilities to keep growing.

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

Yes. Do you want more questions? Go ahead and ask...

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

Can I just ask one more quickly on the Global? I was wondering if you can talk a little bit about the backlog X on the Global 7500. If you can give us some color on that and maybe just talk a little bit about your ability to benefit from maybe improving market here in the business, jet side, without necessarily increasing production.

David M. Coleal - *Bombardier Inc. - President of Business Aircraft*

Yes. So I think you saw our -- our backlog, as we mentioned, is the industry's largest backlog. So I won't give you kind of details within the color, but it is strong across the portfolio, right? So we're largely sold out on Learjets through 2019. You've seen our book-to-bill be 1, greater than 1 every quarter, which means that we're building it into next year and future years. So we feel good about the backlog position as we stand right now. I think what we'd probably see in -- by not increasing production, I think was your question, and what the benefit would be for an uptick in market conditions would be continued backlog build, right? Consistent backlog of 1.0 or greater because like I said, we're cautiously optimistic about the



market indicators. But where see -- what's happened over the last several weeks, we're going to be prudent about our production rates and we want to make sure that we don't overproduce, which reduces residual values and impacts pricing. So we're going to stay consistent. And I've said publicly, we would only increase rates if I consistently saw a book-to-bill greater than 1 for multiple quarters. And the indicators would have to kind of align with that also.

Patrick Ghoche - Bombardier Inc. - VP of IR

We'll go in the right there to [Rob].

Unidentified Analyst

Either for Alain or for John. For 2020, your free cash flow guidance is effectively 4% to 5% of sales, but you're not quite through the transition yet. You're not full profitability on 7500. Restructuring hasn't fully kicked in. What is the natural free cash flow margin for the business? And could you talk about that separately for BT and Aerospace?

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

Well, I don't want to get ahead of ourselves either. But I would tell you that we've been clear that we believe that once we get the \$750 million to \$1 billion, we believe that, that this is sustainable level. And so I would say that as we work through the years post '21, '22, as you mentioned, you'll see the kind of tailwinds we talked about. We'll see the restructuring fully deployed, so that means a little bit of margin appreciation. The learning curves on some of those large aircraft that we're putting out there, which are phenomenal aircraft and are doing very well in the market naturally will have a better margin and they will gravitate towards premium margins. So we see that uplift possible '21, '22, '23. So those are the kind of things that will generate better profitability, which we said, given our discipline on capital allocation and what I believe to be also a multiyear working capital tailwind as we work through some of the things you've seen here today effectively, shorter lead times on trains and so on, that means that, that \$750 million to \$1 billion starts to become a strong, repeatable set of cash flows. And of course, I would hope to the higher end of that range on a long-term basis. And if we are able to do that, then fundamentally this business is back in the driver's seat with respect to managing its debt, its overall liquidity. And I made some comments we'll see nice balance between Aerospace and trains. So those businesses both can be geared in the longer term to be \$1 of earnings to \$1 of cash businesses, and that's really what we're looking for: disciplined capital allocation, strong operational excellence, keep growing nicely on the top line with great products. And that conversion to cash will be available to the business.

Unidentified Analyst

Okay. And then more specifically in the aerospace, in the biz jet business on the 7500. So this might be for you, David. But the working capital, the \$250 million there, I assume the issue is you don't have a lot of units going out the first half of the year, and they're going to cost more than they're going to sell for. So that's a lot of what that is. But could we think about the cadence and how we should think about 7500 cash and profitability as we move through '19 and '20? And as a component of that, does the wing factor in here? Might there be some cash requirements there?

David M. Coleal - Bombardier Inc. - President of Business Aircraft

Yes. So I think when you think about the production ramp-up, as we talked about, we're going to be thoughtful about how we ramp up the units between 3 and 5 in the first half then 10 to 15 in the second half. You see based on the guidance that the margin will recover back in the 2020 time frame as we produce more units, come down our learning curve and our cost curve. So we're making sure that we're always focused on the unit cost structure and coming down our cost curve as fast as possible. So the \$250 million, John can talk more about that, but we have a contingency in our plan to make sure that we're driving that. When it comes to the wing question, it's a question that comes up quite a bit. We received certification of the aircraft, which means we have to receive certification on the wings. So we have all the wings required for 2019 production, and we're actively working with our partner on a variety of topics, which could include the long term, what's the right place for the wing to reside as they've talked



about before in the past as they think about their strategy. So all of those things are progressing, but I think the biggest point is that everybody is committed to the program ramp-up and committed to the long-term success of the program.

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

Benoit Poirier from the Desjardins. Just in the front, sorry. My question is for Danny. With respect to Aerostructures, you target 9% to 11% in 2020. On the other side, a lot of the business will come also from the Airbus 220 and Airbus has been clear from the beginning that they want to reduce cost. So in terms of margin expansion, you mentioned the 3 drivers, but how should we be thinking about the potential pressure that might come from Airbus? And also, if you could talk about the bidding opportunities that you see these days on Aerostructures and also the capacity available at the Aerostructures business?

Danny Di Perna - *Bombardier Inc. - President, Aerostructures & Engineering Services*

Okay. Well, thank you for the question. Let me first address your point about Airbus. We have a strong partnership with Airbus. I spend a lot of time with the Airbus procurement and, of course, the [C South] business unit so that we can, first and foremost, explore how we can partner together to significantly reduce the cost, not only of our content but the content on the A220 aircraft. So to your point, we are working the challenge head-on. We've got a series of initiatives. We've got -- we work with Airbus every day, 10x a day, trying to drive the cost down for our components. And we're looking at leveraging the expertise and, of course, the breadth of capability that Airbus brings to the table in terms of supply management and scope and partnering together between myself and Sam on how we can drive that value with a different set of assumptions for the supply management of the future. Internally, as I've described, we've got several permanent packages. We have other packages of work that are on the aircraft, and we're continuing to drive down the learning curve. We're attacking the bill of material. And honestly, we're making good progress towards the objectives that we set to get down the cost curve. Your question about how we think about other opportunities and then you add it on capacity, I would tell you that we have capacity. Lean manufacturing is a way of freeing up capacity. Because when you shrink your cycle time, you reduce -- you optimize the shop floor. We -- you free -- when you come down the learning curve, you free up hours, therefore you can forward-deploy the people that you had on one type of product on various. So I would tell you in the short term, capacity is not an issue. We are continuing to invest in tooling and jigs and fixtures as the Global 7500 and as the A220 program ramps up. So we absolutely need to continue that so we can get to the higher and higher rates. And then, finally, your question about opportunities. I didn't go into the detail today, but there's several space and missionized aircraft vehicles that we are working on. There's several nacelle system work that we're looking at partnering with right now. There's several aftermarket opportunities. So I'd say that we're really shifting. We're shifting from a 60% focused on Bombardier proper aircraft and 40% externals, which we do have a strong external footprint. And it's probably going to reverse in the next 3 to 4 years to a 60-40, the other way.

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

Maybe before we go to questions, I'll go from online and then we'll go to questions at the back.

Maybe John, I guess, the question is from -- because we've put a page in the deck on the appendix. Are you getting any indications on your EPS next year? Maybe we can pull out the chart just to...

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

As you know, we've put something in the appendix so you have it on the back of your deck. So we don't typically guide on EPS, right? This is not -- it's not really an EPS story. I mean, it's for you to assess that, but the reality is that we're focused on obviously growing profitability as we can convert to cash flows and then continue to improve the overall picture of the business. But we have a chart here that it's -- I think it's important for you to understand. We have growth in terms of earnings next year that's going to be important, the 20% EBIT growth. But I want to explain something here as well, which is under IFRS, as you have large investment development programs that are capitalized, you have to also capitalize the interest

cost that's associated with those investments. So over the period of last 3 or 4 years or so or more than that, actually, 5 years, we've been capitalizing. This happened as well in C Series, but we've been capitalizing interest against the 7500 program. The program is certified, and that's the criteria. Once the program is completed, then you stop the capitalization of interest. So to be clear, that now goes to the P&L, as opposed to going to the balance sheet where it used to go before. So you start interest capitalized to the program as part of the entire development capitalizable cost. That will stop now that it has certified. So it's into the fourth quarter and will become part of normal interest expenses. Overall cash interest, no change. There's no change to any of this with respect to borrowing or debt. It's simply the accounting of it. But that's going to create a drag on your EPS next year. So it's important for you to understand that. We guide at the EBIT level, which is before interest. So this would not be in the normal overall items we'd cover. And that's going to have a pretty material impact on EPS. We have normal tax. We have a very good rate, but nonetheless a bit of a drag on the earnings. Overall, we have a long-term very favorable tax position with significant losses relative to the development spend that we have. So tax attributes that are available to us. But on an accounting basis, a little bit of a drag there. And then the final piece of that chart talks about the fact that we do have a minority interest in the train business. So as we grow profitability there, like in the first box, there's a little bit of a drag on the minority interest with respect to BT on the EPS. So that comes right out of noncontrolling interest. Again, we consolidated the P&L so you wouldn't see that unless you look at the EPS calculation for noncontrolling interest specifically. So overall, that's going to be a headwind next year, so we'll see some real pressure on EPS longer term. I mean, we'll continue to grow with earnings from that point on.

Patrick Ghoche - Bombardier Inc. - VP of IR

Thanks, John. So we have a question there on the back and then...

John Davy

It's John Davy from Wellington Management. Just a question on BT in relation to risk. So clearly, 2018 there was a number of legacy contracts that you kindly commented on those 5 contracts. So as we look into 2019, can you just give us some confidence or just give us a sort of a spectrum of risk where the backlog stands now? Is it a similar level to 2018 in terms of some key contract risk? Or is it lower? Do you think the profile is a lower-risk profile going into '19? And the follow-on question is when we're actually going to tangibly see this platform simplification, higher margin coming through? Is it '19? Is it '20? So if you could just shape some comments around that.

Laurent René Octave Troger - Bombardier Inc. - President of Transportation

Yes. So the -- as you can see, the major programs that are coming from the past are getting into the phase of authorization and then we are now entering into the delivery phase. The delivery will continue '19 and '20. At the same time, you've seen the order entry profile that we have for the last 3 years, which is much more based on our platform. Unfortunately, it was a higher level of reuse. So of course, we have progressively derisked the backlog. So we are expecting to see less revenue coming from those legacy projects and to increase significantly our revenue coming from this new platform approach. What I can say as well as that we are growing the -- our service business and our signaling business at the same time, so which are more predictable in terms of generating cash, but also less risky than the usual projects.

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

And you're already seeing the margin expansion, right? So there's already been a benefit from that strategy flowing through the P&L. It's fundamentally the transformation of BT that's created that and there's a period, right? These projects will burn off through 2020. And -- but as Laurent said, it progressively derisks.

Patrick Ghoche - Bombardier Inc. - VP of IR

Okay. We'll take the next question here and then on the front here.



Unidentified Participant

A question for David. You spent considerable amount of time talking about the potential of your aftermarket business. And so I'm kind of wondering, and feel free to express it in units or percentage, how -- what percentage or what number of units do you have there now out of the warranty period, which I assume would generate a whole lot more in the way of aftermarket revenues? And then how do you expect that to grow in 2019 and 2020?

David M. Coleal - Bombardier Inc. - President of Business Aircraft

Yes. Thank you. So I'll express it more in terms of capture rate of the installed base because that's the way I've talked about it before. So if you think about 4,700 units what I've mentioned before back in 2015 time frame, we were probably in the 28% capture rate. And to be able to kind of double that revenue base from the 2015 time frame to the 2020 time frame we talked about just being able to get out into the 40%, 45%, 50% capture rate of that installed base. So a lot of work is done by locations that are my installed network or my authorized service partners. So that's basically revenue that goes outside of my network. So whole idea is to increase capacity, capability, support, access for that currently installed base to capture more of it because they're actually spending money to get their parts worked, and so the planes are worked on, but not necessarily in my location. So the whole idea of the campaign, bring your jets back home. So what we're doing is we have strategic activities to allow us to do that. You've seen that double-digit growth actually occurring year-over-year on capturing more of that installed base.

Patrick Ghoche - Bombardier Inc. - VP of IR

Thank you, David. We have time for a couple more questions. One from David here, then we'll go to Noah.

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

John, I have a question for you. David Strauss from Barclays. Your onerous contracts balance, can you speak to that a bit? I know you drew it down with the C Series going away, but movements in that. Looks like you're spending cash against how that's going to look over the next couple of years, what exactly that comprises? And then could you -- you talked about the build, the inventory build contract as you build the BT. Can you just talk, though, on the parts payment side and kind of compare and contrast how that works in BT as compared to BA, how do you park payments on that side of business?

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

I'll let Laurent talk about the kind of mirroring of the progress payments at BT, I mean, because they are distributed and unique across different contracts. But in large, the profile at BT has about \$1 advance roughly or over \$0.90 of advances, anyway historically up to \$1 advances against inventory of contract assets. So in that regard, it's a pretty good business. It does have a very nice pattern of cash funding versus the ramp and the -- and inventory. And I think that's -- in the aggregate, that's the business. Now it differs, as Laurent explained, as we kind of have a little bit of a shift. It differs with respect to large long-term contracts versus options and services. But the portfolio stays fairly steady over the period of time. In respect to onerous contracts, so I would tell you that we have some of these legacy train business contracts from the past. Those are some of the ones that we kind of remediated when we made that sort of slowdown stop in '15, '16 is where we attack a lot of the design. And we were then also behind with respect to customer schedules. So the entire dealing of all that happened back in '15, '16. And now we're kind of delivering. So that -- it has a little bit of a drag on cash flows, but it's not something that we can sustain in the overall business. So I mean, it's not we plan for it and probably able to manage through that over the next few years. I would expect probably '20, '21, you're in the end of that tail of deliveries. So nothing that kind of stresses me out in terms of the overall cash flow generation of the business. We also, in there, we've removed, as you said, the component that goes with the C Series. So that was kind of movement out. And then we took some provisioning early on when we did the deal with Airbus on the learning curve component now of those components that go to the A220. Early stages there in the learning curve, but we have a pricing regime with the A220 that now becomes third party. So that's where it kind of accumulates today is that it now is a third-party transaction. So I recognize that on the actual units that the Aerostructures guys will deliver over the next few years here as they get down the learning curve.



So that's the real essence of what's driving the onerous contract. Maybe if I'm missing something, Patrick. There's got to be a -- you should comment. But I think that's...

Patrick Ghoche - Bombardier Inc. - VP of IR

I'll just add a little bit of color, right. It's roughly in the north as of September 30. You'll see it, it's about half and half between the train business and the Aerospace business. I think I'll just add to what you just said. There is some noncash components in there, namely the off-market return we have on the investments we make against [C South], so for the C Series joint venture. So we booked a provision because we get a return that's capped at 2% versus the market return. So you see the note, and we can take it off-line because it's technical. But some of that is also noncash within the onerous contract provision.

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

He's referring to those investments we make the obligation, the funding obligation. We have a 2% return with the market rate on that would be whatever it is, 8%, 10% or something. And so from an accounting point of view, you need to accrue that provision because you've offered a lower financed solution in the market. So it's a noncash element.

Patrick Ghoche - Bombardier Inc. - VP of IR

Noah in the back?

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

John, you have a lot of moving pieces on the cash flow savings right now, maybe just go through -- you just had what, was it a conservative attempt in the discussion against detailed singular piece and the pieces matter. But is it a fair simplification that in 2018, your outlook was counting on positive change in working capital? And that in 2019 and 2020, your outlook is not doing that? In 2019, you have a normalized number. So by definition, there's no working capital. Your reported number has working capital moving pieces, but they net to 0. And in 2020, you get to the building blocks with just EBITDA, cash tax, cash interest. You don't need anything from working capital.

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

Yes. So I think it's fair. I mean, I guess, I can't mix -- I can't make it more simple than it is. To some degree, it is a transition, it is a turnaround. There is exit of a CapEx cycle. There is the reshaping of the BCA portfolio. There is the ramp-up of the train and the plane business with respect to their rates, which is good because of the products are in the backlog. So that's the reality of it. But to your point, when we look at our normalized cash flows, you saw that structurally, in the end, what it comes down to now is earnings converted to cash and now, in '19, that is structural. We have more earnings than we need to service our debt or our CapEx requirements. And as a result, structurally, 2019 becomes that year where you have a stable recurring cash generation model in place. And that's come from the margin expansion we've had and the ability to start to grow the top line. So as you kind of cling through this period, we do mention the fact that we do have what we believe to be here a working capital tailwind that probably will go for a few years. Don't forget, at this point in time, we've built up a lot of production rate, but the turns on that are slow because you haven't started really delivering 7500s and you get to a maximum or a repeatable rate somewhere in the next 24 months. On the train side of the business, we have to kind of remediate some of these projects so the inventory acceleration will happen there with the shorter cycle of development as well. So those 2 features, plus what Sam has talked about in terms of just general and Danny about general operating excellence, are a nice tailwind that probably has legs for several years to come. So the point being is that as I get to 2020, if you think about \$2.25 billion or more of earnings convertible to cash flows and much cleaner, simpler straightforward businesses, profitable, good margins, then you think about a disciplined \$800 million or less of CapEx. And you think about the \$750 million of cash interest and taxes, well, your math would give you something in the neighborhood of about \$750 million of cash generation. We also then have some tailwind from the working capital deleveraging, if I can say it this way, over time. So that adds a little bit of cash tailwind. And the fact that we may spend less than \$800 million also help or make more than

\$2.25 billion. So we feel pretty confident we've sized out structurally how we'll deliver \$750 billion to \$1 billion, and you saw the chart I've put up post-2020.

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

So basically, CapEx comes down and you have to grow the EBITDA. And so growing the EBITDA, a lot of growing the EBITDA is under your control, but a lot of growing EBITDA is out of your control because you do have a consumer-facing and macro-facing business? And so you have a credible plan and the leverage ratio isn't that high anymore, but you do have a wall of maturities that's not that far away. Why wouldn't you more immediately refinance the \$850 million that's due in 2020 and the \$1.4 billion that's due in '21 because your 2 highest interest rates. So you would take down your cash interest expense and you would give the market much less to worry about in the near term with the wall of maturities and you wouldn't change your optionality with the CDPQ stake [it promises]. What am I missing in that game plan?

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

No. I mean, I think that's more or less what we've said here. So the first and foremost, right, is the 2020s. So those are -- they're still 15 months away, right. So let's call a spade a spade here. I mean, this is not tomorrow morning. We've put in excess of \$3 billion of cash in the balance sheet here with the overflow of the year plus the M&A proceeds. So we have the right set-up here to manage through this. But we've said opportunistically on a tactical basis, we'll look through 2020s, take those out. The '21s are 2 years out. They come -- they have a [maco] associated to them and the...

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

How much is the [maco]?

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

Sorry?

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

How much is the [maco]?

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

Off the top of my head, I'm not sure whatever...

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

Because I understand the desire to want to have smaller [macos] and get the best terms possible, but the stock is saying something else. The stock is saying that it's very concerned with those and the balance trade above par. So presumably, relative to your cash balance, relative to the size of this wall, it wouldn't be that expensive for the incremental and you reduce your interest expense in the process. I struggle a little bit with why there's more urgency on those near-term plans.

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

So you know what I mean, Noah. I would say that debt in management -- debt is a priority for us as a business, and that we've shown that. Every year, we've gone out at least 12 months ahead of the bond and we've refinanced it 2 consecutive years. Today's environment is not the right environment to do a bond deal. So opportunistically here, as we look through the next few months, we'll see where the right opportunities are. I'm not going to telegraph something. I'll pick the right spot when it's appropriate for the business to do so. I think when you talk 2021s, I mean, there is progression here to be made. We'll find the right spot. Frankly, I think we've shown access to the debt markets. We've shown ability to go out and we finance in the right conditions. And I expect to do the same thing. So I don't think we're actually seeing anything different. It's not something I'm going to do with a gun to my head, so to speak, because I think that I can manage through that. As a business, we're showing that we can manage through it. And we'll pick the right spot. But we feel that we've built the right liquidity, the right runway ahead of us to deal with it. And we'll go to the market and deal with it the right way for everybody.

Patrick Ghoche - Bombardier Inc. - VP of IR

We have the last question from Seth here on the left.

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

It's Seth Seifman from JPMorgan.

Patrick Ghoche - Bombardier Inc. - VP of IR

Just one, please.

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

Yes. We'll keep it to one. Short one, actually. Just for Laurent, quickly. Can you talk a little bit about the contribution from your joint venture in China and the earnings outlook for transportation? What kind of visibility and stability there is in that contribution and how that end market figures into the outlook for the business?

Laurent René Octave Troger - Bombardier Inc. - President of Transportation

So we don't report it separately, but what I can say on China is that we have a very successful business there. We are working with different partners. It's -- I said it's a very growing market and there's a significant support by the developments with long-term strategic capital investment. We've been there for 15 years now, and we keep developing ourselves. We are present in the high-speed trains, the 250 to 350. We're also present in the metro market and we are, in particular, very strong supplier in Shanghai. We have also launched recently a monorail, an APM joint venture. We have won recently several airports in China, the last one in Chengdu. We have also a very important equipment JV there. And we have launched last year a signaling JV. So China remains for us a very important market. We are developing the local partners and we are, of course, now moving to a phase that we are not only transferring technology to China, but we are also developing new solution in China in the ways of Chinese bond.

Patrick Ghoche - Bombardier Inc. - VP of IR

All right. Well, thank you very much. This is like a closer event. Thank you very much for being here. Do you want to say a word there, guys?



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