BOMBARDIER OUTLINES PLAN FOR IMPROVED PROFITABILITY

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Bombardier is preparing for dampened revenue next year with Global 5000/6000 production cuts and expectations of a slightly down or flat market over the next two years. David Coleal, president of Bombardier Business Aircraft, told investors on November 24 that the company has “right-sized” production and expects rates to remain flat – barring major market changes – through 2018. The company is eyeing growth at that time, with the anticipated introduction of the Global 7000.

At the same time, Coleal said, the company is continuing to look at its top line to improve profitability. He noted the recent cancellation of the Learjet 85 program, which he said was a “difficult decision, but it was the right decision to make” in the face of the market, as well as the Global 5000/6000 production rate cuts and the two-year schedule slip of the Global 7000. But Coleal added that even with the delay in the 7000, “we’ve had very few cancellations.”

The company also is looking at rebuilding backlog, focusing more on direct sales to maintain more direct contact with customers; ensuring the company delivers on contracts to stop “revenue leakage;” expanding its product support business; and taking a more disciplined approach to how the company manages its pre-owned aircraft business, he said. As for operational improvements, Coleal said the company is striving for reduced cycle times, more leveraged buying power of materials and fewer aircraft in the works.

With the changes, Bombardier president and CEO Alain Bellemare estimates that Bombardier Business Aircraft could become a $10 billion business with significantly improved margins by 2020.

The Business Aircraft division's actions are part of a five-year plan that Bombardier is implementing across its business lines. During yesterday's Investors Day, Bellemare unveiled that plan for transformation across its businesses. It revolves around three key actions: "de-risking" liquidity in 2015 and 2016, rebuilding earnings and cash flow beginning in 2016 and deleveraging the balance sheet after that, Bellemare said.

He said the company has taken key actions this year to de-risk and stabilize the business, and these efforts are expected to continue next year. "In short, 2016 will be a year of transition," Bellemare said.

The company is forecasting it will have $6.5 billion of liquidity at year-end, positioning it to focus on completion of its development programs, including the Global 7000 and CSeries, Bellemare said. The development programs are instrumental to its plans for revenue growth. Transformation plans also include operational improvements, business model improvements and a review of portfolio strategy. Bellemare said the company is continuing to assess strategic options.

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