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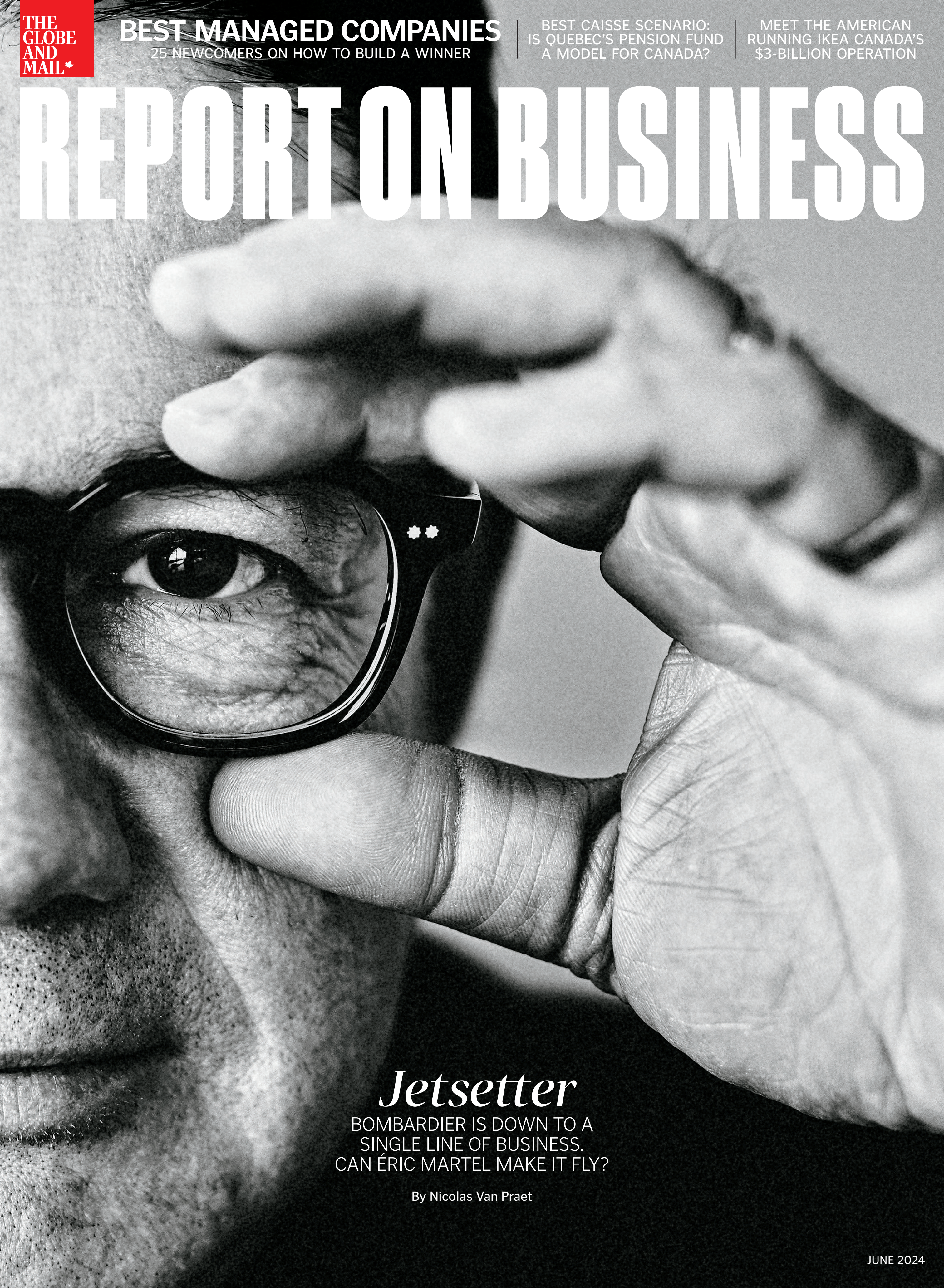

Jetsetter

BOMBARDIER IS DOWN TO A SINGLE LINE OF BUSINESS. CAN ÉRIC MARTEL MAKE IT FLY?

By Nicolas Van Praet

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NOTHIN’ BUT JET

BOMBARDIER ONCE ASPIRED TO WORLD DOMINATION IN BOTH COMMERCIAL AND PRIVATE JETS, RECREATIONAL VEHICLES AND TRAINS. NOW IT’S DOWN TO A SINGLE LINE OF BUSINESS, ALBEIT WITH AN EYE ON RECAPTURING ITS DEFENCE CRED. CAN CEO ÉRIC MARTEL MAKE IT FLY?

BY NICOLAS VAN PRAET

PHOTOGRAPHS BY RAPHAEL OUELLET

Éric Martel started as Bombardier Inc.'s CEO on a bright, sunny Monday in April 2020, and by 11 a.m., everything had already gone to hell.

The 56-year-old, one of Quebec's most recognizable executives, with his jet-black hair and black-rimmed glasses, had barely settled into his C-suite at Bombardier's head office on René-Lévesque Blvd. when then finance chief John Di Bert showed up to deliver an urgent snapshot of the company's operations. A contagious virus was tearing around the globe, and goverments were closing schools, borders and factories.

Martel knew they were in a fog. But he didn't quite grasp the extent of it until that moment. Bombardier had nearly 50 plants around the world, and almost all were shut down, with thousands of employees on furlough. "Nobody's producing anything," Di Bert told him. A quick conversation with executives at the aircraft and train units confirmed the worst: All those planes and trains they were counting on to bring in cash would just freeze in place—huge hulks of metal and wiring in various stages of production with nowhere to go. The lack of revenue was a disaster in the making.

"Billions are going out the door" as he was sitting there on day one, Martel recalls now over supper at Montreal's posh Saint-James, a private club the company uses as its downtown pied-à-terre now that its headquarters have moved near Trudeau airport. A longtime business-jet customer soon phoned with more ominous news. "He says, 'Yeah Éric, welcome back, but I'm not sure I'm going to take my order because my fleet is grounded.'"

Martel characterizes what followed as cold water to the face—a moment of clarity as he contemplated the repercussions of a global health emergency. He remembers eating a sandwich he'd made himself for lunch—because no restaurants were open—and staring out the window at the orange sign adorning the tower of Hydro-Québec, the employer he'd left just weeks before. Then he looked down to the street. On the normally car-choked, six-lane downtown boulevard, a single automobile passed by.

Whoa—this was already a big challenge, Martel remembers thinking. *But it's going to be a much bigger one than I thought.*

Martel had led Bombardier's private-jet business before leaving for a five-year stint at the provincial utility. He came back to a company heavily indebted and under intense pressure. The manufacturer was on a dizzying road to reinvention, selling or shutting down assets that had represented 65% or more of its revenue. He had to complete that task and figure out a new plan for the remaining private-jet business—the orphan in what was once a vast stable of money-making Bombardier assets—all while navigating havoc in the supply chain courtesy of COVID-19.

But as operations gradually came back online, the health crisis delivered a surprise: a strong tailwind for private aviation. A few short months after he started—and with the company's transformation to pure-play business-jet maker well underway—the pandemic became an unexpected gift to Bombardier. As Martel puts it: "We got lucky."

The outbreak created what many analysts are now calling a structural increase in demand for private air travel that might otherwise have taken a decade or more. For Bombardier, it allowed the company to build up an order backlog to anchor its business faster than it thought possible. It now has a pipeline of work stretching about two years. And that guy who was going to cancel his order? He called back a few months later asking for even more jets than before.

Business has boomed, fuelling a financial turnaround that has never in recent memory felt on more solid ground. And Martel's other revenue generators—a growing service business and budding defence unit—are starting to pay off, as well. Long-term debt, which topped US$10 billion only a few years ago as the result of massive development costs for the CSeries airliner program, has been whittled down to about US$5.6 billion. By the end of next year, Martel expects to achieve a debt-to-earnings ratio as low as two times, which will open up a whole new layer of capital-deployment possibilities. Bombardier could even buy back shares or reinstate a dividend—unthinkable just a few years ago.

And yet, Bombardier's journey is also very much a story of what might have been. The Quebec industrial icon once employed 80,000 people across six continents. It was one of the first Canadian global industrial conglomerates, with the size and swagger to match. Launched as a snowmobile maker out of a garage in Valcourt, Que., in 1937, the company (with a strong nudge from governments) became the third-biggest commercial aircraft maker in the world and a top-five manufacturer of rail equipment. It also dabbled in banking, airport operations and short-range air-defence missile supply.

It was founder Joseph-Armand Bombardier's son-in-law, Laurent Beaudoin, who steered the company to its greatest heights out of sheer necessity, after Ski-Doo sales tanked amid the 1970s oil crisis and heavy competition. Beaudoin's new corporate vision became diversification, and a special class of multivoting shares allowed the family to make the long-term bets that saw the company balloon in size—until much of it came crashing down.

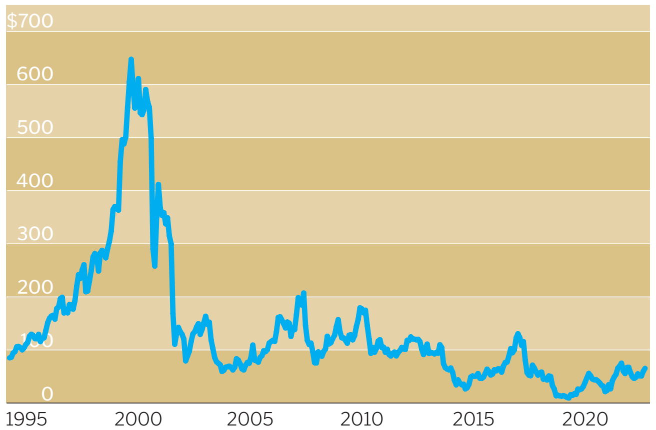
Today, Bombardier's hopes of flipping the commercial airliner market on its head with a 100- to 150-seat jet have long evaporated. Bombardier sold the CSeries to Airbus for next to nothing. Plans to turn its rail unit into a transport juggernaut for the 21st century are equally toast—Bombardier sold the entire thing to France's Alstom, ending a five-decade run that saw it build subway systems for New York City and Montreal, streetcars for Toronto, and high-speed trains in Europe.

In a way, the company looks like a genius for unloading those units. Airbus is struggling to make the CSeries (known now as the A220) profitable. Alstom is having serious trouble finishing off costly train contracts signed by Bombardier. As for the snowmobile business, that was spun off years ago (the family remains involved as owners).

The new Bombardier is certainly much easier to understand. It does one single thing: sell and service corporate jets with eight-figure price tags to the who's-who of global decision-making. Given its chronic underperformance over

PIERRE BEAUDOIN, THE GRANDSON OF FOUNDER JOSEPH-ARMAND BOMBARDIER, SPENT SEVEN YEARS AS CEO AS TROUBLE PILED UP. HE'S NOW THE CHAIR

BOMBARDIER'S BUMPY RIDE
(TSX)



the past 20 years, getting that right and delivering returns to shareholders is a victory in and of itself. And it remains one of Canada's biggest manufacturing exporters and the heart of our aerospace industry, with a proven ability to invent and build next-generation planes, even if it couldn't always commercialize them. At least, that's the positive spin.

Those with a harsher take might see it another way: that Bombardier finds itself on the wrong side of the fence on two of the world's most pressing existential crises. At a time when environmental concerns are becoming more acute, and the gap between rich and poor is growing, its factories are pushing out some of the priciest and most polluting status symbols on Earth. In fact, to shield itself more against market shocks, Bombardier has shifted its business to building the largest and most expensive of these private jets, making it more dependent than ever on the world's financial elite.

How Martel plays the cards he's been dealt will determine whether Bombardier will continue its steady climb or struggle anew. The company has industry-leading products to drool over and a leadership team determined to build on that advantage. And now we're seeing the beginnings of a shift in strategy from diversification to resilience. Bombardier is no longer counting on different divisions to offset others if things go bad. Rather, it's beefing up what's left to better resist a downturn to begin with.

Still, it's fundamentally different than its main rivals in a key way, says Mehran Ebrahimi, an aerospace specialist at the Université du Québec à Montréal. U.S.-based General Dynamics's Gulfstream and France's Dassault Group are both major military contractors whose defence divisions offset and feed into their aviation units. Bombardier is building a new military arm, but it will likely never reach the size of its rivals. That leaves the Canadian company more exposed.

"Things are going well right now," Ebrahimi says. "But they have one egg in the basket. And that worries me."

Bombardier's biggest-ever gamble nearly pushed the company to ruin.

On a bone-chilling day in February 2015, the company's newest commercial airliner took off for its first airborne test at Montreal's Mirabel Airport. Gathered near the runway, a small group of customers, employees and media rubbed their hands and stomped their feet in a desperate attempt to stay warm. The jet sped up and was gone in mere seconds, eating up an astonishingly little amount of pavement. A splash of hoots and applause marked the moment.

The plane was the CS300, the biggest in a new family of single-aisle jets called the CSeries that Bombardier developed to fuel the next decades of commercial aerospace revenue. Their development was Bombardier's largest-ever project, a make-or-break push funded in part by loans from the Canadian, Quebec and U.K. governments. The bet was that passengers, sick of flying through major airport hubs, would appreciate a direct link on a single-aisle jet slightly smaller than existing Boeing 737 and Airbus A320 aircraft. And that by manufacturing a plane with 15% lower operating costs, it could make it financially viable for airlines. It was an ambitious move but also a miscalculation. Bombardier soon found itself in the crosshairs of a commercial airline duopoly with much deeper pockets.

Bombardier's board had given the green light for the CSeries in 2008, the same year Pierre Beaudoin—Laurent's son—took over from his father as CEO. By the time he left seven years later, Bombardier was reeling from rising debts, a plummeting stock and ballooning costs for its marquee plane. Orders for the jet were tepid, stymied by Boeing and Airbus. The train business wasn't faring much better: A US$1.9-billion order for high-speed double-deckers for Switzerland's Swiss Federal Railways, for example, was years late.

Adding to the strain, the company was also trying to develop two other all-new aircraft: the Learjet 85 (since abandoned) and the Global 7500 (which it brought to market and hypes today as the world's largest and longest-range business jet). Even at the highest levels, there were worries it was taking on too much. One senior executive described it as "mission impossible."

What few knew at the time is that Bombardier had already concluded it couldn't go it alone on the CSeries. The plane was late to market and over budget. It had already sucked US$6 billion in cash to develop, and scaling up production would suck billions more before the program became profitable. Bombardier couldn't make that work, and Alain Bellemare was brought on as CEO to find a safe place for the plane to land.

"Alain came on primarily to help me figure out the CSeries," says Beaudoin, now Bombardier's chair, who joined Martel and I for supper at Club Saint-James.

Just seven months after Bellemare joined, Quebec flew to Bombardier's rescue with a US$1-billion equity investment in the CSeries. In 2017, he would strike a deal that would see Airbus take over the program, with Bombardier and Quebec as minority investors. He'd sold the water-bomber division in 2016, and later the Q400 turboprop unit and the CRJ regional jet franchise. As Beaudoin explains, once the decision was made to unload the CSeries, the rest of the commercial aircraft business didn't make much sense.

Still, it wasn't enough to fix Bombardier's fundamental problem: an excessively weak balance sheet trying to support two remaining capital-intensive businesses—private planes and trains—while debt maturities loomed. For fiscal 2019, the company paid US$732 million in interest on revenue of US$15.7 billion and tallied a net loss of US$1.6 billion. Things were so shaky that salespeople with rival business-jet manufacturers carried Bombardier's ugly financial statements with them on sales campaigns. Their pitch: Don't buy from them because they're going down. As Bombardier managers confessed, it was exceedingly difficult to sell a multimillion-dollar jet amid a whisper campaign about your impending death.

Pension fund giant Caisse de dépôt et placement du Québec had already taken a 30% stake in Bombardier's train business for US$1.5 billion, and Ottawa chipped in with $373 million in reimbursable loans for business-jet development. But that still didn't provide the cushion the company needed to get a grip on its debt. One of the businesses would have to go. The board began exploring strategic options in the summer of 2019, and a few months later, Bombardier pulled out of the CSeries partnership entirely to preserve cash. (Read more about the Caisse in "Hot on the Caisse" on page 34.)

There were serious talks with U.S. aerospace giant Textron Inc. that yielded an offer for the private-jet unit and discussions with Japan's Hitachi Ltd. on the train business. Bombardier also looked to Alstom, entering into weeks of negotiations that derailed several times. In the end, Alstom bought the business, making it the world's No. 2 train maker, behind China's CRRC. It's now locked in a fight with Bombardier over contract provisions related to the sale at the International Chamber of Commerce's International Court of Arbitration.

Beaudoin says choosing whether to unload trains or planes was debated heavily by the board, and based as much on future prospects and geography as anything else. Offers for the two businesses were in the same ballpark, but Bombardier had just spent a lot of capital to develop the Global 7500, and it was keen to reap the rewards, building on a lineup that already enjoyed decent margins and a strong competitive position (28% revenue market share over three years to 2019). But the bigger factor was Bombardier's footprint and history. If it kept trains, it would essentially have a company with its centre of gravity in Europe. And it wasn't prepared to make that leap.

"Our roots are here," says Beaudoin. "How we built Bombardier has been in Canada." It came down to "which business we felt the most comfortable" with, he says—including the relationships fostered over decades with private-jet customers.

Once the decision was made, Bellemare was out and Martel in. Beaudoin says he wanted the best person he could find to stabilize the company and grow it with its refocused vocation. As the guy who'd run the private-jet unit before and already knew the business inside out, Martel was the obvious choice. The company was still a mess. Employees were demoralized, and its share price had tanked to lows not seen in a quarter-century.

Martel jumped at the opportunity. "There was no hesitation," he says.

His first order of business was finalizing the three deals negotiated by his predecessor. COVID initially slowed things down, but Bombardier would eventually complete them in rapid succession, selling the CRJ business to Japan's Mitsubi-

MARTEL RAN THE PRIVATE-JET UNIT BEFORE DECAMPING FOR A FIVE-YEAR STINT AT HYDRO-QUÉBEC. BUT WHEN BOMBARDIER CAME CALLING ABOUT THE CEO JOB, HE SAYS, "THERE WAS NO HESITATION"