



## Bombardier poised to clinch major Delta order of C Series planes

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Comments




Bombardier Inc., trying to recapture investor confidence after two straight annual losses, is poised to make a major breakthrough with its C Series airliner that would ensure the plane program's viability into the next decade.

The Montreal-based company, the world's only manufacturer of both planes and trains, will announce on Thursday that it has won a multibillion-dollar order from U.S. giant Delta Air Lines Inc., according to a person familiar with the situation. The commitment is potentially as large as 125 aircraft, industry analysts have estimated, including 75 planes needed with some urgency and options on 50 more.

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Ahead of its annual general meeting Friday morning, Bombardier could also announce the firming up of a letter of intent by Air Canada for up to 75 C Series airliners. That order includes 45 aircraft that Canada's flagship carrier will definitely take and options on another 30 planes.

"This leaves the C Series program in pretty good shape," said Ernie Arvai of consultancy Airlinsight in Windham, N.H. "Once you begin landing very well-respected customers, you can typically go forward. They've got an opportunity to lay out that 'Yes we're delivering what we promised way back when and nobody believed.'"

A Delta order would be the largest so far for the C Series program.

Plane makers consider backing from the carrier to be highly valuable, both because of its sheer scale — it is the second-largest airline in the United States by traffic — and also because of its influence. Bombardier's commercial aircraft sales chief, Colin Bole, calls such customers "market makers." Many smaller carriers without the same buying analysis resources as their larger peers often wait to see what the big airlines do before making purchase decisions.

A deal with Delta involving 75 aircraft would be worth between \$5.4-billion (U.S.) and \$6.2-billion at current list prices, depending on the models chosen. Airlines typically negotiate sizable discounts for that volume of planes and the actual price paid would be far less.

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The two deals, if confirmed, would bring Bombardier's C Series order book to 370 firm airplanes – enough aircraft to ensure production at the manufacturer's facilities for five years. Based on a transformation plan outlined by management last November, the company estimates it will build 255 to 315 C Series planes from 2016 to the end of 2020.

"What this tells you is that they're pretty much sold out into 2021," said Chris Murray, an analyst with Altacorp Capital in Toronto, adding that Bombardier now has validation for the C Series from three major carriers including Lufthansa AG as well as smaller airlines and leasing companies. "This would actually put the Bombardier C Series program in a better position from a starting point than where Airbus was with the A320 when it was launched in 1988."

The C Series is Bombardier's big bet to drive revenue growth in its commercial aircraft division over the next generation. The plane is the first clean-sheet design of a single-aisle airliner in nearly 30 years and easily beats existing aircraft on operating costs because of its advanced technology and fuel burn, Bombardier says. But the aircraft has suffered problems, coming two years late to market and \$2-billion over its initial \$5.4-billion development cost.

More significantly, rivals Boeing and Airbus have used aggressive tactics in trying to keep Bombardier from winning sales campaigns with the airplane.

"It is not a friendly world," Bombardier's Mr. Bole said at the Aero Montreal industry conference this week. "There's no question that the competition is severe."

There is also lingering concern that with far more limited resources than its two big rivals, Bombardier will have a hard time mounting the war chest needed to compete on pricing. The company has long-term debt of \$9-billion and has gone to both the Quebec and federal governments for investment backing for the C Series program after striking a train deal with pension fund Caisse de dépôt et placement du Québec that bolstered its balance sheet. Quebec pledged \$1-billion while talks with Ottawa continue.

Bombardier's Delta win suggests that price isn't the only issue. The airline, which is seeking to replace its aging fleet of McDonnell MD-88 jets, has a record of giving makers of all-new planes a chance over established manufacturers. Northwest Airlines, absorbed by Delta in a 2008 merger, was the first U.S.-based carrier to purchase the Airbus A320 plane.

Bombardier came close to winning a Delta order in 2011, but the airline put off purchasing smaller single-aisle planes that seat between 100 and 150 passengers.

Now, Delta faces a pressing need to replace 113 MD-88s with an average age of more than 25 years. The maintenance costs on the planes are growing and replacement parts are becoming increasingly difficult to obtain.

Delta already flies Airbus and Boeing planes and this is a coveted order among airplane manufacturers. "It's Bombardier's to lose," said one industry source.

The Delta order is expected to include a takeover of an earlier order for the C Series from Republic Airways Holdings Inc., which has 40 of the larger CS300 models of the plane on order, but went into Chapter 11 bankruptcy protection earlier this year.

Delta agreed to provide debtor-in-possession financing for Republic, court documents show.

Industry sources believe the financing deal and settlement of a previous filed lawsuit between Delta and Republic include a provision for Delta taking over the Republic C Series order. The financing deal would have given Delta access to Republic's C Series contract and thus a strong hand in negotiating with Bombardier, one industry source said.

"Given the importance of the the deal to [the C Series's] future, it is likely that the economics of this particular order – if it moves forward – would favour Delta," JPMorgan analyst Seth Seifman said in an April 27 note. He said the aircraft program is unlikely to create value for Bombardier shareholders in the medium term.



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DAL-N	LATEST PRICE		
<b>Delta Air Lines Inc</b>	<b>\$41.67</b>	<b>-1.19</b>	<b>(-2.78%)</b>

BBD.B-T	LATEST PRICE		
<b>Bombardier Inc</b>	<b>\$1.89</b>	<b>-0.15</b>	<b>(-7.35%)</b>

Updated April 29 4:00 PM EDT. Delayed by at least 15 minutes.

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