

Bombardier CEO says company remains ahead of archrival despite multibillion-dollar Boeing-Embraer deal

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Bombardier Inc.'s strategic advantage over archrival Embraer SA might be gone, but the company's chief executive says it remains months ahead in the battle for single-aisle jetliner sales.

Less than a week after the Montreal-based plane maker finalized its tie-up with European giant Airbus SE, Embraer on Thursday announced its own joint venture with Boeing Co. The preliminary, non-binding deal will see Boeing pay US\$3.8-billion for 80 per cent of a partnership controlling the Brazilian company's commercial plane and services businesses, a lower valuation than expected.

The agreements give both regional jet manufacturers the backing of much stronger financial partners as they fight at the low end of the global commercial aircraft market. But Bombardier is already out of the blocks with a completed deal in hand, giving it first-mover advantage to sell its C Series aircraft.

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"For sure, the ability to go to market now with [our joint venture], which is largely driven by the Airbus team, is going to be a big plus," Bombardier CEO Alain Bellemare said Thursday, adding the Boeing-Embraer deal remains a vaguely worded memorandum of understanding at this point, which limits the companies' ability to co-operate.

"We have at least a year head start," Mr. Bellemare said. "But even with that, even if they could [move forward] today, I'm not sure I would be sweating more. Because the hard reality is we have the best products."

Many analysts say that Boeing's decision to pursue a partnership with Embraer is a direct response to the competitive threat born from the Airbus-Bombardier tie-up. Bombardier thinks so, too. "I don't know if it would have ever happened if it wasn't for the fact that we did this deal," Mr. Bellemare said.

The two agreements represent the biggest realignment in the global aerospace market in decades. The new two-tier duopoly, putting Airbus and Bombardier on one side against Boeing and Embraer on the other, strengthens established Western plane makers against new entrants such as Commercial Aircraft Corp. of China Ltd., analysts say.

"This is good news because it means that we were right" in pursuing our own tie-up, Philippe Balducchi, CEO of the joint Airbus-Bombardier C Series partnership, said Wednesday at an aerospace event in Mirabel, Que., before the Boeing announcement. "Competition will intensify. We're used to that. We're not afraid of that. But it means we'll need to make efforts to improve our competitive position, that's very clear."

A Bombardier C Series aircraft.

REGIS DUVIGNAU / REUTERS

Airbus took control of Bombardier's flagship commercial plane program – the C Series – on July 1, throwing the weight of its global marketing and procurement power behind the all-new aircraft. The partners believe there is a market for 6,000 planes seating 100 to 150 people over the next 20 years and that the C Series can capture a significant portion of those sales.

As the C Series team starts off its marketing push under Airbus direction, however, manufacturing remains a key challenge. Mr. Balducchi said there is a need to "drastically cut costs" on C Series production, including persuading suppliers to offer better terms in exchange for prospective higher volume.

For Embraer, Airbus's announcement last year that it would take control of the C Series jet from Bombardier put real marketing weight behind a fragile competitor. The Brazilians suddenly faced a much larger rival with deep pockets and a sophisticated global marketing and support operation, according to boutique consultancy AirInsight.

For Boeing, the Airbus-Bombardier transatlantic tie-up threatened to expand the revenue base and cash-generating potential of its European archrival. With Embraer, Boeing bolsters its offering in the small airliner space of 100- to 150-seat aircraft. The company said the Embraer partnership is not expected to add to earnings until 2020.

"We expect Embraer to be more competitive under Boeing's umbrella," Desjardins Capital Markets analyst Benoit Poirier said in a note. "We also expect Embraer to be well-capitalized to support future investments and pursue new growth initiatives that could be deployed in the [business jet] market."

Although there are compelling reasons for the tie-up, a Boeing-Embraer partnership may be a cultural and organizational mismatch, AirInsight says. To take one example, at Boeing, engineering teams tend to be organized by aircraft program while at Embraer, engineers tend to focus on technical areas such as landing gear or avionics, and support multiple plane programs, the consultancy says.

"Splitting that apart may require the wisdom of Solomon."

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