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# End of an era as Bombardier eyes exiting regional jet business

Emily Jackson, Postmedia News (ejackson@postmedia.com)

**Published:** a day ago

**Updated:** 7 hours ago



Bombardier is in talks to sell its CRJ unit to Mitsubishi.

**By Emily Jackson and Frederic Tomesco**

Bombardier Inc. is in talks to shed its last commercial jet program, a potential sale that would mark the end of an era for the Montreal-based plane and train maker as it struggles to turn around money-losing business units.

Japan 's Mitsubishi Heavy Industries Ltd. is in discussions to buy the CRJ regional jet business, Bombardier confirmed Wednesday, although any agreement is contingent on management analysis, due diligence and board approval from both sides.

“There can be no assurance that any such discussions will ultimately lead to an agreement,” Bombardier said in a statement.

Analysts viewed the potential sale as a logical step given Bombardier's strategy to shrink operations to focus on its more profitable train and business jet divisions. Bombardier's stock price soared more than 10 per cent to \$2.16 on the Toronto Stock Exchange, a welcome trajectory for investors who have watched shares plummet nearly 60 per cent from this time last year.

But should Bombardier reach a deal — analysts estimate a sale could fetch between US\$300 million to US\$680 million — it would mark the end of a 30-year stint in the commercial aviation business.

Bombardier launched the CRJ program in 1989 with a 50-seater plane, subsequent versions of which would become the world's most successful regional aircraft with over 1,900 jets in service worldwide, according to the company's website. The CRJ program paved the way for Bombardier's forays into other commercial aircraft, including the Q400 turboprops and CSeries single-aisle jets designed to challenge Boeing and Airbus.

Despite more than \$1 billion in government subsidies, the CSeries was late and over budget, prompting Bombardier to give control of the aircraft to Airbus. In late 2018, Bombardier sold its Q400 program to Longview Aviation Capital for US\$300 million, a deal announced alongside 5,000 job cuts as Bombardier scaled back its aviation division.

Earlier this spring, Bombardier further consolidated all its aerospace programs into one aviation division, with the CRJ regional jet the lone holdout in the commercial aircraft space.

This week, Bombardier closed the sale of its turboprop business to Canada's Longview Aviation, raising about \$250 million.

So it came as no surprise when Air Current broke news of discussions, Citi analyst Stephen Trent noted to clients. At the same time, Bombardier announced that it's teaming up with Japan's Hitachi to bid on a US\$3.5 billion high-speed rail project in Britain.

“These developments show the company's shift toward its transport and business jet divisions,” Trent wrote.

The divestiture is expected to have a modest impact on financial results, given the commercial aerospace unit is forecast to lose about \$125 million this year, Altacorp analyst Chris Murray noted to clients.

The program “may be better held in other hands that can use the talent already at Bombardier,” Murray said in a telephone interview. “Anything for Bombardier is better than continued losses in commercial aviation. They have not been putting a lot of capital in that space.”

He expects CRJ operations will continue as long as there's a backlog of orders. Bombardier recorded 51 firm orders for CRJ jets as of Mar. 31. Bombardier shipped 20 regional jets last year, down from 26 the year before. That's a far cry from the hundreds of CRJs the company delivered annually in the early 2000s.

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Altacorp analyst Chris Murray

In Quebec City, Economic Development Minister Pierre Fitzgibbon did not seem worried about the possible transaction between Bombardier and Mitsubishi.

“Bombardier is in the midst of very significant restructuring,” Fitzgibbon told reporters. “And I think we need to leave the management to determine which sectors it feels will still be good.”

Production of the CRJ currently involves two Montreal-area plants, in St-Laurent and Mirabel. About 750 Bombardier employees in the region work on the program, spokesperson Nathalie Scott said Wednesday.

As Bombardier turns its attention to trains and business jets from commercial jets, Mitsubishi is a logical buyer, National Bank analyst Cameron Doerksen noted to clients.

The Tokyo-based company has its own regional jet program, called MRJ, which competes directly with the CRJ. But the MRJ has had trouble getting off the ground due to snags including aborted test flights, cost overruns and cancelled orders.

“Acquiring Bombardier’s CRJ program would bring with it a large global support network that Mitsubishi could leverage to support its new aircraft,” Doerksen wrote, adding that a large number of former Bombardier employees already work for MRJ.

Recent media reports have Mitsubishi working on a 76-seat jet that would comply with so-called scope clauses in the U.S. A planned 90-seat plane, which is years behind schedule, is too heavy to be allowed to fly on regional routes in the U.S. That essentially freezes Mitsubishi out of the world’s largest air travel market.

A deal for the CRJ could be as good for Montreal as the arrival of Airbus was.

“If I were Mitsubishi, I would want to build a greenfield factory in Quebec and get access to the CRJ customer base,” Addison Schonland, a partner at aviation consulting firm AirInsight in Baltimore, said in a telephone interview. “I would want to have the talent pool that’s part of the CRJ program. So a deal for the CRJ could be as good for Montreal as the arrival of Airbus was.”

In an interesting twist, Bombardier and Mitsubishi have been suing each other in the U.S. for several months. Bombardier has accused Mitsubishi of stealing trade secrets for its MRJ program, while the Japanese conglomerate countered by accusing its Canadian rival of trying to limit competition in the market for jets with fewer than 100 seats.

• Email: [ejackson@nationalpost.com](mailto:ejackson@nationalpost.com) | Twitter:  Follow @theemilyjackson { 4,130 followers }

• Email: [ftomesco@postmedia.com](mailto:ftomesco@postmedia.com)

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