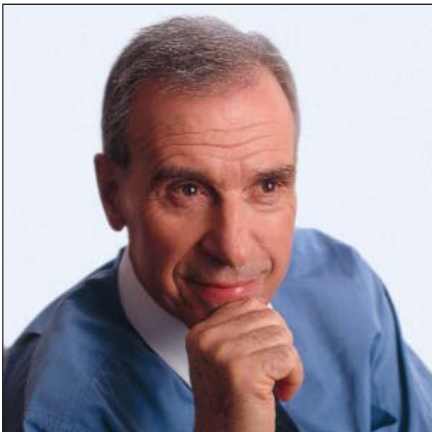


# Interview

## Refocusing Bombardier

An Interview with Paul M. Tellier,  
President and Chief Executive Officer, Bombardier Inc., Montreal



Paul M. Tellier

**EDITORS' NOTE** With a mandate to do "whatever was required to strengthen Bombardier's balance sheet and enable its growth going forward," Paul Tellier took the helm of Bombardier a year ago, making an educated guess that his "honeymoon period" was likely to be "extremely short." Thus, setting his sights on doubling "the net margin of our business, both in aircraft manufacturing and in train manufacturing," the president and CEO wasted no time in crafting a financial restructuring plan that is already delivering results. Specifically, Tellier first strengthened the balance sheet by "more than \$1 billion in equity." Then, in order "to demonstrate to the credit agencies and bankers that we had a balanced approach," he began the divestiture of certain assets, including Belfast City Airport, Bombardier's military-aviation services unit, and, most significantly, its recreational-products division. In rationalizing these measures, Tellier stresses his firm belief that, given the current economic climate, "more money has to go to the bottom line." After all, he reasons, while "market share in our various business segments is critical," it is even more important "to reward our shareholders and give them good reasons to buy and keep our stock."

Prior to assuming his current post in January 2003, Tellier served as president

and chief executive officer of the Canadian National Railway Company (CN), a position he took in October 1992. From 1985 until he joined CN, Tellier served as clerk of the Privy Council and secretary to the cabinet of the government of Canada, the top civil-service post in the country. He has also served as deputy minister of Indian affairs and deputy minister of energy, mines, and resources for the Canadian government. A graduate of the University of Ottawa (Canada) and Oxford University (United Kingdom), Tellier serves on the boards of directors of Alcan Aluminum Limited, BCE Inc./Bell Canada, and McCain Foods Limited.

**COMPANY BRIEF** Headquartered in Montreal, Bombardier Inc. (Toronto Stock Exchange: BBD.B) is a manufacturer of diverse transportation products, from subway cars, tramways, and high-speed trains to snowmobiles and personal watercraft. Its Bombardier Aerospace subsidiary, which incorporates business aircraft (e.g., Challenger®, Learjet®, and Global Express®), is the world's third-largest civil airframe manufacturer plus the global leader in regional airliners and amphibious aircraft. Bombardier Transportation, which added DaimlerChrysler's Adtranz rail-systems unit in 2001, is the world's largest railway-equipment maker. Other Bombardier operations include lending, leasing, and asset-management firm Bombardier Capital Inc. and Bombardier Recreational Products, which is in the process of being divested. With more than 70,000 employees around the world, Bombardier reported sales of \$15.5 billion in fiscal 2003.

**At the Canadian National Railway Company, you established a reputation for being a wizard at bringing success to troubled companies. Bombardier evidently achieved quite a coup in hiring you – its stock rose 40 cents on the announcement of your appointment. That was quite a compliment.**

Well, it's important not to believe

everything you read in the newspapers. I accepted this assignment because I thought I could make a difference. As such, if I were asked to describe my job in one sentence, it would be this: to make changes, especially within the culture of the organization.

This company has been very successful. Eighteen years ago, Bombardier had nothing to do with aircraft. Today, it is the third-largest aircraft manufacturer in the world. But we paid a price. The company grew so quickly that, especially in recent years, the revenue line became more important than the bottom line. So, in changing the culture, I want the leaders of this company to focus more on the bottom line. If we reach a plateau and the top line stops going up, I'm not going to lose any sleep over it. Obviously our market share in our various business segments is critical, but the most important thing for us is to reward our shareholders and give them good reasons to buy and keep our stock.

Additionally, we will continue to build our credibility, with the financial community and with our customers. My business model is very simple: We do what we say we're going to do. In the past, there was some slippage, but my focus is now on the present and the future. Let's make sure that when we do something, there is money going to the bottom line. Let's not promise the moon; let's deliver exactly what we say we're going to deliver.

**When you walked into your new office in 2003, did you already know what you were going to do?**

Yes, I did, because I had done a lot of preparation beforehand, going through briefing material and speaking to many key people. Time is of the essence when coming into a new job. The financial community and the media will give you a honeymoon period, but it's usually extremely short. More than 50 percent of Bombardier's stock is held by small retail investors, so it was very important to show movement right at the outset. That's why we were quick to put the financial restructuring plan in place, and it's now

unfolding the way it was expected to when we announced it on April 3, 2003.

**What are the key initiatives of that restructuring program?**

First, I wanted to strengthen the balance sheet, so we raised more than \$1 billion in equity. Second, I wanted to dispose of certain assets. It was important to demonstrate to the credit agencies and bankers that we had a balanced approach, both raising equity and selling assets. The third and final phase of this plan, the sale of the recreational-products division, was a critical decision.

The recreational-products business was the foundation of the company. The founder of the company, J. Armand Bombardier, began by producing snowmobiles, then sport boats, then personal Sea-Doo watercraft. The name of the family, the controlling shareholders, is on every product, so the board's endorsement of my recommendation to sell that division – a profitable business – conveyed very strongly that the company was ready to do whatever was required to strengthen Bombardier's balance sheet and enable its growth going forward. We are now in the final phase of that divestiture, and we have already completed the divestiture of Belfast City Airport and of the military-aviation services unit of Bombardier Defence Services.

**All these changes must be a little frightening for many Bombardier employees. How do you allay their concerns?**

It's a question of striking the right balance between building on their pride in the organization and moving forward by adjusting a few things here and there. Our people are very proud of Bombardier, and they have good reason to be. After all, we created the market for the regional jet. However, we have to make money. My objective is to double the net margin of our business, both in aircraft manufacturing and in train manufacturing, where we have become number one in the world. We have done well, but now more money has to go to the bottom line.

**The North American airlines are among your most important customers, but many of them are currently having trouble getting financing for new aircraft. Do you see any light at the end of the tunnel?**

Yes, I think the worst is now behind us. USAir came out from Chapter 11 and is now moving very nicely, and I think that United Airlines will ultimately succeed. Times are still very tough, but I think we're at the bottom of the valley and we should see things improving soon.

More importantly for Bombardier, many of the airlines' restructuring plans have as their cornerstones an increase in regional-jet usage. For instance, USAir has decided to use more regional jets and passed us an order for 49 planes shortly

after coming out of Chapter 11. Consequently, at this point I think we are better positioned than the big guys, Airbus and Boeing. We have more than 800 50-seat planes flying commercially, and more than 100 of our 70-seat planes are in the air. In January 2003 we introduced our 86-seat CRJ900. These planes aren't in the design stages; they're flying and people are making money.

**Serving as the highest-ranking civil servant in Canada must have been a fascinating experience. How has it aided you in your role at Bombardier?**

A very important question for any business leader at the outset of a new year is: What can the government do to us or with us? Therefore, in this day and age, an intimate knowledge of the government is critical when making business decisions, and I spent 20 years of my life in government.

Additionally, being in government gave me some very useful skills that can be applied in the business world. Environmental concerns and labor relations, for instance, are very often complex, and one of the things I learned while working in government was how to adapt in a complex and often unstructured environment. In government departments, there is no CEO, so accountability is fragmented. As a result, government service provides a good training in checks and balances.

I admire the U.S. environment because a person can switch between the public and private sectors very smoothly. [Vice President] Dick Cheney, for instance, is probably a better government leader because he has experience in business, and the same thing might be said about President George W. Bush. In Canada, we still have a long way to go in this area. For instance, I met a former senior cabinet minister who is a lawyer by training and has a great number of years of experience under his belt. In looking for a private-sector position, he found few people were interested in his skills. In the United States, this person would have had his pick of a number of CEO positions.

**Why should a skeptical shareholder be optimistic about the future of Bombardier?**

First of all, we have very good people. We build good aircraft, and those aircraft start with the people who make them. Second, we use advanced technology, particularly in our regional jets and our business jets. In fact, many agree that the Global Express is the best flying machine for carrying people in the world. Third, we have a very strong franchise, and we also have a culture of achievement. We have been so successful that there is a certain amount of arrogance at Bombardier. At the same time, though, we recognize that some things have to

change. So we have a sense of our own excellence and our people want to continue excelling.

These are all good reasons for shareholders to have confidence in Bombardier. The stock is under valued, and it's my job to demonstrate the value of the stock to the shareholders. After all, that's what they're paying me to do. Along with the senior management team, I have to unlock the value in this company so the price moves to where it used to be. Is this a good stock to buy? Yes, I think so.

**You're known for your dislike of surprises, particularly negative ones. Do you believe it's appropriate to announce bad news, even when it may cause discord? And how important is transparency to your leadership philosophy?**

As part of our financial restructuring program, we moved away from complex program accounting methods because we wanted to become more transparent. Our financial statements are not the easiest to read, but I think they have improved a lot this year. My long-term objective is to make our financial statements very understandable, so that a high-school student could read our annual report and understand our business. I believe that in the post-Enron era, readable financial statements have great value. In telling our story to employees, shareholders, the financial community, and customers, the key elements have to be exactly the same.

In my previous job, as president and CEO of CN, I established a very good relationship with union leaders, in spite of the amount of downsizing the company went through. Those union leaders would say, "We don't like what Tellier's doing, but he's a straight shooter and tells it exactly the way it is." In my view, it's easier to come clean than to pretend that you're not going to lay people off and then do it through the back door. Transparency is a very important value for me.

**Parachuting and riding motorcycles are two of your hobbies, and it might be troubling for a multibillion-dollar company to know that. What if something happened to you?**

My advice to a CEO with those hobbies is don't tell your board about them. All of us need some way to unwind, and for me, a few hours on a motorcycle in the Vermont countryside is a good way to do it. I ride defensively and I stay focused. If I didn't, I'd break my neck and "unwind" completely. I had a very bad accident in 1990 and broke three ribs and my collarbone. I still showed up at the office on Monday, but it was pretty painful. So I ride carefully.

**No sex for a month after something like that!**

I had to sleep on the floor for a while. ●