Dear colleagues, today I want to present our credit report on Bombardier, with a focus on their recent bond issuance and potential as an investment opportunity.

Bombardier is a Canadian company specializing in the production of airplanes, including business jets and commercial airliners. However, the COVID-19 pandemic has had a negative impact on their financial performance in recent years. To raise funds, Bombardier issued a five-year bond with a 9% annual coupon, which is more than three times the rate of the five-year bonds issued by the Canadian government.

We used three credit models to evaluate the default risk of these bonds: the Merton model, the KMV model, and the Moody's model. All input data are from Bombardier's financial statements from 2016 to 2022.

The Merton model assumes that the value of a company's assets follows a geometric Brownian motion with Gaussian discounts and that the company defaults when total liabilities exceed total assets. Using this model, we estimated a probability of default of 44.62%.

The KMV model assumes the change to the distance to default follows a standard normal distribution. The distance to default is calculated as the difference between assets and liabilities per standard deviations of assets. Using this model, we estimated a probability of default of 30.66%.

The Moody's model, which is based on their scoring system and the historical statistics of the credit classes and the data for transitioning between classes, estimated a default probability of 13.33%.

It is worth noting that these estimates may overvalue risks due to the impact of COVID-19, an extreme event. However, as the situation improves, we expect the company's performance to return to its historical level. Even with these overvalued risks, the estimates for expected returns are all higher than government-issued bonds, although the estimated Sharpe ratios are all smaller than the nearly risk-free government bonds.

Regarding the investment opportunity, we believe that the five-year bond with a 9% annual coupon offered by Bombardier presents an attractive opportunity in a post-COVID world. This investment provides a stable income stream over the next five years, and with the expectation of the company's performance improving, there is potential for capital gains.

In conclusion, we are confident in the credit report we have presented and believe that the potential return justifies the investment risks. We recommend including some Bombardier bonds to diversify our bond portfolio. Thank you for your attention.