



## Bombardier Shareholders Got Bombed

### Description

The S&P/TSX Composite closed lower for the second (gasp!) day in a row on Thursday. One of the leading causes of today's decline, checking in with a 9% slide, was **Bombardier** ([TSX:BBD.B](#)).

As is so often the case, the financial press and sell side analysts have keyed on income statement related metrics to justify today's sharp decline. The income statement however is a very poor indicator of this company's performance due to the nature of the business. Multi-period projects that involve bringing a sizeable backlog to life is what Bombardier does, and this model does not fit well with income statement accounting. Predicting what this company is going to "earn" in any one quarter is at best a wild guess.

To cut through the noise and gain a better handle on Bomber's condition, use the other two financial statements – namely, the balance sheet and statement of cash flows.

### Balance Sheet

In the spirit of cutting through the noise, we'll focus on one balance sheet related metric. Total Debt. We begin with long-term debt. At the end of 2012, this amounted to \$5.4 billion.

Let's now consider "other liabilities" such as Government refundable advances – these "others" amount to \$1 billion. That's \$6.4 billion total if you're keeping track at home.

Last on our list is the pension deficit, calculated by subtracting the fair value of plan assets from the present value of the defined benefit obligation. This sits a snick under \$3 billion.

\$9.4 billion of Total Debt. Perfectly acceptable if you're Apple and carry Shareholder's Equity of \$127 billion. Perfectly unacceptable if you're Bombardier and carry Shareholder's Equity of \$1.4 billion.

Yes, the company has \$2.9 billion of cash sitting on the balance sheet, but still, if the financial wind blows in the wrong direction, the good ship Bomber is going to heel.

## Cash Flow Statement

Accentuating the financial risk that Bomber presents is the company's cash flow statement. One of the traits of an investable company is a proven ability to consistently generate free cash flow. Bombardier "generated" -\$792 million of free cash flow in 2012, which was a significant improvement over the -\$1,257 million that was "produced" in 2011. A small sample size, but not numbers that are typical of a quality company.

## The Foolish Bottom Line

Even if we ignore the financial risk and lack of free cash flow, Bombardier is a company that I would consider "too hard" to invest in. The financial statements and accompanying notes are enough to make the head of a casual observer spin. Greener pastures exist.

Bombardier shares were \$5 each 10 years ago (closed at \$3.89 today) and very well could be at a similar level 10 years from now. Given the fickle nature of its order driven business, sustained momentum is tough to come by for this company and the fact that it is carrying the huge albatross of financial risk does not help. In my opinion, rolling the dice on Bombardier is a risky move with a non-apparent return.

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*Fool contributor Iain Butler does not own shares in any of the companies mentioned in this report at this time. David Gardner owns shares of Apple.*

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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