

## Bombardier Inc. Doesn't Want You to Know This

### Description

It has been one year since things began to fall apart over at **Bombardier** ([TSX:BBD.B](#)), following a series of delays with its prototype C Series aircrafts. Since then there have been thousands of layoffs, management shuffles, and a pummeling of Bombardier's stock. In November, however, the stock managed to climb back up to \$4.43 as tangible progress was made with the C Series.

All of that forward momentum then came to a sudden stop in January, and on Thursday a series of announcements were made that could either make or break the company. The burning question for investors is whether or not Bombardier can ever bring about a positive return.

### Black Thursday

Bombardier's Q4 results brought some unexpected surprises this year. First off, both CEO Pierre Beaudoin and Chairman Laurent Beaudoin announced that they would be taking a step down on the corporate ladder and would be appointing Alain Bellemare as the new CEO. This move has been made to show investors that the company is moving towards an era of change, while still maintaining the core of its current management team.

This is also to shift attention away from the now outgoing CEO's tenure, which is marked by a 70% drop in stock price and numerous product delays which have dragged the company to the point it is today. Bombardier implemented a similar strategy to satiate investors earlier in the year when it split its aerospace division into three parts.

The next major announcement that came out was that Bombardier would be suspending its dividend in an effort to save cash. The company then followed up this unexpected revelation with a call to raise \$1.5 billion in additional debt and \$600 million in equity.

### Death by stock price

Investors reacted swiftly to these announcements as the share price plummeted from \$3.05 to \$2.50. These announcements have only been the tip of the iceberg in what has been a terrible year over at Bombardier. Due to all the negative publicity, even any sort of good news gets unacknowledged. Bombardier did manage to post record revenues of \$20.1 billion in 2014, up from \$18.1 billion in 2013.

### Death by delays

The largest millstone around the neck of Bombardier is its apparent inability to bring about new products on time and on budget. The C Series for example is \$2 billion over budget and a year behind its original delivery date. Then you have Bombardier's business aircraft division LearJet which despite finally becoming number one in terms of sales was forced to "pause" production of the Learjet 85 due to delays and lack of interest. This shutdown cost Bombardier \$1.4 billion in write-downs and led to a year end net loss of \$1.2 billion in 2014.

## **Death by debt**

If we want to understand Bombardier we have to understand what its management is thinking and why it is acting the way it is. Management believes that they can succeed, but the company is quickly drowning in debt. In the year-end financials we see \$7.3 billion in long term debt, \$3 billion in interest payments, and \$11 billion in purchase obligations. This is all above and beyond the \$2.1 billion in additional debt and equity Bombardier just announced that it would be seeking. This debt may become more expensive now that Moody's has cut its credit rating from B-a3 to B-1.

Despite all the overspending and delays, Bombardier believes that the C Series can still be a generational aircraft, and has the potential to erase all the bad memories of 2014 and 2015. The problem is that the C Series only has managed to secure 243 firm orders, which is still short of the 300 projected by management.

Let's be frank, Bombardier has dug itself into a deep hole and its stock price is doing a good job of reflecting that. The delays and debt have shocked investors and Bombardier is attempting to pull out all the stops to keep them on board. The reality that Bombardier doesn't want you to realize is that it could take up to five years to dig itself out of this hole.

## **CATEGORY**

1. Investing

## **TICKERS GLOBAL**

1. TSX:BBD.B (Bombardier)

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