



## Why the CSeries May Be a Disaster for Bombardier Inc. Even After it's Launched

### Description

Over the past few years, there's been no shortage of problems for **Bombardier Inc.** ([TSX:BBD.B](#)) in its efforts to bring the CSeries to market. To put it bluntly, numerous delays and cost overruns have put some serious financial strains on the company. Its stock price has responded in kind by dropping about two thirds since mid-2011.

At this point, shareholders can't wait for the plane to be finished development. Once this is done, costs will fall, cash flow will improve, and the stock will rebound. Or so the story goes.

Unfortunately, it's not that simple—Bombardier will still have plenty of problems to deal with even when the CSeries is finished. We take a closer look below.

### Inflated expectations

Let's start with some basic numbers. Bombardier expects to deliver 100 CSeries planes per year, but that's short of estimates from outside the company. For example, Scotia Capital analyst Turan Quettawala is forecasting only 65 planes delivered per year. Even worse, consulting firm ICF International forecasts only 40-60 deliveries per year. ICF also said that 100 annual deliveries is likely needed to break even.

So, why exactly are Bombardier's expectations so much higher? To answer this question, one just has to look at the competition.

### Boeing and Airbus

Back when Bombardier launched the CSeries program in 2008, it was meant to be an absolute game changer. For that reason, it came with some pretty ambitious forecasts. The company said it expected to capture "up to half" of the 100-149-seat commercial aircraft market category, resulting in US\$5 billion to US\$8 billion of additional revenue.

Since then, Bombardier's larger rivals have not stood still. First came Airbus, which launched the A320neo in late 2010. Less than a year later, **Boeing** followed with the 737 Max. As one analyst put it,

“CSeries prompted Airbus, which prompted Boeing.” Another analyst was more blunt: “It’s a tale of two Goliaths and one rather foolish David.”

Over this time, one thing has not changed: Bombardier’s forecasts. The company still expects the CSeries to receive 300 firm orders by launch date, and contribute US\$5 billion to US\$8 billion in annual revenue. Those numbers now look like pipe dreams, something the investment community may have not yet come to terms with.

### **Killing the golden goose**

If that wasn’t bad enough, the CSeries has negatively impacted other parts of Bombardier. To be more specific, the company has ceded its number one market share in business jets to Gulfstream, and probably won’t get this back after “pausing” its Learjet 85 program in January.

This is a very good case for business school students. After all, it’s a great example of an over-ambitious company losing focus on what it does best. As for Bombardier’s shareholders, expect a lot more pain in the years ahead. Right now, you have a chance to sell the company’s shares for well over \$2. That opportunity may not last for long.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. TSX:BBD.B (Bombardier)

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