



## Don't Be Fooled Again by Westport Innovations Inc.

### Description

Facing a make-or-break year with a collapsing share price and growing investor frustration, **Westport Innovations Inc.** (TSX:WPT)([NASDAQ:WPRT](#)) decided it would be bold. Earlier this month, it announced that it would be acquiring and merging with **Fuel Systems Solutions, Inc.** (NASDAQ:FSYS). The deal will come at a heavy price to shareholders.

Because the company is still posting massive losses and has a dwindling balance sheet, it was forced to make the deal entirely stock funded, meaning stockholders are set to take on massive amounts of dilution. The all-stock deal, valued at \$136 million, will see shareholders of Fuel Systems Solutions receive 2.129 Westport shares for each Fuel Systems share. This is a 10% premium over its previous closing price.

As we'll see, it's doubtful that this final grasp at life will end up as a game changer for Westport.

### Putting two failing companies together doesn't change anything.

Last quarter, Fuel Systems reported a 23% decline in sales while Westport's revenues fell 25%. In the past 12 months, Fuel Systems's sales sank 16%, while Westport's was down 38%.

Sales fluctuations could be sustainable if either company was making a profit. Unfortunately, neither are, and it's getting worse. Fuel Systems posted a \$25 million loss over the past year, while Westport's profit was a negative \$128 million.

In each of the past 20 years, Westport has failed to make a profit. Tying its future to another money-losing business doesn't give investors much to cheer about.

### Unless there is a dramatic change, further calamities are just around the corner

In total, the combined company will have just shy of \$120 million in cash and negative cash flow of about \$50 million. It doesn't take a rocket scientist to realize that this is unsustainable.

Combining the businesses isn't a magic pill either. The merger is set to be a long-term positioning play,

with Westport emphasizing heavy duty natural gas engines and Fuel Systems focusing on lighter applications. The combined company may run out of gas even before we get to see if this tie-up works out.

### **Investors are showing their disapproval**

Alignment between shareholders and Westport management has been fraying for some time. This latest deal demonstrates just how unimpressed investors are with management's direction. The move has incredibly limited shareholder approval (34% for Fuel Systems and 15% for Westport), so this impending merger may never even materialize after all.

### **Westport's primary product still isn't completely viable.**

While natural gas for big fleets has been touted as the future of trucking, it's been decades, and a revolution has yet to take over.

The main difficulty is the slow pace of adoption of natural gas-powered trucks, as they cost about \$50,000 more than their diesel counterparts. Proponents say this is more than offset by the long-term fuel savings, but falling oil prices tend to make the extra cost less appealing.

With oil prices below \$50, Westport's push for natural gas engines may be delayed many years. Looking at its financial position, Westport may not have years to work with.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **TICKERS GLOBAL**

1. NASDAQ:WPRT (Westport Fuel Systems Inc.)

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