



## Bombardier Inc: Can Shareholders Trust the Founding Family to Turn the Ship Around?

### Description

As it stands, **Bombardier Inc.** ([TSX:BBD.B](#)) is in a lot of trouble. The business-jet market is weak and getting weaker. The CSeries is struggling to win new orders. The rail unit continues to disappoint on the margin front. Overall, the company has been burning cash at an alarming rate, and has a whopping US\$6 billion of net debt on the balance sheet.

That being the case, Bombardier would be on sounder footing if it took some very basic steps.

First of all, the company could sell its rail business. This move would likely fetch between US\$5 billion (if sold to the public) and US\$8 billion (if sold to the Chinese), potentially giving Bombardier enough cash to wipe out all of its debt.

Bombardier could also sell the CSeries program to one of its big rivals. Doing so could easily fetch a lot of money, and would allow Bombardier to focus more on the business-jet market.

These two steps have a lot in common. Both would require swallowing a lot of pride and accepting that the company must shrink in order to survive. But at the same time, each would likely benefit shareholders immensely.

So, that brings up the obvious question: can Bombardier's management be trusted to do the right thing?

### The controlling family

There are reasons for optimism. When Pierre Beaudoin wasn't getting the job done, he was replaced by Alain Bellemare, a respected industry veteran. And since taking the helm, Mr. Bellemare has opted to divest a minority stake in Bombardier's rail business. He's also open to selling even more of the unit.

Best of all, as a new CEO he isn't personally invested in the company's past mistakes. This makes it easier for him to reverse previous decisions made at the company.

But let's not forget who remains in control. The founding Bombardier-Beaudoin family still controls 54% of the votes, despite owning only 14% of the equity, and its presence is still felt. Importantly, Pierre Beaudoin remains on Bombardier's board, as does his father. They're less likely to admit past mistakes, something that could easily hamstring Mr. Bellemare.

### **Should you hold off on buying the stock?**

Bombardier isn't the only company with a controlling family and limited shareholder rights. And many of these family-controlled companies make for great investments.

But whenever a company is struggling, that's when shareholders care most about poor governance, and for good reason. This is a perfect example. The Bombardier-Beaudoin family may have built a big company, with many successes, but Bombardier has been mismanaged for some time now. So, until there are signs the family is loosening its grip, or at least managing the company more effectively, there's no need for you to become a shareholder.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. TSX:BBD.B (Bombardier)

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### **Date**

2025/07/22

### **Date Created**

2015/09/29

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