



What Would Happen to Bombardier, Inc. if the Founding Family Lost Control?

Description

Bombardier, Inc. ([TSX:BBD.B](#)) is one of many family-controlled businesses that trade publicly in Canada. Through a special class of shares, the Bombardier-Beaudoin family controls 54% of the voting rights, despite holding only 14% of the equity.

Even though this structure can be found elsewhere, it's made Bombardier shareholders particularly frustrated, especially considering the problems the company is going through. Of particular note, the *Caisse de dépôt et placement du Québec* (one of Bombardier's largest shareholders) has reportedly demanded that this structure be watered down.

But Bombardier's controlling family has held firm, maintaining that without the structure, the company could get taken over and broken up. So, what exactly would this look like?

A shake up

Normally when a company underperforms, as Bombardier has done, it would be ripe for getting bought out. But this case is much more complicated, because there is no company looking to acquire both a plane maker and a train maker. So, Bombardier would need to be split up first.

The first step would likely involve a hedge fund buying a bunch of stock, and then trying to convince the board to break up the company. If the board refuses, then the hedge fund may nominate its own directors, and then persuade fellow shareholders to vote in its favour.

By this point, Bombardier's shares would likely have surged, and investors would be afraid of the shares falling all the way back down. So, the hedge fund's chances of winning would be strong.

A break up

The new directors would then move to separate Bombardier Transportation (BT) from its aerospace businesses. This would likely be done by selling off BT, either through an IPO, or directly to a competitor.

The latter option is certainly preferable. There have been reports that a Chinese buyer was willing to pay up to US\$8 billion for BT, while an IPO probably would yield only a US\$5 billion valuation. This should make some sense—because Bombardier has mismanaged BT for years, the division should be more valuable in another company's hands.

But the new directors wouldn't stop there. The CSeries has been an absolute disaster and, like BT, it would probably be more valuable in another company's hands. So, the CSeries would probably be sold off, leaving nothing but the rest of the aerospace business behind (along with a big pile of cash).

Complications with Québec

If this scenario were to occur, the government of Québec would not be happy. The new owners of BT would likely move jobs to a lower-cost jurisdiction, potentially costing the province thousands of jobs.

So, the government will try to slow this process down in whatever way it can, and this would certainly be very messy. It's something that the founding family is looking to avoid.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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