



## Quebec Taxpayers Give \$1.3 Billion Bailout to Bombardier, Inc.: What Now?

### Description

This week, **Bombardier, Inc.** ([TSX:BBD.B](#)) posted \$6.5 billion in losses. With a crushing debt load and an underwhelming project pipeline that needs fresh cash to develop, many analysts have been predicting the worst. In the past 12 months shares are down 65%. In the past 30 days alone, the stock is down over 20%.

Fortunately for the company, it appears as if Canadian taxpayers have come to the rescue.

### The bailout

Bombardier is one of Quebec's largest employers. With 15,000 workers in the province, the government clearly has an incentive to keep the company afloat. That's why this week it announced a plan to provide \$1.3 billion in financing to support Bombardier's CSeries jet project, which is about two years behind schedule. After the deal, Bombardier will own 50.5% of the new joint venture, and 49.5% will belong to the province.

While many are skeptical over the project's future profitability, it represents one of the company's only lifelines to long-term solvency. "This partnership (with Quebec) comes at a pivotal time, with the CSeries on the verge of certification," said the company's CEO. Still, some analysts expect that Bombardier will need another \$2 billion over the next five years to get the project completely online, meaning that there are still significant financing hurdles to be met.

### What's next?

It looks like the entire future of the company will be reliant on the success of the firm's CSeries jet line. In the beginning, the project had a promising future. Bombardier focused on making the jet fuel efficient and incredibly quiet; it was built around the **Pratt and Whitney** PurePower engine that promised to cut noise in half compared with older engines.

Unfortunately, delays wreaked havoc on the jet's viability. After a two-year production and design delay, **Airbus Group SE** and **Boeing Co** got a critical head start.

Instead of designing an entirely new jet around quieter and fuel-efficient engines, both simply retrofitted existing aircraft with the new engine. Now, both companies are selling these new models hand over fist, completely destroying Bombardier's first-mover advantage. Combined, Airbus and Boeing have sold over 6,000 of the new, quieter, and more efficient jets, whereas Bombardier has pre-sold only around 250.

The company's only other promising project, the Learjet 85 program, has also been cancelled completely due to a lack of sales. For now, it looks like Bombardier is putting all its eggs into one basket despite heavy competition.

### **This is not the end to Bombardier's struggles**

While the recent bailout will give Bombardier some breathing room, almost everyone can agree that the company will need billions of additional cash sooner rather than later. With massive losses, it will have no choice but to sell off additional assets or tap the equity or debt markets. Even if it does gain access to financing, there is significant doubt that its CSeries can even compete with Airbus and Boeing, who are already two years ahead.

If you're considering an investment in Bombardier, prepare for massive volatility.

#### **CATEGORY**

1. Investing

#### **TICKERS GLOBAL**

1. TSX:BBD.B (Bombardier)

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1. Investing

#### **Date**

2025/08/23

#### **Date Created**

2015/10/31

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