



The 3 Biggest Highlights From Bombardier, Inc.'s Investor Day

Description

On Tuesday, **Bombardier, Inc.** ([TSX:BBD.B](#)) held its Investor Day in New York City. Below are the top three takeaways.

1. A focus on the long term

If Bombardier shareholders are looking for a catalyst or a quick turnaround, they should sell their shares immediately. CEO Alain Bellemare made that very clear during his remarks, as did the other senior executives.

In other words, 2016 will be a very bad year. Production of the Global 5000 and 6000 business jets will decrease, affecting both revenue and earnings. Margins on the C Series will be negative as the company progresses up the learning curve. And the train business has a long way to go before reaching its margin target.

By 2020, however, Bombardier is hoping for much-improved operations. The company expects revenues of US\$25 billion, an EBIT margin of 7-8%, and free cash flow equal to 80% of income. That's a far cry from today's figures of ~US\$20 billion in revenue, sub-5% EBIT margins, and negative free cash flow.

2. Strong liquidity

Over the past year, there have been growing worries about Bombardier's financial position. But as we enter 2016, the company has US\$6.5 billion of liquidity. That should be plenty to ensure its survival, at least in the short term.

This will be more of a problem in the next two to three years. Bombardier has US\$1.4 billion of debt due in 2018, and another US\$5.2 billion due in the five years thereafter. This is very concerning, because the company doesn't expect positive free cash flow until 2018.

If Bombardier's turnaround plan progresses more slowly than expected, then the company may find itself in serious trouble. After all, it would be very difficult to renegotiate debt on favourable terms, and

even tougher to raise new capital. In such a scenario, Bombardier would likely go back to the public sector for more cash. That would not be good news for shareholders.

3. Optimism for the CSeries

As we all know, Bombardier has not secured a firm order for the CSeries since September 2014, back when oil was trading for over US\$95 per barrel.

That being the case, management is very confident about the plane's future. It expects the CSeries to win up to 3,500 deliveries over the next 20 years, equivalent to 50% market share in the 100-150 seat segment. Of note, the CSeries has accounted for 47% of total industry orders in this segment since 2008.

In the near term, the two big milestones will be certification and entry into service, which are expected to happen by the end of this year and early next year, respectively. These events could easily rejuvenate the sales process.

Bombardier's management team understands that shareholders are skeptical. But at the same time, if the company is able to turn itself around, there is tremendous upside for the stock. We'll see what happens in five years.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

Category

1. Investing

Date

2025/07/20

Date Created

2015/11/27

Author

bensinclair

default watermark