



Will Bombardier, Inc. Be the Next General Motors Company?

Description

Ever since **Bombardier, Inc.** ([TSX:BBD.B](#)) received US\$1 billion from the government of Quebec, the company has drawn some comparisons to **General Motors Company** ([NYSE:GM](#)). Most notably, Quebec economy minister Jacques Daoust said he wants the federal government to provide money for Bombardier as it did for GM back in 2009.

So what exactly would this mean for Bombardier?

What people remember about GM

GM is remembered as a company that was unable to compete in the 21st century. As the story goes, its gas guzzlers were no match for the superior automobiles from countries such as Japan, South Korea, and Germany. Sales were declining, and high costs—caused by powerful unions—only made the problem worse. By the time the great recession hit, it was game over.

Then, of course, the Obama administration stepped in and bailed out GM, and the Canadian and Ontario governments contributed as well. The move was very unpopular at the time, but has largely been vindicated. GM has come roaring back, the American government made a profit, and millions of jobs were saved. So it's easy to see why Mr. Daoust is looking for a similar event with Bombardier.

What really happened

The story above is mostly true, but there are a few details that some people (including Mr. Daoust) seem to have forgotten.

First of all, it's true that GM was losing to its foreign competitors in 2008. But many of its problems had already been solved; for instance, GM's product line had greatly improved, as had its manufacturing efficiency. This was largely unnoticed at the time, but contributed greatly to the company's eventual recovery.

Secondly, not all interested parties were bailed out. GM had to declare bankruptcy, meaning that shareholders got wiped out. CEO Rick Wagoner was asked to step down. The bondholders had to take

a major haircut. So in the end, the only real winners were the workers, the government, and the North American economy.

What this would mean for Bombardier

What Mr. Daoust is asking for from the federal government is actually very different. He wants a cash injection for Bombardier without all the strings attached that GM had to deal with. To be more specific, he doesn't want Bombardier to have to declare bankruptcy. He doesn't want a change in leadership. And he doesn't want to see any haircuts for bondholders.

Furthermore, Bombardier has no real competitive advantages against the likes of **Boeing** and Airbus. The train-making unit is a chronic underperformer. So no matter what bailout money comes, it's hard to imagine a recovery as robust as GM's.

In any case, if you're a Bombardier shareholder, you'd better hope the company does *not* become the next GM. And the Bombardier/Beaudoin family should hope for a different outcome as well.

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1. Editor's Choice

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1. NYSE:GM (General Motors Company)
2. TSX:BBD.B (Bombardier)

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