Should Bombardier, Inc. Lose its Dual-Class Share Structure?

Description

As the federal government mulls over whether to make an investment in **Bombardier, Inc.** (TSX:BBD.B), we're hearing a lot of people come out against the idea. And I'm not just talking about right-wing commentators from *The National Post* either. Left-wing critics are painting the idea as a bailout for the wealthy Bombardier/Beaudoin family.

That said, Canada cannot simply let Bombardier go under. The company employs nearly 20,000 people in the province of Quebec alone, and this is an industry where all major participants receive government assistance.

This puts the government in a serious bind, and whatever decision Justin Trudeau makes, it will upset a lot of people. In a previous article, I suggested that Mr. Trudeau should wait for Bombardier to fail and then oversee a restructuring, not unlike what happened with the auto companies in 2009.

But there's another solution–one that isn't quite so harsh. It would benefit Bombardier's shareholders, and it could also set the company on the right course. So is it a good idea?

A break up of the structure

Bombardier has a dual-class share structure, one that gives voting control to the Bombardier/Beaudoin, even though they own less than 20% of the equity. It's a structure that's widely regarded as unfair and undemocratic.

Defenders of the system argue that it protects a company from predators and allows for more long-term thinking. But those arguments evaporate when a company underperforms as badly as Bombardier has. And it was the family that made the terrible decision to proceed with the CSeries.

So in a *Report on Business* article (available to subscribers only) one Bombardier shareholder argued that any federal money should come with one key condition: break up this structure.

What would happen if the structure were broken?

This would be a fantastic outcome for Bombardier shareholders, because it would open up a world of possibilities for the company. For example, a hedge fund could step in and demand a breakup of the company with some parts (such as Bombardier Transportation or the CSeries program) being sold to foreign competitors.

Such moves would be fantastic for shareholders, but not so good for Bombardier's employees. Many of their jobs would be at risk of leaving the country. And that wouldn't be good for the province of Quebec either. This is why Bombardier was able to get US$2.5 billion of public money in Quebec–the government was afraid of jobs leaving the province.

Should Mr. Trudeau do this?

I agree that this is a better option than any "no strings attached" aid money. But it still has its flaws.

After all, Bombardier could simply take the money and do away with its dual-class share structure, only to see hedge funds come in and break up the company. Then Canada will have committed taxpayer dollars towards saving a Canadian company only to see jobs cut anyway.

At the end of the day, there aren't really any good ideas. Mr. Trudeau has his work cut out for him.

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1. TSX:BBD.B (Bombardier)

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