



## Bombardier, Inc.: How Shareholders Win if the Founding Family Loses Control

### Description

According to *The Globe and Mail*, federal officials have privately told reporters that any **Bombardier, Inc.** ([TSX:BBD.B](#)) aid will likely be tied to governance changes. To be more specific, the company would have to abandon its dual-class share structure, which currently gives the founding family majority voting control, despite holding just 14% of the equity.

Such a change would be well received by Bombardier's remaining shareholders, even if it comes a few years too late. But this leaves an important question unanswered: How big a win would this be?

#### A takeover would be ideal

If Bombardier was only concerned with maximizing shareholder value, the business would probably be broken up and sold. Unfortunately, that has not been the case.

To illustrate, *Reuters* reported that a Chinese state-owned company would have paid as much as US\$8 billion for Bombardier's rail unit. The transaction would have allowed the Chinese to gain a greater foothold in Europe, but Bombardier wasn't interested in selling a majority stake at the time.

Meanwhile, the CSeries jet program could be very valuable, if only it were in the hands of **Boeing Co.** or Airbus. Both companies know just how hard it is to develop a new aircraft, having incurred big problems with the 787 and A380, respectively, and surely would have loved to buy the CSeries from Bombardier. A transaction would also reduce competition, benefiting all of the industry players.

According to *Reuters*, Bombardier held such talks with Airbus, but they broke down. The company then sold a 49.5% stake in the CSeries to the government of Quebec for US\$1 billion. The stock is down by more than 50% since that announcement.

#### Why Bombardier has gone down this road

If any of Bombardier's businesses fell into the hands of foreigners, there would be a risk of lost jobs in Quebec as production is moved to lower-cost countries.

Normally, this wouldn't be such a big concern for a private company. But the Beaudoin family has a close relationship with the government of Quebec, and that seems to have influenced Bombardier's decisions. To illustrate, the province's transport minister, Jacques Daoust, said last year he was assured Bombardier Transportation won't be sold.

"I know Pierre Beaudoin for a long time and I know (his father) Laurent Beaudoin for even longer," Daoust said. "I am sure that they will work in the best interests of Quebec."

Furthermore, when Bombardier was negotiating the sale of its CSeries program to Airbus, it demanded that Airbus promise to keep production in Quebec. Such a demand certainly decreased the price that Airbus was willing to pay and could have easily been a reason why the talks broke down.

To put it simply, the Beaudoins seem to care more about Quebec than Bombardier's shareholders. So if the family loses control, then shareholders could finally score some big wins.

### **Some complications**

If the Beaudoins lose control, then Bombardier is more likely to be broken up and sold. If that is the case, you're unlikely to see production leave Canada. Both the Canadian and Quebec governments will probably ensure that jobs stay local, which will impact the selling price of businesses like Bombardier Transportation.

In other words, a breakup of the Bombardier share structure would be a small win for the company. Just don't get carried away.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

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