



## Bombardier, Inc. Just Got Some Major News

### Description

Shares of **Bombardier, Inc.** ([TSX:BBD.B](#)) were up as much as 25% on Wednesday as investors reacted positively to two major events. First, it announced that it was cutting 7,000 jobs in an attempt to turn profitable. This represents almost 10% of its entire workforce. Second, it signed a letter of intent with **Air Canada** for the airliner to buy at least 45 CSeries jets. While it's not a firm order, the deal is valued at roughly \$3.8 billion.

For a company that's teetering on the brink of insolvency, this could be a lifesaver.

### Perception is shifting

Billionaire investor George Soros is famous for his ideas surrounding what he calls reflexivity. In popular culture, most people refer to this as a self-fulfilling prophecy; once something is set in motion, it often will help perpetuate a certain outcome. For companies like Bombardier, which are burning cash and need to rely on outside financing to keep the company afloat, this is a very important concept.

According to the U.S. aviation consultancy firm Leeham Co., Bombardier will lose \$32 million on each of the first 50 CSeries aircraft it builds, guaranteeing the project as a cash drain until at least 2018. To be able to afford ramping up production, the company would need to spend approximately \$1.6 billion in total. With the company posting billion in losses each quarter, it will need to rely just as much on investor sentiment than the long-term viability of its business, as it will need to go back to the market several times to ask for additional financing.

Last year, Quebec said it would invest \$1.3 billion in Bombardier's CSeries jet line in return for a near 50% stake in the project. This will likely be just the first of many financing rounds.

Soros's concept of reflexivity comes into play because falling investor sentiment can create a self-fulfilling prophecy. If the share price gets battered, the company can't raise as much money selling stock. If the debt market perceives a greater risk, it may ask for higher interest rates, which would crush a company right when it needs financing most.

With Bombardier's stock down over 90% in the past year and few institutions left willing to invest in its

projects, the company needs the market to become more confident in its long-term potential if it wants to continue operating. This week's news of a new major order may do just that.

### **The CSeries may find further demand**

Management has been insistent that its struggling CSeries jet line will eventually find plenty of buyers. Following the Paris Air Show in June, the company stated that interest in its CSeries jet from would-be buyers was "overwhelming." They also said that Bombardier saw "heightened interest and sales discussions with marquee airlines who are starting to see what this aircraft will do for them."

Today, Bombardier has firm orders from 14 different airlines. The latest \$3.8 billion letter of intent from Air Canada shows that management may have been right all along.

While there are still plenty of financing hurdles to go, perhaps investor sentiment is shifting enough to reopen financing options for the company. It may keep the company running long enough for it to sell some of its highly valued assets.

Reports last year said that Bombardier rejected a proposal by Beijing Infrastructure Investment for a 60-100% ownership stake of Bombardier Transportation, valuing the unit for as much as \$8 billion. Beijing Infrastructure's reported offer values Bombardier Transportation at 10.4 times next year's EBITDA.

If Bombardier is able to make it out of this mess alive, there's no doubt that this week marked a major turning point.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. TSX:BBD.B (Bombardier)

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1. Investing

### **Date**

2025/08/26

### **Date Created**

2016/02/19

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