



Why Bombardier, Inc. May Not Exist Without the Dual-Class Share Structure

Description

During an interview with *The Business News Network*, **Bombardier, Inc.** ([TSX:BBD.B](#)) CEO Alain Bellemare said that the company would probably have been broken up and sold to a foreign competitor without its dual-class share structure.

“One thing that people need to think about is we have a great company here with Bombardier; it’s based here in Canada, it’s a Canadian icon, it’s created, you know, the third-largest aerospace city in the world, behind Seattle and Toulouse ... If it wasn’t for the protection of the multi-vote, chances are this company would have been broken down into pieces and we would not have the core aerospace business that we have right here in Canada,” said Mr. Bellemare.

While his comments may not be surprising, he is making some very important points, and they are worth looking at in closer detail.

Preventing a sale

When Mr. Bellemare says that Bombardier would be broken up if it weren’t for the dual-class structure, he is probably right. All we have to do is take a look at what happened last year.

In early September *Reuters* reported that Bombardier had turned down a Chinese offer for its rail business. The offer was for US\$7-8 billion, which was well above what analysts thought the division was worth. Investors reacted positively, sending Bombardier’s share price up by 58% in two days. Clearly, they wanted the division to be sold.

But Bombardier’s management didn’t want to sell a majority stake in its rail business, so the offer was turned down. Instead, the company sought funding from public sources, and shareholders have paid a significant price for that.

Or look at what’s happened with the CSeries. Bombardier reportedly explored selling the CSeries program, and judging by the company’s stock-price movements, investors were enthusiastic about this idea as well.

But Bombardier reportedly asked for assurances that production would remain in Quebec, something that normally wouldn't be done by a profit-maximizing company. Instead, the request may have been a result of the family's close relationship with the Quebec government. And this could have been a reason why talks broke down.

It should be clear by now that at least one of these asset sales would have happened if the dual-class share structure were scrapped. So Mr. Bellemare certainly has a point.

So what happens now?

This topic is very relevant nowadays, because the government of Canada supposedly wants Bombardier to break up its share structure as a precondition for any investment.

If this happens, it could ultimately lead to an activist investor buying shares. It could also lead to new board members. And then if Bombardier does try to sell any of its business units, it could lead to a showdown with the Canadian and Quebec governments.

All of this is still very speculative. But if Bombardier does go down this road, it could be a huge win for the rest of the shareholders. Investors should be watching this closely.

CATEGORY

1. Investing

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1. TSX:BBD.B (Bombardier)

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