



Bombardier, Inc.: What Quebec Wants From the Federal Government

Description

As the federal government mulls over whether or not to provide aid to **Bombardier, Inc.** ([TSX:BBD.B](#)), anonymous sources from *Reuters* have shed new light on what the province of Quebec would like to see happen.

So what exactly are these new revelations? And what do they mean for Bombardier's shareholders?

Control over the CSeries

First, some background. Quebec and Bombardier have both requested that the federal government make a US\$1 billion investment in the CSeries program as the Quebec government did back in October. But some in the federal government want an additional stipulation: that Bombardier give up its dual-class share structure, which gives the founding family voting control over the company. This is also something that Bombardier's other shareholders would like to see.

But according to *Reuters*'s sources, Quebec has a different idea. The province is suggesting that after the federal government makes its investment, a new board be formed for the CSeries program, one in which the federal and provincial governments would get two seats each. Bombardier would then get three seats. Thus the company would no longer have voting control over the jet program.

The sources also say that Bombardier's board supports Quebec's idea.

Not quite the same thing

Let's look at this proposal in context. In exchange for Quebec's US\$1 billion October investment, the province got a 49.5% stake in the CSeries (in addition to some out-of-the-money options on Bombardier's shares). So if Canada made a similar investment, then Bombardier would own only 1% of the CSeries program. Thus it's very reasonable to expect the company to give up control over the CSeries.

Of course, this would be very different from Bombardier giving up its dual-class share structure. The main reason is that under Quebec's proposal, the company would still be protected from activist

investors and foreign takeovers.

It's easy to see why the Quebec government has this idea and why Bombardier's board likes such an approach. But this outcome would be terrible for Bombardier's other shareholders, since it would remove the most promising catalyst for a surge in the share price.

Why you shouldn't be a Bombardier shareholder

Bombardier's shareholders (excluding the family) are undoubtedly hoping for a breakup in the dual-class share structure, but unfortunately they are the only ones that would benefit from such an event. After all, if Bombardier got taken out, that would mean defeat for the family and a loss of jobs in Canada.

At the same time, Bombardier's shareholders have no real influence, and no one seems to care about them. Making matters worse, the federal government surely doesn't want Bombardier's share price to go up by making an investment in the company, since that would make the investment look more like a bailout.

So at this point, there is little reason to be a Bombardier shareholder. You should save yourself the headache.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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