



Bombardier, Inc.: Will Federal Money Inhibit a Turnaround?

Description

Everyone knows the problems that **Bombardier, Inc.** ([TSX:BBD.B](#)) is facing. The CSeries is not selling. Cash flow is severely negative. And debt remains too high, threatening the long-term viability of the company.

These types of situations are not that uncommon. And normally the solution involves a round of cost cutting, which inevitably includes job losses. But Bombardier is in a tricky situation, because of the government's involvement.

Why the government is getting involved

Bombardier may be a troubled company, but there is no denying its importance to Canada, especially in the province of Quebec. The company employs 18,000 people in the province, and when including indirect jobs (i.e., those who work for suppliers), the number increases to about 40,000.

This is why Quebec has already provided US\$1 billion in funding. As put by Jacques Daoust, Quebec's economy minister at the time, "What's more risky: doing it or not doing it?"

Bombardier is cutting jobs anyway

Bombardier announced in February that it will be laying off 7,000 people over two years, including nearly 3,000 in Canada. The move was likely a necessary step in the company's turnaround plan, but it still prompted a fierce backlash. Some commentators even used the phrase "stab in the back" to describe Bombardier's actions.

Quebec premier Philippe Couillard also faced some criticism. Pierre Karl Peladeau, leader of the opposition Parti Quebecois, said that Quebec's investment was a bad deal for taxpayers and that any bailout money should have come with guarantees surrounding staffing levels.

Will Bombardier even be able to execute its turnaround plan?

Maybe not. Justin Trudeau has made it clear that protecting jobs is the number one reason for

providing aid to Bombardier. So there's a good chance that he'll demand staffing guarantees as part of any deal.

At the end of the day, shareholders must face a sad reality: the government doesn't care about Bombardier's stock price. Rather, it is only concerned with protecting jobs. And this is something you need to seriously think about before buying Bombardier shares.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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