



## Only Really Smart People Should Own Bombardier, Inc.

### Description

Quebec's biggest case of corporate welfare reported third-quarter earnings November 10. When reading the press release comments of **Bombardier, Inc.** ([TSX:BBD.B](#)) CEO Alain Bellemare, you'd think a ticker tape parade on the scale of a Montreal Canadiens' Stanley Cup win was in the offing.

"We continue to gain momentum as we execute our turnaround plan and transform our company," said Bellemare. "As we close out 2016, we are confident in our strategy, our turnaround plan and in our ability to achieve our 2020 goals."

Wow. I can hardly wait for 2020.

Let's get serious for a moment. Unless you are incredibly bright, preferably Mensa bright, CFA-trained, and an expert on financial statements, I don't see how you can possibly know from looking at its latest earnings report whether or not Mr. Bellemare is blowing smoke up your kilt. I just don't.

Page 14 of its report is titled "Liquidity and Resources" and addresses its free cash flow usage for the three-month and nine-month periods ended September 30, 2016. I'm sure if you've been following the trials and tribulations of the planes and trains manufacturer, you're very familiar with the verbiage. However, familiarity and understanding are two completely different things.

I have written about hundreds of public companies large and small, Canadian and American, profitable and unprofitable, and the term *free cash flow usage* is one I rarely come across. A full-text search of SEC.gov, the U.S. Securities and Exchange Commission's website, brings up 39 results over four pages of *free cash flow usage* out of who knows how many total results. Search the word *dividend* and you get +8,000.

One of the 39 examples happens to be **Embraer SA**, one of Bombardier's many competitors. Clearly, this is a common financial term used by aircraft manufacturers, although its use is nowhere to be found in the latest 10-Q of **Boeing Co.** But, of course, why would it? Boeing made more than US\$7 billion in fiscal 2015. It doesn't have a problem with cash flow.

Now let's go back to Bombardier's free cash flow usage.

In the third quarter, its free cash flow usage was \$125 million (excluding interest and taxes), a 77% improvement year over year from \$648 million. In the nine-month period, free cash flow usage was \$1.05 billion, a 47% year-over-year improvement from \$1.97 billion.

Just as Bellemare said, things are going in the right direction.

But do you really think you should be investing in a company that takes four pages, two of which are footnotes, to explain where the cash is coming from and going to? I certainly don't.

It's one thing for the Quebec government to be investing in the CSeries or the Caisse de Dépôt et Placement du Québec taking a 30% interest in Bombardier's train unit, but they have the finance professionals available to go over each and every number to understand their significance. But just because they understand the numbers doesn't mean they'll be right about Bombardier's fate.

Unless you're really, really, smart, you should not own this stock, no matter what the CEO says. Its financial picture is just too complicated for most ordinary retail investors—myself included.

## **CATEGORY**

1. Investing

## **TICKERS GLOBAL**

1. TSX:BBD.B (Bombardier)

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1. Investing

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