



Slow and Steady Does NOT Win the Race: Change Needed in Bombardier, Inc.

Description

Leadership shake-up at Bombardier

Thursday, May 11, 2017: Pierre Beaudoin, the executive chairman of **Bombardier, Inc.** ([TSX:BBD.B](#)) decided to step down from his management role. This is big news for the investors such as Ontario Teachers' Pension Plan (OTPP) and Canada Pension Plan Investment Board (CPPIB), as they wanted a change in the company's management.

It seems like a small victory for the investors since Mr. Beaudoin's family own 53% of the company shares, so the investors could not have voted him out. Mr. Beaudoin will still remain as non-executive chairman of the company, and it seems like this was done more of a formality.

Way past due: Slow production of CSeries

In spite of putting all its focus into the CSeries, a new jet airliner, Bombardier is not living up to its contract. Out of 360 orders placed as of 2017, the company was only able to deliver eight in 2016 and three in 2017. Bombardier says it is not to blame; engine supplier **Pratt & Whitney Canada Corp.** is the culprit for the slow production speed.

The company's goal is to deliver 30-35 CSeries planes by end of the year, and it is hard to picture they will be able to meet their targets with such low production levels.

Slow production spreads to other products

Apart from blowing past deadlines on the CSeries, Bombardier is also missing the mark on its other product: Light Rail Transit (LRT). On May 12, 2017, Metrolinx, which already purchased \$770 million worth of LRT back in 2010 from Bombardier, decided to purchase \$528 million worth of LRT from **Alstom Canada**, Bombardier's competitor.

Metrolinx stated that purchasing from another competitor is to safeguard its interests in case Bombardier cannot deliver on the LRT contract on time. This is bad news for Bombardier as it means it is losing precious LRT market share.

To make matters worse, the company is already losing money by selling the C Series for under the market value of US\$19.6 million (production cost: US\$33.2 million). These events make you wonder how the company will reach pre-tax profit by 2020 according to its five-year turnaround plan.

Anyone who has been following Bombardier knows that all these delays are not old news. Another Bombardier contract, the Toronto Transit Commission (TTC)-Metrolinx deal in 2009, was plagued by production and delivery issues.

The original plan was to deliver the product (street cars) by 2018, but to date, only 35 out of 204 cars have been delivered. To make matters worse, TTC has mentioned there are some quality issues with the new street cars it got from Bombardier. Not only the company is slow on delivering its products, but it is delivering faulty products.

The future of Bombardier

The executives of Bombardier have not shown that they are capable of managing one of the largest railway and aerospace manufacturer in the world. Executives' salaries have dramatically increased when the company's gross profits are in steady decline.

Bombardier needs to crank up its production level dramatically and make a solid change in its management. Until then, I would hold on to my money and see what Bombardier's next move is.

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