Is This the Real Reason WestJet (TSX:WJA) Decided to Sell?

Description

There's been a lot of movement in the airline industry lately. When **WestJet Airlines** (TSX:WJA) announced that it was being sold to private equity firm **Onex**, it raised some eyebrows. The company, at least in the beginning, had prided itself on employees owning shares of the public company.

And while many of those employees will get some nice payouts as a result of the deal, WestJet's CEO Ed Sims hinted that there may have been another factor that motivated the company to go private. Sims told *BNN Bloomberg* in a recent interview that he felt there was too much "short-term thinking" surrounding public companies.

In the interview, he said that the company's asset purchases are for the long term, and yet investors are focused on short-term numbers and goals.

He said, "When you're constantly being asked every three months to re-evaluate whether every individual strand of that strategy is profitable in its own right, it can encourage short-term thinking and a transactional approach to the way that we build our fares and the way we look after our 25 million guests every year."

It's a valid question that again brings to light the question of whether quarterly earnings reports are simply too frequent. With so many things that can impact a company during a three-month window, it certainly puts a big incentive on companies to focus on getting the short term right. And so when you're buying assets or making decisions with the long term in mind, it's not necessarily in alignment.

Ironically enough, if a company focused on the short term and neglected the long term, a case could be made that it's not a very good investment. And yet, investors seem to want both and are quick to punish companies for missing earnings by a few cents or not having a bright forecast for the upcoming year.

The frustration by Sims is apparent, and it could be that the company preferred to take the deal partly to rid itself of the constant headaches and questions coming from earnings calls and the scrutiny that comes with being a public company. It's a pressure that private companies don't have to worry about, especially when there’s only a few people that have ownership.

Bottom line

For investors, Sims’s words are an important reminder that too much weight shouldn’t be given to the short term. A company missing or falling short of expectations doesn’t mean that its business model is now somehow flawed or that its business is no longer worth what it was just prior to earnings.

With more data and forecasts available, there’s a danger that investors are over analyzing and making decisions that might be too short sighted or based on too small of a sample. The good news is that for investors that can ignore the short-term noise, there can be real bargains to be had in the market for stocks that suffer from overzealous investors.

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