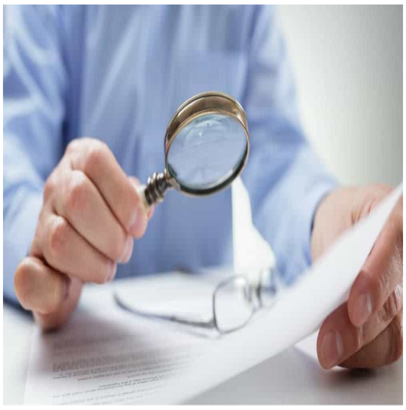

Will Handing Executives $10 Million in Severance Pay Save Bombardier (TSX:BBD.B) Stock?

Description

Recently, **Bombardier** (TSX:BBD.B) announced it was giving a $17.5 million “golden parachute” to outgoing CEO Alain Bellemare. The package consisted of $10 million in severance pay, $2.7 million in stock, and a potential $4.9 million if the company’s **Alstom** deal closes. The deal received significant criticism. The pay itself was criticized in the media, while new CEO Eric Martel criticized developments that occurred during Bellemare’s tenure.

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During Bellemare’s time as CEO, Bombardier’s stock price fell dramatically. From February 13, 2015 — the date he took over — until the start of this month, the company’s stock price has declined 75%. In the same period, Bombardier sold off many business units, which may have helped the company improve its balance sheet but also deprived it of growth engines.

Many Canadians are wondering whether a CEO whose tenure was unsuccessful should get a massive payout. Before exploring that, we need to look at exactly what Bellemare is getting.

A $17.5 million golden parachute

Of the quoted “$17.5 million” golden parachute Bellemare is to receive, only $10 million is set in stone. The rest has various strings attached. The stock award depends on the value of the shares when Bellemare receives them. The $4.9 million in extra money depends on whether Bombardier’s deal with Alstom closes.

So, Bellemare may not get $17.5 million. However, he’s guaranteed at least $10 million, which seems like a lot for a CEO of a company whose share price has fallen into the abyss.

Is this good news for investors?

If you look at Alain Bellemare’s severance pay from a moral perspective, it might seem wrong. Why should a CEO get $10 million plus stock awards for leaving an ailing company? Bellemare’s departure comes at the same time as many Canadians are struggling financially, so the massive compensation awarded might look like a slap in the face.

However, it is possible that the move could have been necessary to turn things around for Bombardier.

CEOs aren't easy to fire, as their removal requires a board vote. Getting a company's board to agree to terminate its CEO when the CEO doesn't want to step down can be difficult — particularly if the CEO has allies on the board. Perhaps in the interest of installing a new CEO, Bombardier offered Bellemare a generous compensation package that would allow him to leave without too much opposition.

If that's what happened, then it may have been the right move. In its most recent quarter, Bombardier lost $200 million in GAAP terms and saw its adjusted EBITDA decline 36%. Its net cash outflow from operating activities was a whopping $1.5 billion. That cash outflow was nearly as large as Bombardier's cash on hand. So, even with all of the company's business unit spinoffs, it's going to need to re-finance just to cover the cost of operations.

Clearly this company needs a change of leadership. Perhaps Bellemare's $10 million in severance pay was needed to make that happen.

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