



## Does Bombardier, Inc. Even Need More Money?

### Description

Back in December, **Bombardier, Inc.** ([TSX:BBD.B](#)) requested US\$1 billion in financial assistance from the federal government, setting off a fierce national debate. But according to recent comments from a senior executive, Bombardier may not even need the money at all.

Speaking in Switzerland, Bombardier vice president Rob Dewar (who's in charge of the CSeries program) said, "We don't need a backup plan because what's secured already is actually more than we require."

So what exactly is going on here? Does Bombardier really need the money? And if not, then why has the company made such a request?

### The numbers

Bombardier exited 2015 with just over US\$4.0 billion in liquidity, which includes US\$2.7 billion in cash and US\$1.3 billion in unused credit lines. In addition, the company is due to receive \$1 billion from the government of Quebec, and another \$1.5 billion from the province's largest pension fund. That brings the total liquidity figure to \$6.5 billion, giving Bombardier lots of cushion in the near term.

And according to past statements, this should be enough money. For example, at Bombardier's Investor Day in late November, CEO Alain Bellemare said, "We will have the right level of liquidity to execute our plan." CFO John Di Bert made similar comments at the event: "My expectation here is that we have the liquidity necessary to get through the investment programs to sustain and to fund the operational transformations we need to undertake."

To be more specific, Bombardier expects to start generating positive free cash flow in the back half of 2018. And \$6.5 billion should be enough to sustain the company until then. So why exactly is the company looking for federal help?

### It's all about confidence

Buying an airplane isn't like buying a toothbrush. When an airline purchases an airplane, it wants to be

sure the manufacturer remains committed to the program. Likewise, the airline also wants assurances the manufacturer is on solid financial footing. Otherwise the airline could end up with what's known as an "orphan plane."

And it's very disadvantageous to own an orphan plane. One problem is that pilots require extra training to fly the plane. Another problem is that the planes have poor resale value, which can put a dent in fleet plans.

Of course, Bombardier is not very secure financially, and this is having an impact on sales. The company hasn't even secured a firm CSeries order since September 2014. So in an ideal scenario, a government injection will bring about more confidence in the company, which will lead to more CSeries sales, feeding a virtuous cycle. Other than a takeover, it's the best outcome shareholders can hope for.

## **CATEGORY**

1. Investing

## **TICKERS GLOBAL**

1. TSX:BBD.B (Bombardier)

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