



Can a New CEO Turn Bombardier Around?

Description

The new CEO of **Bombardier, Inc** (TSX:BBD), Allain Bellemare, will arrive at work on his first day with the knowledge that the market just shaved another \$600 million from the already depressed value of the company on the day that the fourth-quarter results, dividend suspension, capital raising plans, and his appointment were announced. It's a difficult time for the company. Can Mr. Bellemare turn it around?

CEOs can make a difference

Canadian investors will be well aware of the significant difference that Mr Hunter Harrison made at **Canadian Pacific Railway Limited** after he was appointed in late 2012. The company changed from a mediocre performer to an industry and market star leaving the more illustrious **Canadian National Railway Company** behind and attracting a premium market valuation.

Mr John Chen was appointed as CEO of **BlackBerry** in late 2013 with the share price testing all-time lows. The jury is still out on whether he will eventually be able to bring the company back to sustainable levels of profitability, but investors are giving him the benefit of the doubt with a share price that doubled over this time period.

In both cases, these CEOs developed revised strategic plans and, as outsiders, were able to bring a fresh perspective on the problems facing the companies. Both also embarked on aggressive cost-cutting, brought in additional top management, realigned operating structures, and sold or closed underperforming businesses. Above all, they managed to instil renewed confidence among investors in the abilities of the companies to generate attractive investment returns.

Will Mr. Bellamare make a difference at Bombardier?

The new CEO is an acclaimed aeronautical engineer with an MBA from McGill University. Most recently he was the President of **United Technologies Corp.** Propulsion and Aerospace Systems divisions. These divisions included the engine maker Pratt & Whitney and aircraft component maker UTC Aerospace Systems and employed jointly more than 70,000 staff with sales of \$29 billion and operating profit of \$4.4 billion. By comparison, Bombardier employs 74,000 staff, but has lower sales at

\$20 billion.

Mr. Bellemare played a key role in the integration of United Tech's \$16 billion 2012 acquisition of aircraft components maker Goodrich Corp. The divisions under his supervision performed well during his tenure, but his role was effectively eliminated after a corporate reorganisation and he left United Tech at the end of January.

During the 18 years that he spent at United Tech he also operated as President of Pratt & Whitney in Canada and as Executive Vice President for Group Strategy. The experience gained in these positions would stand him in good stead in his new role.

The new CEO has without doubt the technical skills suitable for the Bombardier business. He has also gained considerable management experience in a first-rate, well performing company, and has gained knowledge of the Bombardier business as former supplier of engines and aircraft components.

However, the challenges that he will face are numerous. First, Bombardier is still controlled by the Beaudoin and Bombardier families. They will likely have to agree with major proposals from the new CEO. Second, the previous CEO, Pierre Beaudoin, has been appointed as the Executive Chairman, a title that indicates an active role in the business. Third, Mr. Bellemare will have to deal with the operational and financial challenges faced by Bombardier, including the delayed C-Series jet program and proposed equity and bond capital raising programs.

Should you invest now?

The new CEO will have his work cut out to turn the business around, deal with the operational and financial challenges, and manage the family involvement and expectations. I will remain a very interested observer from the sidelines for now.

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1. Investing

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1. Editor's Choice

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1. TSX:BBD.B (Bombardier)

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Date

2025/08/20

Date Created

2015/02/13
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