2 Major Problems Grounding Bombardier, Inc.

Description

Bombardier, Inc. (TSX:BBD.B) is the perennial green shoot that never reaches its economic potential. The stock hit its all-time high in February 2000, over 16 years ago, at $26 per share. It bottomed out in February 2016 at 80¢ per share.

Why are Bombardier Class B shares mired in a continuous bear market? There are two major reasons for this chronic underperformance.

The catch 22

Bombardier relies on the Canadian Federal Government and the provincial governments of Quebec and Ontario for investment capital.

These governments, understandably, only inject cash under the condition that domestic jobs are protected. However, to be a truly global competitor, the company must lower costs by moving its manufacturing base offshore.

Bombardier's conundrum arises from being held hostage by corporate welfare. High labour costs, regulatory red tape, and market proximity make staying primarily in Canada less profitable, but Canadian governments won't finance their offshore operations.

Strangled by family ties

The largest obstacle to accessing financing from outside investors is Bombardier's dual-class share structure.

The Class A (BBD.A) special voting shares carry 10 votes per share, versus one vote for every Class B (BBD.B) share. The special Class A shares represent 53.4% of the voting rights and are controlled by eight members of the founding Bombardier-Beaudoin family.

What is the best way to scare the bear?

If the special voting rights are cancelled, then Bombardier is released from its sole dependence on government money.

Hedge funds and activist shareholders are stymied by the undemocratic practice of special voting shares. Capitalism and democracy share one simple truth: all votes are equal. No equity investor wants to be in Bombardier if their vote can be cancelled by an outmoded hierarchical proprietorship.

A family ownership structure offered loyal, stable management committed to the long term at the company's founding in 1942. The passage of time has proven that what was once an anchor is now a restraint, discouraging outside investment and disallowing global mobility.

The key to solving Bombardier's problem rests on the Quebec government redefining its relationship with Bombardier from nanny investor to commercial partner.

Bombardier is a strategic player responsible for 2% GDP in Quebec's export economy. The company's success plays on the fact that the Quebec government is the hefty guarantor that attracts prospective large customers to Bombardier.

Before making the next cash injection, the Quebec government must insist that the founding family members convert all their Class A special voting shares to Class B shares; they would receive one Class B share for every converted Class A share.

This conversion would unite legacy and common shareholders in requiring the best management, resistance to corporate raiders, and solid shareholder returns. Quebec would realize maximum economic benefits as its strategic partner realizes maximum profits.

Bombardier will remain grounded until its voting shares go the way of **Sony's** Betamax video cassettes. Until then, Bombardier will never go completely broke thanks to the tethers of Canadian nanny governments, but neither will it climb to $26 or even $3 per share.

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