BOMBARDIER IS RUNNING OUT OF OPTIONS AFTER PRESSURE TO REDUCE CONTROL

News / Manufacturer

Bombardier is running out of options as the Canadian aircraft maker seeks to raise the cash for the new jet that potentially would allow it to challenge the supremacy of Boeing and Airbus in global jetliner sales, according to several sources with knowledge of the situation.

The sources said for Bombardier to persuade investors to provide more capital, the Bombardier-Beaudoin family will probably have to reduce its 53 percent voting control of a company which was founded by snowmobile inventor Joseph-Armand Bombardier in 1942 and moved into train and plane manufacturing through acquisitions made by his son-in-law Laurent Beaudoin.

The company recently failed to get Airbus to take on much of the future cost of the new plane, the CSeries. Airbus pulled out of discussions to buy a controlling stake in the program last week after they were first reported by Reuters.

Bombardier spokeswoman Isabelle Rondeau declined to comment on any specific discussions, saying that the company is “exploring initiatives such as a potential participation in industry consolidation, but we will not discuss our activities in this regard or speculate on potential outcomes.” Development costs for the CSeries program have soared to $5.4 billion, from an earlier projection of $3.2 billion and Bombardier is likely to continue burning through cash for some years even after it is expected to go into service next year, according to analysts and aerospace industry executives.

The family’s deep ties in Quebec – it is at the heart of the French-Canadian province’s political establishment – may not be as much help as it has been in the past.

While Quebec's government has said it will support Bombardier and its 18,000-strong workforce in the province, the Quebec public pension plan Caisse de depot et placement has been unwilling to increase its stake in Bombardier, according to a source at Caisse with knowledge of discussions. The fund, whose mandate includes contributing to local economic development, owns around 2.2 pct of the manufacturer’s class B shares and 1.8 pct of class A, making it a top five shareholder in both.

Another source said the relationship between Caisse and Bombardier “has been tense and confrontational” after Caisse requested early this year that the family agree to reduce the power of its 85 percent stake in the super-voting “A” shares so that they only have six times the number of votes as the “B” shares rather than the current ten times. That would have reduced the family’s voting stake to around 42 percent.

The family rejected that and in response Caisse declined to serve as the lead investor for a C$3.35 billion (US$2.59 billion) debt and equity capital raising in February, said this source, who has direct knowledge of Bombardier’s financial issues. "They lack negotiating power," said the Caisse source in reference to both Bombardier and the controlling family. "It’s like you lend money to a friend who says everything’s fine – only to come back a month later and ask for more money."

Caisse spokesman Maxime Chagnon said “we have a longstanding relationship with Bombardier and it continues.” He declined to comment on any request for a change in Bombardier’s voting structure.

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