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Bombardier’s woes mount as Learjet 85 put on hold, jobs slashed

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Doubts are growing about Bombardier Inc.’s ability to fund its aircraft development programs after the Canadian plane and train maker announced it is putting a new business jet model on ice and cutting 1,000 jobs amid lower-than-expected cash flow.

Bombardier shares plunged 26 per cent to close at $3.07 in active trading on the Toronto Stock Exchange Thursday after the company revised financial guidance for fiscal 2014 lower and said it would suspend work on manufacturing a new version of its Learjet 85. It was Bombardier’s biggest one-day drop since 1988 and perhaps further, eclipsing even the freefall that followed the 2001 terrorist attacks.

“People are clearly concerned about the long-term viability” of the company, said Ernie Arvai, a partner at commercial aviation consultancy AirInsight. “And the key to their success will be obviously the C Series [airliner] program. That’s their make-or-break effort.”

Bombardier, the only company in the world to make both planes and trains, is pushing forward with its biggest-ever gamble with the C Series – a 100- to 150-seat aircraft that will compete with the smallest planes built by Boeing and Airbus.

Halting development of the eight-passenger Learjet 85 highlights the extent to which the company needs to avoid stretching resources, allowing the manufacturer to focus money and people on the C Series and other key product revamps as its financial situation grows tougher.

Bombardier had previously expected the soft market for mid-range private jets such as the Learjet 85 would have strengthened by now, but has concluded a rebound remains far off. Industry consultants, however, say Bombardier was late to bring its redesigned jet to market as competitors launched new models.

Bombardier said it would take $1.4-billion (U.S.) in special charges and make the job cuts at plants in Querétaro, Mexico, and Wichita, Kan.

It also revised its earnings guidance for 2014 results, saying profit margins in both its aerospace and rail transportation business units would come in lower than expected. Montreal-based Bombardier is now forecasting cash flow from its plane business of $800-million for 2014, significantly lower than its earlier estimate of $1.2-billion to $1.6-billion. The company said it is being hurt by higher provisions for aircraft residual value and credit guarantees, pricing pressure and losses on used planes.

“We have been concerned about Bombardier over-producing business jets and believe this is playing a primary role in the pricing weakness,” J.P. Morgan analyst Joseph Nadol said in a research note. “Issues like pricing pressure as a consequence of over-production might not go away quickly.”

The company will report final numbers for 2014 on Feb.12.

“The panic in the stock price is telling you that investors are concerned,” ***Veritas Investment Research*** analyst ***Anthony Scilipoti*** told Bombardier management on a conference call Thursday, as he asked the company to provide details about its debt and credit agreements. “We need to be able to look forward and say, ‘OK, where should we start getting really concerned?’”

Bombardier insisted it has enough liquidity to keep operating and fund the development of the C Series and other programs. The manufacturer said it had $2.4-billion in cash and access to another $1.4-billion of credit as of Dec. 31, 2014, for total short-term capital resources of $3.8-billion.

The future of the company is not at issue, chief executive Pierre Beaudoin said.

“We have a good liquidity position and several programs in development,” Mr. Beaudoin said, adding the company’s current products enjoy enviable market positions. “This is a difficult decision we’re taking today but it’s a necessary one.”

At $2.4-billion, the year-end cash balance is nevertheless the lowest Bombardier has tallied in several years, said Cameron Doerksen, an analyst at National Bank Financial. “We suspect that the company will need to access additional debt capital in the coming months, which we think will be available for the company, albeit likely at less favourable rates than last year.”

Bombardier’s new free-cash flow projections for 2014 leave the company with “a very tight liquidity position,” said BMO Capital Markets analyst Fadi Chamoun. Suspending the Learjet program will help conserve cash but given it expects to make $600-million in capital spending during the first half of 2015, the company’s cash position remains “very vulnerable,” he said.

Mr. Beaudoin said the C Series will enter service in the second half of 2015. Some analysts and investors say 2016 is more likely.

With files from Bertrand Marotte and David Berman