THE GLOBE AND MAIL

As vote challenging Bombardier's share structure faces defeat, Médac calls for legislative reform

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Investor-rights group Médac acknowledges its bid to end Bombardier Inc.'s dual-class share system is destined to fail, but says it has no better option to trigger a discussion on what it sees as a critical issue.

The Montreal-based organization is calling for changes to the laws governing Canadian companies that give extra voting rights to certain shareholders. It has submitted a shareholder proposal that will be considered at the plane- and train-maker's annual meeting on May 2.

"We think multivoting share structures like that should never be eternal," Médac spokesman Willie Gagnon said in an interview. If companies choose to enact them, controlling shareholders should maintain an equity interest threshold in the company of at least 20 per cent, he said.

Relatives and descendants of inventor Joseph-Armand Bombardier control the company with 50.9 per cent of the voting rights through a special class of stock carrying 10 votes a share. Family members also have four of the company's 14 board seats, despite owning just 12.2 per cent of the equity. The system has been in place since 1980.

Bombardier operates under the Canada Business Corporations Act, which states that changing or unwinding multivoting share systems requires the approval of those holding those super-voting shares. In the case of Bombardier, that's the company's founding family, which has no intention of giving up its voting power.

"It makes no sense. If a majority of investors wants the multivoting system to be abolished, they should be able to exercise that wish," Mr. Gagnon said. He said his aim with the proposal is to ignite debate on multivoting systems in general and to take the pulse of Bombardier investors holding subordinate voting shares.

Médac says the time has come to dissolve Bombardier's two-class structure because there is growing discrepancy between the family's interests and those of Bombardier's other shareholders and stakeholders. Proxy firms Institutional Shareholder Services and Glass Lewis are backing Médac's proposal.

Mr. Gagnon said Médac's proposal will be voted on by shareholders, but that he expects it to be defeated because of the family's opposition. Still, obtaining the support of more than half of investors who are not tied to the family would send a "very significant" message, he said.

As of last year, there were 69 companies with multivoting share structures listed on the Toronto Stock Exchange, according to Montreal's Institute for Governance of Private and Public Organizations. They include several well-known names such as Canadian Tire Corp. Ltd., Power Financial Corp. and Rogers Communications Inc.

Médac says it is taking a long-term view with its stand on Bombardier, saying its share price topped $26 in 2000, but has fallen to less than $3 today. Médac says the family continues to wield control over a company whose recent decisions, such as handing control of its C Series airliner program to Airbus SE, have proved unpopular among some stakeholders.

Quebeckers took to the streets in protest and institutional investors publicly rebuked Bombardier in 2017 over its decision to raise the pay of its top executives by nearly 50 per cent while the company received more than US$1-billion in Quebec taxpayer support. More recently, Bombardier chief executive Alain Bellemare was chided for failing to take time to publicly explain the reasons behind the company's move to slash 5,000 jobs in November. "Bombardier restructures and leaves others to pick up the pieces," one commentator said.

"The progressive dismantling of Bombardier over the last several years and its sizable debt level are among the factors leading us to conclude that the long-term development of the company is now compromised," Mr. Gagnon said. "When we consider the value of the shares together with the company's social acceptability level … that's when we start to ask the kinds of questions we're asking today."

Bombardier spokesman Simon Letendre declined to comment beyond previous statements.

The company has said it has no intention to change its share capital arrangement, saying the system brings significant benefits such as maintaining its headquarters in Canada. Concern over the setup is dispelled in part by the oversight of independent directors on senior management and strong governance principles and practices, Bombardier said in a March 22 filing.

Bombardier says investors who choose to buy its shares are fully aware of the family's voting advantage.

"Yes, you know what you're going into. But does that make it ideal? Does it make it the best setup for shareholders? No," said Massimo Bonansinga, a vice-president at Signature Global Asset Management, which is owned by CI Financial Corp. The firm sold its stake in Bombardier several months ago for reasons other than the share structure, Mr. Bonansinga said.