

CPPIB backs investor group in bid to end Bombardier's dual-class share structure

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CPPIB is backing a proposal to end Bombardier Inc.'s dual class share structure and remove the control of the founding family, forcing the company onto the defensive as it hosts investors for its annual meeting Thursday.

Canada Pension Plan Investment Board, which oversees assets worth about \$368-billion and is one of Bombardier's 25 biggest shareholders, says on its website it will vote in favour of a proposal by investor rights group Médac to end the two-class system. It gave no reasons for its decision, but its proxy-voting guidelines state that it supports the collapse of existing dual-class share structures on terms that are in the long-term best interests of the company.

"One argument for dual-class share structures is that those with the superior voting rights can ensure stability, continuity in ownership and facilitate a long-term perspective. We disagree with this argument," CPPIB says in the guidelines, adding such systems are contrary to good governance. "They can entrench management against shareholder pressure for change and undermine the basic principle linking voting to equity ownership on the basis of one-share-one-vote."

The pension fund's stand increases the pressure on Bombardier and its founding family to explain in detail the need to continue a nearly 40-year-old structure that many investors now see as an irritant. The issue has surfaced repeatedly over the years, including in confidential talks between company officials and the Trudeau government over a \$1-billion investment request in 2016.

<https://www.theglobeandmail.com/business/article-quebecs-securities-watchdog-clears-bombardier-in-probe-of-executive/>

[Regulator recommends Bombardier scrap executive stock-sale program](#)

[Bombardier slashes profit, revenue outlook by US\\$1-billion, deepening investor concern](#)

British Columbia Investment Management Corp., which manages more than \$145-billion on behalf of B.C.'s public sector, the California State Teachers' Retirement System and the State Board of

Administration of Florida are also backing Médac's proposal. Proxy firms Institutional Shareholder Services and Glass Lewis are recommending shareholders vote for it. Caisse de dépôt et placement du Québec, another major Bombardier shareholder, will not back the proposal, said a person familiar with the matter, for whom The Globe and Mail granted anonymity because they were not authorized to speak publicly on the issue.

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 adoption of special resolutions and the approval of those holding those supervoting shares. In the case of Bombardier, that's the company's founding family.

The company has said it has no intention to change its share-capital arrangement, arguing the system brings significant benefits, such as the ability to keep 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.

"This issue will be discussed at the annual meeting of shareholders along with other shareholder proposals," Bombardier spokesman Simon Letendre said on Wednesday.

Yvan Allaire, executive chairman of the Institute for Governance of Private and Public Organizations, told The Globe he believes a large number of subordinate voting shares will be cast in favour of the Médac proposal.

"Most large funds are in principle opposed to this type of shareholding," Mr. Allaire said via e-mail, adding this is the first time Bombardier investors will have an opportunity to vote on the issue. A similar proposal put forward to the shareholders of any dual-class company would elicit a large number of "for" votes from investors holding subordinate voting shares but would still be roundly defeated, he said.

"In the end, the corporation must change hands," Médac said in its proposal outlined in Bombardier's proxy circular. "Indeed, it is in everyone's interest."

Médac knows its proposal is destined to fail 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, the group said in an e-mail to The Globe.

The debate over the dual-class share system comes as analysts are questioning whether Bombardier chief executive Alain Bellemare will reset his 2020 financial goals for the company when it reports first-quarter earnings on Thursday morning. Management slashed revenue and earnings estimates last week for 2019 as it grapples with delivery issues on several big rail contracts.

The cut in estimates “suggests risks are rising, including around 2020 targets,” JPMorgan Chase & Co. analyst Seth Seifman said in a note. Bombardier’s business-aircraft executives will need to nail the first deliveries of the new Global 7500 luxury jet and the new head of its rail unit will need to improve operations in the near term to achieve the 2020 objectives, he said.

The targets have been a key part of Mr. Bellemare’s turnaround plan as he tries to convince the market Bombardier is a growth story. His aim is to build a multinational that will generate at least US\$750-million in annual free cash flow and earnings before interest, taxes, depreciation and amortization of US\$2.25-billion on revenue of US\$20-billion by 2020.

“We fully expect 2020 guidance to be pushed out by one year,” Macquarie Capital Markets analyst Konark Gupta said in a separate note. Still, there’s significant upside potential for the shares given strength in the company’s private jet business, he said.

On Wednesday, Bombardier shares rose five cents, or 2.2 per cent, to close at \$2.34 on the Toronto Stock Exchange.

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