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A Mania in Telecom to Merge

By [KEN BELSON](#) and [IAN AUSTEN](#)

As [Nokia](#) and [Siemens](#) announced plans to merge their telecommunications equipment businesses — the third major industry deal in less than a year — the big unanswered question was not if, but when, the remaining giants would team up.

Many financial analysts expect [Motorola](#) and Huawei of China to pursue [Nortel Networks](#), which is widely viewed as the most valuable but also the most financially troubled of the remaining companies that make the building blocks of the world's phone and data networks. A smaller group of analysts see Motorola and Huawei joining hands, leaving Nortel alone.

Whatever combination emerges, the logic behind the deals is not unlike the thinking that drove [Ericsson](#) to buy Marconi or the pending merger of [Alcatel](#) and [Lucent Technologies](#), which was announced in March: As carriers like [AT&T](#) and [Sprint-Nextel](#) turn into one-stop communications providers, equipment vendors must expand if they hope to continue serving them.

They must be able to integrate wireless and traditional networks so customers can, say, check their e-mail on their cellphones and have single voice mail accounts serving a variety of phones. They also need more financial firepower to cut prices and keep up with low-cost competitors overseas.

With their broader product lineup and deeper pockets, Ericsson-Marconi, Alcatel-Lucent and Nokia-Siemens would be in a stronger position to win contracts to provide those services. For Nortel, the weakest of the remaining equipment makers, merging may be the only way to keep up, analysts said. "If you look at financials, Nortel is the No. 1 target" for a takeover, said Edward Snyder, an industry analyst with Charter Equity Research in San Francisco.

Any deal for Nortel, though, must overcome hurdles. Nortel has been plagued by accounting troubles, operating losses and management shake-ups. As the company was busy sorting out these problems, its potential suitors were merging.

A Nortel spokeswoman, Patricia Vernon, would not comment on speculation that Nortel might be bought, saying only: "Nortel understands the pressures that are driving industry consolidation, mergers and acquisitions." Motorola also declined to comment.

Alcatel was in talks to buy Nortel before it ultimately decided to work with Lucent, according to bankers close to those discussions. Now that Nokia and Siemens appear intent on going their own way as well, investors fear that the company's struggles will continue to deepen.

Yesterday, Nortel's stock plunged 10.1 percent, falling 23 cents, to \$2.04. Motorola's shares dipped 6 cents, or 0.3 percent, to \$20.02.

On the other hand, investors took a positive view of the Siemens-Nokia deal. Siemens's shares surged 4.82 euros, to close at 67.32 euros. Nokia's American depository receipts rose 12 cents, to \$20.09.

If the merger of their equipment units is approved, Nokia and Siemens would become the third-largest equipment vendor in terms of 2005 sales, with 18.3 percent of the global market, according to the Dell'Oro Group. Ericsson-Marconi is the leader with a 21 percent share of the market, followed by a combined Alcatel-Lucent, with 19.6 percent.

Nortel, on the other hand, has just 10 percent of the market, while Motorola has only 5 percent. Huawei has about 4 percent of the market.

These companies would not only lag behind in total sales, but would also lack the full complement of products that their three larger rivals will have.

They would also face more pressure from [Cisco](#), which in February bought Scientific-Atlanta, a leading maker of television set-top boxes. The deal gave Cisco, which makes the digital switches used to route traffic around the Internet, access to cable companies, which are building networks that compete head-to-head with those of big telecommunications companies like [Verizon](#).

It also could give Cisco a foot in the door at Sprint-Nextel, which is working with [Comcast](#), [Time Warner](#) and other cable companies to introduce wireless services that dovetail with their landline and video businesses.

If Cisco and Sprint-Nextel team up, it could hurt Nortel, which has helped Sprint-Nextel expand its wireline networks, and Motorola, which sells wireless network equipment using C.D.M.A. and iDEN technologies to Sprint-Nextel.

To become front-runners in helping Sprint-Nextel combine its wireless and wireline networks, Motorola and Nortel may need to join forces.

"The next move has to be Nortel and Motorola," said Susan Kalla, an analyst at Caris & Company.

"Motorola is nervous about being at a competitive disadvantage to Cisco, Lucent-Alcatel and Nokia-Siemens. Nortel has the components they need."

Many analysts, though, say Motorola is wary of taking on Nortel's problems. Nortel continues to have trouble fully sorting out its financial reporting. And the company is still the subject of related criminal and securities investigations in the United States and Canada.

In an effort to resolve the accounting mess and reorganize, late last year Nortel brought in Mike S. Zafirovski, a former president and chief operating officer at Motorola, as its chief executive. It was a costly hire, partly because Nortel ultimately paid Motorola \$11.5 million to drop a legal attempt to prevent Mr. Zafirovski from working at Nortel for two years.

Since then, Mr. Zafirovski has replaced much of Nortel's senior management, often bringing in former executives from [General Electric](#), where he also worked. Mr. Snyder said those executive changes made it unlikely that Nortel would immediately seek a merger.

"You don't, as a board, spend all this time and energy and not see how he's going to play out," Mr. Snyder said, speaking of Mr. Zafirovski.

At the same time, some in the Canadian financial community have speculated that a telecom gear maker based in China might try to take on Nortel. A Chinese buyer, they reckon, would be less concerned with accounting issues and very interested in acquiring Nortel's global list of customers and its main technologies.

In February, Nortel announced a venture with Huawei to develop and market wireless high-speed Internet systems. In a regulatory filing issued this month, however, Nortel said that it had called off the plan.

For Siemens, the next move may involve another partner. The chief executive, Klaus Kleinfeld, said Siemens was in talks with potential partners for its enterprise unit, which sells networks to nontelecommunications companies. He suggested that a transaction to spin off the business and dissolve the communications division was near.

Ken Belson reported from New York for this article and Ian Austen from Ottawa. Carter Dougherty contributed reporting from Frankfurt.

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