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Is a Nortel Breakup Nearing?

By MARK VEVERKA

Selling the company in pieces makes sense.

AS HIT-MAKER NEIL SEDAKA ONCE CROONED, "breaking up is hard to do," but apparently it isn't hard enough to prevent such a fate for Nortel Networks .

Our sister publication, The Wall Street Journal, reported last week that Nortel (ticker: NT), one of Canada's technology pioneers, was engaged in negotiations to sell off pieces of the company rather than emerge from bankruptcy. The telecom giant filed for protection from creditors at the beginning of the year.

Sources told the Journal more value could be returned to stakeholders via divestiture than by trying to climb out of bankruptcy. "We have yet to file a reorganization plan [with the bankruptcy court], and it would be premature to speculate at this point," a Nortel spokesman told *Barron's*.

Selling the company in pieces makes sense, especially given the economy's dire straits. "Between the recession and the meltdown in the credit markets, there is very little chance they could get the funding or the orders to keep the company alive," says Charter Equity Research analyst Ed Snyder.

Snyder, who three years ago was among the first to predict that a telecom infrastructure shakeout was imminent, has been a fan of Nortel Chief Executive Mike Zafirovski. The General Electric veteran was integral to the handset turnaround at Motorola that preceded the super-success of the Razr mobile phone. Zafirovski landed at Nortel, where his turnaround magic apparently waned. He was dealt a difficult hand at the once-proud Canadian telecom, which was mired in an accounting scandal before his arrival and whose core businesses were losing ground to rivals.

"It was a noble attempt, but Mike Z's efforts may have fallen short," Snyder says. "Too much damage and wasted time with the financial chicanery by the previous crew to get enough momentum through this storm."

In a feature story three years ago ("Lucent's Lament," March 20, 2006) based largely on Snyder's research, I pointed out that the telephone-equipment business was ripe for consolidation. There simply were too many gear-sellers and too few telephone carriers. Shortly thereafter, Lucent merged with Alcatel to form Alcatel-Lucent (ALU), which is still struggling and trading around $1.50. Nokia 's (NOK) equipment division forged a joint-venture with Siemens (SI), which is working reasonably well under the circumstances. Motorola 's (MOT) gear business, which is smaller than its merged competitors and that of Swedish giant Ericsson (ERIC), is hanging in there.

Separately, the blogosphere is awash with reports that Nokia and Verizon Wireless, the nation's largest wireless carrier, are forging a partnership in fourth-generation mobile devices that could make Nokia the American carrier's lead handset provider.

"This would be a major coup for Nokia and would certainly give a massive boost to [Nokia's] share price," says wireless analyst Didier Scemama of ABN Amro Bank. Nokia ADRs closed Friday at 10.91.

"Beyond the fact that a deal between Verizon and Nokia on 4G mobile devices would certainly help Nokia increase its market share in the U.S. mobile-phone market, which is currently only 8%, such a partnership would have huge strategic implications," Scemama. Most important, it would give the world leader in smartphones a foothold in the land of the iPhone.