

By Mark Evans
National Post

There is little doubt Mike Zafirovski has a huge challenge to restructure and reinvigorate Nortel Networks Corp.

The chief executive's job became even more complex after Alcatel SA acquired Lucent Technologies Inc. for US\$13.5-billion earlier this month. Zafirovski not only has to focus on resolving Nortel's own problems but he must also take into account the real possibility other major telecom equipment suppliers could merge as they look to reduce costs to stay competitive and profitable.

Suddenly, fixing Nortel becomes a lot more complicated because it's not just about getting bigger in a few strategic markets but deciding whether to get really big through a mega-merger.

Just five months after taking the corporate reins from Bill Owens, Zafirovski has to decide whether to go big or go home. If he wants to go big, the opportunity is there for the taking as Siemens AG is looking to sell, spin out or merge its communications unit.

If Zafirovski wants Nortel to remain a tier one equipment supplier, he has little choice but to make a bold move for Siemens -- even if it means Nortel shareholders receive a minority stake in the new entity given Nortel's sales are only US\$10-billion, compared with US\$15-billion for the Siemens unit.

Of course, this would be a huge move because Nortel has been a Canadian company for more than 100 years, and the country's flagship high-tech business.

By merging with Siemens, it is possible Nortel will no longer be Canadian even though it will still employ thousands of people here.

The decision about whether to make a move for Siemens' communications business comes down to whether Nortel wants to stay competitive with Alcatel/Lucent and Cisco Systems Inc., or whether it is resigned to becoming a tier-two player. If Nortel doesn't do something aggressive, it could not only fall behind its current peers but fail to keep pace with fast-growing, low-cost rivals from China such as Huawei Technologies Inc.

In a recent research report entitled *Nortel & Siemens: Sprechen Sie Deutsche*, Prudential Equity analyst Inder Singh suggested a deal between the two companies makes sense because it would create a large, diversified equipment supplier with leading positions in several major markets around the world.

"A deal like this will likely take some imagination on the part of both companies' management teams, and we still would not rule out the possible sale or splitting off of some operations in order to make it work," he said. "We believe the market picture of a combined company is compelling, however, and the fairly unique situations of the respective management teams might allow a deal like this to come together over the next six to 12 months."

Among the many wild cards for this deal to materialize are whether Nortel's board believes it's the right thing to do. This decision is far from straightforward because Nortel could be subject to a lot of political pressure to somehow stay Canadian.

Another issue is whether a multi-billion-dollar transaction fits into Zafirovski's personal agenda. As Nortel's CEO, he has a huge platform to showcase his skills as a world-class executive and a turnaround artist, which may be as important as any financial gains he could reap.

As a result, he may not want to rush into anything before getting a chance to make his mark. If Zafirovski is successful in reviving Nortel's fortunes over the next year or two, Nortel shares could easily climb. Every \$1 rise increases the company's value by \$5-billion, which would give Zafirovski more clout to make a deal with Siemens or another potential dance partner.

But if he's looking to really make an impact, the pursuit of a deal with Siemens is a no-brainer because it's the perfect opportunity to create something bigger, better and dominant -- something Nortel's

shareholders would surely appreciate.

And who knows, maybe Zafirovski will emerge with a bigger, better job as CEO of the new entity -- much like Lucent CEO Patricia Russo will become CEO of Alcatel-Lucent. So, go make a deal, Mike Z. The ball's in your court.