Nortel losses rock Canadian capital

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Telecommunications equipment manufacturer Nortel Networks announced Friday that it anticipates losses of $19.2 billion (US) in its second quarter and will cut a further 10,000 jobs.

The new round of job cuts raises to 30,000 the number of jobs Nortel has eliminated since the beginning of the year. When the cuts are fully implemented, Canadian-based Nortel will have shrunk its worldwide workforce by about a third.

Nortel's projection of the second largest quarterly loss in North American corporate history—General Motors reported a $21 billion loss in the first quarter of 1992—triggered a further sharp slide in its share price that reverberated on stock markets around the world. In heavy trading, Nortel shares fell 6.5 percent, closing at just over $15 Canadian.

Since last September, when its share price surpassed $124 a share, Nortel's market capitalization has fallen by seven-eighths, from $398 billion Canadian to less than $50 billion.

Nortel CEO John Roth blamed mounting losses on a collapse in orders. "In my 30 years, I've never seen anything like it," he said.

The decline in orders is directly related to the bursting of the high-tech stock bubble. As stock valuations plunged, capital markets sharply cut back their lending to high-tech companies, forcing them to scale back their plans to build communications networks. Nortel's problems have been compounded by the inability of many smaller companies to pay their bills and the fire sale of second-hand telecommunications equipment by firms facing bankruptcy.

In a desperate bid to stem the tide of red ink, Nortel is eliminating entire departments, including in areas that it has previously described as integral to its core operations, and vows to refocus its efforts on its very largest clients.

Roth, who in response to shareholder dismay over the plunge in Nortel's stock recently announced he will retire next April, claimed the "aggressive" scaling back of the company's operations will put Nortel ahead of its competitors. Under its new impromptu business plan, Nortel aims to be able turn a profit by 2002 on annual sales of as little as $20 billion—less than two-thirds of its revenue last year.

Nortel's losses include restructuring charges, bad debts, the writing down of inventory and the writing off of $12 billion from the value of four recent acquisitions.

Following last Friday's announcement, the bond-rating agency Moody's announced it is undertaking a review of Nortel's credit rating and will probably slash it from A to Triple B. Since the beginning of the year, Nortel's debt has mushroomed from $1 billion (US) to almost $6 billion.

Nortel's losses and the collapse of its share price are sending a shock wave through the Canadian economy. In recent years, Nortel has been both the leading Canadian growth stock and Canada's leading aspirant to global stature in the computer/telecommunications sector. As the *Globe and Mail*, the voice of the Bay Street financial houses, observed in its lead article Saturday, "Five short months ago, Nortel was the undisputed champion of corporate Canada." Now its "image as Canada's lead actor on the stage of global capitalism" has been shattered.

At its height last year, Nortel accounted for more than a third of the total valuation of all the companies listed on the Toronto Stock Exchange (TSE), the country's largest. Even in its shrunken state, it remains a colossus, accounting for 6 percent of the TSE's total valuation.

The extent of Nortel's losses has prompted fears about a liquidity crunch at the world's largest telecommunications equipment manufacturer, but

Canadian government officials and most business commentators insist Nortel is in no imminent danger.

Emerging from a cabinet meeting Friday, Prime Minister Jean Chretien called Nortel "a very good company, a very sound company.... But in that sector there is a big adjustment to be made, and they have to do it."

Echoing comments made by Finance Minister Paul Martin, Chretien insisted "other sectors of the economy are performing very well and there is no need to change the budgetary policies at this time. Of course, if there is a need we will do it."

Canada's Superintendent of Financial Institutions, John Palmer, denied he is concerned about the exposure of Canada's banks to losses at Nortel, "We have not been focusing on specific (accounts), nor have we seen a need to do that."

Eric Reguly, one of the country's best known business analysts, was far less circumspect. Writing in Saturday's *Report in Business*, Reguly declared, "It's hard to imagine Nortel, which is still one of Canada's top employers, still the epicentre of Canada's technology R & D effort and still the only Canadian company known around the world, being refused government help if the liquidity crunch turns into a crisis. The government wouldn't have to resort to a direct bailout , of course, and would be loath to do so.... But help can come in subtle forms. A few bankers get quietly rounded up and told that extending loans to Nortel just might earn them political points, say, when bank mergers return."

Even if Nortel does succeed in stemming its losses, there are widespread fears in Canadian business circles that its declining stock valuation will render it easy prey for a foreign takeover. The "loss" of Nortel would be a major blow to the government's plans to promote the development of a nucleus of Canadian-based transnationals.

Nortel is far and away the country's largest private sector investor in research and development and, according to one estimate, hired a quarter of the country's engineering graduates in recent years.

The somber mood that now prevails in Canada's business elite was exemplified in a *Globe and Mail* editorial that said Nortel's fate had put paid to the talk of a "new economy" in which the old rules didn't apply. The editorial then drew a parallel between today and the 1920s, noting that technological innovation in the earlier era had been associated with a proliferation of car companies, most of which soon disappeared. As for Nortel, which the entire corporate media, the *Globe* included, was till recently touting as the crown jewel of the Canadian economy, it "is standing on a new, lower plateau, hoping to be one of the strong companies that can survive the coming restructuring."