



Some thoughts on the Nortel auction

29 July 2009 - The auction of Nortel's CDMA and LTE assets has triggered a strong political reaction in Ontario and at the Federal government level in response to RIM's outcry at the fact that only foreign firms were bidding for Nortel's CDMA business and a portion of its LTE patent assets. However, it should not be forgotten that the sale of Nortel assets has begun now because it became clear that the company can no longer survive as a stand alone entity after close to a decade of misery.

The assets auctioned last Friday represent Nortel's declining, in sales, but profitable CDMA business along with licensing right for approximately 600 of Nortel's LTE related patents. One has to wonder what would be the benefits of an acquisition of the Nortel CDMA's business for RIM and its shareholders. The telecom equipment business has not been known for its high profit margins over the last decade. It is also difficult to think of many equipment providers that have been constantly successful as well as maintained industry leadership positions in both telecom network equipment and handsets. Traditionally, companies have found it very difficult if not impossible to address both markets successfully. However, RIM is an undisputed world leader in the handset segment. While one could presume that they could have migrated their know how into the network equipment side of the telecom business, this raises the question of where RIM should focus to continue to generate substantial revenue and profit growth for years to come and if telecom network equipment would provide the best potential ?

Nortel's name will likely disappear and its fate is reminiscent but not identical to that suffered by Lucent Technologies. Not so long ago, Nortel (formerly Northern Telecom, and manufacturing arm of Bell Canada) and Lucent (formerly Western Electric and the manufacturing arm of AT&T) were the two key protagonists in the battle for the then lucrative market of supplying telecom switching equipment to the large US telcos. Alas, like Nortel, US based Lucent is no more having merged with French company Alcatel in 2006 after many years of financial losses. Both fell victim to some would say their own shenanigans in the case of Nortel as well as to newcomers such as Cisco and other equipment vendors such as Ericsson and Nokia Siemens Networks (or NSN, a Finnish/German combination) who had a better read on the evolution of the overall market and underlying technology requirements, the Internet as well as the rapidly increasing importance of mobile.

The task at hand now is to maximize the value of Nortel's remaining assets and to the extent feasible ensure the survival of its activities, expertise and related employment. The price being paid by Ericsson for the wireless assets is close to double the initial stalking horse bid made by NSN before the auction and represents a positive outcome for the company. Ericsson's acquisition of Nortel's CDMA business will strengthen its position in the North American and specifically the US market as many carriers will evolve from their current CDMA technology over time to LTE. But, as is well known, Ericsson is already at the front of the line and a key supplier of LTE technology to Verizon, the largest US mobile carrier, itself migrating from CDMA to LTE over the coming 12 -18 months. Thus, in buying the Nortel CDMA assets, Ericsson also removes one potential additional competitor from the LTE market, a likely beneficial move for future profit margins. Ericsson is already a very significant contributor to R&D activities in Canada with operations in Montreal, Toronto and Vancouver . Hopefully, Ericsson's R&D activities in Canada can be further strengthened by this deal and yield significant positive economic outcome for many years to come .