

Nortel Must Rebuild Confidence as It Enters Creditor Protection

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Nortel has taken necessary action to protect its ongoing operations, but it must restructure its businesses and work hard to keep customers, partners and distributors loyal if it is to grow in 2009.

NEWS ANALYSIS Event

On 14 January 2009, Nortel announced it was seeking creditor protection in Canada under the Companies' Creditors Arrangement Act (CCAA). Its subsidiaries have also filed voluntary petitions in the United States under Chapter 11 of the U.S. Bankruptcy Code and have filed for administration in the U.K.

Analysis

Nortel's poor financial situation predates the global recession. It has accrued more than \$4 billion of debt, and was due to pay interest of \$107 million during the week of January 12-16. Gartner believes that Nortel's decision to seek bankruptcy protection is prudent. Nortel has \$2.4 billion in cash for day-to-day operations, and with protection from debt obligations, it can focus on restructuring its debt.

Nortel has acted to address the negative publicity that this decision will create:

- Its CEO has approached customers and the media to communicate the company's plans.
- It has secured its manufacturing through an agreement with Flextronics, which manufactures a significant portion of Nortel's products.
- It has put programs in place to retain employees.

It will be hard for Nortel to increase sales. Concerns about long-term support will make some enterprise and carrier customers move to other vendors in the next few months.

Gartner has spoken to several Nortel channel partners and found that they remain positive. Nortel's relationship with Microsoft in the Innovative Communications Alliance will also continue. But some partners and resellers may refocus on other vendors. Nortel must give its channel partners additional training, marketing and sales support during this period, as well as engage in joint marketing.

While in creditor protection, Nortel will work to restructure its debt. Gartner expects this to take about 18 months, after which Nortel should emerge as a viable company, but could look different and be a possible target for acquisition. Creditor approval will be required for all expenditures, which could affect some R&D as the creditors look at resizing the company.

Nortel has stated that it intends to retain the company in its entirety, but Gartner believes it will try to sell assets to bring in cash. It has already tried to sell its metro Ethernet division, and the next most likely candidate for sale is its carrier wireless division. Nortel's strong technology portfolio and large customer base would make it possible to find buyers in better economic conditions, but the global recession makes this more difficult in 2009.

RECOMMENDATIONS

Customers of Nortel enterprise products and services:

- Continue to use Nortel, but make sure you are aware of the risks. Monitor service and support levels you receive and ensure you have a backup plan.

Prospective customers of Nortel enterprise products and services:

- Consider Nortel, but be cautious and be aware of the risks, especially around long-term service and support.

Customers of carrier and metro Ethernet products:

- Continue to use Nortel for any upgrades and replacements where there are significant opportunities to leverage installed Nortel infrastructures.
- Be cautious about any investments with Nortel or other vendors in this market, which face some of the same challenges.