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Nortel in Sell-Off
Talks With
FlextronicsBy [Craig McGuire](#)

Nortel Networks ([Quote](#), [Chart](#)) is negotiating with Singapore-based contract manufacturing outsourcer Flextronics to sell off the remainder of its manufacturing operations, a move the Toronto-based networking equipment maker projects would save it \$2 billion annually.

A positive outcome of the ongoing talks with Flextronics would result in the contractor assuming the majority of Nortel's remaining manufacturing capacity, operations that make up roughly \$2 billion of Nortel's cost of sales.

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Nortel's total cost of goods sold in 2003 was expected to be \$5 billion, down from \$6.8 billion in 2002. These operations primarily manufacture optical fiber, wireless gear and equipment for networked business computers.

Shifting these manufacturing operations off to Flextronics would, though, result in the transfer or loss of 2,500 jobs, including 1,500 in Canada. Downplaying the situation, Nortel said that in similar arrangements in the past, the vast majority were transferred to the outsourcer.

Nortel currently has about 35,500 workers, down from a peak of about 95,000 at the height of the technology bubble.

Nortel is among many industry giants that began outsourcing large chunks of their manufacturing operations to bolster flagging sales as spending was siphoned off following the collapse of the telecom boom three years ago.

Capitalizing on the trend towards outsourcing, Flextronics now manufactures products for such high-profile brands as Alcatel, Ericsson, Lucent Technologies, Microsoft, and Motorola.

The size of the deal -- which would have Nortel transferring more than \$500 million in manufacturing and inventory assets to Flextronics in return for \$500 million in cash to be paid out over nine months -- may indicate the sector's improving performance may be gaining momentum.

Tight-lipped on the deal until an upcoming Jan. 29 analyst call, Nortel issued a statement claiming the move would free the company up to focus on developing new technologies and products.

Specifically, Nortel said it plans to sell its remaining factories and facilities in Calgary, Montreal, Brazil, Northern Ireland, and France.

Flextronics stated the deal would add to its earnings in its first year. Flextronics also said it has "adequate liquidity through its existing cash reserves and available revolving credit facility to meet the cash requirement, which would be spread over a nine-month period."

If a deal is struck, it would mark the final phase of Nortel's effort to outsource its manufacturing operations. Since 1999, Nortel has sold about three-quarters of its manufacturing operations.

The strategy has allowed the company to tap into new best-in-class manufacturing technologies, leverage resources globally and quickly adjust to meet changing market needs, the company stated.

For instance, manufacturing business from Nortel comprised approximately 15 percent of contract manufacturer Solectron's revenue in 2002.

"By continuing to leverage the growing supply-chain capabilities of the EMS (electronic manufacturing services) industry, we expect to take

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Nortel Networks supply chain to new levels of performance and competitive differentiation, for the benefit of our customers," said Chahram Bolouri, president, global operations, Nortel Networks. "At the same time, divesting the remaining parts of our manufacturing operations would enable us to focus on the core capabilities required to deliver converged networks to our customers."

As part of this strategy, however, Nortel Networks intends to retain in-house all strategic management and overall control responsibilities associated with the company's various supply chains.

Nortel shares fell 49 cents to \$6.34 on the New York Stock Exchange as word of the negotiations emerged on Thursday. Shares have since rebounded to \$6.49.

Flextronics rose 18 cents to \$17.50 and hit a 52-week high on the Nasdaq. Flextronics shares surged up 80 cents, or 4.6 percent, to \$18.12 on the news, and have since settled to \$17.82.

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