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Motorola Veteran Will Lead Nortel Zafirovski Succeeds Owens As Accounting Woes Fade; Profit Margin Is New Focus

Nortel Networks Corp. named Mike Zafirovski president and chief executive officer, hoping the former Motorola Inc. executive will bolster profitability at the slow-growing Canadian telecom-equipment supplier.

Mr. Zafirovski, 51 years old, succeeds William Owens, 65, who led the Brampton, Ontario, company as it sorted through an accounting scandal that erupted in early 2004. Nortel has since restated past results and caught up with financial reporting.

Though Mr. Owens had said he would lead Nortel over the long haul, some observers expected he would step down once Nortel had put its accounting problems behind it. Mr. Owens yesterday said "this is the time for the next phase" in Nortel's leadership, adding, "I was not asked to step down."

Mr. Owens is a former vice chairman of the U.S. Joint Chiefs of Staff and was commander of the U.S. Sixth Fleet during Operation Desert Storm.

After joining Motorola in 2000, Mr. Zafirovski reached the No. 2 spot as president and chief operating officer. He made no secret of wanting to be the chief and quit in January of this year, about a year after Motorola passed him over in hiring an outsider, former Sun Microsystems Inc. executive Ed Zander, as CEO. Before Motorola, Mr. Zafirovski held various executive posts at General Electric Co.

Known as a hard-charging, hands-on manager, Mr. Zafirovski earned high marks on Wall Street for helping to right Motorola, a Schaumburg, Ill.-based telecommunications-equipment maker, after years of decline. He ran the company's important handset division from 2000 to 2002, focusing on cutting costs as well as launching popular flip-top models.

Nortel investors are hoping he will bring renewed energy to Nortel, which for much of the past few years has suffered sluggish sales amid heavy competition among equipment vendors. Shares of Nortel rose 18 cents, or 5.5%, at \$3.48 in 4 p.m. composite trading on the New York Stock Exchange.

Mr. Zafirovski, who becomes Nortel CEO Nov. 15, made clear that boosting profitability is a key target. "We work way too hard" to achieve operating-profit margins in the "low- to mid-single digits," he told reporters, adding those margins should be more like 13% or higher.

With equipment vendors battling intensely and Nortel sometimes sacrificing margins to win business from telecom carriers, Mr. Zafirovski has his work cut out. In an interview, he said Nortel must find cost savings in such areas as materials procurement and business processes. He didn't rule out further job cuts, but he said, "I do not believe downsizing will be a material driver for profitability." Nortel has cut its employee count to about 30,000 from 95,000 five years ago.

Industry watchers applauded Nortel's move. "I think Mike Zafirovski's the right kind of person to run Nortel," said Paras Bhargava, a telecom analyst with BMO Nesbitt Burns in Toronto. The executive has shown an ability to "forge very good relationships with customers" and will likely seek to focus Nortel on profitable product lines, Mr. Bhargava said.

"Mike was the consummate turnaround leader," said William Markey, president of RelevantC Business Group, a Chicago-based telecommunication-consulting firm. "The shortcut to a turnaround is to cut costs, which Mike did, but he also remained committed to a certain strategic vision as well." For example, while many inside and outside the company at the time pressured Motorola to ditch its cable-equipment business, assuming it would become a commoditized product dominated by the Chinese, Mr. Zafirovski stuck with the business, betting it was a market in which Motorola could compete profitably.

Motorola made the cable equipment the "central media hub for the consumer," enabling such services as high-definition television, wireless applications and digital capabilities like video recording, Mr. Markey said.

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