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Quebecor eyes junk bonds

WILL ALSO BUY OUT MINORITY SHAREHOLDERS IN SUN MEDIA, PAGE B3

McDonald's will miss expectations

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REPORT ON BUSINESS

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|----------------------------------|---------------------------------|-----------------------------|--|--------------------------------|--------------------------------------|---------------------------------------|-------------------------------------|-----------------------------------|--|------------------------------------|--------------------------------------|
| ▼ TSE 300 7,816.08 -103.97 | ▼ S&P/TSE 60 448.51 -7.72 | ▼ CDNX 3,324.24 -5.91 | ▼ DJ Industrial 10,623.64 -66.49 | ▼ S&P 500 1,214.36 -5.51 | ▼ Nasdaq comp. 2,028.43 -15.64 | ▼ Gold (NY,US\$) \$271.20 -4.10 | ▼ Crude (NY,US\$) 28.51 -0.53 | ▼ Dollar (US\$) 65.60 -0.17 | ▼ Euro (C\$ buys) 0.7607 -0.0029 | ▲ US 10-yr bond 5.24% +1 pt. | ▲ Cdn 30-yr bond 5.89% +2 pts. |
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A Black Day for Nortel

Outlook for telecom sector 'sort of a lost cause'

BY DAVE EBNER

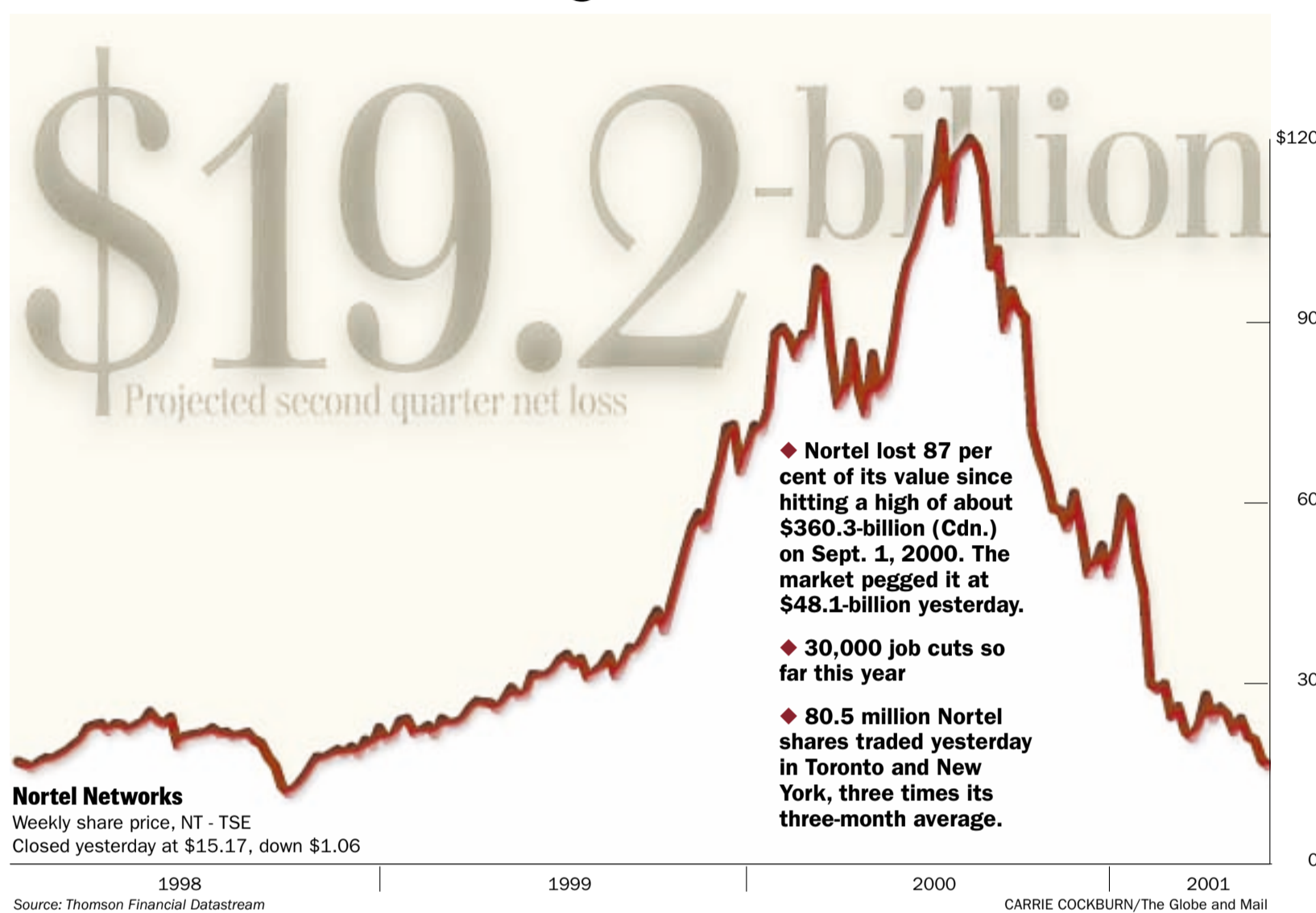
Nortel Networks Corp. and the troubled telecommunications equipment sector face a dismal outlook for at least another year, analysts say.

The industry won't grow again until people start using the networks that were built in the past two years, observers said yesterday after Nortel's stunning warning.

Meanwhile, analysts say the outlook for the equities is bleak.

"In general, we underweight the sector and would stay on the sidelines until there's a couple of fundamental differences in the industry," said Ari Bensinger, an analyst at Standard & Poor's Corp. "First, we need to see a return to more normal inventories and, second, there'll be an upturn in sequential growth rates. In the near term, it's sort of a lost cause."

After the company announced a new round of 10,000 job cuts and forecast a record loss of \$19.2-billion (U.S.) in the second quarter, Nortel stock fell yesterday for the ninth successive session. It closed down \$1.06 (Canadian) or 6.5 per cent to \$15.17 on the Toronto Stock Exchange — its worst finish since October, 1998. It fell as low as \$13.42 during the day. The once-loved stock is now off 87.6 per cent or about \$360-billion in market capitalization from its bubble high close of \$123.10 last summer. Network component maker JDS



Uniphase Corp., which warned investors of perilous business conditions on Thursday, closed at \$12.44 (U.S.), down \$1.37 or 9.9 per cent on the Nasdaq Stock Market. It's off 91.5 per cent from its peak close of \$146.53 in early March, 2000. **Cisco Systems Inc.**, another giant networker, finished at \$16.65, down \$1.09 or 6.1 per cent on Nasdaq. It's off 79.2 per cent from its high of \$80.06 in late March, 2000.

Asked if there was anything positive about the sector, Mr. Bensinger

was hesitant.

"It depends what type of strategy you have," he said. "For long-term investors, they can definitely take up a position but at the same time these prices will probably be pretty flat for a while. There's a lot of time to get into these stocks."

The problem, simply, is that phone companies and others built networks too quickly, buying too much from companies like Nortel and Cisco.

The result is top-of-the-line net-

works that no one's really using. According to a report from Merrill Lynch & Co. Inc., leading U.S. telecom company WorldCom Inc. uses about a third of its network capacity. Qwest Communications International Inc.'s networks run at about 15 per cent utilization, Merrill estimated.

Until capacity reaches 70 to 75 per cent, Mr. Bensinger said, nothing new will be built.

See STOCKS on page B6

Latest news Full background

Nortel Networks shares have fallen from a peak of \$124.50 and are now trading in the \$15 range. Has the former market giant hit bottom? Go to the business page today and vote in our on-line poll.

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ANALYSIS

Cash crunch at Roth & Co. leaves painful choices

BY FABRICE TAYLOR

The agony of the unknown is becoming all the more acutely painful for **Nortel Networks Corp.** and its investors, and it's hard to underestimate the potential for worse to come.

The company doesn't know how far its sales will fall, when its customers will resume spending or what other heart-stopping surprises lie in store. Nortel's managers do know one thing, though. They can't afford to keep burning through cash at the current rate, but their options are limited.

Slashing costs is the most obvious, and they are furiously doing so. Cutting a 2-cent-a-share (U.S.) dividend attests to the severity of the crunch. The total cost cuts announced to date will slash expenses by \$3.5-billion annually.

But although restructuring saves cash in the future, it is expensive in the near term. Nortel's loss from operations in the current quarter will be \$1.5-billion. But the company will consume \$2-billion in cash, a sizable portion of that from one-time expenses related to layoffs and other divestitures.

In the first quarter, Nortel spent \$860-million more in cash than it took in on operations, leaving it with \$1.8-billion in cash on hand.

See CASH on page B6

NATIONAL

Trade talk pact struck

The United States and the European Union have agreed to launch an ambitious round of multinational trade liberalization talks when the World Trade Organization meets in November. **B2**

Celestica picks up Omni

Celestica has agreed to buy Singapore-based Omni Industries for \$890-million (U.S.) in cash and stock — which will help the Canadian firm maker nearly double its manufacturing capacity in Asia. **B3**

Flexibility for Petrocan

Petro-Canada shares got an expected boost to their liquidity after a bill relaxing ownership limits became law. **B3**

NET WORTH

Rob Carrick

Looking for investing resources online? Check out some of these lesser known but first-rate sites. **B10**

360networks delays key bond payment

BY PETER KENNEDY, VANCOUVER

360networks Inc. is delaying a key bond payment while it considers possible options, including filing for creditor protection, as the troubled telecommunications firm struggles to cope with its \$2.8-billion (U.S.) debt load.

In a bid to buy time and conserve cash, the Vancouver-based company said it has opted to take advantage of a 30-day grace period before deciding whether to make an \$11-million interest payment due yesterday on its 12.5-per-cent bonds.

It also said it has hired Wall Street investment firm Lazard Frères & Co. to help it seek possible alternatives, including a restructuring of its debt.

360networks spokeswoman Michelle Gagné declined to be specific

about what measures the company plans to take. "All I can say is we are exploring all alternatives and we can't speculate on future outcomes," she said.

When asked specifically if those alternatives included creditor protection, Ms. Gagné said: "That is a possibility."

The announcement on the bond payment is the latest blow for a company that was recently forced to scale back its global fibre-optic network after revealing that it needs \$300-million to close a gap in its funding needs.

When it went public last year, 360networks was billing itself as one of a group of companies aiming to meet exploding demand for voice and high-speed Internet connections.

See 360networks on page B4

RBC fires executive in probe

BY KAREN HOWLETT

Andrew Rankin, the **RBC Dominion Securities Inc.** mergers and acquisitions executive at the centre of an insider trading probe, has been fired.

Mr. Rankin, 36, was initially suspended without pay on April 20 amid suspicions that he tipped off a former classmate and friend about M&A deals involving the firm.

RBC fired Mr. Rankin yesterday for refusing to co-operate and provide any information to officials at the firm who are investigating a number of suspicious stock trades through two offshore accounts, said Royal Bank spokesman David Moorcroft. "He has not answered any of our questions," he said.

See RANKIN on page B2

Soaring energy prices boost inflation to 3.9%

BY MARIAN STINSON

Soaring energy prices lifted Canada's inflation rate to the highest level in nearly a decade in May, forcing consumers to dig deeper to fill up gas tanks and warm their homes.

The overall increase in consumer prices climbed to an annual rate of 3.9 per cent in May from 3.6 per cent in April, the largest rise since November of 1991, Statistics Canada reported yesterday. Energy prices were a driving force behind the gains, rising 16 per cent from a year ago and accounting for one-third of the overall increase.

"The consumer price report may have made some hearts skip a beat, but there was much less cause for alarm . . . than appears at first glance," said Marc Lévesque, senior economist at Toronto-Dominion Bank.

Seasonal factors such as food

prices accounted for a fair share of the monthly rise, and the end of the energy price rebate in Alberta accounted for one-quarter of the total price increase during the month.

In Alberta, natural gas prices soared 122 per cent during the month.

"While the Bank of Canada will see through the flurry of one-shot and seasonal factors that has boosted the [consumer price index] over the past couple of months, it will remain on its toes for any evidence that the ongoing increases in energy costs are feeding through to other consumer prices," Mr. Lévesque said.

So far, there is very little evidence that surging energy costs are spilling over to other components of the CPI, he added.

See INFLATION on page B2

• Experts say inflation will lead to higher wages. **B3**

"Why have I been hearing so much about value funds lately?"

— Altamira Client, May 25, 2001

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