Making a timely departure

National Post ·

Thoughts turned yesterday to John Roth, the former chief executive of Nortel Networks as the company, which accounted for more than one-third of the value of the TSX market a few years back, denied a report it was seeking lawyers for bankruptcy protection.

A possible Chapter 11 filing was the furthest thing from the mind of Roth as he and his company rode the tech boom earlier this decade. Roth was a deal-a-day CEO buying companies with little revenue for massive valuations. Back then, analysts invented new ratios -- price to sales and price to employees were two of the more popular -- as they watched Nortel's payroll rise to almost 100,000 and a market cap soar to almost $400-billion. Roth even gave Ottawa advice on tax policy, arguing Canada risked becoming a second-rank economic power unless it changed its wealth-crimping tax policies and supported high-tech winners (like Nortel.)

Roth, who became CEO in 1995, knew a bit about taxation, specifically capital gains, given that he sold options for a gain of $135-million in 2000. At the end of 2001 he bowed out.

Since then, life hasn't been good for those who bought into Roth's vision. The company has laid waste to a vast chunk of its work force and the stock price -- despite a 10-for-one consolidation -- continues to fall. From a high of $124.50, it trades at 51¢ (5.10¢ pre-consolidation.)

We were unsuccessful in reaching Roth yesterday.

For shareholders of Mainstreet Equity Corp., who have suffered the joys of a rising stock price and the non-joys of a falling stock price, the news is good.

The company that owns and manages apartments in Western Canada announced a substantial-issuer bid, whereby it will purchase up to four million shares (28.8% of the outstanding) at $6.25 a share -- or 30% above the closing price the day before. That offer comes just after Mainstreet's normal-course issuer bid -- which allowed it to buy 700,000 shares -- was completed in five months. It paid between $4.50 and $12.43 a share.

Jeffrey Roberts, an analyst with Desjardins Securities, weighed in. (Desjardins is financial advisor and dealer manager on the offer.) Roberts estimated Mainstreet's NAV is about $12.07 a share. "For those clients looking to raise cash, this is likely a good opportunity, because we do not see a catalyst for real estate stocks in general in the near term during the financial crisis.... For patient investors who do not tender, the NAV per share of Mainstreet's substantially undervalued shares should increase notably, all else equal, because the company will be buying back its shares well below current NAV," he wrote.

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