

Capitalizing on telecom uncertainties

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By Dan O'Shea

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by Matthew J. Rubins, M/C Venture Partners

Credit crunch. Slowing economy. Volatile stock prices. Technology in transition. Uncertain regulatory environment. Sound familiar? While this laundry list accurately describes today's telecommunications landscape, the same issues were at play in 2001, 1996, 1991, 1985 and so on. The fact is, telecommunications has been a dynamic industry since the days of Alexander Graham Bell.

In uncertain times like these, it's helpful to step back and understand where value can be created against this backdrop. M/C Venture Partners, since 1982, has backed such companies as wireless operators Western Wireless/Voicestream, Telecorp PCS and Metro PCS, as well as wireline operators Brooks Fiber, Phone Michigan, Ovation Communications, Nuvox and Cavalier Telephone. All of these companies took advantage of their environments to create value by leveraging strong secular growth trends while capitalizing on market uncertainty. We believe there continue to be compelling opportunities for the industry driven by some key industry growth trends.

Broadband demand drives new use of existing fiber

Nowhere has growth been more explosive than the internet. No longer merely the home of static websites and a conduit for email, it has become a medium for collaboration, electronic commerce and the sharing of information and images. Video-sharing sites have become the fastest-growing

applications on the internet. YouTube uses as much bandwidth today as the entire internet consumed in the year 2000. As broadband penetration breaks through the 50 percent mark and consumers and enterprises rapidly adopt these high bandwidth applications, the telecom industry will continue to experience a resurgence in bandwidth growth.

While this has had a positive impact on electronic commerce and consumer social interaction, the effect on the fiber pipes feeding us all this information is far less encouraging. Much of the so-called "fiber glut" that existed five years ago has vanished. Dark fiber is increasingly scarce, particularly in metro areas. We have seen pricing firm up significantly for metro transport and access and believe significant value can be unlocked by acquiring under-managed fiber facilities and bringing strong management, new technology and innovative services to bear. We are currently executing on this trend through our investments in Zayo Broadband, LightTower Fiber and GTS-Central Europe.

Wireless service penetration and innovative pricing models help bridge the digital divide

Connectivity is an enabler to economic success and productivity. Considerable opportunities for mobile broadband lie in its potential to cross the digital divide in which much of the world's population, even in developed economies such as the U.S., does not have regular, affordable Internet access. Regardless of the considerable advances in communications in recent years, the fact remains that the more affluent have the benefits of access to information and communications technology, while the lower income/credit-challenged still do not.

The good news is that emerging mobile phone business models offering easy-to-use, unlimited, flat-rate wireless services with no signed contract are showing great promise in closing the divide and placing broadband access over wireless within reach of everyone, regardless of their means. Providers like our own MetroPCS and Leap's Cricket service are driving the move to make mobile broadband accessible to lower-income segments in the U.S. by offering the so-called "all-you-can-eat" (unlimited, flat rate, no signed contracts) pricing. Such providers typically have more efficient networks and lower operating costs than large incumbents, enabling them to profitably penetrate and serve lower income segments. However, the large mobile carriers also have picked up on unlimited rate practices within the last year. M/C is currently pursuing this strategy through our investments in Revol, Open Mobile and Mobi PCS.

Managed services addressing the small and medium size enterprise promise high growth

Managed services, where a service provider takes on responsibility for an IT function that has typically been managed internally, is one of the fastest-growing areas in telecommunications.

Enterprises have become significant consumers of managed services as a means to reduce costs, boost productivity and enhance competitiveness. While this segment has seen its own boom and bust cycle, we are now seeing very strong demand at our complex hosting companies, Attenda and Fusepoint, who are leveraging this trend. We anticipate continued rapid growth in this area.

(Matthew J. Rubins is a general partner at Boston, San Francisco and London-based M/C Venture Partners. He focuses on broadband wireless, ISP, CLEC, enterprise infrastructure, telecom software and IT services investments. Matt currently serves on the boards of HyPerformix, SpeechCycle and Vertical Communications.)

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