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must provide emergency operators with the call back location of their customers.

Although the customer must provide the location information, the VoIP provider must provide the customer with a means of updating this information, regardless of their location.

Finally, interconnected VoIP providers must inform their customers, new and existing, of the E911 capabilities and limitations of their service.

Many providers, long ago recognising the probability of impending need for E911 capability following a long and complex debate, have already provisioned for E911.

Steve Davis, Qwest's SVP, public policy, said in early May: "VoIP providers must treat E911 access as an integral part of the service they provide, and a necessary cost of doing business. Anything less is irresponsible."

Beyond the requirements focusing on the consumer end, the incumbent LECs are ordered to provide access to their E911 networks to any requesting telecommunications carrier. "They must continue to provide access to trunks, selective routers, and E911 databases to competing carriers. The Commission will closely monitor this obligation," said the FCC.

Comptel/Alts expressed its appreciation of the order. Drew Walker, acting CEO prior to the appointment of Earl Comstock, said: "Comptel/Alts is especially gratified that the Commission recognised that in order for VoIP providers and competitive carriers to comply the Commission's directive, competitive carriers must have access to ILEC selective routers, 911 trunking and databases."

He added: "Comptel/Alts is likewise encouraged by the Commission's commitment to monitor and enforce this crucial obligation on ILECs in order to ensure that some ILECs do not withhold cooperation, or reasonable access, to gain competitive advantage when such an important goal is at stake."

In order for the FCC's decision to be workable, such issues must not only be resolved, but also painted black and white for the parties involved. ■

Analyst's Eye >



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STATE OF THE NATION

US APPETITE FOR TELECOMS INVESTMENT REMAINS SMALL, SAYS **DAVID BALLARINI**. BUT VoIP PROVIDERS ARE SHOWING THAT, WITH THE RIGHT OFFERING, TELCOS CAN STILL ATTRACT INVESTORS

> **Despite bright** spots, the wholesale telecoms sector in the US continues to suffer from the linear decline of stock prices witnessed over the last two years. This has affected all the major wholesale players, and prices of late have been so low that even Wall Street analysts have run for cover; they're no longer producing company reports and the appetite to continue to finance wholesale telecoms is small.

Although venture capital is challenging, wholesale telecoms is nevertheless attracting vulture capital, which has been available for highly distressed transactions where investors such as Cerberus have been able to pick up extensive network assets at pennies on the dollar. These are financiers with access to capital – they buy cheap and exert control. In a tough climate they're snapping at the heels of telcos, and this form of buy-out is becoming more prevalent. Without the interest of Wall Street, there's little that can be done to improve equilibrium when it comes to stock prices.

While it's not all doom and gloom – the interest in VoIP providers is proving positive – it's clear that wholesale telcos are in a precarious position. These are highly-leveraged companies with significant future solvency issues as large debt comes to fruition in the next two years. Revenues are shrinking, and margins have contracted due to the very aggressive pricing we've seen over the last few years. Finally there's the added cost – despite the long-term return on investment – of migrating from legacy infrastructure to next-generation networks. How telcos handle these issues will determine the market's future interest.

It's fair to say that capital markets, both public and private, remain tight in relation to communications companies in general, and to wholesale providers in particular. Many are still licking their wounds from billion-dollar write-offs, and most public equity financings have been structured to help companies reduce their leverage ratios, such as Level 3's private placements this year. Level 3 has adopted the strategy of value-added services, with its IP-PBX wholesale offering. But it has also seen how difficult it can be to succeed, as demonstrated by its acquisition of Terverse, where Level 3 shut down the service to many customers because it realised differentiated next-generation offerings are tough to implement.

Capital for facilities-based CLECs with a good mix of business services has also been available, and a handful of successful CLECs such as Paetec, Broadview Networks, Grande Communications, Cavalier and Integra, have been capturing market share from incumbents. These networks are well positioned to provide next-generation VoIP services, and it would not be unexpected for several of these to execute IPOs in the future; in fact, Paetec filed in April 2005, and disclosed it had grown to over \$400 million in revenues.

VoIP providers are expected to become public at attractive valuations in the next 12 to 18 months, with Vonage being the most notable. It raised a significant amount from a who's who of investors, all dedicated to national advertising campaigns. It's possible at this stage in the proceedings that the valuation for Vonage will exceed \$2 billion. Cbeyond is another example; it filed for a \$173 million IPO in April 2005, and is approaching \$200 million in revenues.

As these successful emerging operators prove their worth to the market as well-managed companies with strong business strategies, the capital markets will once again open up. But consolidation and rationalisation will be needed first to get the ball rolling. ■