

# News & Views



## IN BRIEF

□ **Telecom Italia** has sold its 4.99% stake in **Neuf Telecom** to the Louis Dreyfus and Societe Francaise du Radiotelephone groups for approximately €161 million. The sale is part of the Telecom Italia group's strategy of rationalising non-strategic holdings.

□ US communications provider **Sprint Nextel** has renewed a reciprocal nationwide roaming agreement with US regional operator Alltel. The new 10-year agreement will come into effect July 1 2006 and covers CDMA voice, data and EVDO high-speed mobile data services. Customers of both companies will receive enhanced access to each other's wireless networks.

□ **Microsoft TV** has signed an agreement with **Juniper Networks** to deliver high-performance security solutions that protect IP networks, services and applications. Microsoft TV's efforts with Juniper will enable operators to utilise IP networks more reliably to deliver a range of next-generation television services and experiences. With this agreement, Juniper can offer IPTV network security solutions to customers of Microsoft TV IPTV Edition. ■

## Qwest triumphs over Onfiber

**Qwest will** acquire Texas-based metro provider Onfiber for \$107 million.

The acquisition of Onfiber will expand Qwest's metro presence outside of its traditional 14 state region. Qwest expects to find run-rate synergies of about \$25 million annually due to the cutting back of overlapping facilities and the reduction of network access costs.

Danny Bottoms, CEO at Onfiber said: "The timing is right because the business has evolved from initially a carrier wholesale model to being majority enterprise focussed, it also has a very narrow product set in that Onfiber only sells transport. The company was limiting its addressable market because it didn't sell the products that most enterprises want and as a result Qwest certainly brings that to the table for Onfiber."



**Danny Bottoms,**  
CEO, ONFIBER

Bottoms added that the acquisition will give Qwest a deeper metro network with more offerings in its out-of-region territory. He said: "Qwest had been relying on other carriers to deliver services to the last mile. It was the principle that Qwest could deliver services in the last mile better than relying on competitors to do it for them."

Onfiber has had a year-on-year growth rate of over 20% and is expected to show revenues of nearly \$60 million in 2006. Bottoms commented: "A year ago, I wouldn't have predicted that Qwest would be the logical company to acquire Onfiber. The big players in the US have gotten about as big as they are going to get, at least within the regulatory framework. I think you'll continue to see consolidation where you see common business models. It makes it easier for companies to understand the synergies." ■

## VONAGE – THE POST MORTEM

**David Ballarini** considers the mess that was Vonage's IPO, a mess which will make it much harder for comms services companies still looking to float

### Analyst's Eye

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**Unfortunately, my** preview last month to the Vonage IPO wound up being a good prediction to how well the offering was going to be received. As of June 1, just a few days after the IPO, the stock was trading at approximately \$12.70, down about 25% from the offer price of \$17.00. The post-IPO performance of the stock places Vonage as the worst performing IPO of the year in the US.

The events surrounding the IPO were somewhat interesting, if not comical. A cavalcade of analysts and industry experts poo-hooed the upcoming IPO on America's top business news media outlets. Then, a group of competing VoIP providers such as Yahoo, AOL, Comcast announced new, attractively priced VoIP offerings targetting many of Vonage's customers and making Vonage's value proposition and financial plan even more questionable.

To top all this off, Vonage decided to turn its retail customers into Vonage investors, offering up to 15% of the IPO shares to customers in a back-fired attempt to enhance customer loyalty. When customers began complaining about the drop in stock price and in some instances refusing to follow through on the purchases, Vonage magnanimously offered to make customers whole on their losses. It's unclear whether they will follow through on this offer, and dilute the investors that actually followed through on the investment or whether they will retract the offer.

In the end, the IPO went through and Vonage gets much needed capital to fund its enormously unprofitable operation and pay off some of its substantial debt load. The company and its investors should at least feel good about getting the offering through during the worst week in the equity markets this year.

The more depressing issue is that the industry aftermath of Vonage's haste in rushing to the market with a very unprofitable and risky business model will be substantial. If one of the best known brands in the new-age era of telecommunications leaves investors licking their wounds (or haemorrhages), how will they receive the next set of aspiring communications services IPOs? Unfortunately potential future IPOs will have a taller hurdle to climb because of Vonage's rocky IPO performance. ■