

News & Views



IN BRIEF

□ **Bell Canada** has postponed commercial launch of IPTV services over its ADSL network, expected this quarter. A Bell representative said the company remains committed to IPTV. Meanwhile, BCE group member **Bell Aliant**, the incumbent telco in Atlantic Canada, is pressing ahead with its own regional IPTV roll-out. It is investing \$12.5 million to enhance the capacity of its broadband network to offer customers more service options including ADSL TV.

□ **Covad Communications** has signed a definitive agreement to be acquired by the investment group **Platinum Equity** for \$1.02 per share in cash. The transaction has been unanimously approved by the Covad board but is still subject to the approval of its shareholders and the FCC.

□ US fixed-line operator **Centurytel** is launching IP-based television services in markets across its 25-state coverage area. The IPTV service will offer 24 channels of real-time broadcasting to Centurytel's broadband internet subscribers. Services such as video on demand, sports programming and music downloads are also planned.

Orascom builds Med cable

Orascom Telecom continues to position Egypt as a hub for traffic transit across Europe, Middle East and Asia as it lays an undersea cable in the Mediterranean.

Alcatel-Lucent was awarded a turnkey contract with Orascom Telecom to deliver a 3,850km submarine cable network named Middle East North Africa (MENA). The cable will link Egypt, Italy and Saudi Arabia with 5.76Tbps of capacity.

"MENA will enable improved international connectivity to support new, high-speed services and brings us an important step closer to delivering the much needed international bandwidth services to the Middle East and Asia through Orascom Telecom's several companies around the world," said Naguib Sawiris, CEO and chairman of Orascom Telecom.

The MENA cable is scheduled to be completed by the first quarter of 2009. Alcatel-Lucent will be responsible for the turnkey roll-out of the Egypt to Italy segment that will have landing points in Alexandria (Egypt) and Mazara del Vallo, Sicily, in Italy.

"With today's market changes, operators have to address increased connectivity requirements, while minimizing their operational costs and guaranteeing performance continuity at the highest level possible," said Olivier Picard, president of Alcatel-Lucent's Europe and south activities. "Our cost-effective solutions enable our customers to enhance their network efficiency for strengthened end-user satisfaction with easy-to-operate services and applications."

Alcatel-Lucent will base its submarine solution on its 1620 Light Manager next-generation DWDM submarine platform, and will also include cable and submarine repeaters and branching units, providing direct connectivity to landing stations. The deal is an extension of an existing relationship between Orascom and Alcatel-Lucent in their fixed and wireless businesses. ■

3COM GOES PRIVATE

David Ballarini traces 3Com's recent history and explains why he thinks Bain Capital was so keen to get its hands on 3Com

Analyst's Eye

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3Com announced it was following Avaya's footsteps by going down the privatisation path. This deal is quite interesting because the players involved have some history, and it raises trade issues not normally associated with telecom or technology markets. On paper, the deal is worth \$2.2 billion – all cash – with Bain Capital being the primary acquirer. China's Huawei Technologies, will gain a minority stake, believed to be upwards of 20%. 3Com shareholders cash in their shares at a 44% premium over their value prior to the announcement.

3Com has an uneven history. Before Cisco became so dominant, 3Com was a top tier vendor, but its handling of transactions such as US Robotics and Palm Computing contributed to its downfall. For these reasons, it is difficult to determine if \$2.2 billion was a fair price to pay. The deal comes in the midst of a credit crisis that has spread to private equity markets, so it's clear that Bain is making a big bet on 3Com, and it should not be forgotten that Bain Capital was the lead investor in Vonage's last major capital raise of \$200 million prior to its IPO.

So, what makes 3Com worth \$2.2 billion to Bain or Huawei? H3C, a joint venture between 3Com and Huawei set up in 2003 and fully acquired by 3Com, is at the core of the answer. Bain was an unsuccessful bidder for H3C earlier this year – 100% of H3C is valued at approximately \$1.8 billion. That leaves a \$400 million valuation for the rest of 3Com. H3C is of interest to Bain for two reasons – access to Asian markets, and a chance to compete with Cisco. With these motives in mind, the opportunity makes more sense. H3C makes 3Com's Gigabit and Ethernet switches, where it ranks third globally behind Cisco and Hewlett Packard. However, in emerging markets, H3C is at or near the top, and Huawei accounts for 30% of H3C's revenue.

Bain actually benefits on two geographic fronts as 3Com is more established in north America. Huawei and 3Com have a non-compete agreement that holds through 2008. Concerns have been raised about national security, and the idea of Chinese companies gaining stakes in American technology companies does not sit well with some. This is especially pertinent for Huawei, not just for its Cisco history, but its connections to China's military networks. One way to mitigate these concerns would be for 3Com to spin out its security business, Tipping Point Technologies. Leaving it within the 3Com fold might be too close for comfort for those who harbour suspicions about Huawei. ■