

News & Views



IN BRIEF

Japanese operator, **NTT** and Vietnam's largest international telecom carrier, **Vietnam Data Communications** have agreed to provide MPLS switching-based global IP-VPN services in Vietnam under the name of VPN/VNN-Arcstar. The two companies were due to start services in September. NTT and VDC have been cooperating to provide international Frame Relay services in Vietnam since 2000.

AT&T has won a contract to service financial and consulting firm **Deloitte** across its central European offices. The 12-month contract extends the companies' existing relationship and gives AT&T the opportunity to provide global networking solutions to connect Deloitte's professional services business across the region.

Chinese equipment manufacturer, **Huawei** has been selected by **Worldcall Group** of Pakistan, to deploy a CDMA WLL network in Karachi, the biggest city in Pakistan, and Hyderabad in southern Pakistan. In the turnkey project, Huawei will provide Worldcall Telecommunications with civil engineering, infrastructure deployment, management and optimisation. ■

20/20 set to grow VNO model

Universal Access founders and telecoms veterans Patrick Shutt and George King are poised for the next stage of their company's growth by reversing their holding company 20/20 Technologies into Capital Growth Systems, a US publicly listed connectivity provider headed by one-time IBM VP Tom Hudson.

The company's aim is to develop its virtual network operator model – among 20/20 Technologies' assets is UK-based Magenta Netlogic which specialises circuit pricing and network optimisation. Shutt, who now becomes president and COO of Capital Growth Systems, with Hudson as CEO, explained: "We spent last year unsuccessfully trying to buy companies and realised that we could no longer use 20/20 Technologies as the vehicle to do this. By reversing into Capital Growth Systems we gain a shell that already has some pieces of telecom integration technology built into it. It will give us the framework to build the first smart VNO capable of consistent, speedy and economic design and delivery of network solutions of any size or complexity with a global reach."

Capital Growth Systems now has four subsidiaries: former holding company 20/20 Technologies and Magenta Netlogic, and Capital Growth Systems subsidiaries Nexvu Technologies and Frontrunner Network Systems. Nexvu is an application performance monitoring software developer while Frontrunner has a network operations centre, a call centre and 1,000-strong customer base.

Said Shutt: "Nexvu has unrealised investment, we can bundle it with Magenta and monetise it, while Frontrunner has the infrastructure we need to support our launch into integration services."

The company has also signed a letter of intent to acquire connectivity provider Global Capacity Group in Houston. ■

A STRONG COMBINATION

David Ballarini examines the likely benefits of Paetec's acquisition of US LEC, as consolidation in US telecom continues

Analyst's Eye



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In August, further evidence of the benefits of consolidation was manifested as Paetec and US LEC announced that the companies would combine in a transaction that will create a formidable, national competitive communications services company. Although it is billed as an acquisition of US LEC by privately held Paetec, as can be seen by the cashless structure of the transaction, it is clearly a move by both companies to merge their operations in order to get leaner, to rationalise capacity of their networks and stay competitive in a market which is increasingly being driven by economies of scale and the ability to deliver diverse and ubiquitous communications solutions. It is also, perhaps, a more elegant way for Paetec to finally emerge as a public company – a goal the company has had for several years.

The combination appears to be strong with some caveats. The entities will have combined revenues of \$1 billion, 45,000 business customers and network presence in 52 of the top metropolitan service areas with particular strengths in the north east, mid-Atlantic, south east, Chicago and California. This footprint should improve the new company's ability to serve business customers with broad, multi-location requirements. Unlike most past CLEC mergers, these companies are bringing together topnotch operations that are generating close to \$200 million in EBITDA, with industry-leading customer retention rates, and should be able to wring out \$20 to \$40 million in additional operating income from "synergies". One potential drawback is that they will have to use their cash flows to service a mountain of debt which will stand at close to \$750 million. The company's leverage should be surmountable, especially if they continue to grow at their historical levels by marketing their enhanced service capabilities and compete against the PTTs – which are also digesting mergers and dealing with their own highly leveraged finances. The other potential drawback is that their combined footprint will still be spotty compared to the incumbents. However, both companies have become highly capable in partnering with other carriers in order to deliver solutions that extend beyond their physical networks.

Assuming US LEC's shareholders go for the deal, the companies will be run by Paetec's Arunas Chesonis. Given their capabilities and customer base, their outlook is good, especially considering that they will be eyed by larger players in the future as an attractive target. ■