News & Views

IN BRIEF

- **Flag Telecom** signed a multi-million dollar turnkey contract with Fujitsu for the construction of Flag NGN cable, a multi-terabit, new generation DWDM submarine cable system. Flag NGN cable involves the construction of four new systems across Mediterranean, east Africa, Asia and Pacific regions. The extensions of each system will be finalised over next few weeks based on ongoing discussion with landing parties in each country. The project is estimated to cost $1.5 billion.

- **Chunghwa Telecom**, the largest telecommunications operator in Taiwan, has awarded a €61.5 million 3G network expansion and services contract to Nokia Siemens Networks that will enable the operator to provide enhanced, industry-leading 3G and HSDPA (high-speed downlink packet access) services to subscribers and reduce associated operational costs. The contract deepens the existing cooperation between Nokia Siemens Networks and Chunghwa Telecom. ■

Pipex sell-off continues

Pipex plans to sell off the remainder of its business, having sold its broadband and voice division to Italy's Tiscali for £210 million in July this year.

Pipex plans to demerge its Pipex Wireless unit, a Wimax joint venture with Intel, and also to sell off its web hosting and business services division, possibly to executive chairman Peter Dubens.

Company executives told investors it means that Wimax "no longer provides a compelling strategic fit" with the hosting and business services divisions. Pipex said that it will begin the sales process in the fourth quarter of the year, after advisor UBS has completed a review of the business.

"During the period, and subsequently, we have received a number of expressions of interest in the remaining parts of the Group, comprising the web hosting and business services divisions. As a result of these, and following a review of the remaining operations, we intend to initiate a sale process, said the company in a statement.

Peter Dubens' investment fund Oakley Capital Private Equity has expressed an interest in acquiring Pipex's web hosting and network services division. Dubens will be excluded from the independent committee of the board that will consider bid offers.

The company said that its UK Wimax trials in Milton Keynes and Warwick were completed successfully during the first half of this year. As well as further validating the Wimax technology, these trials demonstrated the demand for wireless broadband access in both the business and consumer markets, the company said. Commercial services are on track to be launched in Manchester in the fourth quarter of 2007.

Pipex reported a 58.5% rise in revenues to £188.9 million from £119.2 million for the six months ending June 30, 2007. The company recorded a net loss of £8.4 million from a profit of £6.1 million the previous year. ■

INTERESTING CHOICES

David Ballarini analyses the moves from PBX vendors as they try to shore up their business against a future assault from Microsoft's communications offering

Analyst's Eye

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In a departure from the mega-deals of 2007, NEC of Japan has acquired privately-held IP-PBX vendor Sphere Communications for $42 million. NEC is certainly large enough to have made a major acquisition, but the decision to acquire Sphere is an interesting choice.

At face value, the appeal is easy to see. NEC is a major traditional PBX and handset vendor, in the process of transitioning from TDM to IP, and known largely outside the US in the business telephony market. Sphere is a much smaller vendor, but highly focussed on enterprise IP communications – selling mostly within north America. The business telephony vendor space has been undergoing unprecedented consolidation recently, and in this regard, the deal is good news for Sphere. For NEC, this deal is more of about technology acquisition than consolidation. Sphere does not bring it much critical mass, and there is limited overlap between product lines or customers.

NEC's motives appear to be survival-based. In north America, it is ranked fourth in the PBX market, behind Cisco, Avaya and Nortel. No hardware vendor on the horizon can truly challenge Cisco, Avaya has recently gone private, and Nortel appears to be pinning its hopes on an alliance with Microsoft. There are no logical vendors for NEC to partner with, so acquiring a company like Sphere is the next best thing. Mitel/Inter-Tel, through their recent merger has also become a key a player in the smaller end of the market.

There may be a bigger reason driving this deal. Microsoft is working hard to provide a business solution that will soon include voice. It is not there yet, however, the potential is there and that is making all these vendors nervous.

The acquisition was very low profile. Possibly NEC did not want to draw much attention to the deal, as it signals to others its intentions in the IP PBX market. Not only does Sphere's technology give it a stronger foothold, but it considerably strengthens NEC's IP transition story.

As such, there is a time-to-market issue facing all the PBX vendors, as they need to protect their customer bases from the Microsoft machine before it really comes to market, and to entrench themselves with new customers before they turn to Microsoft for everything. In this regard, software-based vendors like Sphere have value, as software solutions evolve and adapt more quickly than hardware, especially against the ultimate software player, Microsoft. ■