

# ATUG Conference 2009

Mark McDonnell

*Senior Analyst, TMT*

BBY Limited

# The curious case of the **INCREDIBLE** Shrinking market



# Industry characteristics

- Decline in industry revenue growth rates
- Product substitution
- High rates of traffic growth in mobiles and broadband
- Falling margins and lower earnings
- An asymmetric structure with Telstra and Optus dominant.

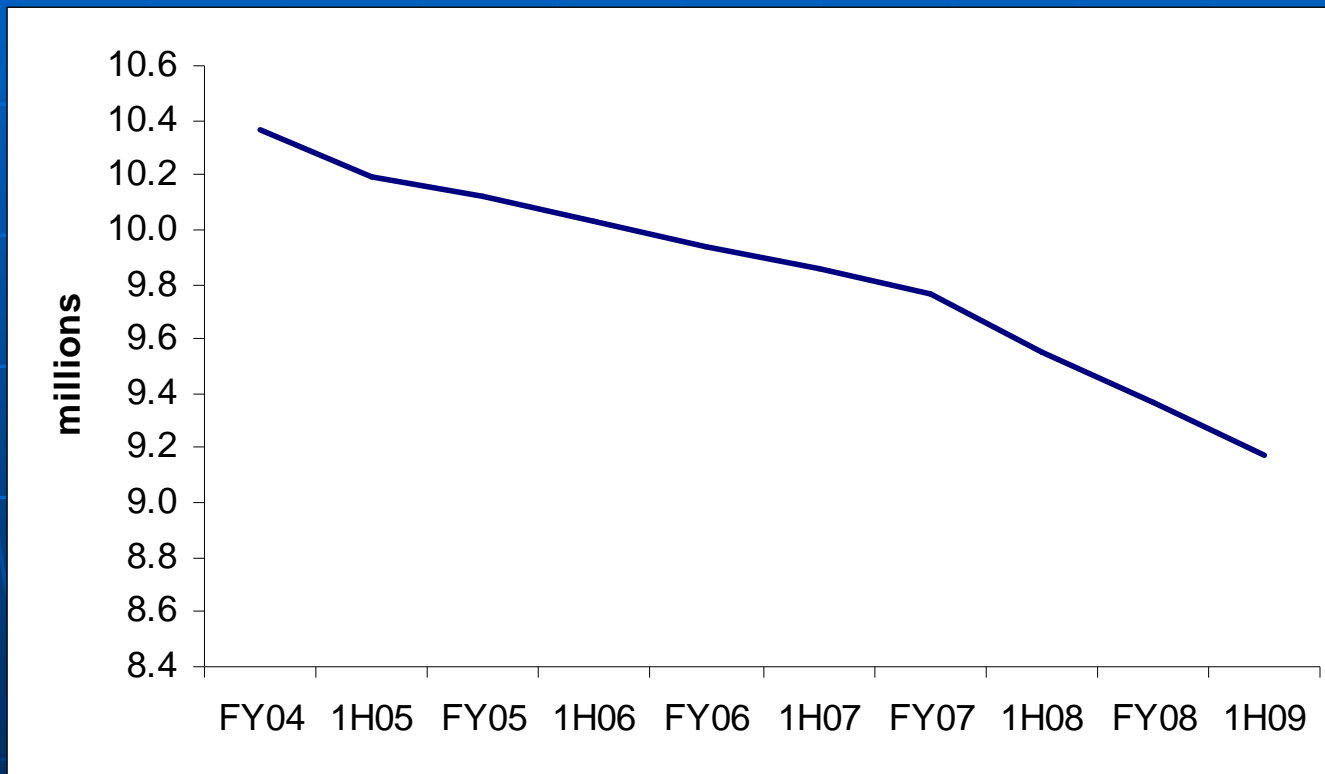
# Strategic responses

- Lower the cost base
- Build scale through consolidation
- Diversify into IT and other services
- Increased investment in networks and services
- Emergence of specialist providers

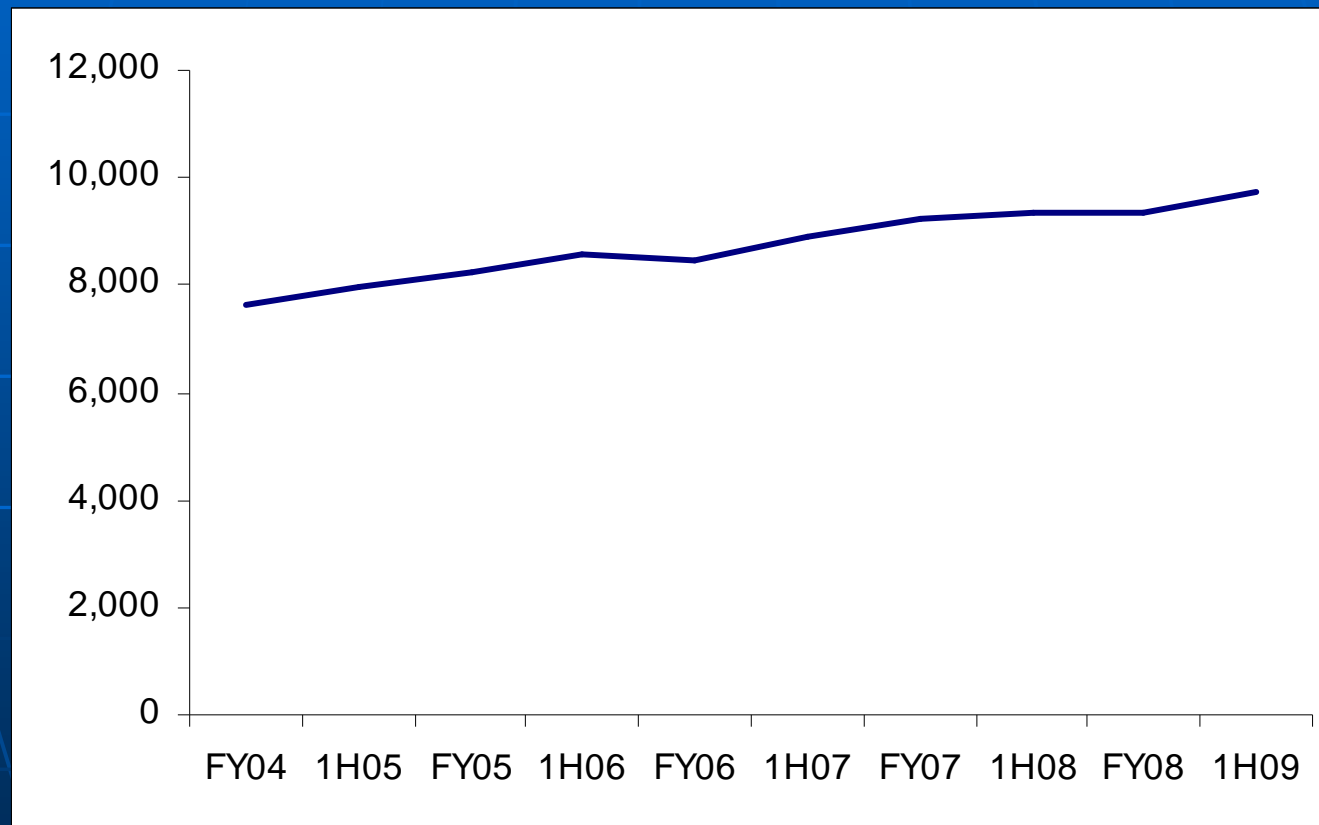
# Industry structure

>\$1B	\$100M - \$1B	\$10M - \$100M	<\$10M	Unlisted on ASX
Telstra SingTel Telecom NZ	iiNet Pipe	Entertainment Media Hutchison Amcom Macquarie Telecom M2/People Reverse Corp SP Telemedia (Soul)	Big Air Engin Freshtel My Net Fone Queste Clever Com Future Corp Broad Investments Cape Range Comtel Fulcrum Mint Wireless Moki.Mobi Mercury Mobility Mobilesoft Tel.Paciic World Reach Wintech	Vodafone Primus others

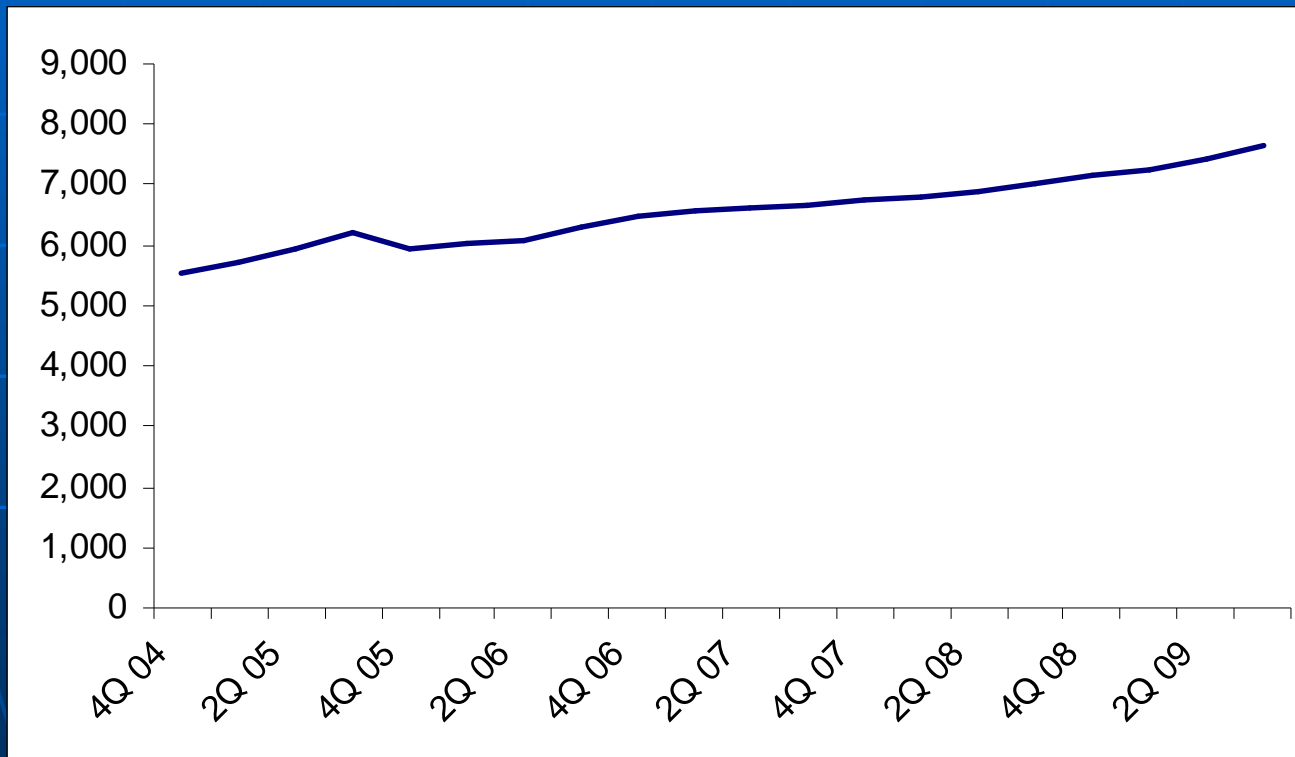
# Decline of fixed telephony



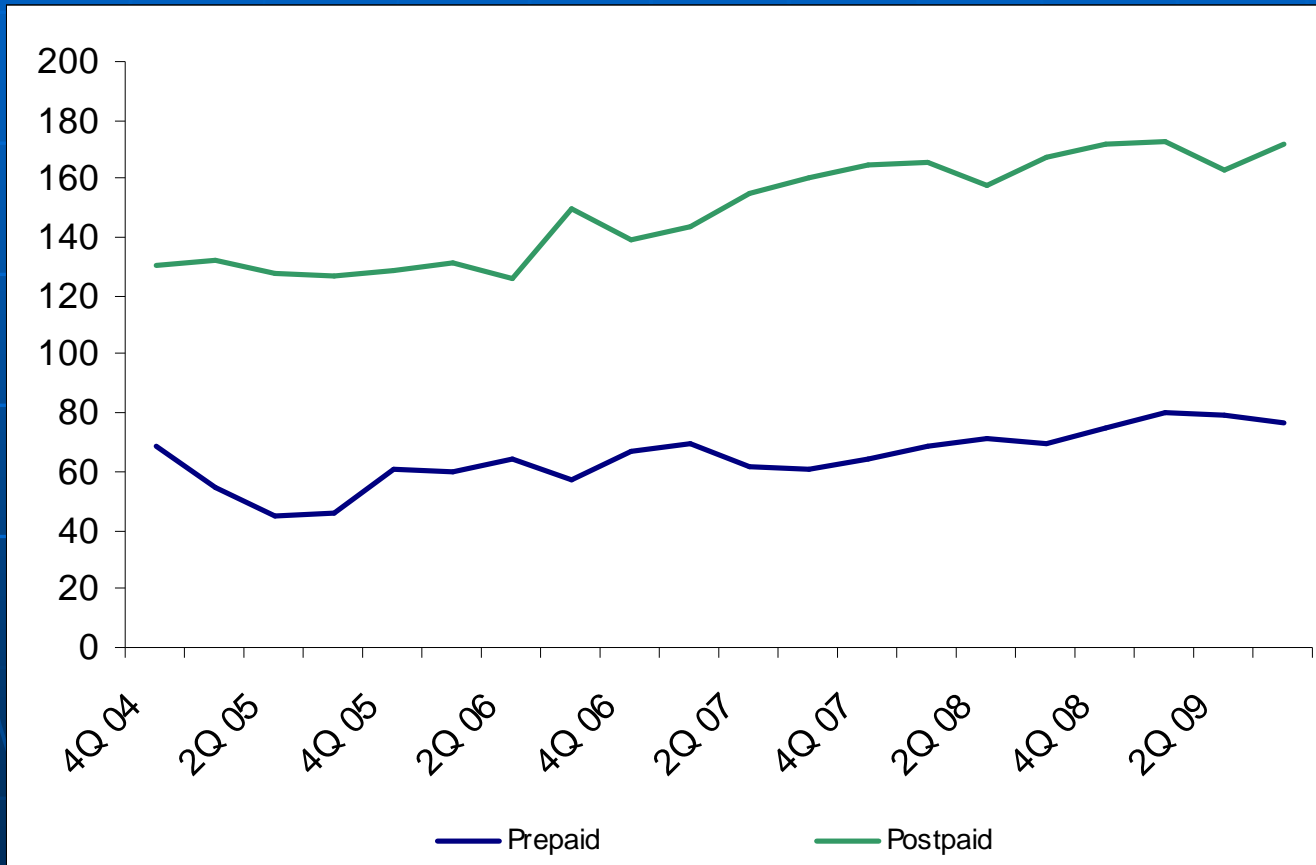
# Mobile services - Telstra



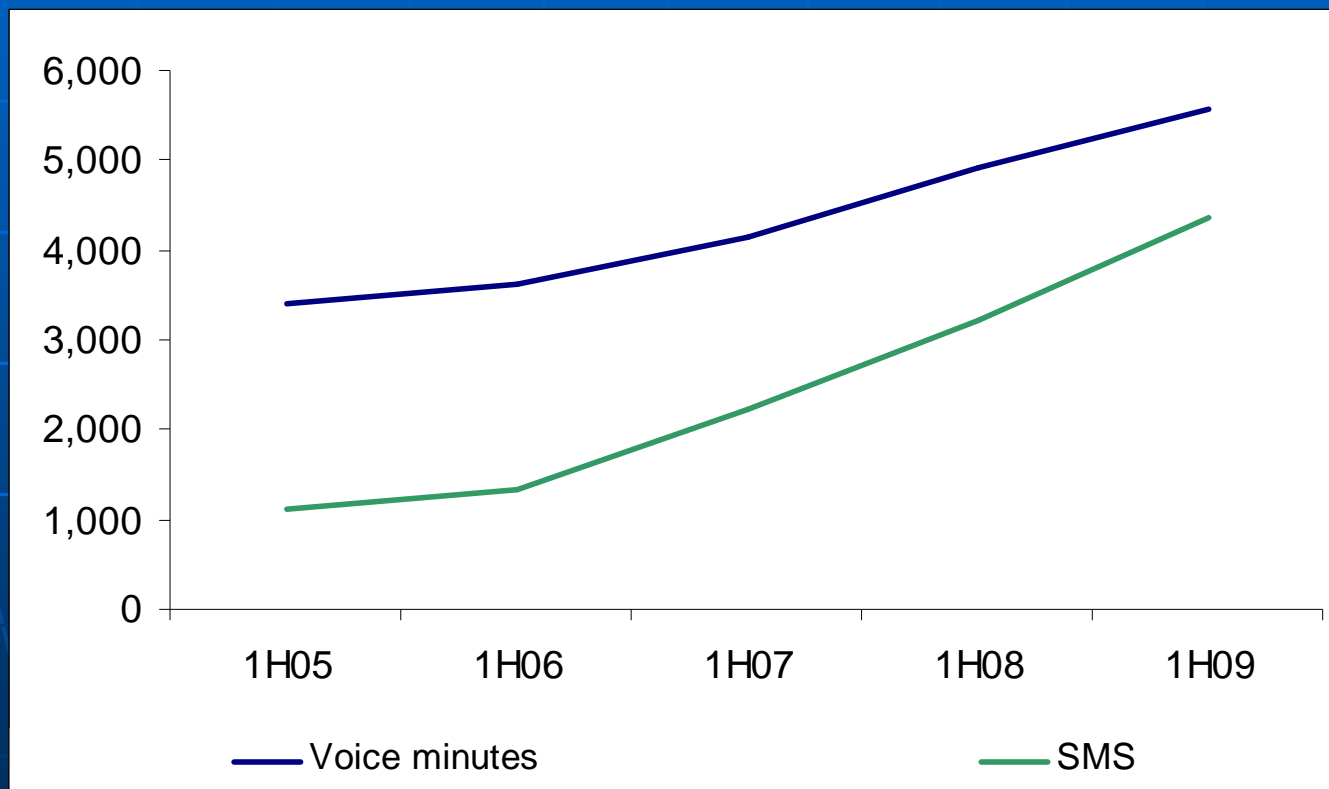
# Mobile services - Optus



# Optus mobiles - MoU



# Telstra – mobile voice minutes & SMS



# Industry specialisations

- *Two areas where there is a considerably flurry in entrepreneurial activity outside the major telcos are in voip and wireless broadband.*
- *None of the listed companies in this area are cash flow positive as yet [2007], but wireless broadband providers like Big Air and UnWired have demonstrated vigorous growth and their prospects appear to be improving every day.*
- *Voip operators like ENG and FRE have a slightly less certain future, but nonetheless demonstrate that technical innovation and the search for competitive advantage is alive and well.*

# Deflation – as it looked a year ago

- *...we are not in a high growth environment any longer – we are in a low growth one, where both competition and regulation have combined to create one of the most persistently deflationary markets in any sector of the Australian economy.*
- *Deflation is the opposite of inflation and generally taken to describe a market where prices keep falling. Price changes are however only one aspect of deflation; the associated problem is the contraction of credit. That is, in persistently deflationary markets, investment dries up....*
- *In the current stage of the industry, characterised by persistent deflation, the new, dominating question is: how do we get more investment? The most prominent example of this problem relates to efforts by the government to induce carriers to build a new broadband access network, to facilitate higher speed broadband.*

# Alcatel-Lucent

- *Alcatel-Lucent has been in the red since the marriage of Alcatel with Lucent in November 2006 for US\$11.4 billion.*
- *The telecoms vendor has reported loss for seven straight quarters, and its third quarter revenues slid a further 6.6 per cent to US\$5.1 billion from \$5.5 billion last year, due to weak carrier equipment sales.*
- *The Carrier division saw a 13 per cent drop in revenues year on year to \$3.4 billion, while the Enterprise unit sales were up 2.2 per cent to \$367 million and Services revenues went up 12 per cent to US\$1.1 billion.*

# Nortel

- *Nortel Networks, the Canadian telecommunications equipment maker that is operating under Chapter 11 bankruptcy protection, hopes to complete its reorganisation plans and emerge from bankruptcy protection before mid-year, according to its chief executive.*
- *"Time is the enemy for us," said Mike Zafirovski, Nortel's chief executive, who provided details of his timetable goals for the company's reorganisation after it announced a \$2.14bn fourth-quarter loss ....*

# Vendor forecasts

*The world's largest maker of fixed-line networks is more pessimistic about the telecoms market than its rivals. Alcatel predicts the sector will contract by between eight and 12 per cent, whereas Nokia Siemens Networks forecasts that demand will drop by only five per cent.*

# NBN – supply issues

- raising additional capital
- getting new legislation through Parliament
- negotiating access to ducts and poles
- seeking regulatory approval of proposed price plans
- obtaining access to Telstra's copper for final distribution to customers

# Demand

- Main source of risk
- Increased consumption needed to support increased investment
- Commercial rates of return needed
- Competitive process preferred