The State of Telecom

Competitive Telecom Perspective

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Eureka/InfoHighway

Integrated communications provider
(CLEC/ILEC) headquartered in NYC

Targeting small-medium sized business customers (5-500 employees) in Northeast US with over 14,000 customers and over 150,000 access line equivalents

Traditional voice & data Services (PRI, POTS, DSL, T1-Internet Access)

Selling VoIP Products (IVAD & VoIP POTS) since March 2004 and Hosted PBX since October 2004

2005 Revenues of ~$110M; Net Income Positive

Competitive Sector Dynamics

TRRO has completely altered the Competitive Telecom Sector
- AT&T and MCI have joined the ILECs
- Remaining players mixed bag of healthy and unhealthy companies
- Need to Self-Provision imperative for long term survival

Active M&A market
- Most deals occurring along regional footprints
- Growth dynamics still difficult hence financial leverage of M&A deals compelling
- Valuations for sellers are low (3x – 5x LTM EBITDA)

Glimmers of Hope but Sector still in transition
- Some Wall Street interest in sector (Eschelon, Paetec, Cbeyond IPOs)
- UNE-P to Facilities based transitions (Talk America, Broadview Networks)
- Financial uncertainty due to technological and market changes (VoIP, IPTV)

Voice Services & Applications

VoIP in the business market = Hosted PBX

Significant advantages for SME business customers
- Simplicity of single vendor.
- Cost Savings & Pricing Model
- Advanced Features and Functionality (mobility, DR)

Significant advantages for competitive carriers
- Next Generation Platforms significantly cheaper
- Customer interest in VoIP strong
- PBX Spending now part of Local/LD/Internet bundle

Interestingly, most CLECs have yet to deploy HPBX
- Deployment models difficult
- Start-up players dominate the market today (IP in 1995)

Looking Ahead

Communications business becoming a software business
- Additional applications emerging – Hosted ACD, Hosted Call Center
- Differentiation of products using software

ILEC Deployment in business market loom
- Most ILECs have bought NGN platforms (e.g., Verizon Iobi)
- Regulatory (Unbundling) and technical rationales for deployment (IMS)

Prospects for Companies that can execute promising
- ILEC focus on wireless and Cable Companies
- Consolidation of remaining players via M&A activity is inevitable
- Downward pricing pressure should moderate with less