

Telecommunications Industry

Issues For Investment

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Telecoms 1996 – 2000

The Best of Times

Great New Product Cycles

- Wireless
- Data
- Broadband

Deregulation

Strong Economy

Good Revenue Growth

Intense Capital Spending

Telecoms 2001 - 2002

The Perfect Storm

Maturing Product Cycles

Weak Economy

Over Capacity, Due to Prior Investment Binge

Difficult Regulation

Pricing Power Collapses

Revenue Growth Disappears

Margins Decline

Return on Invested Capital Decays

Capital Spending Is Cut In Half

The Telecom Equipment Problem

CAPEX Growth - (15)% in '01, (30)% in '02, (10)% in 03

Service Providers Are Managing For Improved Free Cash Flow

Telecom Investors Are Demanding Improving ROIC

Pricing and Margins Will Remain Under Pressure

Long Term Growth < 5%

Total CAPEX in 2006 < 2000

Continuing Issues For Investment

Fixed Voice Product Migration To Wireless + Data

Fractured Structure Of Industry

Inter Model Competition Vs. Intra Model Regulation

Deregulated Competitive Growing Products Lines Vs.

Regulated Declining Product Lines

Retail Rate Regulation Vs. Wholesale Rate Regulation

Federalism, FCC Vs. State PUC Rules