



Stock watch

Looking back and seeing forward. 2000 is history. What lessons were learnt?

Pete Sokoloff, managing director, Peter A. Sokoloff & Co. reports.

The year 2000 was an unhappy year for many telecom software investors. It began bullishly, as a boomer Q4 1999 continued into the first quarter 2000. In a riot of gain, investors pushed overall sector values up by nearly 200% from early 1999. It looked like the bloom might never leave the rose. But, as Peter Sellers' savant gardener Chauncy noted in the film "Being There," seasons do come and go. March 2000, so true to the legacy of that month, went in like a lion... and left like a lamb to the slaughter.

Early warning signs of trouble in the billing and OSS space were rocky public markets and the implosion of the US CLEC industry. The glamorous CLEC biz lost its sheen when operators overspent on plant and marketing and then could not operate their own systems. Investment capital dried up while red ink flowed. Ironically, OSS and billing systems, the tools that could alleviate the chaos

and make operations profitable were among the first to suffer from cutbacks and cost reductions.

By New Year's, 20 of the 36 companies we track (see Figure 1) were trading more than 50% below year-end 1999 prices. 9 were actually trading below Y/E 1998 prices. On the positive side, 10 were up for the year.

Revenge of the nerds

Highlighted in purple on the chart, ten firms blessed their shareholders with increased values in 2000. Without a single exception, all of the Top Ten are earnings positive and enjoying steady earnings growth. All during the golden Internet years, analysts argued on talk shows, in print, at conventions that near-term earnings did not matter. Rampant spending driving geometric revenue growth was the goal. Investors bought the logic; seemingly content to wait for a distant future when fabulous profits would materialise.

Then there were those

pencil pushing, pocket protector, stick-in-the-mud types who clung to the notion that a business is supposed to make a profit. Go-go investors looked down their noses at these folk – and continued to wrack up impressive gains while the nerds struggled along with their calculators stuck on earnings per share. About half of the Top Ten companies were considered so dull that they actually declined in 1999, despite tidy earnings increases.

And now the time is nigh for the revenge of the nerds...It is a back-to-business-basics world again. Profits, careful management and lowering risk is the game companies must play in order to succeed in this present market.

Profits, management and risk reduction

Profits and careful management are fundamental. Large or small, companies that continue to grow in profitability while managing toward achievable

goals will enjoy investor respect and confidence.

Reducing risk is accomplished in various ways. Most of the Top Ten have substantial recurring revenues from service bureau, maintenance and long term professional service agreements. They may lack the sheer firepower created by a slew of software licence sales, but recurring revenue is a comfortable old shoe to the investor. Recurring revenue means recurring profits, with smaller risk of quarterly surprises that can reach deep into an investor's pocketbook.

Diversification is another proven risk management tool. Most of the Top Ten serve several types of customers with a mix of different products. Some of the companies in blue on the chart tripped up because they concentrated too heavily on the CLEC market.

Two of the Top Ten manage risk by simply dominating the Tier 1 →

universe. Amdocs and Siebel maintain stables of blue chip users. The operators and companies that are the clients of each of these firms are insulated from the vagaries of capital availability. Tier 1 customers pursue long term and widespread plans that

assure healthy vendor participation for years to come.

Size is also meaningful. The current market is nervous around small-caps. Eight of the Top Ten have market valuations in the billions of dollars. Seven of those eight have annual revenues approaching, or greater than \$1 billion.

The Survivors

In time, the operator market should right itself.

Consolidation and emphasis on improving operations will create many more opportunities for billing and OSS vendors. The worldwide explosion of new services, new operators

and deployment of new telecom customers continues at a strong pace. Vendors face a day-to-day challenge of operating profitably and pushing forward to gain market share. Traditionally, in any climate, those that can do this will thrive. ■

Index of Public Billing & OSS Companies

Company	Ticker	-----Price-----			Year End Difference	52 Week High	Mkt Cap (millions)
		1/19/01	12/29/00	12/31/99			
Ace Comm	ACEC	2.75	2.31	8.06	-71.3%	18.87	25.3
ADC Telecom	ADCT	15.56	18.13	18.13	0.0%	49	11,987.8
Affiliated Comp Services	ACS	58.38	60.69	46.00	31.9%	62.62	3,101.2
Alltel Corp.	AT	67.94	62.38	82.69	-24.6%	82.93	21,241.0
AMDOCS Corp.	DOX	77.88	66.25	34.50	92.0%	96	17,223.2
American Mgmt. Sys.	AMSY	22.50	19.81	31.38	-36.9%	44.37	933.8
Astea International	ATEA	0.94	0.88	5.38	-83.7%	8.37	13.9
Billing Concepts	BILL	2.44	2.00	6.50	-69.2%	9.93	100.5
Boston Comm.	BCGI	17.75	27.88	5.25	431.0%	29.87	299.5
Cellular Tech Serv	CTSC	6.00	2.81	7.75	-63.7%	18.56	13.8
Converse Technology Inc	CMVT	113.69	108.63	72.38	50.1%	123.87	18,871.3
Convergys Corp.	CVG	46.44	45.31	30.75	47.4%	55.43	7,162.3
Corsair Comm.	CAIR	9.53	7.13	8.13	-12.3%	34.62	163.7
Crosskeys Tech.	CKEY	1.19	0.94	9.63	-90.3%	15.62	22.5
CSG Systems	CSGS	49.00	46.94	29.63	58.4%	74.5	2,572.7
Daleen Technologies	DALN	2.13	4.00	21.88	-81.7%	35.25	46.3
DSET Corporation	DSET	2.50	1.81	37.38	-95.2%	48.62	28.8
DST Systems	DST	59.56	67.00	38.19	75.5%	74.93	7,437.2
Evolving Systems Inc	EVOL	3.84	2.16	8.50	-74.6%	15.21	49.2
Illuminet Holdings	ILUM	22.75	22.94	55.00	-58.3%	94	727.7
Lightbridge	LTBG	16.44	13.13	27.75	-52.7%	29.5	287.5
Management Network	TMNG	12.50	11.88	32.63	-63.6%	41.87	362.5
MDSI Mobile Data Solutions Inc	MDSI	10.81	7.88	25.75	-69.4%	90	88.9
MetaSolv Software	MSLV	19.56	9.13	81.75	-88.8%	126	699.2
Micromuse	MUSE	77.28	60.38	85.00	-29.0%	108.37	5,449.9
Mind CTI**	MNDO	7.75	6.69	10.00	-33.1%	14.12	155.9
Objective Systems, Inc*	OSII	NA	17.63	6.63	166.0%	17 11/16	NA
Portal Software Inc.	PRSF	7.63	7.88	51.4	-84.7%	86	1,309.0
Remedy Corp.	RMDY	19.88	16.56	47.38	-65.0%	68.37	611.3
SEMA Group**	SEMA	11.38	8.63	30.75	-72.0%	41.12	5,271.3
Siebel Systems	SEBL	77.31	67.63	42.00	61.0%	119.87	33,209.0
TCSI	TCSI	1.56	1.38	3.19	-56.9%	9	36.2
T-Netix Inc.	TNTX	2.38	2.06	4.38	-52.9%	9.62	30.8
TTI Team Telecom	TTIL	18.38	15.00	20.00	-25.0%	51.12	183.6
Ulticom**	ULCM	38.69	34.06	20.00	70.3%	63	1,567.3
Veramark Tech	VERA	1.47	0.63	12.25	-94.9%	12.56	11.9
Vertel Corp.	VRTL	3.75	2.38	5.44	-56.3%	51.93	106.2
Total Index		909.50	852.84	1063.38	-19.8%		141,402

KEY:

- Stock Price up during 2000,
- Lost more than 50%,
- lost less than 50%,
- Up since 12/31/00

*Acquired by Agilent Technologies (NYSE Ticker: A) on Jan 5, 2001.

** MNDO Initial Public Offering on 8/8/00. SEMA listed on US Exchange on 7/31/00. ULCM IPO on 4/5/00.

Source: Peter A. Sokoloff & Co.