



Stock watch

Vital Signs

Pete Sokoloff, MD, Peter A. Sokoloff & Co gives his take on the market performance of billing stocks this month.

Using the hospital standard for evaluating the state of the patient's case, the billing and OSS industry continues to experience economic decline. The long term outlook is improving, however, so cautiously, one might upgrade the patient from 'critical' to 'serious'.

After all reports were in, the industry average revenue increase for Q1 dropped to about 13 per cent. Has the five quarter declining trend that began after the industry's 50 per cent peak of expansion in Q4 1999 reached bottom?

Perhaps not. This analyst believes that telecom OSS spending has been held up more by service providers' concerns

about the financial markets, than concerns about the economy. But isn't the health of the economy and the market one and the same? For telecoms, the answer may be no.

Non-cyclical

The telecommunications industry has historically been non-cyclical. While most economists expect the general economy, i.e. unemployment rates, retail spending, manufacturing, etc., will continue to slow down during the next few quarters; perhaps even dragging into a recession, telecoms services can expect to remain unscathed.

Telecoms baby boomers will remember the recession in the early 80s. Cable systems were

being built in depressed areas like Detroit, where unemployment reached 25 per cent. Household penetration for new cable systems started at 50 per cent and continued to go up throughout the recession.

People will cut down on auto purchases and travel, stay away from restaurants, even go behind in their mortgage payments before giving up, or cutting back on, basic telephone, long distance and cable. An easy bet is that Internet service and cellphones will receive the same treatment.

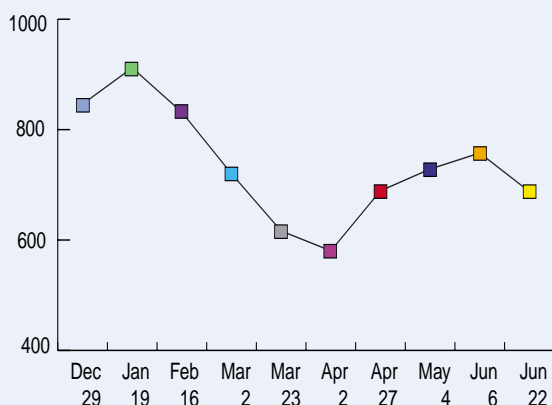
But the possibility does exist that Q2 and even Q3 reports might continue to downtrend. Why, then, should the patient be upgraded from critical to

serious? While not out of the woods yet, there is ample evidence of improving service provider and hence, OSS company vital signs.

The FCC released a May 21st report that shows a CLEC market that, contrary to the widely publicised reports of an 'industry meltdown', managed a 93 per cent growth in market share during 2000. CLECs now own 8.5 per cent of the approximately 194 million American telephone lines, compared to a 4.4 per cent market share reached in 1999. Leading the charge were New York, with a 20 per cent CLEC market share and Texas, with 12 per cent.

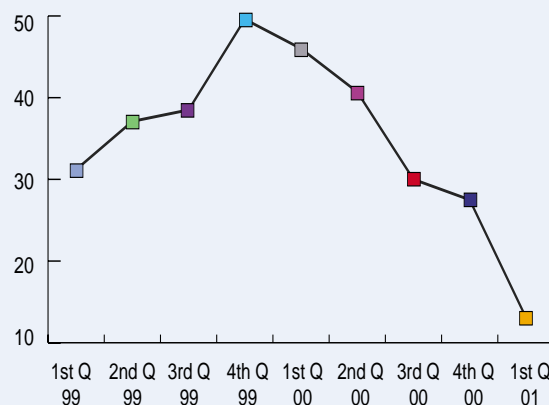
CLEC consolidation is really happening, portending →

Billing/OSS Industry Revenue Growth



Source: Sokoloff & Co

Index of Public Billing/OSS Stocks



Source: Sokoloff & Co

better industry health and a return to the capital markets. In early June, Cavalier Telephone acquired 50,000 line Conectiv Communications. Cavalier also successfully raised new private equity in March.

Strong CLECS are getting stronger. CLECs like McLeodUSA (MCLD) and Allegiance Telecom (ALGX) posted strong Q1 gains. McLeodUSA also successfully raised \$750 million of debentures in January.

Customer demand for new telecoms services continues to be encouraging. As an example, broadband Internet subscriber levels during Q1 continued at

about the same pace as Q4. A June 1st report from Kinetic Strategies estimates that, as of June 1st, 2001 there are 2,913,636 DSL subscribers and 6,450,916 Cable modem subscribers in the US. DSL is growing at a 77 per cent cagr (compound annual growth rate), compared to Cable's 61 per cent. As of June 1st, 118,941 new broadband subs are being added each week.

The Application Service Providers market is growing at an 89 per cent cagr. In early June, IDC issued a report that projects ASP revenues will grow from \$986 million in 2000 to \$24 billion in 2004. The report highlights Western Europe, where ASP cagr is expected to be 128 per

cent, growing from just \$93 million in 2000 to \$5.7 billion in 2005. The IPO window is opening a crack. While no new OSS IPOs have been announced, a few initial public offerings have hit the street during second quarter and enjoyed modest gains. Other public market activity, such as an oversubscribed \$1 billion bond raise (the target was just \$400 million) by Adelphia Communications and a \$750 million bond offering by Amdocs are also encouraging.

More than \$300 million of venture capital has been invested in over 20 OSS companies since the first of the

year through April. Gerard Klauer Mattison's May Crosstalk newsletter notes that, despite a 47 per cent decline in general VC investment in Q1, OSS is maintaining momentum. GKM cites successful raises at Apogee Networks, Trendium, Brix Networks, SMARTs, Eftia, Dorado Software and XACCT.

Strong service providers are reducing debt and adding customers. Their health is driven by a non-cyclical customer demand that appears independent to even economic recession. Can improved health among billing and OSS companies be far behind? ■

Index of public billing and OSS companies

Company	Ticker	-----Price \$-----		YTD % Change	52 Week High	Mkt Cap (000s)
		22 June 2001	29 Dec 2000			
Ace Comm	ACEC	1.43	2.31	-38.2%	10.5	13,197
Affiliated Comp Services	ACS	76.18	60.69	25.5%	77.68	3,828,578
ADC Telecom	ADCT	7.01	18.13	-61.3%	49	5,479,002
American Mgmt. Sys.	AMSY	19.92	19.81	0.5%	37	828,811
Alltel Corp.	AT	57.63	62.38	-7.6%	68.68	18,041,936
Astea International	ATEA	1.21	0.88	38.3%	3.37	17,933
Boston Comm.	BCGI	12.8	27.88	-54.1%	29.87	218,278
Converse Technology Inc	CMVT	57.81	108.63	-46.8%	124.75	9,907,882
CSG Systems	CSGS	55.56	46.94	18.4%	64.7	2,939,068
Cellular Tech Serv	CTSC	3.15	2.81	12.0%	11.37	7,220
Convergys Corp.	CVG	33.82	45.31	-25.4%	55.43	5,778,993
Daleen Technologies	DALN	1.2	4.00	-70.0%	20	26,138
AMDOCS Corp.	DOX	57.7	66.25	-12.9%	88.75	12,761,221
DSET Corporation	DSET	0.66	1.81	-63.6%	33.12	7,677
DST Systems	DST	53.9	67.00	-19.6%	74.93	6,608,625
Evolving Systems Inc	EVOL	5.72	2.16	165.3%	8.68	74,143
HNC Software, Inc.	HNCS	19.6	29.69	-34.0%	82.25	679,120
Illuminet Holdings	ILUM	28.26	22.94	23.2%	57.12	917,178
Lightbridge	LTBG	17.55	13.13	33.7%	27.5	505,563
MDSI Mobile Data Solutions Inc	MDSI	4.57	7.88	-42.0%	25.87	37,570
Mind CTI**	MNDO	2.35	6.69	-64.9%	13	47,273
MetaSolv Software	MSLV	8.16	9.13	-10.6%	55.5	291,638
Micromuse	MUSE	25.38	60.38	-58.0%	108.37	1,853,552
Portal Software Inc.	PRSF	3.75	7.88	-52.4%	73.5	643,763
Remedy Corp.	RMDY	32.15	16.56	94.1%	56.81	987,455
Siebel Systems	SEBL	42.26	67.63	-37.5%	119.87	19,149,696
TCSI	TCSI	1.03	1.38	-25.1%	2.25	23,900
Management Network	TMNG	6.15	11.88	-48.2%	40	181,825
T-Netix Inc.	TNTX	2.35	2.06	13.9%	5	30,498
TTI Team Telecom	TTIL	16.95	15.00	13.0%	40.37	169,364
Ulticom**	ULCM	29.25	34.06	-14.1%	63	1,195,857
Veramark Tech	VERA	1	0.63	60.0%	4.18	8,189
Vertel Corp.	VRTL	1.28	2.38	-46.1%	17.68	36,314
Total Index		687.74	846.22	-18.7%		

Highlighted stocks were up for the year as of June 22, 2001.
Source: Peter A. Sokoloff & Co.