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### It's time for 3Q08 results

**Cisco** was one of the first high-tech companies to forecast that second-quarter revenues will fall 5 to 10 percent compared with a year ago (Cisco's second quarter goes from November 08 to January 09). The environment has changed dramatically in the last two months, with the financial crisis in September and the economic crisis becoming more apparent on a global basis in October. Cisco has the majority of its business as non-recurring each quarter, and therefore is a good indicator of new spending patterns. Also, its balance across all major geographic areas, four major customer segments, and over two dozen product families had normally worked to its advantage. But when the slowdown has truly gone global across all of these industry segments, geographies and product families, even Cisco can't avoid to be impacted. An important indicator is the fact that in August, Cisco was seeing an order rate 7 percent higher than it had a year earlier, while by October, orders were down 9 percent from the previous year, a really negative swing.

Cisco's announcement has driven negative reactions on the telecommunication industry, for example **ALU** stock was down 10% on the day of Cisco's announcement. **ALU** had just announced few days before a net loss of €40 million in the third quarter (thus not including the October timeframe), and revenues at €4.0 billion, down 6.6 % YoY. The company's **Carrier segment** reported revenues of €2.7 billion, down 13% YoY, slowing twice as fast as ALU on the whole, while the **Service segment** reported a +12% YoY increase. Management said the company's full year 2008 revenues would be down by a low- to mid-single digit percentage from the previous year. As ALU results and forecast were not yet including the October timeframe, we expect a worse situation than the one forecasted.

For the same period, **Tellabs** reported a \$999 million third quarter net loss and revenues of \$424 million, down 7 percent from a year ago but in line with expectations. Tellabs managed a profit of \$19 million, or 5 cents per share, slightly better than analysts had expected. In line with Cisco, Tellabs says it's not expecting to see the usual seasonal **fourth quarter** increase in revenues, but it expects revenues to be around the same, or worse, than this quarter. Tellabs will cut 280 positions, (8% of its staff), and it will decrease investment in last mile access and concentrate on three main areas -- mobile backhaul, optical networking, and business services -- and invest more in its sales channels. Tellabs repeated that the company has no intention of selling the **access business** and it will make investments in enhancing the product lines albeit at a reduced rate, of course in the direction needed to support existing customers. Tellabs reported that **mobile backhaul** was one of the best performing segments where the company has now 81 paying customers on a global business for the 8600 platform

**Juniper** reported revenues of \$947 million and net income of \$148.5 million, or 27 cents per share, up from revenues of \$735 million and net income of \$85.1 million, or 15 cents per share one year ago. The boost in net income this year is the result of cost-cutting Juniper's gone through. Juniper also noted that the third quarter saw \$18 million in revenues from the new **EX line of Ethernet switches**, introduced in February, 2008. Bookings for the EX during the quarter more than doubled compared with the previous quarter, growing to more than \$20 million. In spite of those good results, Juniper anticipated fourth-quarter revenues of \$921 million to \$971 million **looks pessimistic** next to the consensus analyst forecast of \$967 million.

**Nortel** reported revenues of \$2.32 billion, down 14 % compared with a year ago; gross margin was 39.2 %, down from last year's 43 %. Nortel expects full-year revenues to be about 4 % **lower than last year**. Nortel announced it is cutting 1,300 jobs, and it also plans to relocate about 200 additional jobs from higher-cost to lower-cost locations. These cuts are in addition to 1,200 jobs that are still to be

made redundant from Nortel's previous round of cuts announced last February. No updates on LTE/4G plans were given, and **Nortel capitalization is down to \$515 million in the day of the announcement (10 November)**, leading to increasing rumors concerning its potential buyer (Ericsson and Huawei are first on the list). We estimate that full year results will be much worse than forecasted, because the entire fourth quarter will be impacted by the announcement done in September concerning the sale of the Optical and carrier Ethernet product lines. Most of the revenues for this past quarter were already "locked in."

On the **operators' side** some positive news, as growth in wireless and FiOS support a very good quarter for **Verizon**. Revenue was up 4.1 percent YoY to US\$24.8 billion, net income reached 31.3% to \$1.7 billion, and earnings per share jumped 34.1% to 59 cents. Verizon Business was very positive thanks to strong performance in IP, managed services, Ethernet and optical ring services. CapEx was down by more than US\$200 million over last year's Q3, to US\$12.6 billion for the first nine months of the year. The strongest activities continue to be Verizon Wireless and the FiOS FTTH initiative. As for FiOS, the RBOC's TV business has more than doubled, making Verizon the ninth biggest video programming business in the country. Verizon is aware that those results will be difficult to repeat for the next quarter, due to the economical downturn. The company will continue to invest in key technologies as appropriate, but recognize that the economic downturn will likely make for a reduced spending quarter, even with the usual bump around Christmas time. Verizon expects to reduce its CapEx spend for the remainder of this year and possibly beyond.

Good results also from China, where **ZTE** reported revenues of 10.6 billion Yuan Renminbi (US\$1.55 billion), up 29 percent compared with a year earlier. This growth comes from increasing demand for GSM infrastructure, optical gear and mobile handsets. The vendor is hoping to a strong fourth quarter too as the Chinese carriers begin a significant upgrade and extension of their mobile networks following the recent industry reorganization. Unconfirmed reports coming from

China allude that ZTE has landed a significant portion of China Telecommunications' initial CDMA infrastructure contracts. ZTE's situation is less positive in Western Europe, where Telnor has excluded Chinese vendor from any business opportunities for six months because of a breach of the carrier's code of conduct.