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Tellabs looks for growth internationally - and finds some.

Tellabs' second-quarter 2008 revenues totaled \$432 million, down 19% from \$535 million in the second quarter of 2007. Tellabs has faced strong competitive pressures to its incumbent position in Verizon from both **Fujitsu** and **Ciena**, and also faces issues of customer breadth and being more North American focused than it would like. Tellabs is seeking greater customer diversification and **international revenues**, which it has started to achieve - International revenue increased 20% over the same quarter a year ago, rising to \$145 million.

Tellabs' new CEO is driving development of a new strategy that will be revealed later this year, but the first step not surprisingly involves reducing the dependence on North American customers by focusing on emerging countries such as Eastern Europe, India, and Malaysia, either directly or through partners such as Ericsson, Harris Stratex and Nokia Siemens Network. But Ericsson's acquisition of Redback potentially reduces the degree of non-competitiveness in the Tellabs/Ericsson relationship over time.

There is a lot of international expansion by U.S.-based companies these days - thanks to the competitiveness that the weakness of the dollar gives them, and due to increasing competitive pressure in North America. Major players based in Europe in particular have been delayed from achieving greater penetration in North America by exchange rates. But many are starting to think that the U.S. dollar has finally bottomed, and are making increasing strategic moves to increase presence with greater portfolio in this market now.

Tellabs is still a strong player in **mobile backhaul** with the 8600 series in particular, as the longevity of E1/T1 and ATM along with the growing emphasis on Ethernet are keeping opportunities for pseudowire strong. Tellabs has also a

growing emphasis and solution for Ethernet services, and is using this as a basis for driving international expansion with the 6300 and 8600 platforms.

For its backhaul solution, Tellabs has a broad portfolio of TDM, L2 and PWE3, Multiservice Router and NTU platforms in its portfolio for ETSI territory - and all but TDM and the NTUs for ANSI regions. It has a broad presence in mobile operators, and has scored more early proof points for its 8600 series and in-house developed PWE3 technology than have direct Tier 1 competitors.

On the other hand, Tellabs' transport business is slowing down, and the 5500 digital cross-connect that has been a big driver of sales in the North American wireless market has seen decreasing investment from many carriers, contributing to a drop in Tellabs' Transport division's sales of 37 percent year-on-year. The company did report some success with its 7100 ROADM, including some international wins.

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