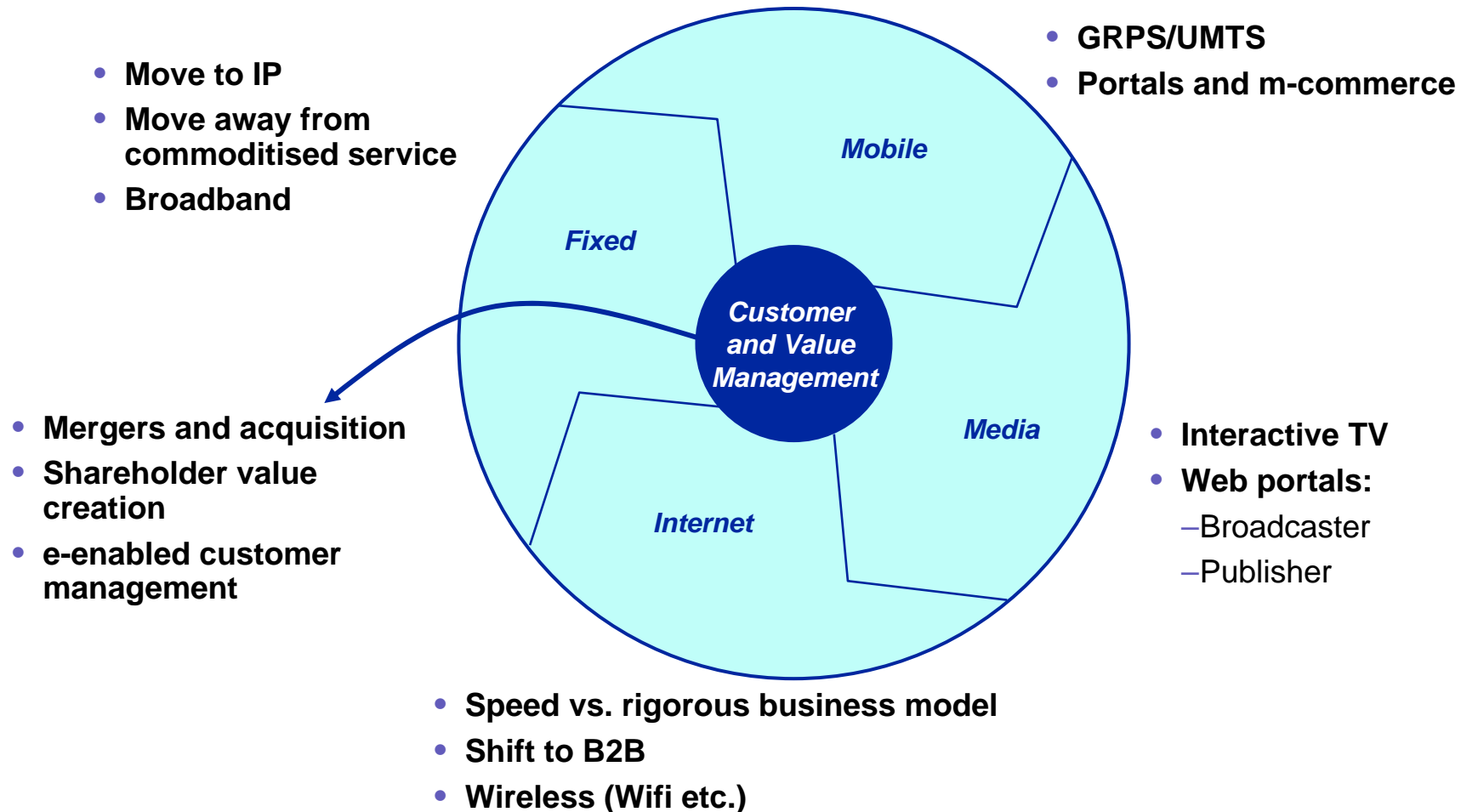


Understanding shareholder value creation in IT, Telecom and Media

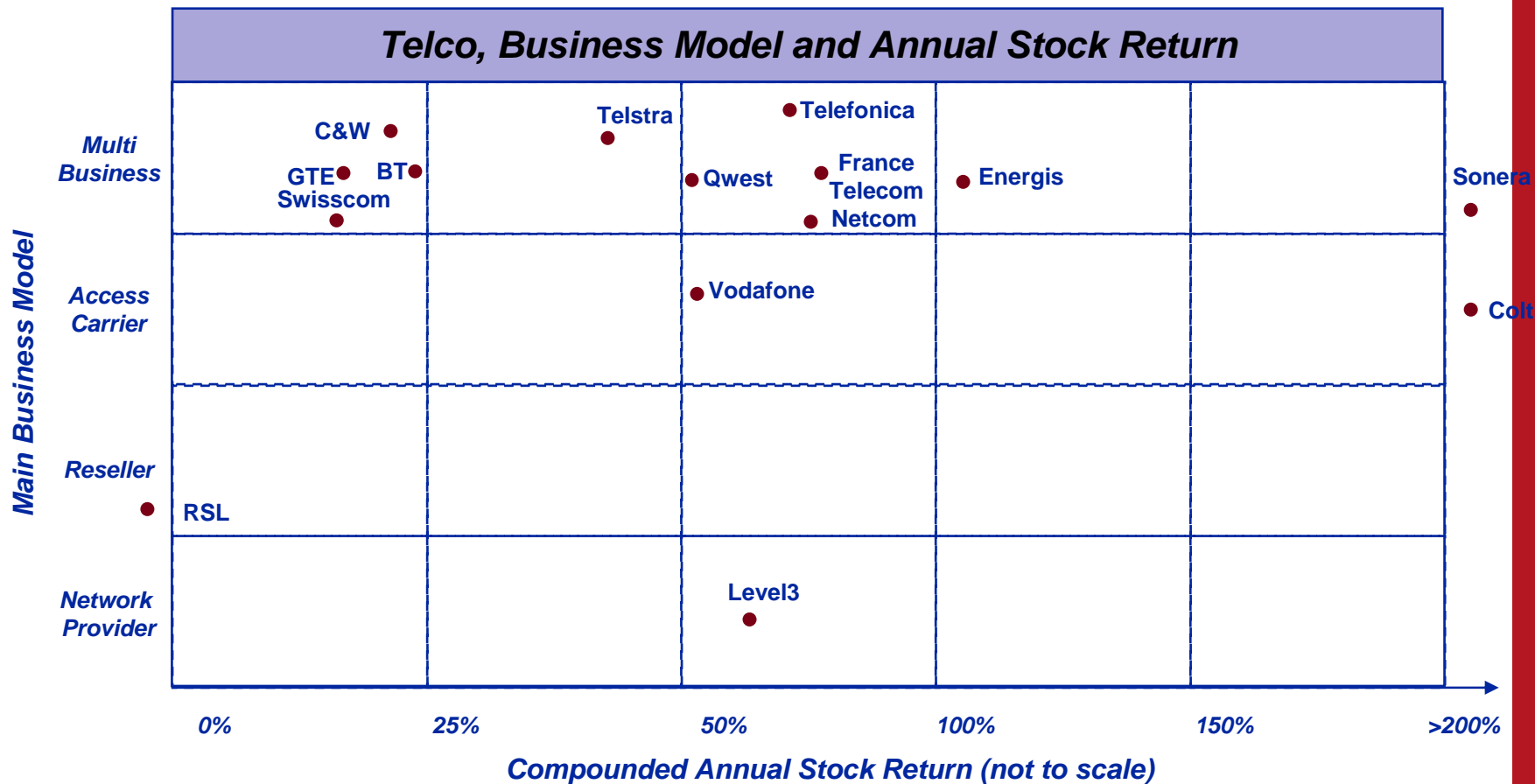
EHRHARDT & EHRHARDT

Key trends are driving major changes in the Telco and Media sector

Recent Key Trends



There is no “killer” business model that will guarantee high stock returns

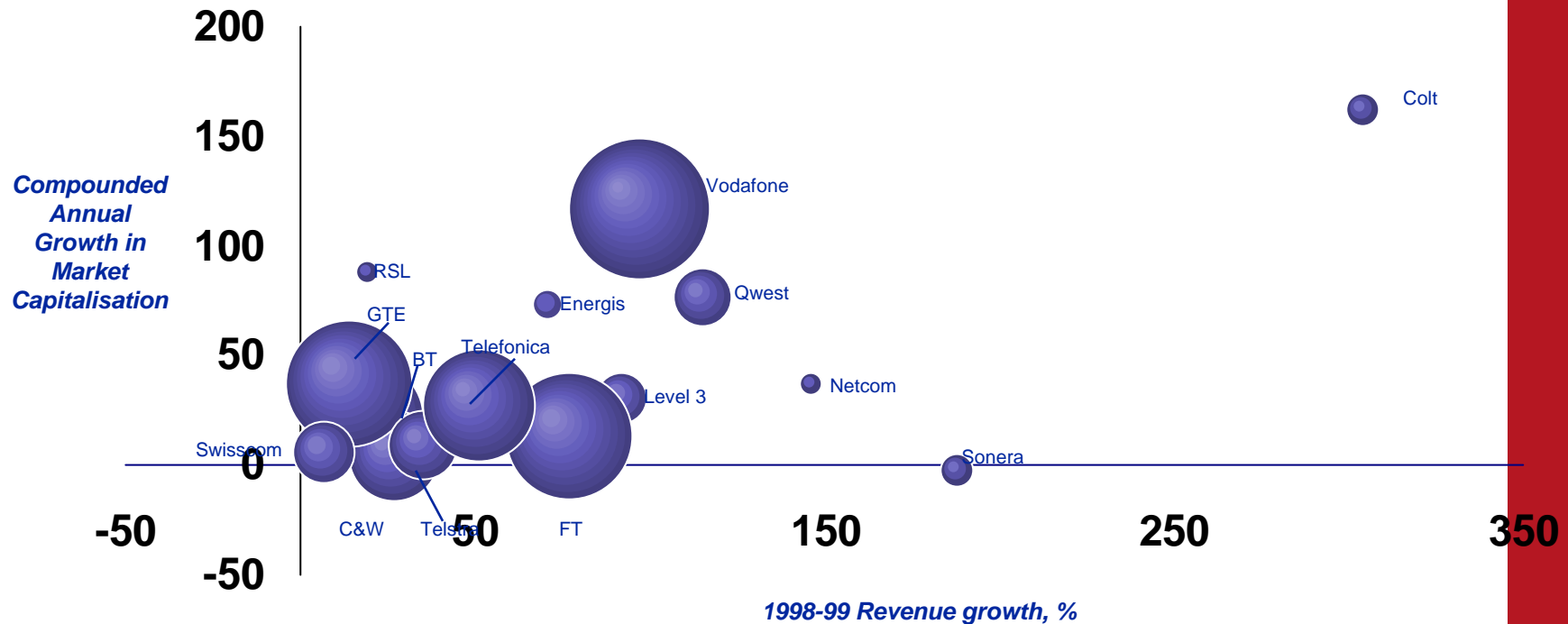


There are winners and losers at each area of the value chain.

Source: Worldscope, 2000.

There is no direct correlation between revenue growth and market capitalisation

*1998-99 Revenue Growth and Average Change in Market Capitalisation
(ball size = 1999 Book Value)*



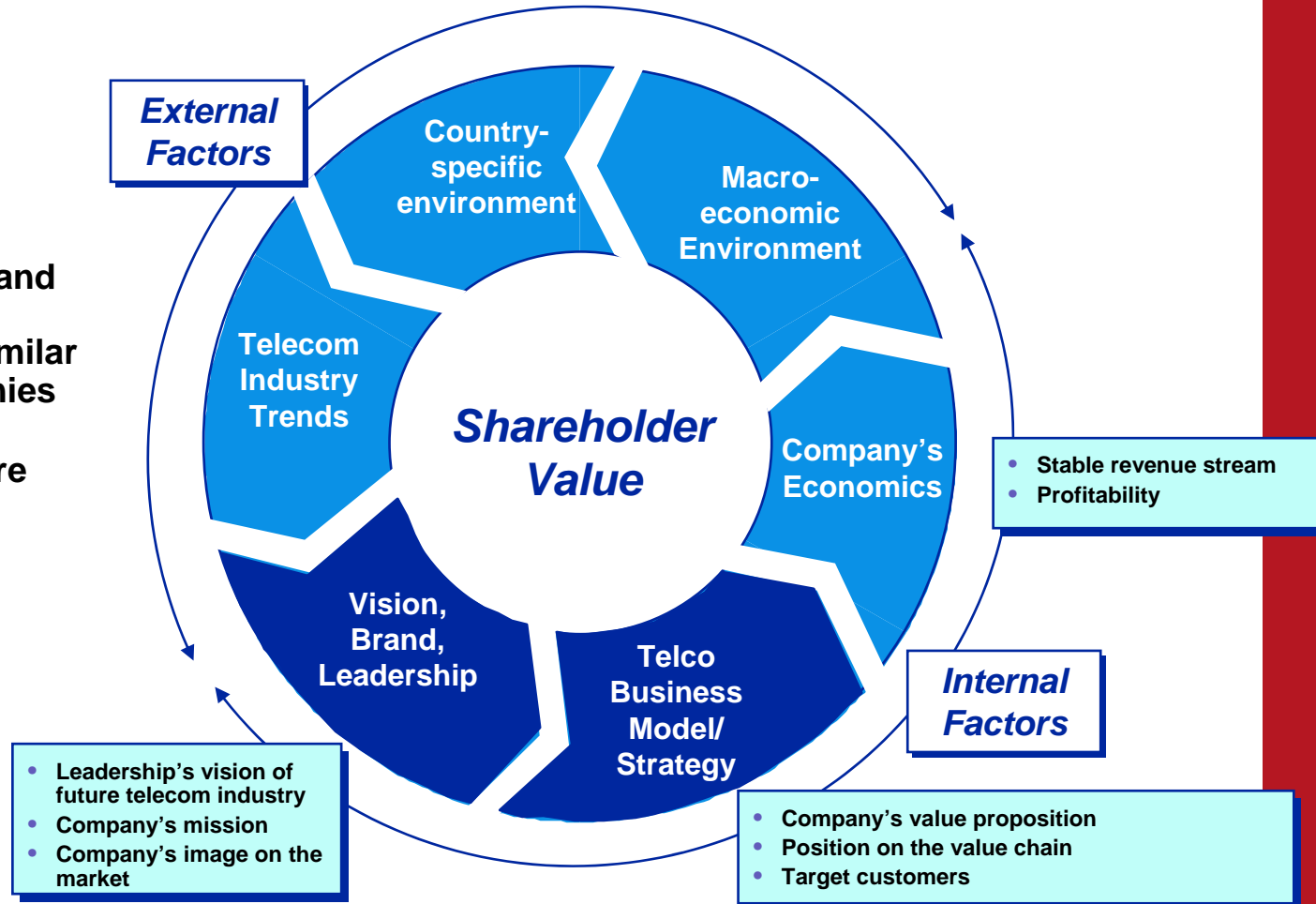
Market value is little related to the size of revenues or past revenue growth.

Source: Datastream 2000; Worldscope, 2000.



We identified several internal and external factors that determine shareholder value creation

- Macro-economic and country-specific environment is similar for the 15 companies
- Telecom trends are common to all 15 companies

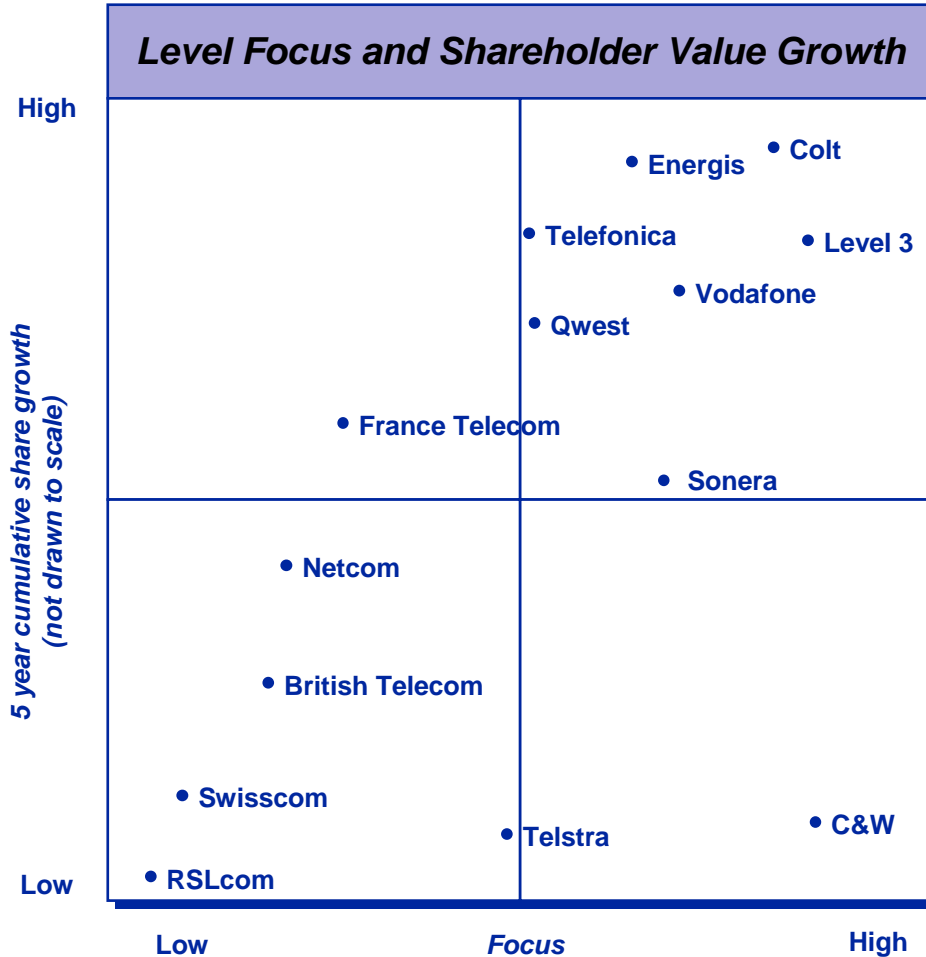


We will focus on the areas of strategy and vision.

The five shareholders value drivers are supported by the following examples

<i>Drivers</i>	<i>Description</i>	<i>Examples</i>
Focused strategy	<ul style="list-style-type: none"> • Focusing on the specific strength • Single positioning on the value chain • Targeting specific customer segment • Avoiding over-diversification • Reaching competitive advantage in the area of focus 	<ul style="list-style-type: none"> • Level 3's focus on network provisioning • Colt's focus on large business segment • Sonera's focus on m-commerce and wireless Internet
Differentiation innovation	<ul style="list-style-type: none"> • Going into new areas of business • Adopting unique business model • Taking risk 	<ul style="list-style-type: none"> • Sonera's re-branding • Colt's fiber rings • Vodafone's global mobile portal strategy
Business vs customer market	<ul style="list-style-type: none"> • Shift of focus from retail customers to the business segment 	<ul style="list-style-type: none"> • Qwest's refocusing on the business segment • Energis' targeting the SME segment
Moving-up the value chain	<ul style="list-style-type: none"> • Moving into value-added business areas: <ul style="list-style-type: none"> – Without abandoning initial position on the value chain • Acquiring new product expertise 	<ul style="list-style-type: none"> • Sonera's shift to wireless Internet • Energis' development of datacoms and web hosting appreciations
Growth by strategic acquisition alliances	<ul style="list-style-type: none"> • Buy-rather-than-build strategy • Expand horizontally/vertically through acquisitions • Ability to synergise between multiple acquisitions 	<ul style="list-style-type: none"> • Vodafone's multiple acquisitions of cellular companies • France telecom's purchase of Orange

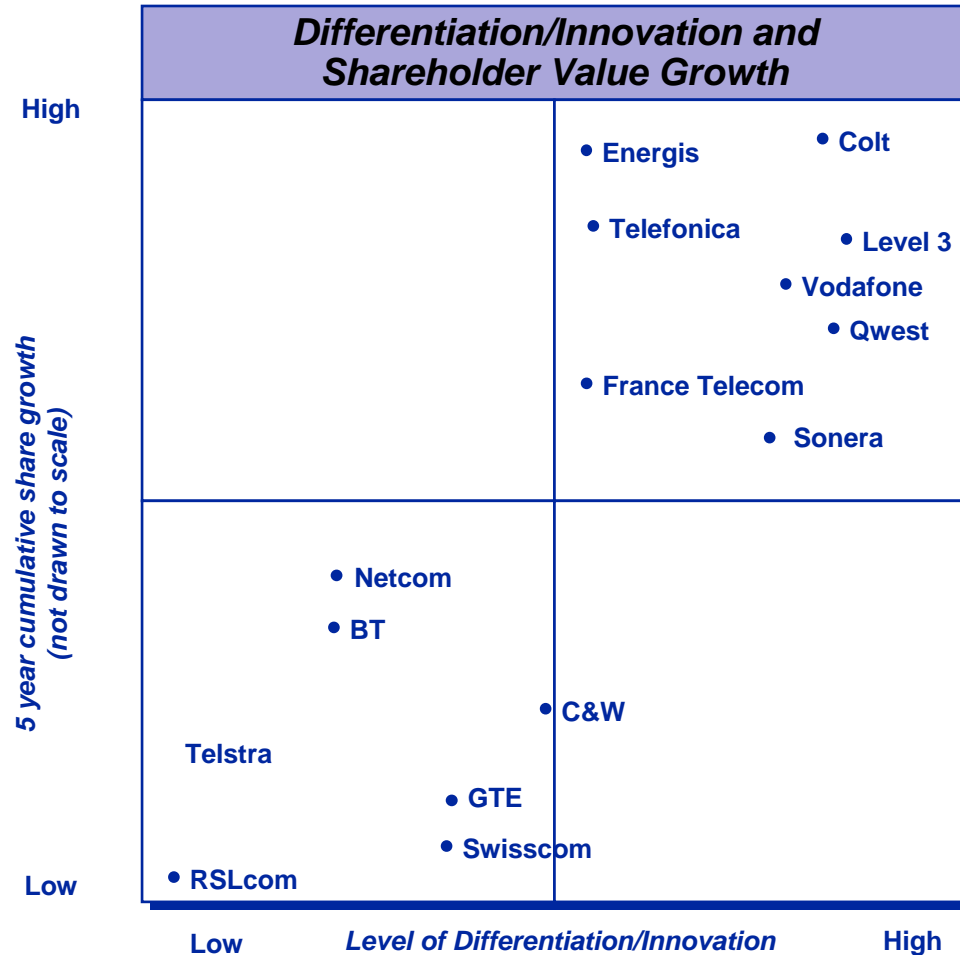
There is a strong relationship between focus and shareholder value



- **Most out-performers are highly focused companies.**
- **Diversification does not add shareholder value:**
 - Shareholders can diversify their portfolios themselves by mixing different stocks.
- **Companies achieve competitive advantage by focusing on their key strengths.**
- **Focus can be horizontal or vertical:**
 - Horizontal: taking single position on the value chain.
 - Vertical: targeting single customer segment with a range of products.
- **For diversified companies, focus can be improved by structuring the organisation by line of business rather than geography.**

Focus is the most important driver of shareholder value growth.

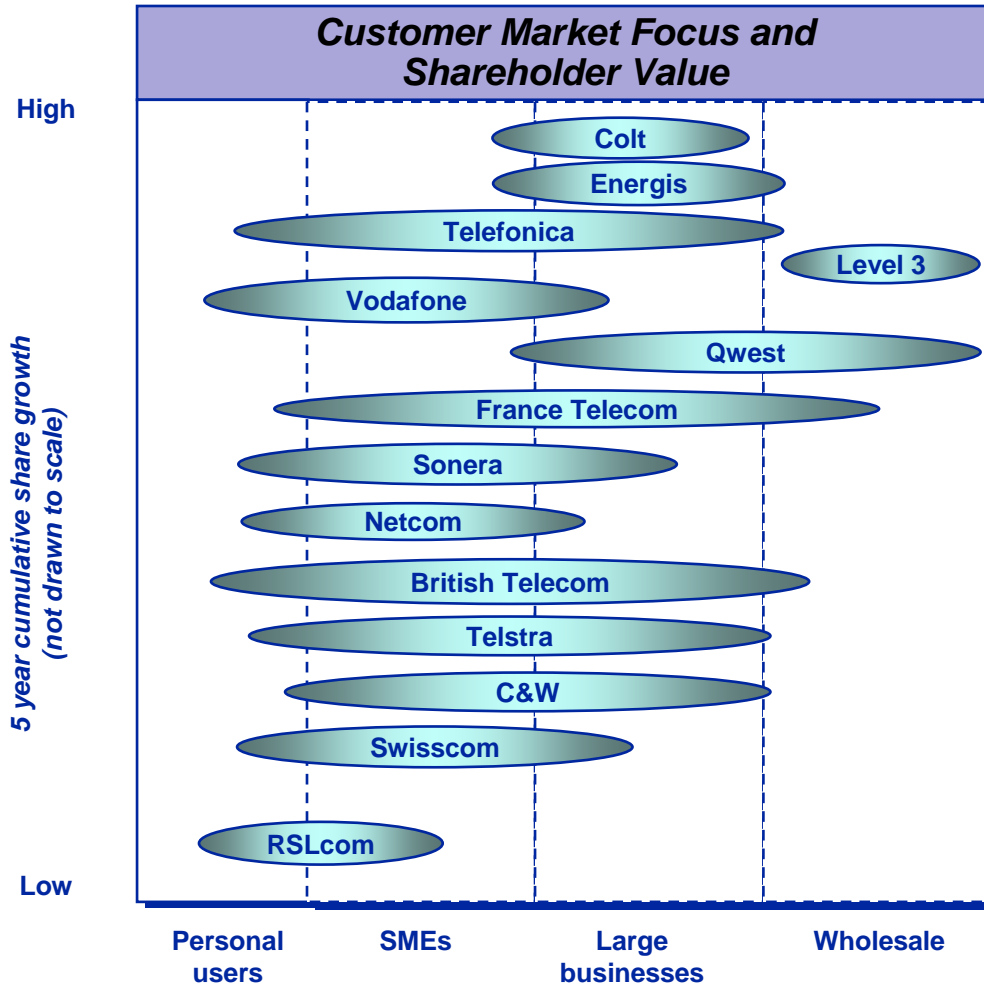
Differentiation and innovation means taking risks, but adds value



- **New generation companies (Energis, Level 3, Qwest etc) are forced to differentiate to be successful.**
- **Innovation usually means being first-to-market:**
 - Qwest: Cyber Centres
 - Sonera: Sonera Zed
 - Level 3: high capacity European backbone
- **Incumbents are less likely to shift from the old diversified model:**
 - Because innovation means higher risk
- **Innovation and differentiation are risky, but risk means higher stock value.**

Highly innovative/differentiated companies are rewarded with higher shareholder value growth.

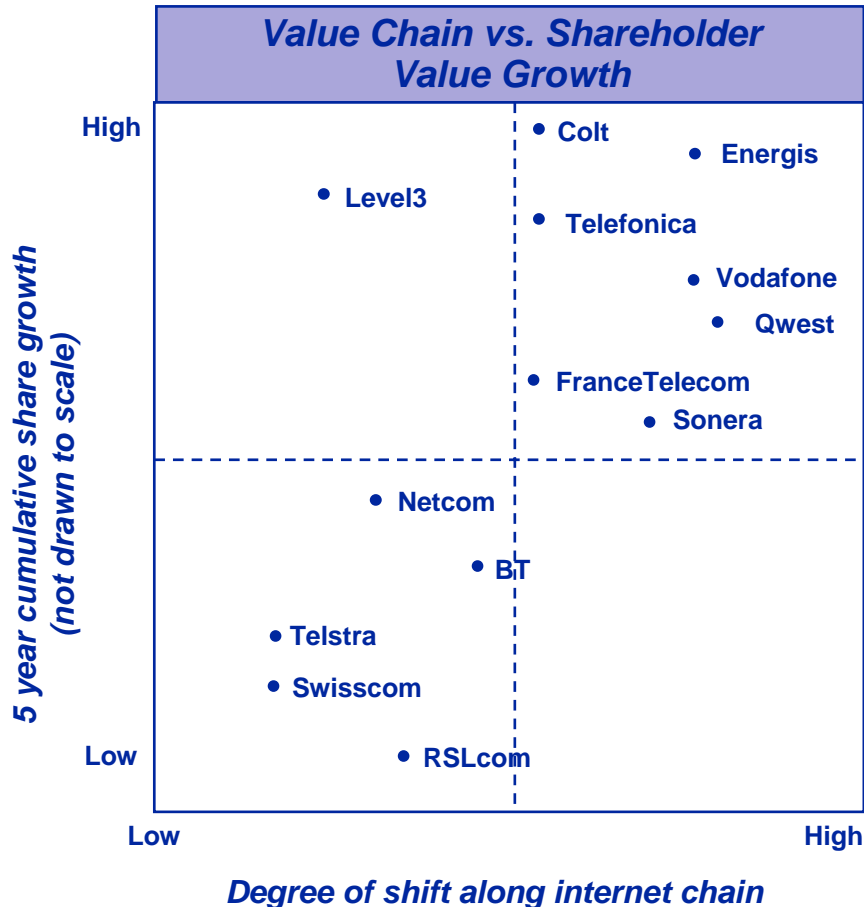
Companies with a business focus tend to have high stock returns



- Focusing on the business segment has a number of advantages:**
 - Higher revenue per customer
 - Lower costs (marketing, customer care, etc)
 - Lower churn
 - Business users are major users of value-added services
- Most of the new generation companies are business focused:**
 - Incumbents are required to provide Universal service to all customer segments
- Focusing on the business segment requires constant development of capacity and innovation.**

The market rewards telcos focusing on the business segment.

Moving into value internet applications is favoured the market



- **Moving up internet value chain implies:**

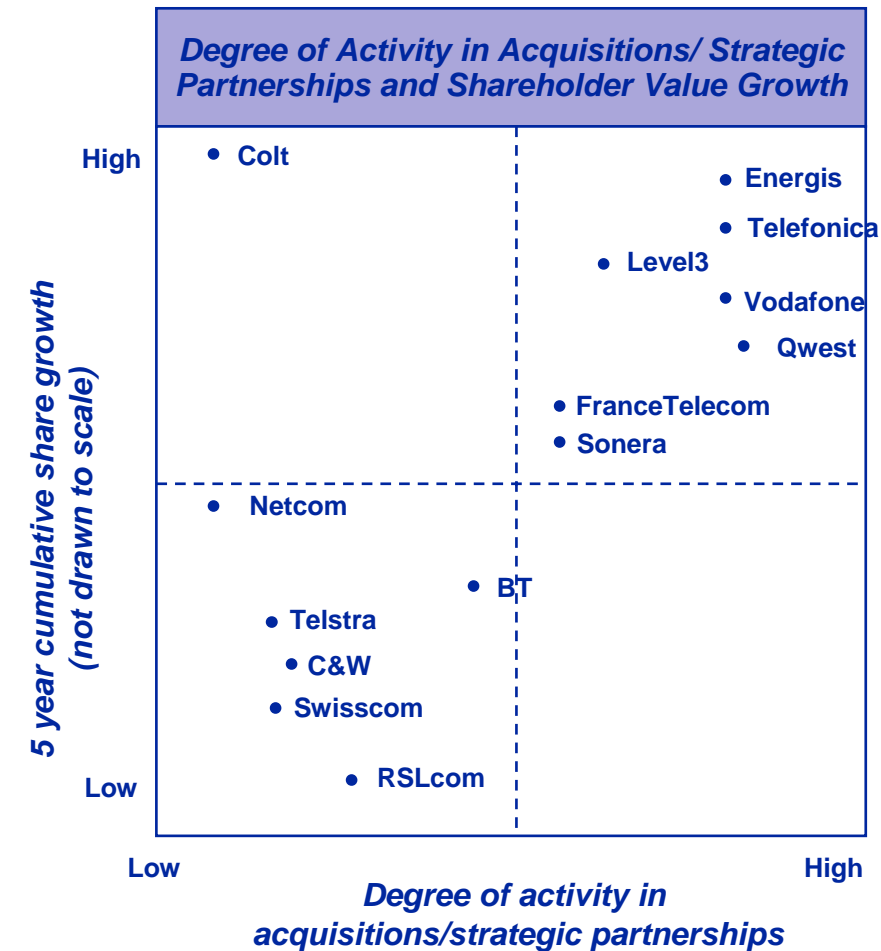
- Developing new IP applications:
 - Web hosting
 - ASP
 - e-commerce
 - Portals
- Focusing on:
 - Applications
 - Content

- **However, this does not mean abandoning:**

- Network services
- Voice telephony

The winners are those telcos that realised importance of IP and became early movers to provide new internet products.

Acquisitions and strategic partnerships are necessary to develop expertise in new areas or to increase market share



- Most “winners” use acquisition/partnership strategies to acquire Internet expertise
- However some companies use acquisitions to expand horizontally:
 - Vodafone
 - Telefonica
- Strategic partnerships are necessary to:
 - Reach global presence:
 - Example; BT & AT&T
 - Develop new internet products:
 - Example; QWEST and IBM agreement on development of Cyber centres
- It is challenging to make acquisition work:
 - However, lack of acquisition activity may be perceived as stagnation

Acquisitions and partnership must deliver synergies in order to be recognised by the market.

The most successful companies use a combination of shareholder value growth drivers

Company	5-year return	Focus	Differentiation	Business vs consumer	Moving up value chain	Growth by strategic Acquisition/Alliances	Overall Score
Colt (1)	2,782% (Since Dec-96)	●	●	●	◐	◐	◐
Energis (2)	1,148% (Since Dec-97)	◐	◐	◐	●	●	◐
Telefonica (3)	786% (Since Apr-95)	◐	◐	◐	◐	●	◐
Level 3 (4)	772% (Since Nov-97)	●	◐	●	○	◐	◐
Vodafone (5)	651% (Since Apr-95)	◐	◐	◐	●	●	◐
Qwest (6)	458% (Since Jul-97)	◐	●	◐	●	●	◐
France Telecom (7)	412% (Since Oct-97)	◐	◐	◐	◐	◐	◐
Sonera (8)	385% (Since Oct-98)	◐	◐	◐	◐	◐	◐
NetCom (9)	383% (Since Jan-97)	◐	◐	◐	◐	◐	◐
British Telecom (10)	196% (Since Apr-95)	◐	◐	◐	◐	◐	◐
Telstra (11)	166% (Since Nov-97)	◐	○	○	◐	◐	◐
Cable & Wireless (12)	166% (Since Apr-95)	●	◐	◐	◐	◐	◐
GTE (13)	101% (Since Apr-95)	○	◐	◐	◐	◐	◐
Swisscom (14)	32% (Since Oct-99)	◐	◐	○	◐	◐	◐
RSLcom (15)	-59%% (Since Oct-97)	○	○	◐	◐	◐	◐

In summary, focus is the most important shareholder value growth driver

- **We find that focus is the most important strategy used to improve shareholder value:**
 - Most outperformers are highly focused companies.
 - Most “improvers” use focus as a lever to increase credibility on the stock market.
 - Most underperformers are highly fragmented companies missing synergies between their business units.
 - Focus is an easy strategy to communicate to the market.
 - Focused strategy helps small companies (with little financial capacity) to grow business in their market niche:
 - Achieve competitive advantage.
 - Nevertheless focus requires clear vision and ability to undertake fundamental reorganisation.
- **Differentiation and innovation involve high risk and are not always achievable.**
- **Business customer segment is higher-margin, lower churn, and usually early adopter of innovations.**
- **Moving up value chain helps achieve competitive position and sustain growth.**
- **Growth by strategic alliances allows to acquire new expertise or increase market share.**

We found that these strategies were favoured by the market and helped/enhance shareholder value.