

Speech

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Submarine cables: Growth Strategies for 2006 and beyond

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By the end of the week we will all have seen more PowerPoint slideshows than we will be able to remember. In a bid that you remember some of what I have to say I am sparing you the slides!! So my slightly amusing but entirely true, bitter sweet story...

Probably 10 years ago I was making a presentation to a large UK based serviced office provider; they managed office space in almost every major UK city.

My company provided outsourced IT and communications services. A colleague of mine at the time led the presentation and opened with the line, "Gentlemen, I apologise but this is going to be a bit 'death by PowerPoint' but stick with it please."

Well he didn't disappoint and some 160 slides and 3 hours later we were done and we left relatively exhausted.

Later that afternoon I gave the CTO, the primary client contact, a call and was promptly put through to his executive assistant. I was advised that Mr Smith (name changed to protect the innocent) could not take my call because he was dead. What transpired is that he left our morning meeting, returned to his office and immediately died. So the pen may be mightier than the sword but perhaps not so mighty as the slide.

Before I get into the subject of my paper I am going to ask you to indulge me a little. I would like to frame it... I would like to put it into context.... Future growth strategies is after all a big subject and one that I will only touch on... but if we are to consider growth we should first contemplate what has already grown.

15 years ago when commercial use of the INTERNET was in its infancy, who could have possibly imagined how crucial it would become to success, growth, change and consolidation in almost every market sector? I remember a few years ago hearing Larry Ellison open a

conference saying, "where once IT and communications supported our business; today they have actually become our business."

Without the ability to communicate effortlessly and process information electronically we can not be competitive or even operate." 30 years ago few spoke of IT or communications strategy but now even the smallest companies' need a strategy.

IP – it's really quite innocuous... however it is impossible to overstate how crucial Internet Protocol has been in the development we now euphemistically refer to as CONVERGENCE. The ubiquity of IP has assured us all that we are not struggling with a modern day 'Tower of Babel'.... What chance would applications developers have if it were not for the foresight of those early pioneers... we are truly standing on the shoulders of giants.

Telecommunications networks the world over integrate completely and elegantly and give us the ability to communicate in any language, at any time... the Internet makes no judgment that we choose audio, video or text or that we establish a secure one to one exchange or an open broadcast to many millions... the Internet and the more importantly the networks that support the very same just gets on with the job to the point where most of us rarely even consider the complex fabric of technology and fiber that makes any of this Global reach possible.

An important part of this Global communications technology is one that binds us all together this week. All of us here are at one level or another; competing, collaborating, supporting or being supported in the murky world of submarine cable technology. Having said this we continue to cooperate with each other knowing for sure that the day we decide to go it alone we become the building contractor arriving in Babel speaking a different language and I am sure you will excuse the pun but in that scenario our businesses would fast become 'persona non gratis'.

Having said this it remains important that we innovate and the very nature of innovation means moving outside the existing confines of the industry at one level or another. So as we develop new technologies, services and even processes, we have to do this with the participation or cooperation of our clients and partners.

In the world of submarine cables we have the rare luxury of operating in a world of business certainty. There are few of these, we are likely to always need banks however the art of cashing a cheque now has a ring of nostalgia; air travel is assured, granted audio and video conferencing have made a great contribution to modern business but this very meeting is a testament to the importance that we establish and maintain personal relationships and submarine fibre optic technology ... physics has measured and some greater being has elected that, at least for today, we can communicate at the speed of light and no faster. Satellite communications with it's 52,600 mile round trip just takes too long for even a satisfactory telephone conversation. The cost is astronomical and capacity will always be outstripped by demand. Certainly there are applications where it is the only solution but they are becoming fewer and farther between. So long as we intend to communicate over any distance It all ultimately comes down to fibre and if we intend to do so on an intercontinental basis it comes down to submarine fibre optics and technology.

So eventually, the subject of my paper, **Submarine cables; growth strategies for 2006 and beyond.**

During the presentation I will discuss the shift to IP and the opportunities for those involved in the planning, funding, installation and maintenance of submarine cables, concentrating on three areas:

1. Emerging Business Models
2. Innovative Partnering and Alliance Building
3. Aligning Operations to Current Markets

With the continued emergence of IP applications and the resulting demand for capacity and physical reach, growth opportunities are available for those companies who can blend operating realities with innovation. For example, there is increasing demand in the regional networking space ... this isn't news, nor is it proven but it is probable.

Business models have to be created, my own belief is that at least in some instances we can find success in what power companies have long since referred to as a 'build, operate, transfer' strategy. A consortium of cable manufacturers, technology partners, funding organisations and cable ship operators could collaborate to install regional network systems.

These partnerships or Joint Ventures would manage organisations that operate these networks probably for a period of years, proving their commercial viability, before ultimately transferring the entire business to a telecommunications company. I truly believe that through this type of initiative the opportunity for massive top and bottom line growth, improvements in asset utilisation, combined with prospect to bring 21st century services to developing areas of the world is within our grasp.

However the ability to purposely pursue this type of opportunity relies upon a willingness to change. Without change none of it is possible.

Top line growth is an intentional and driven activity, if you think way back to 2002, how many of you would have believed then that within 3 years you would be buying much of your music from Apple computer? In the last 12 months Apple has more than doubled its capital value. Consider that. This outcome is no accident and the mainstream music industry is still reeling from the transformation. Apple took a position on market leadership.

Closer to home, the days when Submarine cable related business could rely upon an unceasing flow of demand from well heeled, global telecommunications providers are behind us, at least for the time being. Innovative business development strategies are of the utmost importance to an industry which is being irrevocably altered by the migration away from proprietary telephony networks and the increasing liberalisation of laws governing the communications both locally and internationally.

The submarine cable industry has often been accused as being too reactionary, suffering from a lack of innovative spark. I believe that this should no longer be the case. With a number of new entrants into global markets, consumers on a global scale are being introduced to a level of communication choices never before imagined. Subsea engineering providers who are engaged in the business of these emerging markets stand to realize significant growth.

Here are two examples of emerging business models which we think are worth looking at a **fresh look at the Maintenance Market**. Some of the biggest change in business happens not in new markets at all, but in the transformation of mature markets. The dynamics of the subsea cable maintenance market is a great example of this. For years the model has been to have vessels standing by around the clock anticipating an emergency which may never

come, but if it does, it will be one which has the potential to result in disastrous consequences for the cable owner.

Therefore, just like a fire station, the high cost of delivering this service, borne by the telecommunications provider or consortium of owners has been worth the cost as a hedge against some type of problem.

The consolidation we are all seeing in the market is a direct consequence of under utilised assets. In fact, as recently as 2004 there were 80 cable ships around the world involved in the undersea telecommunications business. Today I think it is down to 45. For the industry, at least at a holistic level, it is a good thing.

Think about it, 18 months ago the cable ship operators, in a declining cable installation market, needed to extract a disproportionate share of the funds from maintenance contracts to keep 80 cable ships in business, today they only need to do it for 45. I am being simplistic but this basic analysis would I am sure stand up to a deeper scrutiny.

Despite some pockets of growth for the traditional model, we believe that this consolidation is a trend which will continue until we are down to 30 something ships.

Now before I get into this much further, it is important for me to note that the change I am describing is something which has been whispered about for years; however the potential consequences for our little segment of the industry are so disconcerting that it is almost considered poor form to bring the topic up in polite company.

I believe, very passionately that part of being an industry leader is to be constantly looking for ways to improve both the quality and efficiency of the services which we provide to our customers. At risk of stating the obvious, I believe that there has been a distinct lack of this type of customer centric innovation for years in our industry. If we, as installers and maintainers of subsea systems intend on thriving well into the future, we must provide our customers with the services that align to their business priorities. That said, I'll get off my soapbox and get back to emerging markets.

As I mentioned, the maintenance model has evolved little throughout the years. However current industry dynamics demand a fresh approach and I believe that this presents us with

a real opportunity to meet our customers where they are at!! Specifically, it is important to note that as networks and inter-telecommunications relationships mature they become increasingly interested in and are able to find ways to route valuable traffic during some type of outage. This has long been the case in terrestrial networking and is now well established via sub-optic.

As a cable ship operator I can tell you that the cost of maintaining a stand-by fleet is by far the most substantial P&L item we have to manage, a cost we ultimately pass down to our customers. Certainly there are possibilities for operating these vessels for interruptible installation or survey work but the flexibility offered is so restrictive that there are few applications.

At the most basic level, offering some customers an incentive not to make a call on a cable repair or shunt until there are two or three that can be repaired in one sailing is something Global Marine is already doing. If we could combine this with a restoration product it would give us a fleet diversity and ship availability that to date we have not had.

Releasing these assets will ultimately drive down the cost of maintenance. The fact that such a shift would inevitably accelerate the consolidation in our market is something which we believe is a necessary and healthy sign for the stability and viability of subsea cable service providers.

Over the years myself and my colleagues at Bridgehouse have a pretty good track record in identifying purchase and consolidation opportunities ... we have made a success of these businesses by considering the service from a customer point of view. And I always consider the obvious ... if we don't innovate someone else will.

My second emerging business model is **Regional Networking**. I have already referred to Regional Networking, now long since predicted however the economics are beginning to stack up. To this end in December Global Marine completed the purchase of the assets and intellectual property previously owned by Redsky Systems. We are delighted to have rescued this fantastic technology from what would otherwise have been a less than certain future. This decision to purchase was largely based on our confidence that opportunities in

the regional network sector are set for significant growth. Much like with the Universal Joint initiative and I believe few could argue that this did not generally benefit the industry, we intend to test the appetite for Universal Optical Technology standards specifically in relation to smaller repeated network opportunities.

Through Regional Networks, geographies like the Pacific Islands and the Caribbean are now able to use this as a major negotiating asset when looking to bring themselves cost effective, full service communications.

The ability for a company like Global Marine to deliver the services necessary to support these types of market shifts is unlikely to be a go-it-alone strategy. Our success, in fact the success of our industry hinges on our ability to partner effectively to design and deliver new services. This brings me to my next point ... **Innovative Partnering and Alliance Building**. Long gone are the 'if you build it they will come' Field of Dreams policies'... projects only get funded when they make business sense and are increasingly capitalised by entities other than large telecommunications companies.

More than ever project profitability hinges on smooth partnering between numerous vendors with complimentary services or products. In fact, for a business to fully address Global opportunities companies need lots of good friends. But being a good partner is not an easy thing. Simply put, most partnerships yield very little in terms of additional revenue. By truly turning yourself into a partner and alliance friendly company you are becoming an exception to the rule.

Examples of the types of behaviors we see as core to successful partnering in 2006 are:

- Innovative services that are easy for customers to understand
- Powerful and well articulated combined value propositions
- Open and consistent activity reporting

Without a sophisticated partnering and Alliance programme your ability to attract new business will be limited by your own resources and your appetite for the risk associated with capitalising and staffing that type of expansion.

I am proud to say that we are involved in several successful partnerships that yield real profits, of particular note we have a Shanghai based Joint Venture company with China Telecom called SBSS and a Japanese Joint Venture company with NTT, NTTWE Marine. It takes a great deal of effort in maintaining these companies but through maintaining close relations, permanent and temporary staff secondment programmes and making them our partner of choice, wherever possible, in the region the returns are well worth the investment made

Addressing emerging markets, and being a core contributor in several profitable partnerships or ventures is good bread and butter top-line growth planning.

My last point ... **Aligning Operations to Current Markets**. Despite the emerging opportunities with the migration from traditional telephony to converged IP networks, many companies remain focused on addressing a market that has long since ceased to exist. However unpleasant or radical – the alignment of operations costs, processes, skills and technology with current market realities is mandatory if companies like Global Marine are to remain viable.

Simply put, the markets have shifted; the economics in 2006 are nothing like a few years ago. Things such as total asset utilisation, contract profitability, IT expenditure, go-to-market investment must all be geared to the newness of a converged networking environment.

Large multinational corporations have been improving communication services for their employees while slashing and combining total telecomm and networking spend for years now, yet much of the telecom industry has yet to make this shift. Yes, there have been vast numbers of layoffs and downsizing – but the casualty has been innovation.

As they say, you can't cut your way to greatness. Half of a big company is a very different situation than a big company which has decided to go through the process of aligning its operational costs to the current market realities – emerging undoubtedly smaller, but functional, able to sustain itself and grow in a way that is realistically aligned with market potential.

As many of you know, the ownership team at Global Marine is new to this industry although it has made and retains substantial investments in the managed service and data centre arena both in Europe and the US. Over the past year we have worked our way through the difficult decisions necessary to put Global Marine on a solid footing for the future. I can assure you that we have done just this ...it is what we do.

Whether we have made the right changes to the business remains to be seen, however one thing we can be sure of as we head into 2006, without the time and attention paid to operational alignment, you will not be able to participate profitably in the emerging markets that surround us.

The submarine cable industry has often been accused as being too reactionary, suffering from a lack of innovative spark. We believe that need not be the case. With the shift to converged IP networks in full swing exciting new products and services are being introduced. This has brought choice to individuals and businesses that never before could have been imagined.

So we are certainly focusing these three key areas:

1. Emerging Business Models
2. Innovative Partnering and Alliance Building
3. Aligning Operations to Current Markets

Someone far smarter than I once recommended that you should always finish any presentation with three points and mine are these...

1. change is inevitable, be a part of it or be a consequence!
2. Always consider how you look from your customers' point of view
3. And... go easy on the slide shows.

Thank you.



Additional information:

About Global Marine

Global Marine has been in business for well over a century and continues to be the pre-eminent provider of submarine cable installation and maintenance services in the world. Since the installation of the first telegraph cables in the 1850s, it has been essential for system owners to produce detailed cable maps to plot the location of a cable on the seabed, keep it maintained, and ensure that information is regularly updated.

Global Marine has remained at the forefront of cable installation and maintenance ever since. Operating with the world's most advanced fleet of cable ships and subsea vehicles, it is a market leader in marine cable installation and maintenance for telecommunications, as well as scientific research, oil, gas, utilities and the renewable energy sector.

It has installed more undersea fibre optic cables than any other operator. More than 50% of the world's buried fibre optic cables have been installed by Global Marine Systems and, between 30 and 40% of all subsea cables repairs and maintenance are undertaken by the company. It continues to develop sophisticated tools and techniques to plan, install and maintain cables in order to improve the resilience of its customers' systems. With a highly experienced and knowledgeable workforce operating cutting edge systems, it ensures its customers receive the most innovative and forward-looking solutions for their specific needs.

Global Marine is at the forefront of data record management and continually develops new technology to meet the needs of the submarine cable industry. Its developments in state of the art geographical information systems and computer mapping technology play a vital part in the drive for greater system security.