

# The metro market

*Capacity's* roundtable asks industry experts for their views on what will set the agenda in the metro fibre market over the next 12 months, and what dangers lie hidden beneath.

## Participants:

*Capacity* has brought together network providers, infrastructure solution providers and analysts for a roundtable on the major issues in metro markets. Taking part are: **Hunter Newby**, CEO of Allied Fiber; **Mike Sicoli**, CEO of Sidera Networks; **David Howson**, president of Zayo Bandwidth; and **Judy Reed Smith**, CEO of Atlantic-ACM.



“There’s certainly going to be healthy activity in the M&A area for some time.”

Hunter Newby, CEO, Allied Fiber

It has been another year of unprecedented growth in the metro fibre market. Revenues are growing fast, demand for bandwidth capacity is growing even faster, and there’s a plethora of frustrated buyers out there desperate to get their hands on metro assets. What could possibly go wrong?

**Q** What are the strategic opportunities in the metro market in 2011?

**Newby:** The strategic opportunity lies in continuing to apply the same proven formula that has served the metro markets so well – namely to expand the fibre network right across the country, incorporating other elements of demand that were not initially addressable due to proximity or cost issues. These elements, such as fibre to wireless towers and fibre to data centres, have become incremental to the metro network over time. And the bigger the footprint and the more end points you assemble, the more value you can add to your network. As this expansion evolves, individual metros will begin to connect with one another and, in effect, become ‘super-metros’ rather than ‘regional’ networks.

**Howson:** Fibre-to-the-tower would certainly be a key focus for us in 2011. We will continue to look for a modest positive return on new builds that in turn significantly enhances our fibre depth, breadth and density in a particular marketplace. By actively selling into and further expanding that enhanced presence, you create a virtuous circle that leads to further network expansion and strong financial returns.

We are also very bullish on the dark fibre market, not least because many large consumers of bandwidth would prefer to incorporate either a pure fibre or lit/dark hybrid solution into their metro network plans. As a result, we view metro dark fibre as a way to truly partner with customers in their network planning and lock into long-term, highly durable contracts.

Lastly, I think we will continue to see an active market in M&A and I would expect Zayo to pursue smaller ‘tuck-in’ opportunities that might fit well into our strategy and network.

**Reed Smith:** The clearest strategic opportunity is in mobile backhaul, particularly Ethernet backhaul, driven by the surge in mobile data which has arisen

from the advent of smartphones and now the exploding tablet market. Data usage in business buildings will also continue to grow strongly – our latest *US Telecom Sizing and Share Report* forecasts a 2.2% growth in wholesale metro data revenue from 2009 to 2010 and a compound annualised growth rate of 2.8% until 2015.

**Sicoli:** Clearly, it will be important for us to continue expanding our network and we expect to make more announcements at an international level similar to our move into Toronto last year. That said, we will also continue to expand our network domestically both within our existing footprint and contiguous to it.

I think another strategic opportunity will be to roll out additional services that leverage off Sidera’s existing assets – capabilities such as cloud computing, storage and security services. These would essentially be value-added services that can be combined with transport to offer a more complete solution to our customers.

As far as M&A is concerned, we see opportunities with a range of providers to facilitate an exchange of assets or bandwidth enabling us to enhance our capabilities cost effectively.

**Q** What will the next wave of consolidation in the metro arena look like?

**Howson:** In our view, the only certainty is that metro consolidation will continue and Zayo will continue to be an active participant – a large number of smaller metro fibre providers remain and will likely consider an exit in 2011.

As we step back and look at the larger providers, we see five bandwidth infrastructure providers with a critical mass of scale (that is, with EBITDA of around \$50 million or more): Zayo, AboveNet, Fibertech, Lighttower and Sidera. Several of these have experienced owner changes in the past year, but looking out to the next one to three years, there will likely be additional consolidation within this set. Does that mean we see consolidation within the group itself or do other strategic buyers in the telco space step in to add bandwidth infrastructure and metro fibre assets to their quiver? We feel that the former could be very interesting, particularly from an investor perspective, but it’s a little too early to say what will happen for sure.

