

Private Equity Focus

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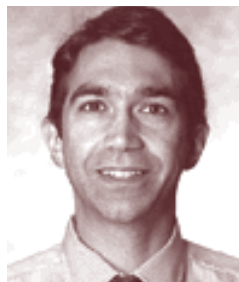
The Wireless Industry



Glynn D. Key



Atish Gude



Michael Hannon



John Muleta

On October 25, **Glynn D. Key**, a partner in the Corporate Department, hosted a distinguished panel of investors and executives who play significant roles in the private equity and wireless industry.

Atish Gude is Vice President, Strategic Planning and Corporate Strategy, Nextel.

Michael Hannon is a Partner at JPMorgan Partners and Co-Head of the telecommunications, media and technology practice.

John Muleta is Chief of the Wireless Bureau of the Federal Communications Commission.

Jay Koh is a Principal at The Carlyle Group.

Rajendra Singh is CEO of Telecom Ventures, LLC, and co-founder of Teligent and LCC International.

The panelists were assembled to explore the current issues facing private equity investment in the wireless industry as seen from their respective roles in the market place:

- Nextel - strategic investor, large wireless service provider, and major consumer of wireless applications and equipment.
- JPMorgan Partners - international investor in middle market buyouts, growth equity and venture, \$13 billion under management.

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- FCC - US regulator.
- The Carlyle Group - international MBOs, strategic minority investments, consolidations and venture, \$18 billion under management.
- Telecom Ventures - early to mid-stage investment in wireless system operations and emerging wireless technologies, several hundred million dollar family investment vehicle.

The panelists explored the private equity world of wireless across the landscape of (i) the future demand for services; (ii) the displacement of existing technologies with new generation technologies; (iii) the shifting regulatory landscape; and (iv) the unknown standards requirements. There was a spirited exchange among the panelists and the audience of investors and industry executives.

Here are some gems from the discussion:

The next frontier in the wireless space is that of convergence. Atish Gude, Nextel

- The October 2004 US IPO of Jamdat (a mobile gaming company) shows that the capital market is still an exit strategy for a limited number of sectors of the wireless industry. The focus for the private equity world in wireless is increasingly becoming applications and middleware centered driven.
- In the large percentage of the population that has access to wireless and/or mobile devices, US wireless is the growth industry for the telecommunications industry in both equipment and services:
 - o Nextel 3rd quarter profit up 69%.

- o Cingular received clearance to complete its \$41 billion merger with AT&T Wireless.
- o CTIA announced that there were over 170 million cell phone subscribers as of this past summer.
- o Craig McCaw and his Clearwire team announced a WiMax deal with Intel and a corresponding investment in Craig's Clearwire broadband wireless offering.
- o Lucent recorded first annual profit since 2000 fueled by rapid growth in wireless telephone division.
- o Verizon announced that 45% of its revenues now come from wireless services unit.

- As our conference was proceeding, Cingular was receiving clearance from the FCC and DOJ for its acquisition of AT&T Wireless. This merger between the largest wireline telephone companies' wireless affiliates and the largest wireless represents the largest convergence to date. The company is banking on the bundling of broadband services to its 46 million subscribers.

Domestically, wireless applications are attractive. Internationally, we lean toward services. Mike Hannon, JPMorgan Partners

- Europe and Asia are the hot spots for 3G and component technologies.
- Private equity/buyout opportunities in wireless are best not in the US but in places overseas with a relative stable government

environment and a solid financial sector where multiple exit platforms are in place (e.g. IPOs, strategic buyers have capital, etc.).

The discussion ended with some sage words from Dr. Raj Singh who observed that there are four trends in the wireless industry. His takeaway was that any investor or inventor in the wireless space should make sure that his or her business strategy does not align against more than one of these trends:

- **Cultural change** is significant and being driven by youth's consumption and use patterns. If you don't know how a young person uses technology and how important wireless is to that experience, you should quickly learn.
- **Enabling wireless technologies** are a growth sector because of the need for wireless applications and content to be easily accessible for consumer use. This means more focus on wireless middleware opportunities.

- **The establishment of a marketplace mindset** where the cell phone is not just a communication device but a device that enables the exchange of ideas and also, increasingly, goods and services.
- **The advent of hybridization** where all networks are hybrid networks composed of wireless, cable coax, copper, and fiber. In hybrid networks, the value added comes from taking a position that takes advantage of the hybridization instead of fighting against it (e.g., content or applications have to flow across all elements of the hybrid network instead of being stove piped).

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