



## Developing a Global Telecoms Carrier and Service Provider



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Chief Executive Officer and Director, Global Crossing Ltd

Global Crossing (the "Company") has leapt into the news over the past few months, largely because of its merger and acquisition (M&A) strategy. It has launched several acquisition efforts in an attempt to take advantage of an emerging market opportunity: to become the first global telecoms carrier and service provider. Our combination of an experienced management team, flexible financing arrangements and a bias towards rapid action has proven a winner. One of its competitors was quoted in the press, incredulous that a company with "a couple of cables under the ocean" was even in the global communications market.

The truth is that the Company began with one cable but has a unique asset that is one of the great infrastructure projects of the decade: The Global Crossing Network. The Company is very substantial and asset-rich and already has enviable global reach. It has 14,300 kilometres of cable in service, 55,500 kilometres under contract and has announced 87,900 kilometres that it has funded. As the Company has grown, it has pursued a two-track strategy – build what it can, buy what it must.

### Build-out versus Acquisition

The build-out has gone very nicely. The Global Crossing Network is a US\$5 billion investment, but that investment creates an asset many times that number in value. And the Company has almost completed building it. Phase I of the Pan-European Crossing (PEC) goes online in December 1999, connecting 13 of Europe's major cities. The Company will also complete, by the end of 1999, its first connection across the Pacific – connecting Japan and the US.

On June 15th, the Company announced the completion of both landings in Japan for Pacific Crossing One. In 2000, it will light up its terrestrial network in Japan, segments of the South American Crossing, the Pan American Crossing, an Irish Ring, Phase II of PEC and backhaul systems in the US and Mexico. But the acquisition of assets has proven to be

an equally exciting adventure – and far less predictable. The Company completed the acquisition of Global Marine Systems from Cable and Wireless in early 1999. It now owns the world's largest submarine cable installer and maintainer. Global Marine Systems handles a number of long term contracts for cables built by more than 100 telecoms carriers.

From a Global Crossing standpoint, the acquisition increases the Company's ability to control the installation and maintenance of our own undersea global network. But it also intends to compete aggressively to grow its share of the marine installation and maintenance markets worldwide, far beyond the Company's own needs.

### US WEST Experience

The Company was less successful in its attempt to acquire US WEST. Its M&A strategy is always aggressive, but it is not going to overreach. I think that its behaviour in the competition for US WEST in July indicates that. In the end, the Company felt the price to capture US WEST exceeded the strategic value to it of the asset. Financial and management discipline has been a hallmark of Global Crossing since its inception. The Company has practised it both in the Frontier transaction and in the transaction involving US WEST.

From our earliest discussions, the Company has felt that US WEST was a great company with great people. The original agreement recognised that value by offering a premium over US WEST's then-current stock price. The Company felt its original offer recognised a full and fair market price. It did not believe that its best interests would be served by increasing its bid by an additional premium of, approximately, US\$5 billion in order to match or exceed the competing offer.

### Frontier

The foundation of the Company's long-term strategy is building value for its shareholders. As events

Robert Annunziata joined Global Crossing Ltd as Chief Executive Officer and a Director in February 1999. Before this, he was president of AT&T's US\$22 billion business services group, responsible for AT&T's global network and for providing voice, data and Internet services to eight million business customers worldwide. A pioneer of competitive telecommunications, Mr Annunziata spent 15 years as Chairman and Chief Executive Officer of Teleport Communications Group (TCG), which he built up before selling the company to AT&T for US\$12 billion in 1988. Earlier in his career, he spent 17 years at AT&T in a variety of senior operations, sales and marketing positions.

transpired, it became clear that acquiring Frontier at the price the Company was offering would build shareholder value. On the other hand, the Company did not believe that the extra premium it would have to pay to win US WEST would contribute to shareholder value. The Company has said all along that there are two basic ways to build the network:

- by physically building it, which is being carried out under the oceans, in Europe and Japan; and
- by acquiring compatible network segments at a fair price.

This second way is what the Company has done with Frontier: a technically superior network that gives the Company a big foothold in the US at a fair price. Global Crossing has entered into a definitive agreement and plan of merger with Frontier Corporation, which, if completed, will create a combined network connecting 159 cities around the world.

The Company plans to complete the merger with Frontier in late September under the terms the two boards have already endorsed in the definitive merger agreement. The Company has continued its integration planning with Frontier since the agreement was announced.

The team is very excited about combining Global Crossing's global fibre network with Frontier's best-in-class US domestic fibre network to create an unmatched platform, positioning the new organisation exceptionally well to deliver seamless end-to-end connectivity and value-added services to customers worldwide.

#### Time-tested Talented Team

What does it take to accomplish so much in so short a timeframe? First of all, it takes vision. The Company's visionary was Gary Winnick, founder and co-chairman of Global Crossing. He led the Company's highly successful initial public offering in August, 1998, and headed its successful effort to raise capital through high-yield offerings and other project financing. To date, Global Crossing has raised nearly US\$5 billion.

Mr Winnick was also wise to recruit a uniquely talented management team. A deep bench – a very high quality management team that knows how to get things done and whom to do them with – is essential. The Company's success has been directed by a team of knowledgeable, skilled and highly regarded senior management professionals from the telecoms and business fields.

As the Company moves around the world, it is continuing to recruit an internationally recognised management team. This crack team will continue to explore other opportunities worldwide actively so as to provide international carriers with reliable and cost-effective capacity on demand.

#### Financing Acquisitions

The Company has been very deliberate in its build-out to include major financial houses every step of the way. The recent US\$3 billion senior-secured credit facility is a good example. It was arranged by six major Wall Street institutions, was very popular on the street and was oversubscribed.

With the enthusiasm shown for this facility, the lending community is solidly endorsing Global Crossing's strategic plan. It marked Global Crossing's transition from a project-financing model to a corporate-borrowing model better suited to its fast-emerging global network. The new facility provided the Company with a substantial source of funds to rapidly complete our core network and fund future growth flexibly and efficiently. The facility consolidates the recently completed acquisition of the Global Marine division of Cable and Wireless and a number of pre-existing project financings for announced network systems. The money will also be used for working capital and to finance the development and construction of future systems.

The senior-secured credit facility consists of a US\$1 billion five-year revolving credit facility, a US\$1 billion five-year multi-draw term loan and a US\$1 billion eight-year term loan. The financing team was a 'Who's Who' of Wall Street: Chase Securities, Inc. and Goldman Sachs Credit Partners acted as joint lead arrangers and joint book managers, while Salomon Smith Barney Inc., Merrill Lynch and Company, the Canadian Imperial Bank of Commerce World Markets Corporation and Deutsche Bank Securities Inc. also served as arrangers. In addition to the arranger roles, Goldman served as syndication agent, Citicorp USA, Inc. and Merrill Lynch Capital Corporation served as co-documentation agents and The Chase Manhattan Bank served as administrative and collateral agent.

#### Managing Risk through Partnership

The Company has planned connections to the five major continents but has been careful over how it approaches each so as to manage the risks. The PEC system is wholly-owned, as will be the US Crossing that the Company takes over from Frontier. In contrast, the Pacific Crossing is co-owned with Marubeni, as is the Japanese terrestrial network.

The Company will continue to be creative: judging the risks and judging the advantages from regional partnerships as it builds. The Africa ONE agreement is another good indicator of the caution that is used to cover the market while covering the risks. The telecoms sector in Africa is developing rapidly, and the demand for broadband connectivity with countries in Africa is fuelling that development. Deregulation, privatisation, competition and regulatory reform throughout Africa are creating a robust telecoms environment and demand for new services, especially the Internet, is growing tremendously. Africa ONE will save hundreds of millions of dollars in transit fees now being paid by African carriers to complete calls via Europe.

Nevertheless, note that the Company is neither an investor in nor an owner of Africa ONE. Its subsidiaries will be paid in cash and/or in capacity on the Africa ONE system, subject to its approval. The Company is enthusiastic about Africa ONE and will integrate the capacity received from the system into the Global Crossing Network. The new marine fleet, Global Marine Systems, will handle marine operations for the Africa ONE project. The contract is expected to provide more than US\$100 million in revenue for Global Crossing for the provision of marine operations and to act as project manager, overseeing the construction, installation and implementation of the system.

### Managing Revenues

Revenue streams shift, often dramatically, after a merger or acquisition. After the merger with Frontier, as a global service provider, the revenue picture will shift. The main revenue drivers for the next two years will be the services that are provided as the global broadband network comes into operation.

On 26 May 1999, the company marked the first anniversary of the Atlantic Crossing 1 (AC-1) system, which surpassed US\$1 billion in sales during its first year in operation. Second quarter revenues were US\$190 million, exceeding analysts' estimates and the company's internal targets. Continuing robust sales and circuit activations on the company's AC-1 cable, along with associated terrestrial circuits, are responsible for the revenues. The sales and customer base have expanded throughout the quarter, along with the explosive demand for transnational global telecoms.

In addition to the strong performance in the Atlantic, the Company is particularly gratified by the advance sales that have been closed on systems other than AC-1 as they are sped to completion. The Pacific, Pan-European and Mid-Atlantic Crossings are developing significant sales backlogs that will become revenue

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after those systems enter into service later this year. The Company is also building significant backlog in the flexible Global Network Offer, which will become revenue on AC-1 or the new systems as customers activate capacity where they need it.

### Bringing New Services to Market

Managing new product lines is a particular challenge during a merger. The main revenue drivers until 2001 will be the services that are provided as the Company's global broadband network comes into operation. It will be looking to expand many of Frontier's existing products, such as the GlobalCenter web hosting business, onto the worldwide stage through the Company's network. It will also be developing new products and services that take advantage of the network's architecture. And, of course, it will be looking to increase Frontier's local telephone revenues as well.

The carrier business will remain a core part of the Company's network offer, but the completion of the merger with Frontier will take the Company into retail markets – the full gamut from simple carrier and business-to-business to consumer telephony. As Global Crossing matures from a global carrier to a global service provider, I would expect the Company to offer the following mix of competitive services, many of which were not in their portfolio before:

- Carrier-to-carrier special access – access for carriers to other carriers, such as long-distance providers, wireless providers, local exchange companies and Internet service providers.
- End-user to long-distance provider special access – connections for an end-user, such as a large business, with the local point-of-presence of its chosen long-distance provider.
- Private lines – dedicated lines linking the offices of medium to large corporate customers, resellers and internet service providers.
- Collocation – space for customers and other service providers to locate their own communications and networking equipment.
- Internet access – Internet access for business customers, other carriers and Internet service providers.
- Web hosting – collocation for small to large business web servers at Global Crossing's larger gateway sites, plus the use of Global Crossing's computers, services, support staff and the

redundant infrastructure consisting of multiple routers and connections to Internet backbones.

- Virtual private networks – private networks that are cost-effective replacement alternatives to more conventional wide area networks. Private data communication networks build on expensive leased lines to transfer proprietary data between office locations.

### Competition and Markets

Of course, any carrier in the industry may some day, in some way, ultimately be a competitor to the Company. But the unique and differential advantage of Global Crossing will be its global network. Level 3 and, more particularly, Qwest Communications International Inc. after its buy-out of US WEST, are focused overwhelmingly on the US domestic market.

Global Crossing will take products and services already well established in the US market into Europe, Asia and South America – long before Level 3 and Qwest are serious players there. More competition is expected in Europe, which explains why the Company is building up its assets so rapidly in that market. I think the competitive delay in Europe – and it is only a delay – is due to the lateness of deregulation, the difficulty until recently of operating across borders in Europe and a lack of the more innovative high-yield capital markets that have flourished in the US and funded new start-ups for the past two decades.

Keep in mind – not just in Europe, but around the world – that the provision of global telecoms capacity at broadband levels is in its infancy. The Company is building one of the great infrastructure projects of our era: a new trade route for world-ranging businesses that are themselves still infants. In such a period, a constant process of consolidation and fragmentation goes on as capital struggles to find its most efficient forms.

The Company is committed to building a worldwide network. And yet there remain many many niches in that larger phenomenon where much smaller ventures and providers will grow and flourish – providing the price discipline, competition and new services that will keep it on its toes. The big question remains: What will become of voice?

The older Bell-based telephony companies in the US and the one-time national monopolies in Europe, Asia and Latin America have been protected in exchange for providing universal basic voice services. They have been reluctant to abandon those nests, with steady but unspectacular income flow, for the brash, competitive world of global broadband services.



In the end, the new technologies will almost certainly find a way to compete; so they will soon be out of our world as players, or out of business.

I think that we are heading for a world of ubiquitous communication in which voice is a threshold service, relatively inexpensive and quite possibly a loss leader for a relationship of total, complete and 24-hour access to images, data and computation. If you speak to a 13 year old in an US suburb, that is what they want at the moment – a 24-hour broadband for games, news alerts, imagery and interactive communication. And what they want at 13, they will want in college and beyond. As any parent knows, the time between the two ages is the blink of an eye.

### Staying Lean

To stay nimble along these unexplored passages, Global Crossing has become a very lean and very efficient company. But I intend to improve even on that. I believe that efficiency is improved in any company mostly by just increasing transparency so that it provides enough visibility for the customers so that they can instantly see the talent and possibilities a company has to offer in the way of

services and products. The final benchmark for any company is always customer satisfaction.

How invaluable are you as a company in helping your customer achieve their business strategies or lifestyle goals?

### Conclusion

My hopes for Global Crossing are not modest. The Company will be a leading global carrier and a leading global service provider, within 24 to 36 months. It is not worried about finding markets.

As the capacity between continents and terrestrial networks inside continents – sooner in Europe and Asia, more slowly in South America and Africa – catch up with US terrestrial fibre optics, you will see that uses are invented to exploit the new resources almost as fast as capacity comes online.

It is the globalisation of a trend that is already evident in the US: build the broadband network and the uses of it will spring up almost simultaneously. The Company is bullish on broadband. It is building it, and they – the applications, the users and the customers – will come. ■

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