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TODAY'S PAPER

REPORT ON BUSINESS

Mitel at 30 seeks to recapture dizzying growth of its youth

By DAVE EBNER
TELECOM REPORTER
Monday, June 9, 2003 - Page B1

OTTAWA -- **Mitel Networks Corp.** turns 30 today and the communications equipment maker once again run by Terry Matthews hopes to recapture the dizzying growth of its youth.

"The company is really turning the corner," Mr. Matthews said. The entrepreneur -- formally known as Sir Terence -- still bursts with energy at 60, sporting a white goatee and unabated passion for his work.

Mitel was Mr. Matthews' first great success, co-founded with Michael Cowpland in 1973. The innovative company rode a wild wave of growth but stumbled on product development in the 1980s and was sold.

Mitel then languished as competition increased. Mr. Matthews left in the mid-'80s, founding his second and greatest success, Newbridge Networks Corp.

That company also posted blazing growth before it missed a series of financial targets in the late 1990s. Mr. Matthews, Newbridge chairman, fought his own board over a sale to French giant Alcatel SA but lost.

An indignant Mr. Matthews thereafter established himself right across the street in the Ottawa suburb of Kanata, taking control of March Networks Corp. in the summer of 2000. Looking down Legget Drive, he bought back Mitel's communications equipment business and name that December. He saw it as a springboard to become a major player in the emerging market for Internet protocol (IP) equipment, just as Mitel first found fame and riches in the new market for digital network gear in the '70s.

"Terry has brought enthusiasm back to the company," said veteran employee John Mahan, head of Mitel's design group.

Mr. Matthews, Mitel chairman, paid \$350-million for a 90-per-cent stake. Zarlink Semiconductor Inc., Mitel's former chip-making arm, owns the rest.

Despite the telecoms bust, Mitel has fared well. In the January-March period this year, it ranked fourth in the world in the market for IP equipment and telephones sold to businesses, up from fifth in 2002, according to Phoenix-based Synergy Research Group Inc.

Synergy said Mitel first-quarter IP sales surged 88 per cent year-over-year to \$42.3-million (U.S.). The company has 8 per cent of the market for IP equipment and 15 per cent of the market for IP telephones.

Cisco Systems Inc. of San Jose leads the market but its dominance appears to be waning, Synergy's numbers suggested. Last year, Cisco recorded more IP equipment and telephone sales than its top six competitors combined. In the first quarter, Cisco sales fell from the previous quarter, a second consecutive decline. Avaya Inc. made large gains. Nortel Networks Corp. ranked third, followed by Mitel, Alcatel, 3Com Corp. and NEC Corp.

Mitel refused to disclose current sales or profit and loss figures. Mr. Matthews called the financials "quite stable."

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DJIA	0	9070.21
S&P500	0	985.7
Nasdaq	0	1663.46
Venture	4.14	1113.84
DJUK	-12	165.55
Nikkei	-77.07	9547.73
HSeng	-9.29	9636.81
DJ Net	0	60.16
Gold (NY)	-0.30	351.30
Oil (NY)		30.42
CRB	+0.00	235.02
Index		
30 yr	-0.01	5.16
Can.		
30 yr		4.68
U.S.		

CDN\$ buys

US\$	-0.0024	0.7458
Yen	-0.3819	88.0902
Euro	-0.0016	0.6488

US\$ buys

CDN\$	+0.0044	1.3409
Yen	-0.1227	118.1202
Euro	+0.0008	0.8700

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Two years ago, annual sales were a reported \$650-million (Canadian). The company at the time made a large research and development push on IP, a technology Newbridge had been criticized for missing. The R&D budget was jacked up to more than \$100-million.

Mr. Matthews said the company was losing \$20-million a quarter then. It is still losing money but Mr. Matthews said Mitel can fund operations with its own cash flow now.

"If it wasn't, I'd fund it," he said. "Because I believe in what the company is doing."

The majority of Mitel's business is still in equipment using older technology, the stuff that runs conventional telephones. The market for these products, while still significant, is in decline.

IP gear now accounts for more than a quarter of Mitel's business. The technology combines voice and data on one network, setting the groundwork for new applications while reducing operation costs. Mitel has announced a series of deals this year and a large one is expected soon as the National Health Service in Britain replaces installed Avaya equipment with Mitel IP products.

Mitel's pitch is one of simplicity, says Don Smith, the company's chief executive officer. He ran Nortel's optics business during the boom and first joined the old Mitel when it was two years old.

"My challenge is to make things extremely useable," Mr. Smith said. He demonstrated video conferencing using Mitel gear, which takes just a couple of mouse clicks and no calls to the IT department. "No user training, no nothing," Mr. Smith said. "If it's difficult to use, people won't use it."

It is this promise and not just the lure of the latest technological baubles that will drive IP sales, says Iain Grant of telecoms consultancy SeaBoard Group.

"[Current equipment] often doesn't need replacing if a customer has other priorities," Mr. Grant said. "This is the challenge Matthews and others in the business have."

Mr. Grant worked for Mr. Matthews at Mitel in the early 1980s and said the Welsh-born billionaire is a consummate salesman.

"This is about changing how business is conducted," Mr. Grant said. "That needs an evangelist and that's really what Terry Matthews is."

Mr. Matthews believes -- as does a growing majority in the industry -- that IP gear will eventually replace much of the installed equipment at most businesses in every developed city in the world.

"You don't often see waves of replacement like this," Mr. Matthews said, describing billions of dollars that could be spent annually "within a few years." He was, however, hesitant to be more precise: "I don't like projections."

Indeed, given the boom and bust, many projections have gone awry. Mr. Matthews and Mitel had planned to have gone public by now. The initial public offering remains in the planning stage.

"There's no rush," Mr. Matthews said. "It's when things are right."

Like the IPO, it will also take some time before IP gear hits the mainstream despite the hype surrounding the technology. IP was plagued by technical problems when it emerged in the 1990s. Issues remain but voice quality has much improved and IP will be the technology of choice, said Peter Charbonneau, a partner at Ottawa venture firm Skypoint Capital Corp. and former Newbridge president.

Mr. Charbonneau, whose firm has a stake in Mr. Matthews' March Networks, said he thinks his old boss has positioned Mitel to go big again, reaching for heady dreams just like three decades ago when farmers outnumbered engineers in Kanata.

"They've got very solid technology but over and above that they've got the customer base and the distribution."

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