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Investors' Soapbox AM
Mobile Update Lifts Alcatel-Lucent, Cisco

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MOBILE BACKHAUL APPEARS as a relative bright spot in a potentially challenging environment for network-equipment spending. The combination of capacity demands and technology evolution could drive equipment spending up over 30% to over \$8 billion in 2010.

The greatest opportunities lie in equipment geared towards migrating backhaul from legacy technologies to the Ethernet. Globally, microwave dominates as the primary transmission medium with fiber-optic connections growing fastest.

Wireless backhaul provides large suppliers such as Alcatel-Lucent (ticker: ALU) and Cisco Systems (CSCO) tailwinds, and can move the needle for smaller emerging participants including Adtran (ADTN), Ciena (CIEN), CommScope (CTV) and Tellabs (TLAB).

The wireless segment of the communications-equipment sector shows promise for 2010. We see high-traffic growth driven by data services, increased penetration and generational technology upgrades as drivers and note that market researchers at Ovum predict 23% global wireless capital-expenditure growth and Infonetics predicts 9% growth.

Considering the modest growth we expect from service-provider spending in 2010, we see wireless as a relative bright spot. Although the higher of the two forecasts feels overly optimistic, we think the market provides one of the most attractive areas for equipment exposure in 2010.

We envision several aspects of the opportunity, and in this analysis, we focus on a key choke point, mobile backhaul. Our research suggests that CommScope and Tellabs provide a creative means to play the trends discussed in this report.

Wireless backhaul has generated increased investor interest thanks to strong growth prospects, and we think this area has created pain for service providers. Infonetics forecasts the market growing 60% this year to \$5.9 billion and 37% in 2010 to \$8.1 billion. We attempt to simplify and describe the market, its components and investment opportunities.

Although backhaul needs stem from wireless growth, the projects largely fall under wireline budgets. Furthermore, the activities involve more than just telcos; many traditional cable TV companies incorporate backhaul initiatives in commercial projects.

-- Simon Leopold -- Paul Bonenfant

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