

Golden Global

BY JEFF STAMBOVSKY

Driven by the Street's fear of a fiber glut, the tech slump has been particularly hard on next-generation, fiber-optics networks like Global Crossing (GX), 360networks (TSIX), Metromedia Fiber Networks (MFNX),

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Williams Communications (WCG), and Level 3 Communications (LVT). But the fiber-glut theory was always shaky, given the continued explosion of demand and wonderful price elasticities. (As price drops, unit volume increases more than fast



enough to compensate.) But the group's story is even better now: These companies have significant advantages over their own traditional competitors and now a significant barrier to entry against new entrants.

The barrier to entry? Money. It takes a lot of hard cash to build a cutting-edge network today. Last year, new issue junk-bond buyers, the folks from whom capital-devouring projects get their grubstakes, put up a sign reading "Closed Until Further Notice." They finally re-opened for business in January (after the Fed's belated easing), but they're still not letting just anybody in. Among those unlikely to be admitted are non-household names with plans to go into competition with the likes of GX and 360networks and requiring billions of dollars and years of construction before they show a dollar of revenue.

But if you are lucky enough to be one of those household names, and your state-of-the-art network is already fully funded,

those fussy capital markets can function as your protective moat. Better still, if you're already up and operating cash positive, the lenders will just about force you to take their money *as long as you don't need it*.

That's what happened in January to Global Crossing, the premier next-generation global telecommunications carrier. As CFO Dan Cohrs said following the company's recent \$1 billion "drive-by" bond financing: "We had no real need to raise money.... [I]t was compelling because it was cheap." All of a sudden the market was open "for a select set of companies." In other words, they *made* us take it. Meanwhile, unknowns go begging.

Not content to rest comfortably behind this protective barrier, GX has been busy creating competitive advantages that extend well beyond temporary dislocations in the financial markets. GX started off with the right vision: a 100,000-plus mile fiber-optic network running over land and, importantly, under the oceans that will be able to connect just about any location in the world to any other. When complete (it's more than 80 percent of the way there) the GX network will serve more than 200 major cities in 27 countries, with a laser-like focus on data traffic, where all the growth and margins are to be found.

Moreover, GX has an all but unique value proposition that will make its network the compelling first choice for much of the Fortune 500. AT&T requires, according to my colleagues at the *Gilder Technology Report*, 13 leased or partnered handoffs (line connection agreements) with other telcos in order to connect, say, your Stuttgart office to a branch operation in Tokyo. Those arrangements not only cost time and money; getting all of those switches (and people!) to work with each other can be an operational nightmare. Global Crossing will get the job done all on its own seamless global network.

Global Crossing's execution has been nothing short of flawless; they've met or beaten every ambitious rollout deadline they've set for themselves. Less than three years after going public, GX is on track to book more than \$7 billion of cash revenue in fiscal 2001. CEO Tom Casey expects that number to grow by 30 percent a year.

The stock (which recently moved from NASDAQ to the NYSE), traded briefly above \$60 in early 2000, only to be brought back down to earth in the general unpleasantness of the second half of the year. A game of CEO musical chairs now appears to be over, along with distracting if profitable forays into non-core competencies (e.g., local exchange carriage).

The October 2000 IPO of the Asia Global Crossing (AGCX) joint venture left GX with a 56 percent interest in that offshoot carrier. A late summer agreement to sell its Web-hosting operations to market leader Exodus (EXDS) gave Global Crossing a 20 percent stake in Exodus. The AGCX and Exodus holdings alone are worth—at current market prices—about \$5 billion, while GX's own current equity market capitalization stands at \$18.3 billion, with the debt load at a manageable \$5.3 billion as of September 30.

GX's most direct competitor is 360networks, another well-financed and well-run next-generation submarine carrier that is not quite as far along in its build-out as GX.

Metromedia Fiber, Level Three Communications, and Williams Communications all operate state-of-the-art metropolitan and long-haul optic data networks with an emphasis on the terrestrial links. But if you need to reach another land mass, you'll probably wind up talking to Global Crossing, or later, 360networks. ↘

The author may hold positions in stocks discussed in this column. Spectator readers who use this information for investment decisions do so at their own risk.



Between Honor and Glory

BY JAY WINIK

...To grasp the full horror of the march it is necessary to make it yourself. The landscape constantly changes: open fields are exasperatingly punctuated by high hedges and dense windbreaks that are impossible to see through or over or around. On the other side, they seamlessly merge into swamps, or dense, claustrophobic woods, or undergrowth so thick as to be a second forest; or, conversely, they run into long, muddy tracts, known euphemistically as Virginia quicksand.

Once more, Lee pushed his men to the outer limits of human endurance. "I know that the men and animals are

exhausted," he bluntly told one of his generals, "but it is necessary to tax their strength." And remarkably, once more, they complied. Damp from the day's rain, their senses numbed from too little nourishment, they stumbled along with scarcely a word of complaint. But by now they were fighting a second struggle, this one from within. The dreadful consequences were inevitable: without food and deprived of sleep, the body begins to feed on itself, consuming vital muscle, raping invaluable tissue, robbing itself of what little energy is left. Thoughts become woozy; some experience a light-headedness, others even hallucinate. And with each hour, the situation worsens: initiative is deadened, and judgment becomes impaired, giving many the men-

tal capacity of a small child. The elements, too—the sun, the wind, and the rain—become merciless. So does thirst. Limbs struggle to obey the simplest motor commands. Yet somehow, Lee's men inched forward...

To the contemporary mind, it is as difficult to contemplate the westward march of the Army of Northern Virginia as it is to step outside all the history that has come after. To us, an extended troop march appears an anachronism. Today, great military machines race across terrain in high-speed tanks and armored personnel carriers. Unless they are poorly equipped, or the battlefield has collapsed around them, they do not march on foot, and, if they do, they certainly do not

Excerpted with permission from *April 1865: The Month That Saved America*, to be published this spring by HarperCollins.