

Iskratel - Fixed Multimedia Access

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August 23, 2017

COMPANY ASSESSMENT

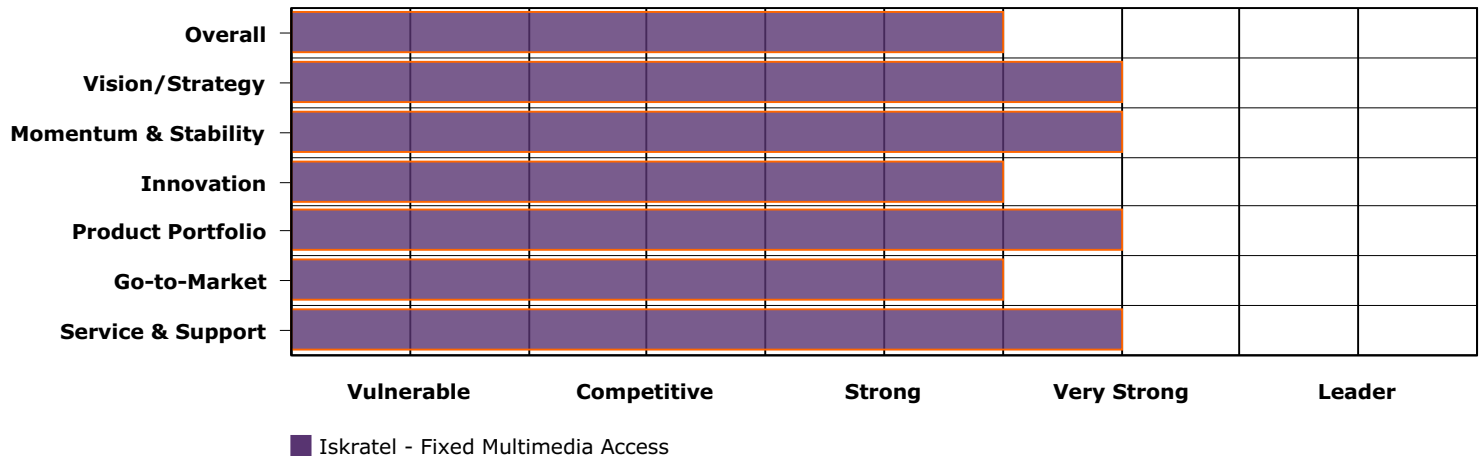
WHAT'S NEW

- Iskratel celebrated its 70th anniversary in April, and asserts 20 million subscriber ports installed, serving more than 100 million customers, highlight its corporate longevity and solidly-established global presence.
- Iskratel expanded its portfolio at ANGA COM in May with cable-tailored solutions, including DOCSIS Provisioning of GPON (DPoG) software and the Innbox G22, a Gigabit-capable ONT for cable networks.
- The company also expanded its partner program with two new additions in May, HFC Technics and TANDEC Digital, which will resell Iskratel solutions in Hungary and Norway, respectively.

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RATING UPDATE SUMMARY

STRONG

Iskratel, which recently celebrated its 70th anniversary, has garnered most of its success in Eastern Europe to date. However, Iskratel has made inroads in other global regions and is now targeting cable MSOs and other new market opportunities.

PERSPECTIVE - ESSENTIAL ANALYSIS

Strengths

Limitations

- **Services Revenue:** Over the past several years, Iskratel has derived ~half (48-49%) of its revenue from services, a positive sign for the company since the hardware equipment market continues to suffer from ongoing/escalating margin compression.

- **Portfolio Expansion:** Iskratel has steadily expanded its fixed access portfolio with new PON and DSL solutions, and recently introduced new cable operator-targeted solutions, aiming to expand into this key market.

- **Eastern Europe Excellence:** Iskratel has a strong foothold in many of the Slavic-language speaking countries of Eastern Europe and Russia, leveraging its Slovenian home base and common culture to win business in this important, high-growth region.

- **Fighting the Goliaths:** Iskratel has done very well in establishing a solid presence in Russia and Eastern Europe, but as it aims to expand its global customer footprint, Iskratel faces an acutely competitive landscape headed by Huawei, Nokia and ZTE.

- **New Risks in Cable:** While Iskratel will expand its customer/revenue base by targeting the cable operator market, success in this sector will not come easily for Iskratel, thanks to well-established infrastructure/solution suppliers.

- **Undisclosed Market Share:** Since Iskratel does not publicly report DSL or PON port/unit shipments or revenues, the company's market presence is not clear. But ultimately, the only factor that matters is profitability.

CATEGORY RATINGS AND JUSTIFICATION

Vision/Strategy

Rating : Very Strong

- Iskratel is targeting many of the same key industry verticals (telco, transport, energy and public safety) and technology markets as its rivals. Iskratel asserts differentiation via unique services and partnership capabilities, including custom-tailored software development and language support.

- For the telco market, Iskratel promises its customers "to secure their value in a gigabit society." Specifically, Iskratel cites its ability to enable operators to deliver ultra-broadband to both residential and business users, leverage cloud technology profitably, and likewise modernize their networks cost-effectively.

- Iskratel touts its European-based R&D and manufacturing resources as key attributes for the company in delivering top quality, fully standards-based products and solutions for its customers.

Innovation

Rating : Strong

Momentum & Stability

Rating : Very Strong

- Iskratel's FY2016 revenues were €95.6 million, with net profits of €7.2 million, with 36% going to industry verticals, 31% to core communications, 23% to broadband networks, and 10% to EMS. While revenues were down slightly from FY2015 – when Iskratel garnered €97 million – the company did improve net profits, which were €5 million in FY2015.

- For 2016, Iskratel's revenue breakdown was 52% equipment, and 48% services, just slightly down from 2015's 51%/49% equipment/services breakdown. This is a positive sign for the services business, as hardware becomes increasingly commoditized, with software and services representing the best opportunities for differentiation and profitability.

- While Iskratel's customer traction is solid in Eastern Europe, compared to most of its rivals in the GPON and FTTx markets, Iskratel lacks a broader/more globally diverse customer base.

Product Portfolio

Rating : Very Strong

- Although Iskratel does not support EPON/10G EPON technology, the company demonstrated a GPON/DOCSIS proof of concept in February 2017 – to address cable market opportunities – with Finnish partner Teleste.

- Iskratel has been relatively silent in terms of 10G GPON development (XGS-PON, NG-PON2), but this is likely just a function of the required components (optics) to be priced low enough to spur operator demand.

- Iskratel asserts the ability to match SDN/NFV and software-defined access (SDA) capabilities of rival vendors, and also points to its 2010 debut of access-tailored SDN/NFV solutions as well ahead of virtually all access market rivals.

Go-to-Market

Rating : Strong

- Iskratel has more than 1,000 customers in over 50 countries worldwide. The company’s sales/revenue breakdown for 2016 was 46% in Western countries, 33% in Russia, and the remainder in the Eastern (European) region, Central Asia and Middle East.

- Iskratel employs both direct sales (Russia, Eastern Europe, Central Asia and Middle East) and indirect sales – via distribution partners/channels – for other key regions (China, APAC, Africa and South America). Iskratel cooperates with over 500 partners, system integrators and resellers worldwide, including ClearTec, FibroLAN, HFC Technics, Scancom, TANTEC Digital, Teleserv Argentina and Teleste.

- In early 2017, Iskratel officially launched a new Partner program with four different levels of partnership: Reseller, Value-Added Reseller (VAR), Certified Support Centre (CSC) and Certified Integration Partner (CIP). Several Iskratel partners have already joined the program (HFC Technics, TANTEC Digital and others).

- Iskratel’s fixed access portfolio is anchored by the flagship SI3000 Lumia platform, which can be deployed as a GPON OLT, or as an MSAN/DSLAM solution.

- Iskratel also offers the Innbox series of ONTs, which includes more than two dozen unique CPE, IAD, ONT and home gateway solutions that support GPON and an array of complementary ultra-broadband access technologies.

- While Iskratel’s SI3000 Lumia does not support EPON/10G EPON, the company demonstrated a GPON/DOCSIS proof of concept with Finnish partner Teleste in February 2017.

Service & Support

Rating : Very Strong

- As mentioned above, with 48% of revenues coming from services, Iskratel is in a strong position with customers. It will be critically important for the company to increase this number moving forward, again, given the margin compression in the equipment/hardware space.

- Iskratel’s Professional Services portfolio spans a broad range of capabilities ranging from installation, commissioning and customer support to design, engineering, integration, project management, verification, after-sales support, manufacturing, technology transfer, to training center, consulting, pre-studies and solution design.

- Iskratel provides professional services through a network of 120 experts in 30 locations worldwide, addressing its global customer base.

Segment Ratings

Market	Perspective
Fixed Multimedia Access	Strong
<i>DSLAM</i>	Strong
<i>FTTP</i>	Strong
<i>HFC/DOCSIS</i>	Competitive

THREATS AND BARRIERS

- **Chinese Loom Large:** Huawei, ZTE, and even FiberHome represent the most acute competitive threat to virtually all other vendors in the global fixed access market, due to their ability to scale manufacturing quickly, and leverage aggressive pricing tactics.
- **Cable Focus Brings New Risks:** While Iskratel is to be applauded for targeting the cable operator market to expand its customer/revenue base, success in this sector will not come easily for Iskratel, thanks to well-established infrastructure/solution suppliers.
- **Calix SDA Aggression:** Calix has gone “all in” on software-defined access (SDA), touting its transition from a hardware to a software company. This strategy has already paid dividends with Calix’s selection by Verizon or its SDA-enabled NG-PON2 trial.
- **ADTRAN Ascendance:** With Deutsche Telekom as its flagship European customer, ADTRAN is aiming for more traction in EMEA, and like Calix, is leaning heavily on its SDA proposition to spur customer interest.
- **KEYMILE Resurrection:** After declaring its exit from the telco market approximately five years ago (to focus on key verticals such as transport and energy), KEYMILE has apparently reversed this decision and is refocusing on the fixed broadband opportunities.

RECOMMENDED ACTIONS

Vendor

- **SDA Marketing:** Iskratel needs to ramp up its SDA marketing to counter the efforts of ADTRAN, Calix, Nokia, Huawei, et al., to enhance customer visibility on this important front, leveraging its first-to-market status with an SDA solution in 2010.
- **Consider Converged Cable Access Platform (CCAP):** Iskratel needs to consider incorporating CCAP capabilities into the SI3000 Lumia OLT in order to compete in the important, high-potential cable operator market.
- **Limit Risk:** Iskratel must be exceptionally careful not to pursue/win customer contracts that will negatively impact profitability. The graveyard of telecom equipment suppliers is full of vendors that did not avoid these pitfalls.

Competitors

- **Software-Defined ADTRAN:** ADTRAN needs to match Calix’s aggression on the SDA front – not to mention Iskratel – touting its own selection for Verizon’s NG-PON2/SDA trial as a key proof point. But even better proof points for its SDA solution will be customer deployments.
- **Calix SDA:** While Iskratel effectively asserts being first-to-market with SDA solutions, Calix remains the front-runner in terms of outbound SDA marketing. Like fellow Verizon NG-PON2/SDA trial winner ADTRAN, Calix must also follow through with SDA customer wins.
- **Zhone Reboot as DZS:** Zhone, a former OEM supplier for Iskratel, needs to leverage its new corporate resources and rebranding as DASAN Zhone Solutions to compete more effectively against former partner Iskratel et al.
- **Tier 1 Tyranny:** While Huawei, Nokia and ZTE do not view Iskratel as a real threat, Iskratel’s established

presence in Russia and Eastern Europe must not be underestimated by the big three in their efforts to win traction in any customer/market opportunity.

Buyers

- **Fiber and FTTx:** Telcos and other operators interested in Iskratel's fiber and FTTx portfolio need to evaluate the company's solutions against comparable products, and inquire on the status of XGS-PON, NG-PON2 and even 10G EPON support.
- **CCAP Coming?:** Cable operators intrigued by Iskratel's new cable solutions need to question Iskratel about the potential for CCAP integration into the SI3000 Lumia platform. This is not unusual; Huawei has already integrated CCAP capabilities into its PON OLT.

COMPANY DETAILS

Company Snapshot

Employees	900
HQ	Kranj, Slovenia
Market strengths/solutions	SI3000 Lumia series, which support GPON OLT, MSAN, or DSLAM configurations and related services. The complete range of SI3000 Lumia chassis is composed of the following: the 20-slot shelf (MEC 20); the 18-slot shelf (MEC 18); the 10-slot shelf (MEC 10); the six-slot shelf (MEC 6); and the two-slot shelf (MEC 2U). Iskratel also offers the Innbox range of ONT/CPE/home gateway solutions.
Key ecosystem partners	ClearTec, FibroLAN, HFC Technics, Scancom, TANTEC Digital, Teleserv Argentina, Teleste.

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