

# PROFILE OF JAZZTEL<sup>1</sup>

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## Introduction

Under EU regulations the Spanish telecommunications market was liberalised from December 1998. The Spanish Telecommunications Market Commission (CMT) gave the go ahead on December 3, 1998 to the first seven licences for telecommunication services. Among these were the B1 national licence (for basic telephony in Spain) which were awarded to BT and Jazztel.<sup>2</sup> Following the linguistic example of the Baby Bells in the U.S. the new operators began to be referred to as the "Las Baby Telefonicas".<sup>3</sup>

As one of these new "baby operators" Jazztel has achieved a high profile within the newly deregulated market. As the FT put it in the latter part of 1999, "In barely half a year, Jazztel has proved itself to be a pioneering venture in Spain's telecom sector".<sup>4</sup> In the process Jazztel has proved to be a ground breaking company on numerous fronts. Its corporate culture is much more North American than Spanish, with extensive use made of stock options. It has also been the first Spanish company to list on Nasdaq and has broken new ground in the capital markets. In the case of the Spanish stock market it was initially denied access but was then instrumental in the Spanish authorities' decision to establish El Nuevo Mercado aimed at the type of high growth companies epitomised by Jazztel.<sup>5</sup>

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<sup>2</sup> El Pais (4/12/98)

<sup>3</sup> Actualidad Economica (6/9/98)

<sup>4</sup> FT (8/10/99)

<sup>5</sup> FT (30/12/99)

## Origins and Development

Having established Viatel in the U.S. in the early 1990s Martin Varsavsky resigned his official positions with that company at the beginning of 1998 in order to concentrate upon the development of his new venture in Spain (and in time, Portugal). Jazztel was established in early 1998. Despite the company's Spanish base it is actually registered in the UK.<sup>6</sup> Varsavsky holds the position of Chairman.

In an press interview Varsavsky was asked why he had turned his attentions to Europe. He responded that:

"I've been monotonous on the subject of opportunities in Europe...The Europeans may be late with color TV but it looks better. They may be late with cell phones, but they sound better. I don't want to sound offensive to Americans, but I really believe that Europe often does things later, but many times better"<sup>7</sup>

As for his preference for Spain, in particular, Varsavsky outlined a number of positive factors. Firstly, he mentioned the size of Spain's population (at 39 million Europe's fifth largest), a potential customer base which is increased by a further 60 million annual tourists. Secondly, Spain's late arrival on the deregulated scene (with barriers only coming down on 1 December 1998) gave Varsavsky a chance to establish himself while the market was still in its infancy - a strong advantage when it comes to building customer awareness. Thirdly, Spain has a teledensity ratio (number of lines divided by population) of only 40 percent compared with the European average of 52 percent. Thus the Spanish market offers substantial growth potential. Finally, Spain's high level of unemployment makes it an inexpensive and welcoming place for an entrepreneur to start operations.

Another factor in choosing Spain may well have been Varsavsky's own Argentinean upbringing which would have given him a distinct linguistic advantage over the average American businessman in that country.

In an attempt to get the company off the ground before Spain deregulated its telecommunications market on December 1, 1998, Varsavsky borrowed \$15 million against his Viatel holdings and sought to secure further finance from private equity investors.<sup>8</sup> Unfortunately his early fund raising attempts coincided with the collapse of the Russian economy and the subsequent "flight to quality" amongst U.S. and European financiers left him fighting for survival. The collapse of Viatel's share price from \$20 in July 1998 to \$8 in September of that year exacerbated his difficulties. As Varsavsky explained to Forbes: "In October (1998) Jazztel was worthless -- worthless!". He went on to explain that, "I was in a horrendous position. Everybody deserted me. The banks said no high-yield. My private equity investors said no private equity. I was left holding the bag".<sup>9</sup>

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<sup>6</sup> FT (20/7/99)

<sup>7</sup> Quoted in Forbes (4/10/99)

<sup>8</sup> Forbes (4/10/99)

<sup>9</sup> Quoted in Forbes (4/10/99)

Fortunately, though, Nortel Networks who had been selected to construct Jazztel's network agreed to stand by its agreement to provide \$60 million in vendor financing. Varsavsky explained Nortel's assistance in quite personal terms, stating that, "they said, 'Martin needs help at a difficult time'. And they helped - when nobody else would".<sup>10</sup> By December 1998 Viatel's shares were back up to \$21.75 and the private equity investors led by Apax, Advent International and Spectrum Equity Investors came back on board. The company was back on course.

According to the FT both smoking and the wearing of ties are banned in Jazztel's offices, which distinguishes the company on both counts from the typical Spanish enterprise.<sup>11</sup> The average age of its employees - at only 28 - is also exceptional. So too is their custom of taking a cycle ride together one afternoon a week into the mountains. Indeed it was during such an excursion that Varsavsky and Antonio Carro (see below) came up with the very name, Jazztel.<sup>12</sup>

### **Key Individuals: Martin Varsavsky**

Varsavsky established Viatel in the US in 1991. Fortune described Varsavsky's personal history as a true "only in America"<sup>13</sup> story - despite the fact he grew up in South America and transferred his base to Spain only a few years after starting the company. Varsavsky was brought up in Argentina where, at 16 years of age, he and his family suffered the trauma of having his 17 year-old cousin murdered at the hands of the Argentinean junta. This prompted his father, a Harvard-trained astrophysicist in charge of the Radio Astronomical Institute in Argentina, to move his family to New York.<sup>14</sup>

The young Varsavsky completed an undergraduate degree at NYU, followed by two graduate degrees at Columbia University. In 1985 he cofounded a biotech company called Medicorp which commercialises research from universities. Before that he had been involved in the start up of a real estate firm, Urban Capital, that developed properties in New York and elsewhere. Fortune, in the course of a fairly scathing article, conceded that both these businesses appeared to be profitable, before going on to cast aspersions as to the viability of Viatel - Varsavsky's first venture into telecommunications.<sup>15</sup>

In 1991, not yet out of his twenties, he started Viatel with an initial investment of \$200,000.<sup>16</sup> He later secured additional funding from George Soros. The company was a pioneer in international call-back services (involving the rerouting of calls to minimise costs). It initiated this service in Latin America before expanding both its range of services and its geographic reach, covering North America, Western Europe

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<sup>10</sup> Quoted in Forbes (17/5/99)

<sup>11</sup> FT (8/10/99)

<sup>12</sup> FT (8/10/99)

<sup>13</sup> Fortune (17/2/97)

<sup>14</sup> Forbes (4/10/99)

<sup>15</sup> Fortune (17/2/97)

<sup>16</sup> Forbes (4/10/99)

and the Pacific Rim.

During the early stage of its development Viatel was at times described as an "Argentinean telephone company" due to its focus upon that country.<sup>17</sup> The company had to contend with strong opposition to its operations from the country's indigenous telecoms suppliers and with a government that was ambivalent to its presence. This seems to have further tainted Varsavsky's view of his homeland and in recent interviews he has indicated that he has no interest in pursuing any part of his business in the country.<sup>18</sup> On the other hand he was part of a business delegation which accompanied Argentina's President on a trip to Washington in October 2000, indicating that he has not severed all ties with his homeland.<sup>19</sup>

In 1993 with the call-back market niche becoming over supplied he began to move the company's focus to alternative services, in particular, the development of a pan-European network (initially based upon leased capacity combined with the company's own switches) in preparation for the liberalisation of the European market. Later still, the company reached the conclusion that the only way forward was to construct its own European network from scratch..

Over the next few years there was a high level of coming and going among senior executives at the company, a level of turnover which Fortune described as "startling".<sup>20</sup> It went on to point out that of the top 10 executives with the company in 1993 only one, Varsavsky himself, was still in place by the time the company held its IPO in October 1996. At the beginning of 1998 the break with Viatel's early days was completed when Varsavsky also resigned his official positions at the company to concentrate upon Jazztel. His Spanish ambitions had been hinted at previously when in late 1996 he moved the Planning and Organisation Department of Viatel to Madrid as part of the decentralisation of the company.<sup>21</sup> Indeed even as early as October 1995 when Varsavsky wrote a letter to Communications Week International, it was signed Martin Varsavsky, Viatel Inc, Madrid.<sup>22</sup>

Gary Donahee of Nortel Networks (one of the few people to stand by him when his new Jazztel venture ran into cash difficulties) has described Varsavsky as follows:

"Martin is simply one of the most creative entrepreneurs I've ever met. He's always bombarding me with emails at 11pm and visiting our labs in Ottawa, testing ideas. He constantly asks, Where's the next opportunity? What's the next step?"<sup>23</sup>

By late 1997 it seems that Varsavsky had concluded that the next opportunity was in Spain and the next step was to leave Viatel behind and establish Jazztel.

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<sup>17</sup> El Economista (7/10/94)

<sup>18</sup> See, for example, Forbes (4/10/99)

<sup>19</sup> FT (1/11/2000)

<sup>20</sup> Fortune (17/2/97)

<sup>21</sup> Expansion (11/9/96)

<sup>22</sup> Communications Week International (23/10/95)

<sup>23</sup> Quoted in Forbes (4/10/99)

Forbes has suggested that Varsavsky is the first to admit that his strength lies in getting ideas funded and off the ground, rather than executing the final business plan. As Forbes itself put it, "without question Varsavsky is a brilliant and intensely focused entrepreneur".<sup>24</sup> This may explain why he concentrated upon launching Jazztel rather than developing the more established Viatel. Indeed, Fortune published an article - said to still hurt him - indicating that this tendency in Varsavsky was one of the reasons Viatel had become such a "turkey".

An indication of where Varsavsky's interests really lie may be given by the fact that he took on the CEO position with Jazztel's Internet content operation known as Jazztel Internet Factory (JIF). This part of the company was owned jointly by him personally and Jazztel with 10 percent in the hands of the equity investors Apax, Advent, Spectrum and Dresdner Kleinwort Benson (DKB).<sup>25</sup> In mid-2000 this company was sold to T-Online (see Disposals, below) reinforcing the view that Varsavsky tends to operate his businesses with a definite exit strategy in mind.

Varsavsky is also racing ahead with a new venture, EinsteinNet, a German-based provider of broadband capacity and Internet applications in which he has invested \$40 million. As he told Forbes in late 1999, "I don't consider myself a person who builds only Jazztels in his life".<sup>26</sup> In February 2000 the new venture secured \$297 million in financing, an amount which the FT suggested was the largest ever amount going to a European Internet-related start-up company.<sup>27</sup>

### **Other Key Figures: Antonio Carro**

In order to oversee the company's operations Varsavsky brought in Antonio Carro, who worked for McKinsey before heading the cellular operator Airtel - as CEO. The son of a law professor (who served in General Franco's last cabinet) he is roughly the same age as Varsavsky. Speaking of the company he has stated that, "Jazztel has been put together by good friends who are also good professionals, and good people attract good people".<sup>28</sup>

### **Antonio Canton**

For the position of COO he recruited Antonio Canton who spent 17 years with Telefonica before moving to Telecom Italia.<sup>29</sup> Immediately prior to joining Jazztel he was with Retevision where he held the position of commercial and sales director. In October 2000 it was reported that Canton was leaving the company in order to join Xfera, one of the operators awarded a Spanish third generation mobile licence. Commenting on the move El Pais stated that, "Canton's appointment represents a major coup for Xfera and a difficult period for Jazztel".<sup>30</sup> The move must have been

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<sup>24</sup> Ibid

<sup>25</sup> Forbes (4/10/99)

<sup>26</sup> Forbes (4/10/99)

<sup>27</sup> FT (11/2/2000)

<sup>28</sup> Quoted in FT (8/10/99)

<sup>29</sup> Forbes (4/10/99)

<sup>30</sup> El Pais (12/10/2000)

all the more sensitive for Jazztel given that its own attempts to win a UMTS licence had failed. At the time of his departure Canton had over 1 million shares in the company plus substantial options. Given the substantial decline in Jazztel's share price during 2000, however, this may no longer have acted as a great enough incentive for him to stay with the company.

## **Management Incentives**

In recruiting his management team Varsavsky adopted the policy common amongst U.S. telco start-ups (but still rare in Europe) of offering equity stakes in the company. Forbes indicated that up to 27 percent of the company had been given over to management in this way.<sup>31</sup> As of September 2000 just under 34 percent of the company was in the hands of its directors and executive offers.<sup>32</sup> This type of incentive might explain why a team of around 20 top Internet content designers chose to defect en masse from Telefonica to join Jazztel in late 1999.<sup>33</sup> They were to form a new unit - Jazztel Internet Factory (JIF) - which was to be 10 percent owned by its employees. As just seen in the case of Antonio Canton, however, stock-based incentives are not always sufficient to retain key staff, especially when the share price is well below the level at which options can be exercised.

## **Investors**

When Jazztel was incorporated in 1998 Varsavsky held 74.5 percent of its share capital.<sup>34</sup> According to The FT he had a 34 percent stake in the company as of October 1999.<sup>35</sup> Following Jazztel's IPO Varsavsky was reported to hold 21.8 percent of the company's stock.<sup>36</sup>

During 1999 the private equity firms Apax, Advent International and Spectrum Equity Investors led a syndicate which together invested \$72 million in preference stock accounting for a 60 percent stake (subsequently diluted to 48 percent) in the company.<sup>37</sup> As stated above these three investors, together with DKB also took a 10 percent share of JIF.

The largest private equity investor in Jazztel has been identified as Apax which originally put \$20 million into the company.<sup>38</sup> Advent also has a sizeable stake, with the FT describing its Chairman, Peter Brooke, as "one of the founding fathers of private equity investing".<sup>39</sup>

In July 2000 Banco Sabadell became a significant investor in Jazztel, purchasing 2.5

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<sup>31</sup> Forbes (4/10/99)

<sup>32</sup> Jazztel Prospectus, SEC, 3/10/200

<sup>33</sup> FT (8/10/99)

<sup>34</sup> Jazztel Prospectus, SEC, 3/10/2000

<sup>35</sup> FT (8/10/99)

<sup>36</sup> FT (11/2/2000)

<sup>37</sup> European Venture Capital Journal (1/5/99), Forbes (4/10/99)

<sup>38</sup> FT (17/3/99), The European Venture Capital Journal (1/5/99)

<sup>39</sup> FT (19/8/99)

percent of the company's outstanding common stock. The price put on the investment was around Euros 41 million.<sup>40</sup>

In October 2000 it was reported that Varsavsky was attempting to bring Banco Comercial Portugues (BCP) on board as an investor. He was quoted as stating that he was in talks with BCP, "because the shareholder (structure) should reflect those markets where we are, Spain and Portugal".<sup>41</sup> BCP already had an interest in Jazztel through its 10 percent shareholding in Banco Sabadell.<sup>42</sup>

In November 2000 it was reported that Dragados, a Spanish construction group, had acquired 2.9 percent of Jazztel, the stock coming from the holdings of Advent International and Apax Partners.<sup>43</sup> The investment formed part of a strategic agreement between the two companies (see next section).

Table 1 below shows that as of September 2000 Varsavsky's share of the company had dropped below 20 percent. Fidelity had also emerged as a significant shareholder with just under 6 percent. As a group the directors and executive officers accounted for over a third of the share capital. In this sense the company resembles U.S. telecom start-ups such as Global Crossing and Level 3.

	Percent holding
Martin Varsavsky	19.6
Advent	9.6
Apax	9.6
Antonio Carro	6.2
Fidelity	5.7
Miguel Salis	3.5
Antonio Canton	2.2
Pedro Pena	1.0
Directors and Executive Officers as a Group	33.9
Source: Jazztel Prospectus October 2000	

## **Acquisitions, Disposals and Joint Ventures**

### **Acquisitions**

In August 1999 Jazztel's Internet Factory bought Ya.com for \$85,000 in order to use it as the portal through which customers would reach its Internet services. Soon after

<sup>40</sup> Business.com Web site

<sup>41</sup> Quoted in AFX Europe (9/10/2000)

<sup>42</sup> Ibid

<sup>43</sup> El Mundo (14/11/2000)

this side of Jazztel's operations became known as the Ya.com Internet Factory (YIF). Also in August the company bought ViaPlus an established Spanish catalogue operation with over 40,000 product lines in order to bolster its e-commerce business. In September 1999 the company bought an e-mail service called mixmail, which could be used to attract further traffic onto the Jazztel Web site.<sup>44</sup>

In the first quarter of 2000 Jazztel acquired Infoespana, a chat technology and services provider and Forum M (now Terravista), a Portuguese multimedia company.<sup>45</sup>

In July 2000 Jazztel bought the client base of ICT Net, an ISP in the Catalonia region of Spain. The deal would give Jazztel access to 14,000 clients, mainly small and medium-sized businesses. As part of the deal ICT, which forms part of the non-profit making Catalan Technology Institute, agreed to undertake R&D projects on behalf of Jazztel.<sup>46</sup>

Also in July 2000 Jazztel announced the takeover of Spanish IT company, Centro de Calculo de Sabadell (CCS) a company which specialises in software development and systems integration for small and medium sized businesses.<sup>47</sup> The price was put at Euros 2.4 million, most of which would be paid for in Jazztel shares.<sup>48</sup>

In September 2000 Jazztel announced that it would be taking over Adatel, a Madrid-based telecoms systems integrator focused upon the business sector in Spain. The price was put at around Euro 20 million in cash and stock.<sup>49</sup> The company specialises in the design, installation and maintenance of cable networks. Its acquisition was described by Jazztel as central to its "key business" of providing wide-band communication services to the SME market.<sup>50</sup>

## **Disposals**

In September 2000 Jazztel sold Ya.com Internet Factory to T-Online, the Internet division of Deutsche Telekom. The deal was valued at approximately Euro 550 million and consisted of cash and shares.<sup>51</sup> At the time Ya.com was the second ranked ISP in Spain with 400,000 subscribers, the market leader being Telefonica's Terra Network.

The deal was seen as part of T-Online's attempts to establish itself as Europe's dominant Internet business. There were reports that it had to fight off a last minute challenge from Wanadoo, France Telecom's Internet Unit in order to secure Ya.com.<sup>52</sup> The deal was also threatened by the departure in August 2000 of Wolfgang

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<sup>44</sup> Forbes (4/10/99)

<sup>45</sup> Jazztel Web site

<sup>46</sup> Business.com Web site

<sup>47</sup> Expansion (25/7/2000)

<sup>48</sup> Jazztel Prospectus, SEC, 3/10/2000

<sup>49</sup> Business.com Web site

<sup>50</sup> AFX Europe (24/9/2000)

<sup>51</sup> Business.com Web site

<sup>52</sup> FT (5/9/2000)

Keuntje as CEO at T-Online whose resignation was seen as a sign of tensions between Deutsche Telekom and its subsidiary. According to press reports, however, Ron Sommer, CEO at Deutsche Telekom, was keen to see the deal through.<sup>53</sup> Prior to the disposal it had been widely assumed that the Ya.com Internet Factory would be partially floated.

## **Joint-Ventures**

In June 1998 Jazztel announced a mutual cooperation agreement with Viatel covering a number of joint investment opportunities and ongoing commercial operations. In particular the agreement related to each company's access to the other's network and outlined plans for a joint cable linking the UK and Spain. Viatel also indicated that, subject to certain conditions, it would take an equity stake in Jazztel.<sup>54</sup>

According to Forbes Jazztel has contracted the Spanish construction company Sainco to lay its fibre cable.<sup>55</sup> Meanwhile its back office activities have been outsourced to Price Waterhouse Coopers.

In November 1999 Jazztel entered into an agreement with Teligent to apply for national fixed wireless communication licences within Spain. In March 2000 it was reported that the joint-venture had been successful in obtaining one of the three national licences available. It was revealed that the new wireless network would cover more than 100 cities throughout Spain and would compliment Jazztel's nationwide fibre network.<sup>56</sup>

In January 2000 Jazztel entered into an agreement with Telemonde whereby the latter company would provide a high capacity, managed fibre link on its network between London and Madrid.<sup>57</sup> In the latter half of 2000 there were indications that Telemonde was suffering financial difficulties. In September that year Iaxis (originally spun off from Telemonde) had gone into administration, highlighting the tough operating conditions within the sector.

In early 2000 Jazztel teamed up with Deutsche Telekom to pitch for a Spanish third-generation mobile licence. The consortium was, however, unsuccessful in securing one of the four licences on offer.<sup>58</sup> The links established between the two companies, however, must have facilitated to some extent, the deal between Jazztel and T-Online for the sale of YIF.

In September 2000 Jazztel announced that it had a 39.1 percent stake in the Mobijazz consortium which was seeking to secure a UMTS mobile communications licence in Portugal.<sup>59</sup> The four licences on offer were to be allocated using a "beauty contest"

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<sup>53</sup> Ibid

<sup>54</sup> PR Newswire (7/6/98)

<sup>55</sup> Forbes (4/10/99)

<sup>56</sup> PR Newswire (10/3/2000)

<sup>57</sup> Business.com Web site

<sup>58</sup> FT (14/3/2000)

<sup>59</sup> Ibid

system. As of mid-November Mobijazz was not one of the seven applicants to be ranked among the first four, indicating that it was unlikely to be granted a licence.<sup>60</sup> From this evidence and that of Jazztel's unsuccessful bid with Deutsche Telecom for a Spanish licence, it would seem that the company has had little success to date in terms of its 3G mobile ambitions.

In October 2000 Jazztel announced a strategic alliance with Intel geared towards the opening of three data centres (in Madrid, Barcelona and Lisbon), offering ASP services to businesses.<sup>61</sup>

In November 2000 a strategic accord was announced between Jazztel and construction group, Dragados SA, which involved their cooperation in broadband communications and IT projects. As part of the deal Dragados took a 2.9 percent share in Jazztel and became entitled to representation on the company's board.<sup>62</sup>

As of the end of 2000 Jazztel had a majority interest (56 percent) in Banda 26 which provides wireless broadband services and in Comersa.com (90 percent) which is involved in video and audio conferencing.<sup>63</sup>

## **Suppliers**

As previously indicated Jazztel owes a debt of gratitude to Nortel which stood by it at a difficult time. Given the strength of the companies' relationship we can expect that most future contracts will go Nortel's way. This is all the more true given that Lucent, Nortel's main rival for a large proportion of telecoms equipment, has been heavily used by Telefonica. Commenting upon the company's preference for Nortel, Varsavsky has commented that:

"...Lucent is close to Telefonica, and we didn't want to work too closely with someone close to Telefonica. So there were political factors, too"<sup>64</sup>

## **Network**

To construct the core of its network Jazztel acquired a 10 year renewable lease for capacity on a 1,622 km fibre cable being laid by RENFE, the Spanish national railway operator. This backbone connected Jazztel's switching centres in Madrid, Bilbao, Valencia, Barcelona and Zaragoza. By leasing capacity on private cables the company subsequently increased its reach to Seville and Malaga.<sup>65</sup>

The network, known as E1-4U, uses SDH technology. In addition to its own national network Jazztel also has plans to install 2,300 km of fibre rings in the form of

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<sup>60</sup> FT (16/11/2000)

<sup>61</sup> Business.com Web site

<sup>62</sup> AFX Europe (13/11/2000)

<sup>63</sup> Ibid

<sup>64</sup> Quoted in Forbes (17/5/99)

<sup>65</sup> Forbes (4/10/99)

metropolitan area networks (MANs) within the cities connected by the backbone network. The national Spanish network will be supplemented by a submarine cable extension to the UK - a project also involving Viatel.<sup>66</sup> In June 1999 Jazztel again teamed up with Viatel in announcing another submarine cable which would loop the Iberian peninsula and link up with Jazztel's terrestrial network.<sup>67</sup>

As of the end of June 2000 the Jazztel network within Spain amounted to 4,224km.<sup>68</sup> The broadband network will initially have a capacity of 20 gigabits-per-second, although this will be expandable to 320 GB/sec should the demand for broadband content grow as new applications are developed.<sup>69</sup>

Jazztel is also turning its attention to Portugal. In early 2000 it was reported that it had reached an agreement with the Metro company in Lisbon to use its transport network for cable laying purposes. Jazztel was also said to be in talks with the Portuguese railway and highway authorities.<sup>70</sup>

At the local level in Spain Jazztel has over 725 km of local access networks.<sup>71</sup> Its local fibre optic connections are supplemented by wireless broadband links supplied by Banda 26 (in which Jazztel has a 56 percent stake).<sup>72</sup> This fixed wireless access capacity has also been heightened through its joint venture with Teligent. Together the two companies intend to cover 100 Spanish cities. With its local facilities taking shape Jazztel is presenting itself as Spain's first competitive local exchange carrier (CLEC).

## Company Data

### Operational Statistics

Euro Millions		3rdQ 1999	4thQ 1999	1stQ 2000	2ndQ 2000	3rdQ 2000
Revenues		7.7	12.9	23.2	34.2	32.1
Net Loss		77.9	62.1	72.8	64.1	83.4

Source: Company Website

As a recent start-up company Jazztel has little historical financial data. As can be seen

<sup>66</sup> PR Newswire (7/6/98)

<sup>67</sup> FT (8/10/99)

<sup>68</sup> Jazztel Prospectus, SEC, 3/10/2000

<sup>69</sup> Forbes (4/10/99)

<sup>70</sup> FT (15/3/2000)

<sup>71</sup> PR Newswire (6/7/2000)

<sup>72</sup> Business.com Web site

from the above table, however, the company is experiencing fairly steady growth in its revenues, although it is a long way from profitability. In 1998 its revenues totalled Euros 991,000, rising to Euros 22.9 million in 1999.<sup>73</sup> This figure for the whole of 1999 was surpassed by the end of the company's first quarter of 2000.

The company's revenues for the third quarter 2000 of around Euros 32.1 million (\$26.9 million) were up by 322 percent compared with the previous year.<sup>74</sup> Compared with the previous quarter, however the revenues were flat. This was explained by the company via reference to the quiet nature of the summer months.

In a press interview in mid-2000 Varsavsky indicated that he expected Jazztel to break even in 2004. This long time frame he put down to the costs involved in network construction which would lead to high depreciation write-offs.<sup>75</sup>

## **Employees**

As of the end of June 2000 Jazztel had 865 employees in Spain and Portugal. Ya.com accounted for 254 of these, a part of the workforce which would have been lost with that company's acquisition by T-Online.

## **Addressable Market**

### **Market Size**

Jazztel's own comments on the size of the market in Spain and Portugal are set out in its 2000 Prospectus under the heading "The Iberian Market Opportunity". The following sections are reproduced from that document:

***Large and Rapidly Expanding Economies.*** The Spanish economy is the fifth largest economy in Europe, with a GDP of \$596 billion in 1999. It is also one of the fastest growing economies in the EU, has a population of over 39 million, and attracts an estimated 60 million tourists each year. The Portuguese economy had a GDP of \$112 billion in 1999 and a population of 10.0 million, and attracts an estimated 15 million tourists each year.

***Large, Rapidly Growing and Under-Penetrated Telecommunications Market.*** According to the Organization for Economic Cooperation and Development, Spain's telecommunications market was the fifth largest in the EU on the basis of 1997 total revenues with total revenues of approximately \$13.8 billion. The Portuguese telecommunications market generated revenues of approximately \$4.6 billion. Both Spain and Portugal also have a relatively low number of telephone lines per 100 persons when compared to other EU

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<sup>73</sup> Jazztel Prospectus, SEC, 3/10/2000

<sup>74</sup> FT (27/10/2000)

<sup>75</sup> AFX Europe (5/6/2000)

countries. We believe this low penetration, coupled with market liberalization, will result in increased demand for telecommunications services.

***Rapidly Expanding Data and Internet Market.*** We believe there will be substantial growth in data transmission in Spain and Portugal based on what has occurred over time in more mature markets. We believe this growth will be mainly driven by increased Internet usage<sup>76</sup>

## **Target Market**

Jazztel's principal market consists of small and medium sized enterprises (SMEs) in Spain and Portugal. According to the same 2000 Prospectus:

“The majority of these target customers are concentrated in urban areas, which gives us an opportunity to capture a significant share of the direct access segment of the market with only limited geographical coverage”<sup>77</sup>

Increasingly Jazztel is focusing on local loop technology through fixed wireless access and ADSL. This reflects its ambition of becoming an end-to-end voice and data provider across the Iberian peninsula.

## **Stock market**

### **Fund Raising**

In March 1999 Jazztel raised \$210 via a 14 percent, ten-year junk-bonds-with-warrants deal arranged by Credit Suisse First Boston and Merrill Lynch.<sup>78</sup> This bond issue consisted of two tranches, one for EU110 million for European investors and one for \$100 million for U.S. investors - an arrangement which Euromoney described as a "little unusual".<sup>79</sup> The two bonds combined, it suggested, could convert into a total of 10 percent of Jazztel's equity.

The bond issue was nearly two times oversubscribed.<sup>80</sup> The success of the issue prompted the Investment Dealers' Digest to suggest that investors had moved on from the previous year's flight to quality and were prepared to consider higher risk propositions especially in the telecoms sector.<sup>81</sup> According to the FT Jazztel was the first ever Spanish company to use this type of debt instrument.<sup>82</sup>

The FT also reported a syndicated loan worth Euros 300 million secured by the

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<sup>76</sup> Jazztel Prospectus, SEC, 3/10/2000

<sup>77</sup> Jazztel Prospectus, SEC, 3/10/2000

<sup>78</sup> Forbes (4/10/99)

<sup>79</sup> Euromoney (May, 1999: abstract)

<sup>80</sup> Telecommunications (May 1999)

<sup>81</sup> Investment Dealers' Digest (5/4/99)

<sup>82</sup> FT (7/4/99, 12/4/99, 8/10/99)

company in July 1999.<sup>83</sup> It was later reported that the loan, due for repayment in 2008 had been coordinated by Argentaria, Barclays PLC, Dresdner Kleinwort Benson, JP Morgan and Lehman Brothers, with a total of 19 banks participating.<sup>84</sup>

In June 2000 Jazztel raised £225 million from the issuance of high yield bonds, augmented by equity warrants.<sup>85</sup> As of the end of June 2000 the company reported total long-term debt of \$835 million.<sup>86</sup>

## Share Performance

Originally Jazztel had indicated that it intended to float on the Spanish market (Bolsa). The company did not, however, meet the criteria set by the bourse regulator, CNMV, which required that candidates must demonstrate proven profitability. In the end the company opted for Nasdaq and Easdaq. Varsavsky described the attitude of the Spanish stock market as “ridiculous”, and as unsuitable for companies having to make substantial up front investments in infrastructure.<sup>87</sup> In April 2000 El Nuevo Mercado was established in Madrid, a market geared towards fast growth companies. In December 2000 it was reported that Jazztel was on the verge of floating on this market.<sup>88</sup>

In July 1999 the company announced that it would be floating on Nasdaq – an IPO through which it would be aiming to raise \$150-\$200 million. The listing would be organised by Merrill Lynch and Goldman Sachs, and would represent another first for a Spanish company. It also announced it would be raising \$200 - \$300 million via a simultaneous bond issue.<sup>89</sup>

In December 1999 Jazztel held its IPO on both Nasdaq and Easdaq. On Nasdaq the shares were priced at around \$17 and performed strongly rising to a high of \$137 by March 2000. Since then, however, the company, in keeping with many in the sector, has lost a large chunk of its equity valuation. By December 15, 2000, the shares had fallen to \$13.38, having recorded a low of \$9.62 on November 22. As of December 15 Jazztel’s market capitalisation stood at \$787 million.<sup>90</sup>

## Strategy

The company’s mission statement is as follows:

Our objective is to become a leading local access telecommunications, data and Internet services provider in Iberia. We seek to achieve this by building and operating a high capacity network and offering a portfolio of high quality

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<sup>83</sup> FT (8/10/99)

<sup>84</sup> El Mundo (25/8/99)

<sup>85</sup> FT (18/8/2000)

<sup>86</sup> Jazztel Prospectus, SEC, 3/10/2000

<sup>87</sup> Quoted in AFX Europe (5/6/2000)

<sup>88</sup> El Mundo (13/12/2000)

<sup>89</sup> FT (20/7/99, 8/10/99)

<sup>90</sup> Bloomberg.com Web site

telecommunications, data and Internet access services supported by a strong brand identity<sup>91</sup>

While Varsavsky's previous company, Viatel, has been building a pan-European network, Jazztel is focussing exclusively upon the Iberian peninsula. Its high capacity fibre network was aimed initially at the 126,000 companies in Spain's major cities.<sup>92</sup> In particular, the company is focussing upon the broadband local loop to business market, which in the Spanish case is particularly attractive since the incumbent operator, Telefonica, does not offer the service. What is more is that Telefonica is under close scrutiny by a Spanish Government keen to open up the market. As such, it seems to be concentrating its efforts upon television in Spain and expanding in South America rather than crushing a new arrival such as Jazztel.<sup>93</sup>

Initially it was reported Jazztel would be concentrating upon Madrid and Barcelona where a basic connection would be offered for Pta 30,000.<sup>94</sup> In May 1999 Jazztel announced that it would also be offering basic telephony services using an indirect access system.<sup>95</sup> To begin with Jazztel offered local and long distant services over its network. Eventually, however, it plans to offer a full range of data based services, based around the Internet to business customers and private households.<sup>96</sup> This ultimate focus of the company was made explicit by Varsavsky who stated that, "if the Internet is not a big success in Spain, then Jazztel will not be a big success in Spain".<sup>97</sup> In mid-1999 The Observer indicated that there were around 3 million Internet users in Spain.<sup>98</sup> With the proliferation of free Internet access it was accepted that this figure was set to increase dramatically. However, it warned of the possibility of double counting as customers sign up with a number of competing free ISPs.

### **A Two Part company**

Forbes argued that Jazztel was effectively two companies in one.<sup>99</sup> On the one hand it could be viewed as a provider of broadband capacity over its network for voice and data users. On the other hand it also had set its sights on being a broadband Internet content company, supplying goods and services over the Internet.

Its Internet operation was known originally as Jazztel Internet Factory (JIF)(later changed to Ya.com Internet Factory). Customers reached the service through the portal Ya.com (see Acquisitions, above). In order to increase traffic through this portal JIF launched a free Internet service provider called Jazzfree (for which users paid 1.6 pesetas a minute for the on-line connection). Ultimately the company hoped to provide its Internet visitors (which are not restricted to Spain) with a range of e-commerce options. By the end of 1999 its Web site was receiving 27 million "hits" a

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<sup>91</sup> Jazztel Prospectus, SEC, 3/10/2000

<sup>92</sup> Forbes (4/10/99)

<sup>93</sup> Forbes (4/10/99)

<sup>94</sup> El Pais (5/2/98)

<sup>95</sup> PR Newswire (19/5/99)

<sup>96</sup> Forbes (4/10/99)

<sup>97</sup> Quoted in Forbes (4/10/99)

<sup>98</sup> The Observer (15/6/99)

<sup>99</sup> Forbes (4/10/99)

month, and the company was recruiting multilingual staff in order to establish a pan-European presence. Additional revenues were also anticipated through the sale of advertising space.<sup>100</sup>

It was anticipated that JIF would be taken public in the year 2000 with Credit Suisse First Boston earmarked to manage the IPO.<sup>101</sup> As already indicated, however, the Internet company was sold to T-Online in the summer of 2000. As such, Jazztel can no longer be seen as a two part operation. Rather it is now focussed upon establishing itself as a facilities-based operator in the Iberian Peninsula with a network presence at both the local and national level. During 2000 it sought to augment its local network. In March 2000 Jazztel started providing ADSL services.<sup>102</sup> It also began to focus increasingly upon fixed wireless services.

## **Wireless Operations**

When asked about the company's plans for wireless operations, Varsavsky replied that, "if it's broadband and it's in Iberia, we want it."<sup>103</sup> As stated earlier the company's attempts to secure UMTS licences in Spain and Portugal have come to nothing. In the realms of fixed wireless, however, Jazztel has made more progress. Through its alliance with Teligent it aims to offer fixed wireless services in 100 Spanish cities. It is also pursuing its broadband fixed wireless strategy through its majority interest in Banda 26.

## **Portugal**

From 1 January 2000 the Portuguese fixed-telephone network was privatised. The Institute of Communications sought applications from independent operators interested in supplying fixed-line services. Jazztel was one of at least nine interested parties and succeeded in securing an operator's licence. With the company already well established in Spain it should not prove too problematic to extend its reach into Portugal. Certainly it has a substantial advantage over any company hoping to target the Portuguese market from scratch. As indicated in the Investors section Jazztel is actively seeking equity partners within Portugal. It is also negotiating with the owners of rights of way (e.g. the metro in Lisbon) in order to expand its network.

## **Branding**

The importance of branding to Jazztel is made explicit in its mission statement reproduced at the beginning of this section. With an aggressive advertising campaign, including regular TV shots, Jazztel quickly became widely known in Spain. According to one report the company has a brand awareness level of 60 percent, compared with 47 percent for Amazon.com.<sup>104</sup> The company has made explicit is

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<sup>100</sup> Forbes (4/10/99)

<sup>101</sup> Forbes (4/10/99)

<sup>102</sup> Business.com Web site

<sup>103</sup> Quoted in Forbes (4/10/99)

<sup>104</sup> FT (11/2/2000)

approach to branding, stating that:

We believe that a branded approach to telecommunications services is important to our success and that our brand position and awareness will become an increasingly important tool<sup>105</sup>

## **Competition**

### **Telefonica**

As already indicated in the strategy section, the main force in the Spanish market - Telefonica - seems to have allowed Jazztel a certain amount of breathing space. As with many incumbents, however, Telefonica has proved adept at slowing down the process of liberalisation (see Additional Threats section).

### **Other Competition**

When assessing the likely new-entrant competitors in Jazztel's operating area, Varsavsky has commented that:

"...most of these companies have \$500 million to invest in Europe. We have \$500 million to invest in Spain...We have the strategy of being ubiquitous in Spain".<sup>106</sup>

The companies awarded fixed telephony licences for Spain in December 1998 apart from Jazztel were BT Telecomunicaciones, Colt Telecom, Comunitel Global. and Esprit (now part of GTS) which took two licences.<sup>107</sup> Other competitors in Spain include Euskatel and Uni 2 (run by Lince Telecomunicacion) and RSL Communications. Recent entrants include Grapes Communications and ONO.<sup>108</sup>

### **BT Telecomunicaciones**

BT has announced that it intends to invest Pta148bn over a 10 year period to create its own network in Spain.<sup>109</sup> Like Jazztel, BT also announced that it was intending offering indirect access services within Spain. Both companies intended using the same indirect system as Retevision and Uni2, the Spanish communications group.<sup>110</sup> BT already had a substantial interest in the Spanish market through its equity holding in mobile operator, Airtel.

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<sup>105</sup> Jazztel Prospectus, SEC, 3/10/2000

<sup>106</sup> Quoted in Forbes (4/10/99)

<sup>107</sup> Il Sole 24 Ore (4/12/98)

<sup>108</sup> Jazztel Prospectus, SEC, 3/10/2000

<sup>109</sup> PR Newswire (22/5/99)

<sup>110</sup> PR Newswire (22/5/99)

## **Colt**

Colt is also busy laying fibre in Madrid - following its strategy of cherry-picking the most lucrative financial districts throughout Europe.

## **Esprit**

Esprit is active in Spain and is already competing with Jazztel in offering long distance services. This company has also focussed strongly upon the SME sector as its target market. As of December 2000 there was widespread speculation that Esprit may be sold by its parent, GTS, which was experiencing increasing cash flow difficulties.

## **Retevision**

Retevision is often described as the "second Spanish telecommunications operator". It has 2 million lines (compared with Telefonica's 18 million) and 1 million customers of whom 250,000 are businesses. It started operating in January 1998. Antonio Canton left the company in January 1999 to join Jazztel.<sup>111</sup>

In 1999 Retevision took issue with the content of some of Jazztel's advertising which was to be used for its launch. Claiming that some of the content was damaging to its interests, Retevision threatened legal action unless the offending material was withdrawn.<sup>112</sup>

## **Portugal**

In Portugal the main competitors have been identified as Portugal Telecom, Sonae.com SGPS, SA and OniTelecom.<sup>113</sup> Since the opening up of the Portuguese market competition is reported to have been intense.<sup>114</sup> Indeed according to consultants, AT Kearney this level of competition, "is damaging the market, reducing returns that are needed for investment". In their opinion many companies in the region, "are likely to falter" over the next three years.<sup>115</sup>

## **Potential Competition**

### **Mobile**

The mobile operators in Spain are Telefonica, Airtel and Retevision Movil. By teaming up with Deutsche Telecom Jazztel hoped to compete in the third generation

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<sup>111</sup> Le Figaro (19/3/99)

<sup>112</sup> PR Newswire (22/5/99)

<sup>113</sup> Business.com Web site

<sup>114</sup> FT (17/4/2000)

<sup>115</sup> Quoted in FT (17/4/2000)

mobile market. Its application for a licence, however, did not prove successful. Neither did it manage to break into the UMTS market in Portugal.

## **Internet**

In mid-1999 The Observer indicated that there were over 500 ISPs in Spain.<sup>116</sup> With the spread of free Internet access, however, it predicted that those without strong business clients would struggle and that the number would probably settle at 40 to 50 companies. With the sale of Ya.com in 2000 Jazztel is now much less exposed to the Internet sector.

## **Other Threats**

### **Problems with Deregulation and Strong Incumbents**

As a new operator in a newly deregulated market Jazztel is vulnerable to both national regulators who are dragging their feet and incumbents who are surreptitiously engaging in rear guard defensive action. Varsavsky's former company, Viatel, has acknowledged this danger, indicating that while EU members have been obliged to enact legislation to open up their telecommunications markets, certain obstacles remain. In relation to the removal of national restrictive practises, for example, it has stated that, "in certain cases this has been done on an inconsistent, and sometimes unclear basis".<sup>117</sup> The incumbents, of course, are only too quick to shelter their businesses behind any barriers which remain. As Michael Mahoney, CEO of Viatel, has put it:

"Liberalization and deregulation do not necessarily mean that the incumbents are going to throw the door open to new entrant carriers"<sup>118</sup>

This tendency has also been commented upon by Price Waterhouse Coopers who stated that:

"...a shrewd telco will use what remaining degree of regulatory freedoms it still possesses to buy time while it sets about reshaping itself"<sup>119</sup>

Business Communications Review offered a comparison of the European and American experiences and concluded that:

"...while regulatory structures differ, the attitude of incumbent carriers is similar no matter where they're found around the globe. The European PTTs are using the same delaying tactics seen in the U.S. during the early 1980s"<sup>120</sup>

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<sup>116</sup> The Observer (15/6/99)

<sup>117</sup> SEC, Viatel 10k Report, 1998, p35

<sup>118</sup> Quoted in Global Telecoms Business (Feb/Mar 1999)

<sup>119</sup> Quoted in Global Telecom Business (October 1999)

<sup>120</sup> Business Communications Review (July 1999)

## **Dealings with Telefonica.**

While Telefonica has been careful not to be seen to be hostile to new competitors such as Jazztel that is not to say that it has sought to ease their arrival into the industry. El Pais reported that Telefonica had been accused of indicating to its new competitors that a basic telephony interconnection agreement would be forthcoming much quicker if it was restricted to standard voice services.<sup>121</sup> More sophisticated services, on the other hand, could take up to the maximum legal period of 18 months, by which time those operators who had accepted the "basic" option would have established a lead.

In early 1999 it was reported that the CMT had begun proceedings against Telefonica over interconnection disagreements with Colt.<sup>122</sup> According to the British company Telefonica had initially insisted on a confidentiality clause prior to opening negotiations. It was also reported that Jazztel had asked for the CMT's support in its dealings with Telefonica.<sup>123</sup>

## **Problems with the Regulator**

In September 2000 Jazztel saw the other side of the CMT when it was announced that Jazztel itself was being investigated for allegedly failing in its obligation to allow new Internet operators access to its network. If the alleged infraction of the CMT's code was verified Jazztel could face a financial penalty.<sup>124</sup>

## **Bandwidth Glut**

In the autumn of 2000 the European network operator Iaxis filed for bankruptcy. For many observers the failure of Iaxis was seen as confirmation of the "bandwidth glut" thesis. With the rapid application of new digital technologies the shortfall in data transmission capacity across Europe and between Europe and the U.S is being quickly addressed. With the proliferation of new entrants laying their own network the prospect of over supply has become a reality. This was recognised by the FT which stated that:

"if the growth in data fails to match the growth in capacity, further consolidation will leave a few large groups fighting over distinctly thin pickings"<sup>125</sup>

In early 1999 GTS pointed out that it had sunk enough fibre cabling across Europe to carry 20 times the total current traffic across the continent. The FT picked up on the inherent danger within this emphasis upon capacity, pointing out that GTS was only one of a dozen operations constructing state of the art pan-European networks. The consultancy, Analysys, put the number of telecom firms across Europe which intended

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<sup>121</sup> El Pais (4/12/98)

<sup>122</sup> La Tribune (13/2/99)

<sup>123</sup> Ibid

<sup>124</sup> Expansion (21/9/2000)

<sup>125</sup> FT (9/12/98)

to create their own facilities at around 140.<sup>126</sup> Such a proliferation, suggested the FT, "will see the death or withdrawal of some of the weaker operators, particularly among the later entrants".<sup>127</sup>

The FT later confirmed its view that the collapse of Iaxis was essentially down to the changing economics of the industry. In particular it suggested that the company ran into difficulties because wholesale prices fell so fast during its initial network construction phase that it could not raise additional finance for the remainder of its network.<sup>128</sup> Falling prices meant that in the eyes of its financial backers an expanded broadband network did not look like a wise investment.

This focus upon the basic economics of the industry was also apparent in Ovum's post mortem on Iaxis, in the course of which it stated that:

"With all these new networks there has been a step change in supply without an equivalent step change in demand...It won't be the last casualty along the way".<sup>129</sup>

In the case of Jazztel it could be argued that its focus upon the Iberian peninsula could protect it to some extent from the fate which befell Iaxis. While there may be a large degree of truth in the "bandwidth glut" thesis when applied to the whole of Europe, few observers could argue that in the case of Spain and Portugal there is currently an excess of capacity. By focussing upon one of the least developed geographical areas Jazztel seems better placed to remain competitive. It is the pan-European network builders such as GTS and Viatel which look most vulnerable. Varsavsky's former company, Viatel, has witnessed a much more severe decline in its share price than Jazztel.

## **Changing Financial Environment**

As alluded to above the mood of the markets has swung against the telecoms sector and in particular against those companies involved in pure bandwidth provision. Jazztel, for example, has seen its share price decline by 80 percent over the last year, with the likes of Viatel down by almost 94 percent.<sup>130</sup> This level of decline could severely impact upon the company's future attempts to raise capital through the issuance of bonds or further equity. Towards the end of 2000 concerns were increasingly expressed that the banking industry had become over-exposed to the telecoms sector and that future lending activity would be on a much smaller scale than in the previous few years. In the UK The Financial Services Authority (FSA) advised banks to be vigilant as to the extent of their exposure to the sector in the wake of the large amounts borrowed for 3G licences.<sup>131</sup> Given the change in the mood of the financial markets the telecom operators could face severe problems in raising

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<sup>126</sup> FT (17/3/98)

<sup>127</sup> FT (18/3/99)

<sup>128</sup> FT (6/9/2000)

<sup>129</sup> Quoted in Communications Week International (25/9/2000)

<sup>130</sup> Bloomberg Web site.

<sup>131</sup> FT (7/12/2000)

sufficient capital to stay afloat. In this respect it is interesting to note that two of Jazztel partner companies, Telemonde and Teligent, are among those companies seen as most vulnerable. Should either of these operators cease operations then Jazztel would naturally be affected.

With capital markets proving difficult many telecom companies have sought vendor finance from their equipment suppliers. In the case of Jazztel, for example, it has already benefited from this type of arrangement with Nortel. In the future, however, these companies are likely to face pressure from their own shareholders to be more restrictive when entering into such arrangements. The collapse of Iaxis, which affected suppliers such as Ciena, is bound to make supplier companies think twice before entering into credit arrangements. In this case Ciena announced that it was writing off the \$28.2 million owed to it by Iaxis, an announcement which led to the temporary suspension of trading in its shares on the Nasdaq exchange.<sup>132</sup> Ciena's shares later fell by 6 percent on the news.<sup>133</sup>

With their share prices faltering companies such as Jazztel, which make extensive use of stock options, could find it more difficult to retain key staff. It seems probable, for example, that the departure of Antonio Canton from Jazztel in the second half of 2000 was not unrelated to its falling share price. Already some companies, such as Sprint in the U.S., have reacted to the new market realities by repricing their stock options.<sup>134</sup> Jazztel may well find itself under pressure to follow suit or face the prospect of its existing stock options losing a large part of their appeal.

As a company whose market capitalisation has fallen by 80 percent in a year Jazztel has emerged as a much more affordable takeover target. Its geographical concentration could make it particularly attractive to one of the European incumbents, such as Deutsche Telekom, which wished to extend its reach to the Iberian peninsula.

## **Technological Change**

Related to the problem of over capacity is the speed of technological change within the telecoms industry. Until now new wave companies such as Jazztel have used the technological advances of the past few years to undercut the incumbent carriers burdened as they are with antiquated networks. As time passes, however, innovators such as Jazztel might see themselves being overtaken by technical advances (e.g. by satellite-based systems). This danger has been recognised by the FT which in a discussion of Colt, one of Jazztel's competitors in Spain, indicated that:

"what is becoming rapidly apparent... is that even sophisticated new operators are being caught out by the speed of technological progress"<sup>135</sup>

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<sup>132</sup> AFX Europe (5/9/2000)

<sup>133</sup> The Wall Street Journal (6/9/2000)

<sup>134</sup> FT (17/10/2000)

<sup>135</sup> FT (18/3/99)