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The power to build business

DragonWave has its sights set on big U.S. carriers AT&T, Verizon
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Traffic jams on wireless networks due to iPhone and other smartphone users surfing the Internet and downloading video are an opportunity for DragonWave CEO Peter Allen.

"The pressure on the mobile network is increasing dramatically, and frankly people who have got iPhones consume more of the Internet," Mr. Allen said from the tech company's Ottawa headquarters.

"It's creating more traffic and it's moving into mobile settings. So that's where we're involved."

DragonWave Inc. ([TSX:DWI](#)) makes equipment for telecom companies that are building advanced networks with the goal of making mobile speeds similar or faster than the broadband experience at home and to ease congestion.



Peter Allen, CEO of DragonWave Inc.
(Etienne Ranger, OBJ)

The company has already won key U.S. customer Clearwire, which is building a next-generation WiMax network that has started to launch in large U.S. cities.

"They've been very aggressive in their buildout and, of course, we've benefited from that."

Clearwire which had been having some funding problems has secured an additional \$1.5 billion to further expand its network across the United States.

Mr. Allen said U.S. carrier Sprint is also a DragonWave customer and the company is also looking for wins with AT&T and Verizon Wireless.

But he said DragonWave isn't alone on that front.

"Most of the world with us is competing for AT&T and Verizon right now. So that's what we're after in North America."

National Bank Financial analyst Kris Thompson said he expects Clearwire to remain an important customer in the next few years for DragonWave, it could be joined by AT&T and Verizon as they build their new networks.

"Our understanding is that DragonWave has been short-listed as a qualifying vendor into the Verizon Wireless deployment," Mr. Thompson wrote in a recent note.

"We expect AT&T to be at least several months behind Verizon Wireless in awarding contracts that DragonWave can bid on."

Mr. Allen said 68 per cent of the companies revenues are from North America.

Pacific Crest Securities analyst James Faucette said the opportunities for DragonWave to bid on contracts with Verizon and AT&T aren't likely to come until late next year.

"While there has been obvious and understandable concern regarding DragonWave's customer concentration with Clearwire (77 per cent of revenue in the August 2009 quarter), we now believe that Clearwire will be able to maintain its buildout plans during all of 2010 and 2011 now that it has raised additional capital," he wrote in a research note.

DragonWave was formed in 2000 and has about 250 employees and also has offices in U.K., France, Dubai and Singapore. Its competitors include Israel's Ceragon Networks and U.S.-based Harris Stratex.

In October, the company listed on the Nasdaq to increase its profile and raised an additional US\$74.5 million in an equity financing.

DragonWave earned \$6.3 million or 21 cents per diluted share for the quarter ended Aug. 31 compared with a loss of \$1.7 million or six cents per share a year ago. Revenue for what was the second quarter of the company's 2010 financial year more than tripled to \$35.5 million, compared with \$10.6 million a year ago.

In its outlook, the company has said it expects revenue for its 2010 financial year will reach at \$150 million.

National's Mr. Thompson said the company has potential to reach \$200 million in annual revenues in its 2011 financial year and a long-term \$20 share valuation.

"Investors should expect this stock to be volatile over the near-term as DragonWave's Nasdaq IPO is concluded and as ownership in the company migrates from a value investor base to a momentum-driven investor base along with a higher concentration of U.S. investors," he said.

-By LuAnn LaSalle, The Canadian Press

