Sage RESEARCH

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Service Provider Confidence Index

July 2002

Service provider optimism fell further this month. Optimism levels have been surprisingly high throughout the year—but steadily dropping. The July data marks the lowest optimism levels of the year, and the index appears to be heading into “low” territory (less than 50).

Service providers continue to report tough current conditions in the telecom industry. The “current conditions” index slipped further this month. It has been firmly in low territory throughout the year, and has fallen 16% since January (despite a slight increase in May).

The most significant positive signs from the July confidence index are slight increases in both the “current conditions” and “optimism” index for **capital spending**. While still in low territory, this is the first upward movement in these sub-indices all year. Following is a summary of July’s results:

Overall capital spending ↑

Thirty-two percent of the respondents report that overall capital spending is higher this quarter compared to the previous quarter. This is the highest it’s been all year (28% reported this in May). For next quarter, 31% expect capex increases compared with 26% that expect decreases.

New development spending ↓

Twenty-nine percent of respondents report that spending on new product/service development is higher this quarter compared to the previous quarter. In May, 34% reported higher development spending.

Revenue ↓

Forty-three percent of respondents report that their organization’s revenue was higher last quarter compared to the quarter before last. This percentage is sharply down from May, when 54% reported revenue increases.

Employment ↑

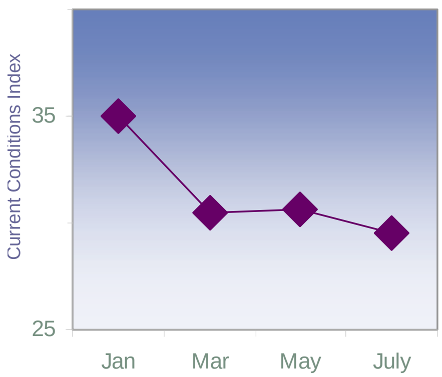
Fifty-one percent of respondents report that employment at their company has fallen in the past six months. In May, 54% reported reductions. The percent of professionals expecting further staff cuts improved slightly from 42% in May to 40% in July.

Investor confidence ↓

More than a fifth of respondents (21%) expect further drops in the NASDAQ index over the next six months. This is up sharply from May, when only 13% expected further drops. Additionally, less than half of July’s respondents expect the NASDAQ to increase (49%), compared with 52% in May.

Overall industry conditions ↓

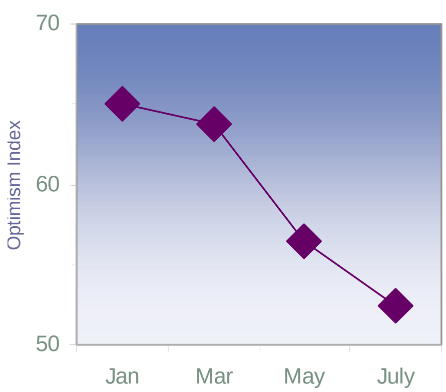
Twenty-nine percent of respondents expect telecom industry conditions to get worse over the next six months. This is up from May, when 24% expected conditions to worsen.



For July 2002, the **current conditions** index fell 4% from the May survey to a low for the year at **29.5**. The index is off 16% since the beginning of the year, when it stood at 35. Service providers continue to consider current conditions to be very bad.

The current conditions index is the average of six sub-indices. Not all of these sub-indices moved in the same direction this month.

- While still low, current **capital spending** conditions actually improved slightly. The index rose 16% to "34."
- **Spending on new product and service development** conditions fell back into "low" territory this month (45).
- The **revenues** index is still in "high" territory (above 50), although it fell slightly from the March survey to 59.
- The **employment** index remains very low (11), although it is actually *up* this month.
- The **investor confidence** index continued its slide this month, falling to a score of 11.
- The **overall conditions** index fell further this month to 12.



The **optimism** index continued its precipitous slide this month, falling 7% to **52.4**. While still clinging to the "optimistic" area of the confidence scale, it is clearly headed into "pessimistic" territory on the current trajectory.

The optimism index is the average of six sub-indices. The biggest drop this month came in the area of investor confidence.

- The **capital spending** index increased slightly to 43. It is still down 20% from January, however.
- The **new product and service development** index fell to neutral (50), the lowest it's been all year.
- The **revenues** index fell to 65 this month.
- The **employment** index rose slightly to 28. It remains the lowest "expectations" score of the sub-indices, however.
- The **investor confidence** index, while optimistic, fell 14% this month to 76—the lowest it's been all year.
- The **overall conditions** index fell to its lowest point of the year (56). This index has fallen 22% since January.

Methodology

The Sage Service Provider Confidence Index is a tracking study with data collected bimonthly. Sage asks its Service Provider panelists a series of questions about their organizations that probe both current conditions and future expectations.

The questions cover six categories: spending on capital equipment, spending on product and service development, revenues, employment, investor confidence, and overall industry conditions. Sage analyzes the responses to these questions to create two indices, **Current Conditions** and **Expectations**.

For each of the six question categories, Sage calculates respondents' **Current Conditions** and **Expectations** values. The Current Conditions Index and Expectations Index are the per respondent means of the values for each question category. These indices are normalized to a scale of -50 to 150. The higher the score, the greater the degree of confidence. A score of 50 is neutral.

More complete details of the Sage Service Provider Confidence Index methodology may be found on the Sage website: www.sageresearch.com.

This is the fourth period of data collection for this tracking study—the first three were January, March, and May. For this period, Sage included responses from 101 service provider professionals, over 40% of which were Director level and above.

Telecommunications service provider types represented in the sample are:

- 26% Incumbent carriers (ILECs, RBOCs, and PTTs)
- 21% Long distance carriers and IXCs
- 21% Competitive carriers
- 18% Internet, web hosting, and other network service providers
- 5% Wireless operators
- 5% MSOs and other cable companies
- 4% Application service providers

Geographically, 71% of the respondents are from North America. Additionally, the survey contains:

- 12% Europe, Middle-East and Africa
- 7% Asia-Pacific
- 7% Latin America