

March 9, 2007

Industry Note

VoiceCon 2007: AV, PLCM, SLNK, INTL, RIMM, RVSN, ININ, CSCO, MSFT

- VoiceCon 2007, which is the premiere conference of the year for the enterprise telephony market, was rather informative, with overall themes of IP telephony adoption, unified communications, and a push towards open standards being the same as last year.
- Microsoft was much higher profile at this show, demonstrating the voice and video capabilities of its Office Communications Server (OCS) Platform, which is due out in mid-2007. Although the company is stopping short of selling OCS as a PBX-replacement, it is clear that future versions will increasingly take on the traditional role of the PBX.
- In the near term, competition levels remain very high in PBX-land, especially with a new slate of IP-PBX vendors and open-sourced PBX vendors starting to gain more traction. We believe this is likely to increase competition levels for SMB deals especially. Our data points from the conference were generally positive for Polycom and RADVISION and somewhat negative for Avaya and Inter-Tel.

Technology

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Avaya – Avaya had the largest and busiest booth at the show, which is typical at VoiceCon. The company continues to push its intelligent communications concept and remains very focused on integrating its telephony applications with various business processes and software. The company appears to be much more committed to opening up to a SIP-based model, as indicated by its recent acquisition of Ubiquity (which makes a SIP application server). Customers we spoke with definitely cheered this move as it will open up a much greater range of application choices going forward. Avaya also showed off a next generation version of IP Office and just prior to the show announced integration with Microsoft's LCS and OCS instant messaging platforms. Avaya's softphone application is now shipping on Lenovo laptops, which looks to be an interesting strategy for driving more awareness of softphone capabilities. Overall, Avaya's increased focus on openness and partnering seems to be a slight strategic change, which may be due to the management turnover last year. Generally, the competitive environment on the high end looks similar for Avaya, with Cisco and Nortel as the substantial competitors for large enterprise deals. But competition for smaller line-size deals is likely greater than a year ago, with a slate of new IP telephony providers becoming larger and stronger and a new breed of open source PBX players, like Digium, showing some early signs of potentially disrupting the industry.

Polycom/SpectraLink – Although Polycom did not have a booth at the show, we met with representatives from Polycom and SpectraLink (which is being acquired by Polycom) at the show. Polycom continues to dominate the market for IP desktop phones, and is the overwhelming vendor of choice for smaller IP-based PBX vendors, which littered the exhibit hall. Polycom's desktop phone business is growing nearly triple digits Y/Y, and our judgment from VoiceCon is that continued strong growth is likely for the foreseeable future as SIP-based IP-PBXs vendors continue to take share. A number of Polycom's customers at the show mentioned to us substantial excitement about having a wireless handset option, which SpectraLink brings to the table. SpectraLink also showcased 2 new handsets at the show, a slimmer/sleeker NetLink handset and a slimmer/sleeker DECT handset from its Kirk subsidiary. Overall, Polycom remains a substantial beneficiary of the strength of SIP-based IP telephony vendors, which were much stronger at this year's VoiceCon than in previous years.

Inter-Tel – Inter-Tel showed off its relatively new 7000 series IP-PBX at the show, which is truly a differentiated phone system. The fact that it is SIP to the core (don't need a gateway), makes it unique relative to Avaya, Cisco and the bigger players in the industry, while its substantial application set separates it from a large number of newer SIP-based IP-PBX players. Sales execution in moving up-market will likely be the major determinant as to whether the 7000 will drive significant new revenue growth at Inter-Tel. Overall, the 7000 is a clear opportunity for Inter-Tel to move up-market, but the company's core SMB segment appears to be getting somewhat more competitive judging from the increased visibility of new IP telephony players at this year's show.

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RIM – Research In Motion had a small booth at the show, and showcased its Ascendent Systems technology (purchased last summer), which enables handsets to integrate with internal PBXs and extends desktop functionality to mobile handsets. It is unclear if RIM will aggressively pursue PBX-BlackBerry integration, as they had seemed to imply when purchasing Ascendent, but it does not appear that this technology will be financially meaningful to RIM in the near term.

RADVISION – RADVISION showcased two significant new capabilities at VoiceCon. First, the company announced SCOPIA desktop, which for the first time integrates the company's Click-to-meet desktop video software with the company's flagship SCOPIA videoconferencing bridge. We believe RADVISION is the first video conferencing vendor to allow desktop video participants to participate in room-based video conferences. Secondly, RADVISION announced support for continuous presence for HD systems on its SCOPIA bridge, which will allow HD and SD video conferencing users to participate in the same conference without end-points defaulting to the lowest common resolution. Only Codian has this ability, but at a retail price point of almost 3x RADVISION. This capability will be a free download for existing SCOPIA customers and is scheduled for Q2:07 general availability. Net/Net, although Codian and Polycom have announced new MCU platforms in the last few months, it appears RADVISION will remain one step ahead in terms of capabilities throughout 2007.

Interactive Intelligence (I3) – We met with representatives from I3 and its Vonexus PBX product line, and the excitement level within the company is clearly very high right now given the strong growth over the last 12-18 months. Generally, I3 received a substantial amount of customer traffic at its booth considering this is typically more of a telephony rather than a call center conference. I3 had by far the largest booth of any call center software vendors at the show. I3 is clearly one of the newer SIP-based IP telephony vendors at the show that had a much higher profile presence at this year's show than in year's past.

Cisco/Microsoft – Cisco and Microsoft had rather large presences at the show. Cisco has now been in the telephony business going on 8 years, and is almost viewed as a legacy competitor at this point. The company continues to build on its applications and announced a deeper integration with IBM, a new MeetingPlace web conferencing application, and a new unified communicator (Cisco's IM). However, video continued to be at the forefront of Cisco's message, with the company providing demos for 3 screen and 1 screen Telepresence solutions (we had not seen the 1 screen before). Although Cisco has been providing desktop video for a couple of years, it has become a larger part of the marketing message.

Microsoft showed off its OCS (Office Communications Server), due out in mid-2007. Although OCS has the ability to process SIP-based IP telephony, it is clear that Microsoft is being very careful not to sell OCS as a PBX replacement due to its lack of applications. However, it is also clear that Microsoft fully expects enterprises to replace a small percentage of PBX lines with OCS and softphone capability for employees that can manage speaking through their PC. We also had a chance to see the company's Roundtable audio/video conference room endpoint. This product still appears awkward to us, and appropriate for more niche applications, but it is unclear if a broader line of endpoints is under development that may encroach on Polycom's substantial share of conference room audio systems.

Public Companies Mentioned in this Report			
<i>Company Name</i>	<i>MK Rating</i>	<i>Ticker</i>	<i>Price</i>
Avaya, Inc.	M-M	AV	\$ 11.95
Cisco Systems, Inc.	NR	CSCO	\$ 26.15
Interactive Intelligence, Inc.	M-S	ININ	\$ 14.01
Inter-Tel, Inc.	O-S	INTL	\$ 23.32
Microsoft Corp.	NR	MSFT	\$ 27.32
Nortel Networks, Ltd.	NR	NT	\$ 28.03
Polycom, Inc.	O-S	PLCM	\$ 32.62
Research In Motion, Ltd.	M-S	RIMM	\$ 136.57
RADVISION Ltd.	O-S	RVSN	\$ 22.83
SpectraLink, Inc.	O-S	SLNK	\$ 11.72

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