

Innovance Networks Raises C\$88M Despite Tough Climate

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TORONTO -(Dow Jones)- Innovance Networks, an optical-networking start-up company, raised C\$88 million in new financing despite the slowdown in demand for optical gear.

Innovance of Ottawa raised the money over a three-month period from its existing venture-capital investors led by Advanced Technology Ventures, and two new industry investors JDS Uniphase Corp. (JDSU), a manufacturer of optical networking components, and its rival Corning Inc. (GLW). Peter Allen, Innovance's president and chief executive, declined to specify the contributions by each investor. Innovance was started by a group of former Nortel Networks Corp. (NT) executives and employs more than 310 people. It will use the funds to commercially launch its technology, help potential customers test the equipment and to support the start-up's manufacturing needs. Innovance expects to make its technology commercially available starting in the second quarter. The financing stands out in the current environment, as the major optical-networking companies are suffering because of cutbacks by carriers in capital spending. Last week, Ciena Corp. (CIEN), a manufacturer of optical-switching and transmission equipment for long-haul networks, swung to a loss in its first quarter from a profit in the year-ago period, and slashed its sales projections for the second quarter because of declining capital spending by carriers. Innovance's optical-networking technology is aimed a large North American long-haul carriers, and the start-up is optimistic longer term of a turnaround in demand for long-haul optical equipment. Demand for this type of gear was down in 2001, and "it's my view it is going to remain down in 2002," Allen said. But "the good signs on the horizon are that traffic volumes continue to grow on the backbone (so) some routes on some networks will start to exhaust," generating demand for new equipment, the executive said. Carriers also have started to send out more requests for proposals in preparation for selecting the technology for the next generation of networks they plan to install, Allen said. In addition, carriers are interested in next-generation technology in order to reduce their operating costs and speed up the deployment of additional network capacity between cities in their networks, Allen believes.

Developing All-Optical Switch

Innovance is developing optical equipment, including an all-optical switch to redirect data travelling as light between cities without the need of converting the light into electrical signals during the process. With existing optical-switching technology, light is converted into electrical signals and then back into light as the data are steered between cities. Innovance also develops equipment that allows carriers to put multiple wavelengths on an existing fiber to expand its network capacity. Some carriers have beta-tested Innovance's technology and others are planning to do so, Allen said. He declined to identify the carriers. The financing "is a testament to our solution set and a testament to the traction that we've had with customers to date," Allen said. Still, Innovance faces some stiff competition from established

players such as Ciena and Nortel. Innovance's Allen argues the firm's optical switch, for example, has a competitive edge because both Ciena's and Nortel's optical switches require the conversion of light into electrical signals and then back into light, as data are directed over a long-haul network. Allen believes these so-called OEO conversions impede the network in terms of cost, scalability and service velocity. However, some might question whether carriers would take a chance on Innovance, regardless of the merits of its equipment, because of the firm's small size and relatively narrow product line. ONI Systems Corp. (ONIS), a developer of optical networking equipment for city networks, recently agreed to be acquired by Ciena, in part because carriers were concerned about the breadth of ONI's product line and the customer support available from ONI as a stand-alone entity. Innovance's Allen is betting his firm can win business without offering carriers one-stop shopping for all their network needs. "I believe in best of breed in various areas of the network," Allen said. He points to the success of Juniper Networks Inc.(JNPR), a developer of Internet routers, to support this view. "They seem to have done quite well focusing on those products," he said. However, Juniper's stock price has been under pressure lately following reports from market research firm Dell'Oro Group that Juniper lost share in the fourth quarter in the router market to Cisco Systems Inc. (CSCO), its bigger rival. Other participants in Innovance's latest financing include: venture capitalists Morgenthaler Ventures, Thomas Weisel Capital Partners, Azure Capital, Banc of America Securities LLC, KPL Ventures and Archery Capital. Company Web Site: <http://www.innovance.com>
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