

# Globalizing and Growing ADC

An Interview with Robert E. Switz, President and Chief Executive Officer, ADC Telecommunications, Inc., Eden Prairie, Minnesota



Robert E. Switz

**EDITORS' NOTE** Prior to being named to his current posts in August 2003, Robert Switz served as ADC's executive VP and CFO. He has also served as ADC's senior VP, executive VP, and as president of the broadband access and transport group. Prior to joining ADC in 1994, Switz was VP of European operations, ventures, and finance at Burr-Brown Corporation, a company he had worked for since 1988. Prior to that, he held senior financial-management positions at PepsiCo, AMF, and Olin Corporation. Switz serves as a director on the boards of Hickory Tech Corp. and Broadcom Corporation, and was awarded the 1999 CFO Excellence award from CFO magazine. He holds an M.B.A. in finance from the University of Bridgeport, as well as a B.S. in marketing and economics from Quinnipiac University.

**COMPANY BRIEF** Founded in 1935, ADC Telecommunications, Inc., ([www.adc.com](http://www.adc.com)) is a leading provider of global network-infrastructure products and services for the delivery of high-speed Internet, data, video, and voice services to consumers and businesses worldwide. With clients such as large global telecommunications service providers, Fortune 500 enterprises, and major original equipment manufacturers, the company employs approximately 8,600 profession-

als in offices in more than 35 countries, and sells into more than 150 countries. With the acquisition of the KRONE Group in 2004, ADC now offers global copper, fiber, and wireless connectivity solutions and cabling products used in public access and enterprise networks. Traded on the Nasdaq under the symbol ADCT, the company reported sales of \$784 million and net income of \$16.4 million for fiscal 2004.

**Under your guidance, ADC has made efforts to transform its brand. Are you pleased with the public's current awareness of the brand and what it stands for?**

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Yes. We've made significant improvements in brand recognition, but I'm not yet fully satisfied with our brand recognition outside the United States. ADC's brand is very well recognized in North America, where we symbolize quality, service, and reliability, and we are highly valued by our customer base. Outside the United States, we have pockets of strength, but we do not have the same level of ADC brand awareness as we do in North America. After last year's acquisition of KRONE, we determined that KRONE has significant brand strength in Europe and Asia. In response to customer feedback, we created a transitional dual go-to-market brand where we go-to-market in Europe and Asia as ADC KRONE. We have

launched a campaign to increase awareness of our offerings outside the United States. Today, more than 50 percent of our sales come from the Asia Pacific and Europe/Middle East/Africa regions of the world and half of our employees are outside North America. The brand strategy and awareness campaign we are pursuing is the beginning of a long-term program to establish ADC as a global brand and global company.

**Do you see strong opportunities around the globe for the company?**

We see strong global opportunities. Clearly, Europe is a big market for us and will continue to grow over time. There are high growth areas in Europe where the ADC KRONE brand will experience some tremendous growth as communications networks are upgraded and built out to serve developing countries. We're in the process of utilizing our resources in Europe to improve our ability to deliver products and services quickly and efficiently.

Asia and South America are two other areas where we have a sizeable opportunity for growth. The telecommunications market is essentially a global one. Growth is going to come from different places at different times. In order to participate in the full growth of the industry, we really need to be a global company. Our global platform will give us entrée into high-growth, emerging markets.

**What are ADC's key products and services? Which of your products seem best positioned for blockbuster growth?**

One of the most visible areas of growth for ADC is our work with fiber-to-the-premises initiatives. Verizon has led the charge in deploying fiber, and ADC is participating broadly in that space, not only with Verizon, but also with approximately 110 customers who are rolling out a deep fiber initiative. We see it as a several-hundred-million-dollar opportunity over the next few years. Last year was our first year of revenue for that product line, and we saw revenues from that new offering of approximately \$17 million. This year, we've given Wall Street a forecast in

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the range of \$50 million to \$100 million for that product line alone. Over the next couple of years, we expect it to be several hundreds of millions of dollars, because there will also be opportunities for this product in the international markets.

We also expect to see significant growth in the wireless space. We participate today with an innovative, new product called Digivance, which enables the delivery of RF [radio frequency] signals over fiber from a central base station to remote distributed antennas that can be placed just about anywhere. Digivance essentially replaces large cell towers, so they don't draw concern from environmentalists or people who don't want towers erected in their neighborhoods. In addition, Digivance is a very cost-effective solution that provides a 35-percent saving over the traditional cellular base stations, in terms of installation costs and ongoing maintenance. When Digivance hit the market, its revenues grew by several hundred percent in its first two years, and we expect 100 percent growth this year too. This is the tip of the iceberg for this product, because that growth does not reflect a lot of major city upgrades or international market participation, where there is significant appetite for this type of product.

A third growth area for ADC that must be highlighted is the enterprise segment. ADC did not directly serve the enterprise market in a big way until 2004, when we bought the KRONE Group and obtained access to an enterprise product line, a complete family of plugs, jacks, structured cabling, and connector blocks for the full enterprise. Now we're effectively able to take that set of products, in combination with ADC's networking expertise, to create what we call TrueNet™, the most comprehensive solution for the enterprise market offered by any network-infrastructure maker today. We began actively introducing this solution in the U.S. in late 2004, and our numbers are up 30 percent, over last year. The market is itself growing at 8 to 10 percent. So we're clearly growing faster than the market. We'll continue to expand upon

that product offering in the U.S., and with KRONE's established enterprise business, we can take the TrueNet solution to other geographies as well.

In the enterprise market, we also offer an innovative, leading-edge product called CopperTen™, which enables 10-gigabit/second ethernet transmission over copper cable for the enterprise. We were the first to market an offering with this capability, and I believe we are the largest provider of this kind of cabling solution to date. So the enterprise market will provide opportunities for growth during the next several years.

Outside of pure product growth, we look forward to significant growth from cross-selling opportunities between the products we have acquired and ADC products, selling existing products into new markets and selling new product offerings into existing markets. We've seen significant inroads across our sales teams with this new strategy.

**ADC has achieved growth through acquisitions, in addition to organic growth. Will acquisitions continue to be a part of ADC's growth plan going forward?**

Yes. We believe acquisitions can provide scale. We also recognize that the telecommunications industry is consolidating, and that will likely be the case for the next 24 months. During this period of time, we view acquisitions as a vehicle to gain additional critical mass and scale that will help enable ADC to remain strategic and relevant to our customers in the future. These are customers who are large and getting larger via significant mergers and acquisitions among carriers and wireless service providers. Our customer base is consolidating, and so there will be fewer but larger customers who will, quite frankly, expect more of their suppliers. So during this period, we view acquisitions as the ideal strategy for us to rapidly gain scale in our core markets.

To complement our acquisition activities, two years ago I placed a renewed emphasis on internal innovation. I wanted to rev up and energize our internal R&D, and take control of our own destiny by

bringing new products to market quickly and cost effectively. The products that I just referenced – the OmniReach™ fiber-to-the-premises offering and Digivance – fit into that category. With OmniReach we developed products and entered the fiber-to-the-premises market inside of 12 months, and gained substantial market share. This penetration of the telecom outside plant market for a company traditionally focused on the central office equipment and services is significant. With Digivance, ADC brought a completely new wireless network architecture product to market in less than three years, which is fast-paced when you're expecting carriers to make an architectural change. We'll continue to develop products internally, because that capability is essential to long-term success.

**How important are strategic business partnerships and joint ventures to ADC's vision and future growth?**

The right partners can be very valuable to the company's overall success. We certainly partner with resellers in those markets where direct sales coverage is not as cost effective for us to maintain. These resellers help develop the market for us and help ADC's brand become more visible to customers we might not otherwise touch. We also partner with other companies. We have an alliance with Alcatel, for instance to develop an outdoor Wi-Fi hot spot solution and also work with them on some deep fiber initiatives, because we have a part of the solution that they don't. They tend to be a large integrator of some of these projects, and we are happy to step in and provide the physical infrastructure products needed to complete the offering.

In addition, we partner with other companies, such as Cisco, to be a certified installer of their products and assist in the deployment of some of their equipment. We have an OEM (original equipment manufacturer) relationship with Huawei, an emerging company based in China, whereby we resell one of their optical products. In this world, where no company can be all things to all people, the

utilization of constructive partnerships is important. We will continue to use strategic partnerships and alliances as a tool to grow our business when it's beneficial for both organizations.

**Some companies have found it difficult to get Wall Street's attention, and more importantly, its understanding of their vision. Has the financial community gained an effective understanding of your vision for ADC and the changes you've made to the company thus far?**

Yes, I think Wall Street analysts do understand ADC, although the value of that recognition has not been fully integrated into our stock price yet. For the past couple of years, Wall Street has given us great credit for the transformation of the company, for the improvements we have made, for our return to profitability, for our refocused strategy, and for the divestment of underperforming businesses. We received great credit for all of that, and they understand our strategy very well.

The missing piece to generate excitement about ADC on Wall Street was the prospect of significant revenue growth on a sustained basis, along with significantly improved profitability. We have now just reached the point where we will get recognition for growing the company and improving profitability. Our financial results for the first quarter of 2005 exceeded Wall Street estimates and our second quarter dramatically exceeded expectations with 30 percent year-over-year growth, so we are confident that we have demonstrated that our strategy is working. Simply put, it takes a few quarters of "show me" for Wall Street to really get excited, and I think we're there. They've seen our turnaround happen methodically and on time. Everything we said we would do, we did. And now I think they will see the significant improvement in revenue growth and profitability.

**Even though ADC sells technology, the company's human capital must play a vital role in delivering quality service. Have you been happy with ADC's ability to attract and retain talented employees?**

I fundamentally believe in the importance of our people. We can have the greatest technology in the world, but if we don't have good employees and good management, that technology won't serve us well in the long run. The thing I am most pleased with is the strength of ADC's management team and the strength, conviction, and dedication of our employee base. ADC has emerged from the burst of the technology bubble because of our outstanding employees and dedicated management. Our customers recognize the quality of our employees. As far as I'm concerned, the real key to our success has been our human capital. As we grow, we will add to our existing base of employees

and do not see any significant recruiting difficulties for us, particularly given our current performance and our exemplary turnaround and management of the economic downturn. Right now, there are many people in the industry who would quickly join ADC if given the opportunity.

It is also very interesting that many of our former employees have contacted us to seek new opportunities with ADC. So there is a great team in place, and we're not having any difficulty attracting talented people when we need them.



**I'm focused on making sure that we have the adequate scale to remain strategic and relevant to all of our customers.**



**Does the general public's reaction to certain corporations' well-publicized malfeasance concern you? Is it possible to regain the public's faith in the corporate world's integrity?**

I think it is a tragedy because, in relation to the number of enterprises and corporations in this country, the number of infractions is small. That said, I think we are on the right track, but it will take a while for the glow to return to corporate executive management. I think positive things are happening and some of the right things are being done, but I believe many of the regulations have gone too far. I am concerned about their impact on U.S. corporate competitiveness and they discourage risk taking. We had some bad behavior that needed to be dealt with but the pendulum may have swung too far.

**Since assuming the role of CEO, are you still able to spend face time with clients? It must be difficult to budget your time.**

It is difficult, but a priority, to spend time with customers. There is never enough of me to go around. I try to give my attention, at any given moment, to what needs to be accomplished and help to make it happen faster. I skew as much of my time in that direction as I can and ration the other things. That said, the first thing I did when I became CEO was meet our key customers. I placed that as a very high priority. I wanted them to get to know me, and I wanted to get to know them and their views of ADC's perfor-

mance. As time passed, other matters tugged at my time, including divestitures and acquisitions, so I had to make sure that I kept a priority for customer-facing activity. Time management is a very challenging aspect of my job, but my top three priorities include my customers, my employees, and that elusive "other" category that seems to always require my attention.

**You've already achieved great strides in turning the company around, but what will be ADC's key priorities in the years ahead?**

One is scale – the ability to effectively meet customer demands as their needs grow. I believe that scale is essential in a consolidating market. So I'm focused on making sure that we have the adequate scale to remain strategic and relevant to all of our customers around the world. I think total cost leadership will be important to stay competitive as well. At a minimum, we need a cost structure that is competitive and we strive for one that offers us an advantage. These two priorities will support all of our other initiatives.

**And what about your personal priorities? In running a global corporation like ADC, can you ever escape your job and truly relax?**

If you ask my wife, it will take her a nanosecond to say, "No." I've always been a very hard worker, no matter what role I was in, so when I became CEO, I did not think there would be a lot of difference in this role. I was completely wrong. When you run a particular department or hold a particular corporate role, like CFO, there comes a point when you can honestly say that you've done all you can do, that things are running well in your department, and that other challenges are essentially out of your hands. When you run the whole company, the buck really does stop at your desk. The business is global; it's being conducted while you're supposed to be sleeping. It is a "real time" all the time job. Your decisions affect many people around the world: your employees and their families, your shareholders, your community, and your customers. The company's direction, at the end of the day, belongs to you. So I really don't turn it off; I don't have that luxury. I suppose that could be more overwhelming for some people than others. In my case, I'm blessed to have a high capacity for hard work, intellectual challenges, and problem resolution, as well as a very supportive spouse. So, while I can't turn it off, I find it very easy to live with. I will say that as CEO I don't have a huge personal life. So that's a downside. But, that's what happens if you want to do this job effectively. My job is tough but incredibly rewarding, as I am surrounded by great people who supply great products and services to great customers. And our efforts have been validated by our industry leading, year-to-date performance. ●