Challenging the myths about Canadian wireless

CWTA Public Forum on Advanced Wireless Services Spectrum Auction

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Dvai Ghose (416) 687-5307
dvai.ghose@genuitycm.com

Sanford Lee (416) 687-5401
sanford.lee@genuitycm.com
What does the Canadian press think about wireless?
Recent newspaper quotes about Canadian wireless

“Canada is well behind the United States in adopting cellphones and will likely lag even more this year because calling prices are double those south of the border, a Moody’s Investors Service research report says. The main culprit for the discrepancy is a lack of competition among Canada’s three national cellphone providers -- Rogers Communications Inc., BCE Inc., and Telus Corp. -- the report’s lead author Darren Kirk said.” - National Post, January 30, 2007

“The president of Toronto Hydro Telecom Inc. was recently in Germany, where he couldn’t help but get jealous of the cellphone plans on offer. British operator O2 PLC, for example, was touting unlimited calling for 19 euros, about $27, a month. “The equivalent plan doesn’t exist here, or would cost you upward of $80 if it did,” Mr. Dobbyn says. High prices are stifling cellphone uptake and usage and thus preventing Canadians from realizing the true benefits of mobility, which in turn is holding back the country’s productivity growth, he says.” - National Post, November 11, 2006

There is little difference between the service plans carriers offer, their rates are much higher than in the United States, and their profits keep climbing. - Globe & Mail, November 24, 2006

But to a large number of critics and consumers, the industry is more comfortable than cutthroat. Similar rate plans, relatively high prices for high-volume users and no independent competitors to rock the boat are just a few of the reasons why Canada lags much of the industrial world in wireless development. “Consumers in Canada are worse off than consumers in the U.S. because the Canadian carriers don’t have the same intensive desire to win,” adds the vice-president of wireless telecoms at research firm Ovum. - Globe & Mail, November 23, 2006
Myth One - Penetration is lower than in U.S. because prices are too high in Canada

Fact: Penetration is lower in Canada

Fact: Wireless was introduced later to Canada than other OECD countries

Fact: Canada is tracking the U.S. closely on a time adjusted basis

Source: Company reports, broker reports
Myth Two - Canadian ARPU is relatively high because prices are too high

Fact: Canadian ARPU is relatively high due to high usage

Fact: Canadian ARPM is relatively low

Source: Company reports, broker reports
Canada has one of the highest wireless usage rates in the world

European penetration is exaggerated and MOU is deceptively low due to multiple SIM cards

Source: Company reports, broker reports
Myth Three - ARPU is the only indicator of wireless affordability for consumers

Fact: Canada has one of the highest handset subsidies in the world.

Source: Company reports, broker reports
Myth Four - Canadian carriers are under spending on networks

Fact: Canadian wireless capex to sales is comparable with other markets

Source: Company reports, broker reports
Myth Five – Canadian wireless consumers are unhappy

Fact: Canadian churn is relatively low

Fact: Introduction of WNP has not driven higher churn globally

Source: Company reports, broker reports
Myth Six - Wireless is more of an oligopoly in Canada

Fact: Many markets have 3 national carriers

Fact: The top-2 carriers in Canada only have 69% share

# of national wireless carriers and market share of the top-2 carriers

<table>
<thead>
<tr>
<th>Country</th>
<th># of National Carriers</th>
<th>Top-2 Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>96.2%</td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>68.8%</td>
<td>51.8%</td>
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<tr>
<td>Spain</td>
<td>76.3%</td>
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<td>Japan</td>
<td>78.1%</td>
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<tr>
<td>Korea</td>
<td>82.6%</td>
<td>72.4%</td>
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<tr>
<td>Finland</td>
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<tr>
<td>France</td>
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<td>US</td>
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<td>Brazil</td>
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<td>Germany</td>
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<td>Italy</td>
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<tr>
<td>Australia</td>
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<td>UK</td>
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</tr>
<tr>
<td>India</td>
<td>47.4%</td>
<td>51.8%</td>
</tr>
</tbody>
</table>

Source: Company reports, broker reports
Fact: There are many wireless choices for Canadians
Myth Eight – Wireless has always been profitable

Fact: Canadian wireless is just becoming profitable and investments have yet to pay decent returns

IRR = 4.22%

Source: Company reports, broker reports
Conclusions - Not broke, not government’s job to intervene

• Wireless penetration is comparable to the U.S. on a time-adjusted basis

• ARPUs are high due to usage, but ARPMs are relatively low and COA is relatively high

• Direct comparisons with European penetration and usage rates are misleading due to multiple SIM cards

• Many countries have 3-player markets, but Canadians still have ample choice, evidenced by relatively low market share of the top-2 carriers

• Low churn rates suggest relatively high customer satisfaction

• Investment in wireless is comparable to other markets