



THE CONVERGENCE CONSULTING GROUP LTD.

HIGH-TECH • INTERNET • NEW MEDIA • TELECOM

The Battle for the Canadian Couch Potato: Bundling, Television Internet, Telephone, Wireless

April 2010

This document contains valuable confidential information of
The Convergence Consulting Group Limited (TCCG),
which is licensed to TCCG licensees for internal review only.

© 2010, The Convergence Consulting Group Limited.
All rights reserved.

CLIENT CONFIDENTIAL

www.convergenceonline.com
PO Box 540 • Station Q • Toronto, Ontario • M4T 2M5 • (416) 513-9444
info@convergenceonline.com

OTHER REPORTS FROM TCCG

- The Battle for the North American (US/Canada) Couch Potato: New Challenges & Opportunities in the Content Market, April 2010

In addition to publishing reports, The Convergence Consulting Group solves strategic business and technology issues for companies in the high-tech, internet, new media and telecom sectors. For more information on how we can assist your company, give us a call at (416) 513-9444, email us at info@convergenceonline.com, or visit our website at www.convergenceonline.com.

Contents

COMMENTARY	8
SECTION ONE: CANADIAN TV MARKET BATTLE	10
Estimated Canadian Total TV Subscribers by Basic Cable, Digital Cable, Satellite, Telco, 2008-2012.....	10
Canadian Cable Versus Satellite Versus Telco Subscribers: Estimated TV Market Share by Access Method, 2008-2012.....	10
Estimated Canadian Basic Cable, Satellite, and Telco TV Net Subscriber Additions and Growth, 2009-2012	11
Estimated Canadian TV Revenue by Cable, Satellite, Telco, 2008-2012	11
Estimated TV Revenue by Rogers, Shaw, Videotron, Bell Satellite TV, Shaw Direct, 2008-2010.....	11
Canadian Cable, Telco and Satellite TV	12
Estimated Canadian TV Subscribers Ranked by the Six Leading Providers, 2008-2010	12
Estimated Canadian Digital TV Subscribers and Digital Penetration Ranked by the 4 Leading Cable Providers, 2009 and 2010	12
Estimated Canadian Cable and Telco, TV, Internet, Telephone Overlap, 2008-2012.....	13
TV Cord Cutting: The US Shows Some Minimal Impact...In Canada Near Impossible to Prove Anything Statistically Relevant For Now...2009 Best Year for Canadian TV Subscriber Gains Since 2005	14
Bell Satellite TV & Shaw Direct: High ARPU and Leading HD & PVR Penetration, Best Sub Gains Since 2006...Telco TV Expansion and the Digital Transition on the Horizon.....	16
Canadian Cable TV: A Great Run Since 2004... ..	19
Annual Basic TV Subscriber Additions Slowing and We Forecast Will Slightly Decline	19
Rogers, Shaw, Videotron, Cogeco: Basic, Digital, Prices, Bundles, DOCSIS....	20
Canadian Telco TV Analysis: Bell, Bell Aliant, MTS, SaskTel, Telus	22
Estimated Total Canadian Telco TV Subscribers Broken Out by Bell, Bell Aliant, MTS, SaskTel, Telus, Other, 2008-2012.....	22
Bell: IPTV Time is Right...Net-Net Even With Satellite TV Cannibalization Bell Comes out Well Ahead.....	23
Bell Aliant: Fiber Now Part of the Mix, Atlantic Coverage Still an Issue	27
MTS TV	29
SaskTel TV.....	30
Telus TV: Coverage & Capacity Expansion, Smart Pricing	31
Canadian VOD, PVR, HD	33
Estimated Canadian Cable/Telco VOD Revenue, 2008-2012.....	33

Canadian Cable/Telco VOD: Strong Growth, Lots of Potential, CRTC Decision	34
Canadian PVR: Why Penetration is Lower than the US, Canadian PVR Leaders, Aggressive Satellite & Telco TV PVR Pricing...Satellite, Cable and Telco TV Pricing by Provider	36
Estimated Canadian PVR Subscribers by Cable, Satellite, Telco. And By Percentage of Total TV Subs, 2008-2012.....	36
Estimated Canadian PVR Penetration by Cable, Satellite, Telco, 2008-2012.....	36
Estimated PVR Subscribers and Penetration by Bell Satellite TV, Shaw Direct & Rogers, 2009 and 2010.....	37
Canadian HD: Big Subscriber Growth and Trajectory...Pricing, Offers, Channel Counts by Cable, Satellite, Telco Provider	40
Estimated HD TV Subscribers by Cable, Satellite, Telco, and as Percentage of Total TV Subscribers, 2008-2012.....	40
Estimated Canadian HD TV Penetration by Cable, Satellite, Telco, 2008-2012	40
Estimated HD TV Subscribers and Penetration by Bell Satellite TV, Rogers, Shaw Cable, Shaw Direct, Videotron, 2009 and 2010	41

SECTION TWO: CANADIAN RESIDENTIAL INTERNET ACCESS BATTLE..... 45

Estimated Canadian Residential Internet Subscribers by High Speed Cable, Telco, Other Broadband, Dial, and Residential Internet Subscribers as a Percentage of All Canadian Residences, 2008-2012 ...	45
Canadian Residential Cable Versus Telco Versus Other Broadband Subscribers: Estimated Market Share by Access Provider, 2008-2012 .	45
Estimated Canadian Residential Internet Access Revenue by Total High Speed, Cable, RBOC/Telco, Other Broadband, Dial, 2008-2012.	46
Estimated Canadian Residential Cable, Telco, Other Net High Speed Internet Subscriber Additions and Growth, 2008-2012	46
Estimated Share of Canadian Residential High Speed Internet Subscriber Additions by Cable, Telco, Other, 2008-2012	46
Estimated Residential Broadband Internet Access Revenue by Rogers, Shaw, Videotron, Bell/Bell Aliant, Telus, 2008-2010	47
Canadian Residential Cable Versus Telco Broadband Subscribers: Estimated Market Share, 2008-2012.....	47
Top 4 Canadian Cable Companies Ranked by Estimated Residential High-Speed Access Subscribers, 2008-2010, and TV Overlap, 2009 and 2010.....	48
Top 4 Canadian Telcos Ranked by Estimated Residential High-Speed Access Subscribers, 2008-2010, and Telephone Overlap, 2009 and 2010	49
Estimated Canadian Business DSL Subscribers, Business Cable Subscribers, 2009, and by Leading Cable and Telco, 2009	50

Canadian Cablecos Versus Telcos: Market Maturation, Cable Residential Broadband Additions Continue to Far-Far Exceed Telcos, Cable Multi-Product Overlap is Key, DOCSIS...Many Reasons for Telcos to Upgrade Their Residential Wireline Networks	51
Bell Versus Rogers, Videotron, Cogeco: Including Comparative Analysis of Price/Speed/Caps/Bundle Offers	52
Shaw Versus Telus, MTS, SaskTel: Including Comparative Analysis of Price/Speed/Caps/Bundle Offers	58
Bell Aliant Versus EastLink & Rogers: Comparative Analysis of Price/Speed/Bundle Offers	61

SECTION THREE: CANADIAN WIRELINE TELEPHONE BATTLE.... 63

Estimated Canadian Cable Telephone, Residential Cable Telephone, Residential Telco, and Total Residential Telephone Subscribers, 2008-2012.....	63
Estimated Telephone Subscribers by Cogeco, Rogers, Shaw, Videotron, 2008-2012	63
Estimated Telephone Subscriber/Cable TV Overlap by Cogeco, Rogers, Shaw, Videotron, Total Cable, 2008-2012.....	64
Estimated Residential Lines and Line Loss by Bell/Bell Aliant, MTS, SaskTel, Telus, Other Telco, and Percentage Loss, 2008-2012	64
Estimated Residential Lines, Line Loss & Percentage Loss by Bell/Bell Aliant, Bell, Bell Aliant, Bell/Bell Aliant Ontario/QC, Bell Aliant Ontario/QC, Bell Aliant Atlantic, 2008-2012	65
Estimated Canadian Telco Residential Subscriber Loss to Cable Telephone, Wireless Substitution, 2008-2012.....	66
Estimated Canadian Wireless-Only Household Penetration, 2008-2012	66

Canadian Telephone: Cable Telephone Subscriber Additions, Telco Line Losses, Wireless Substitution Major Impact 2011-2012, New Cable Wireless Entrants Will Leverage Multi-Product Overlap	67
Rogers Versus Bell: Rogers Pricing Package Changes Should Make 2010 a Better Year for Telephone Subscriber Additions...Bell's Ongoing Decline...Comparing Bell and Rogers Offers/Prices	69
Videotron Versus Bell: Videotron Continues to Yield Excellent Results, Wireless Will Impact...Comparing Bell and Videotron Offers/Prices	71
Cogeco Versus Bell: Solid Sub Additions, Change of Plans...Comparing Bell and Cogeco Offers/Prices	73
Comparing Shaw Versus Telus, MTS, SaskTel Offers/Prices: Shaw Gains, Wireless...Telus Telephone Price Cuts	74
Comparing EastLink Versus Bell Aliant Offers/Prices.....	76

SECTION FOUR: CANADIAN WIRELESS TELEPHONE BATTLE 77

Estimated Canadian Wireless Subscribers, Net Additions, Subscriber Growth, Population, Penetration of Population, 2008-2014	77
Estimated Wireless Subscribers by Bell, MTS, SaskTel, Rogers, Telus, 2008 and 2009.....	77

Estimated Wireless Service Revenue by Bell, Rogers, Telus, 2007-2009	78
Estimated Voice Revenue and Percentage of Service Revenue from Voice by Bell, Rogers, Telus, 2007-2009	78
Estimated Data Revenue and Percentage of Service Revenue from Data by Bell, Rogers, Telus, 2007-2009	78
Estimated Total, Voice, Data ARPU by Bell, Rogers, Telus, and Percent of ARPU from Voice and Data, 2007-2009.....	79
Estimated Canadian Wireless Subscribers by Shaw, Videotron, EastLink, Globalive, Mobilicity, Public, by Total New Entrants, and by Total Incumbents, 2010-2014	80
Estimated National Subscriber Market Share by Shaw, Videotron, EastLink, Globalive, Mobilicity, Public, Total New Entrants, and Incumbents, 2010-2014	81
Estimated Net Subscriber Additions by Shaw, Videotron, EastLink, Globalive, Mobilicity, Public, by Total New Entrants, and by Incumbents, 2010-2014	82
Canadian Wireless ARPU Goes Negative, Voice Revenue Declines, Data Growth Not Enough to Compensate...Data Drives Incumbent Network Upgrades	83
Comparing Public Mobile & Wind Mobile and Incumbent & Discount Brand Offers/ Prices.....	86
Comparing New Entrant Local & LD Voice, Features, Text Plans to Incumbent and Incumbent Discount Brands	87
Comparing New Entrant Data Plans to Incumbent and Incumbent Discount Brands	90
New Canadian Wireless Entrants: Two Camps with Different Strengths, Strategies and Prospects.....	92
Cable New Entrants: EastLink, Shaw, Videotron Spectrum Capacity, Cost & Location...Roll-Out Plans and Strategy...Winning Customers By Leveraging Multi-Product Overlap and Discounted Bundled Pricing	93
New Entrant Independents: Globalive/Wind, Mobilicity and Public Mobile Spectrum Capacity, Cost and Location...Roll-Out Plans and Strategies...Competitive Pricing Will Drive Subscriber Growth.....	100
Advanced Wireless Spectrum Conditions & Another Auction on the Horizon	107
As In The US, ARPU Will Continue to Decline in Canada...New Cable Wireless Entrants Will Turn Wireless Into a Regional Multi-Product Bundle Battle.....	109
Lower Prices Will Accelerate Wireless Substitution Impacting Residential Wireline Telephone.....	111
Estimated Canadian Telco Residential Subscriber Loss to Cable Telephone, Wireless Substitution, 2008-2012.....	111
Estimated Canadian Wireless-Only Household Penetration, 2008-2012	111

**SECTION FIVE: CANADIAN CABLE, TELCO & SATELLITE BUNDLE
BOTTOM LINE 114**

SECTION SIX: PROFILES..... 115

BCE Inc./Bell Canada/Bell Aliant..... 116
Cogeco..... 123
EastLink 125
Globalive/Wind 126
Manitoba Telecom Services Inc. 129
Mobicity 131
Public Mobile Inc..... 132
Rogers Communications Inc. 134
Saskatchewan Telecommunications..... 136
Shaw Communications Inc./Shaw Direct..... 138
Telus Corp. 141
Videotron/Quebecor Inc..... 144

Commentary

Now in its eighth year of publication, **The Battle for the Canadian Couch Potato: Bundling, TV, Internet, Telephone, Wireless** (April 2010, 145 pages) contains analysis of product offers (including price comparisons), strategy, and subscriber / financial performance metrics by **Company** as well as by overall **Market**. In addition to Convergence analysis, sources include hundreds of Company interviews, quarterly / annual reports & presentations.

Please see Table of Contents for more of what is included in this Report, as Report also breaks out by Company:

Between Cable DOCSIS 3.0 upgrades, Telco TV / Internet network upgrades, the upcoming Digital Transition, and new wireless entrants, the Canadian market is in transition.

Despite wireless data's 36% revenue growth in 2009, total wireless service ARPU declined. New wireless entrants will increasingly put pressure on both data & voice prices (the US has already seen major impact in this regard) leading to lower ARPU (at least over the next three years), regional (West, Quebec, Atlantic) bundle battles, a shift in wireless market share & an increase in wireless substitution.

We forecast, that new cable and non-cable wireless entrants will capture, 22% of the Canadian wireless market by YE2014. Note: YE is year-end.

We estimate wireless-only Canadian households at 8% YE2009 and forecast 19% YE2012. In 2009, just 28% of the Telcos residential wireline telephone loss was due to wireless substitution; we forecast this will climb to 52% in 2011. 2009 Telcos residential wireline telephone line loss was 7%; we forecast 8% for 2010, and 9% for 2011 & 2012.

Cable represented 28% of residential wireline telephone subs YE2009, up from 24% YE2008, we forecast 32% YE2010. Cable's high overlap of TV & broadband subs, bundled price and convenience have been key to its telephone sub additions (and will be key to Shaw, Videotron & EastLink's wireless sub additions).

2009 saw the largest amount of TV subscribers added in Canada since 2005. Though we have modeled minor US TV Subscriber Cord Cutting statistics, our analysis shows it is challenging to claim anything statistically relevant for Canada; we expect to uncover minor evidence of Canadian TV cord cutting in 2011-2012.

Although Cable has added basic TV subs every year since 2004, we are forecasting based on Bell's new wireline TV strategy, Telus' recent traction, Bell Aliant's expansion (as well as MTS & SaskTel), that Cable, despite the upcoming digital transition will not see TV subscriber gains going forward (through 2012).

We forecast that Cable will drop from 71% of the 2009 TV sub market to 67% YE2012, while Telcos will grow to 11%, from 4% at YE2009. We also forecast that Satellite (we have quantified Bell Telco TV-Satellite cannibalization) will also decline from 25% to 22.5%.

2009 TV access revenue was \$7.94 billion; we forecast 7.5% revenue growth in 2010. At YE2009, 20% of TV subs had PVR and 30% had HD; we forecast PVR at 35% and HD at 56% respectively YE2012. 2009 Cable/Telco VOD revenue grew 23%.

Telcos drive to upgrade their wireline networks is also about residential broadband access.

Cable added (in most cases Cable offers the same or more speed for the price than Telcos, and have more capacity with DOCSIS 3.0) 4 times the residential broadband subs as the Telcos in 2009, up from 2.5 times as many in 2008.

Cable represented 59% of the residential broadband sub market YE2009; we forecast 60% in 2011.

Telcos ongoing residential telephone line loss creates a declining base to gain or retain broadband subs.

2009 Canadian residential broadband access revenue was \$4.23 billion; we forecast 8% revenue growth in 2010. YE2009 Residential Internet penetration was 74%.