THE CONVERGENCE CONSULTING GROUP LTD.

HIGH-TECH • INTERNET • NEW MEDIA • TELECOM

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

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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%.