State of the Telecommunications Market

Stratecast | FROST & SULLIVAN

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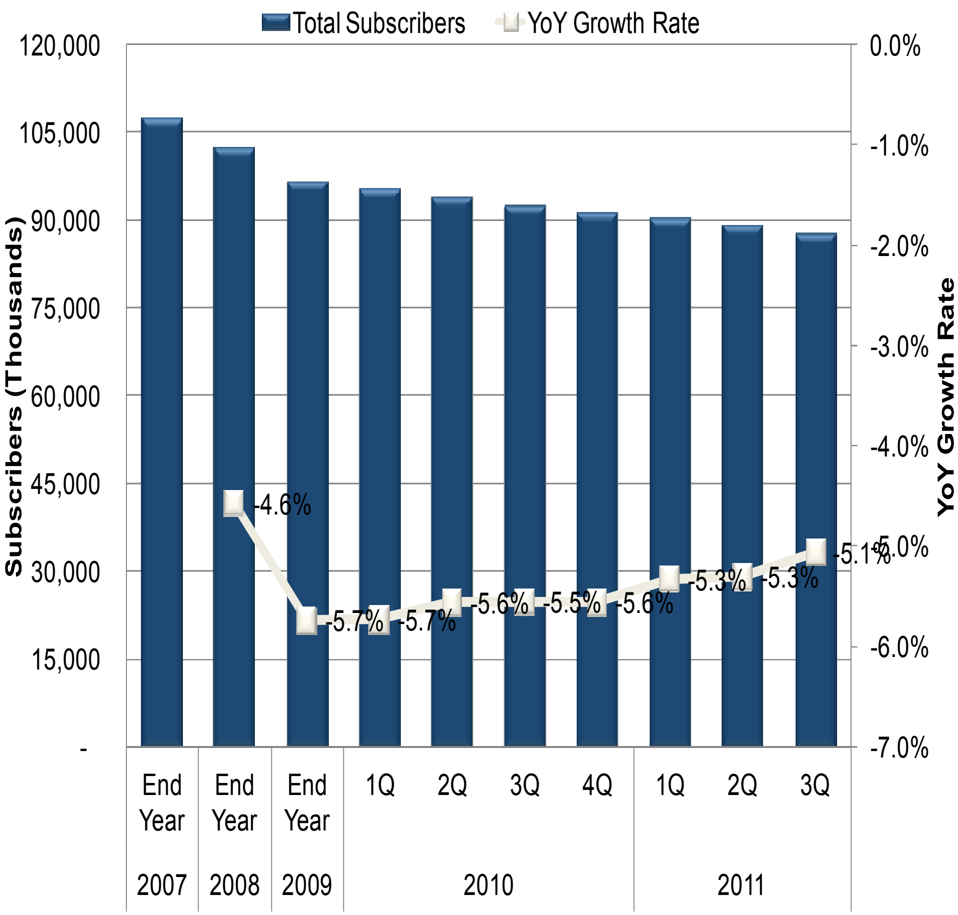
2012
SERVICE EXCELLENCE
SUMMIT

Agenda

- Introduction
- State of the Current Market
  - Declining voice service market
  - Shift from video to broadband
  - Mobility on the rise
- The End of the Current Paradigm
  - Economic turmoil
  - Changing nature of work
  - Connectivity implicit
  - Value perception above access
- The New Paradigm
  - Focus on integration
  - Emergence of the connected home
  - A broadband world
- Conclusions and Recommendations

State of the Current Market

Voice Services

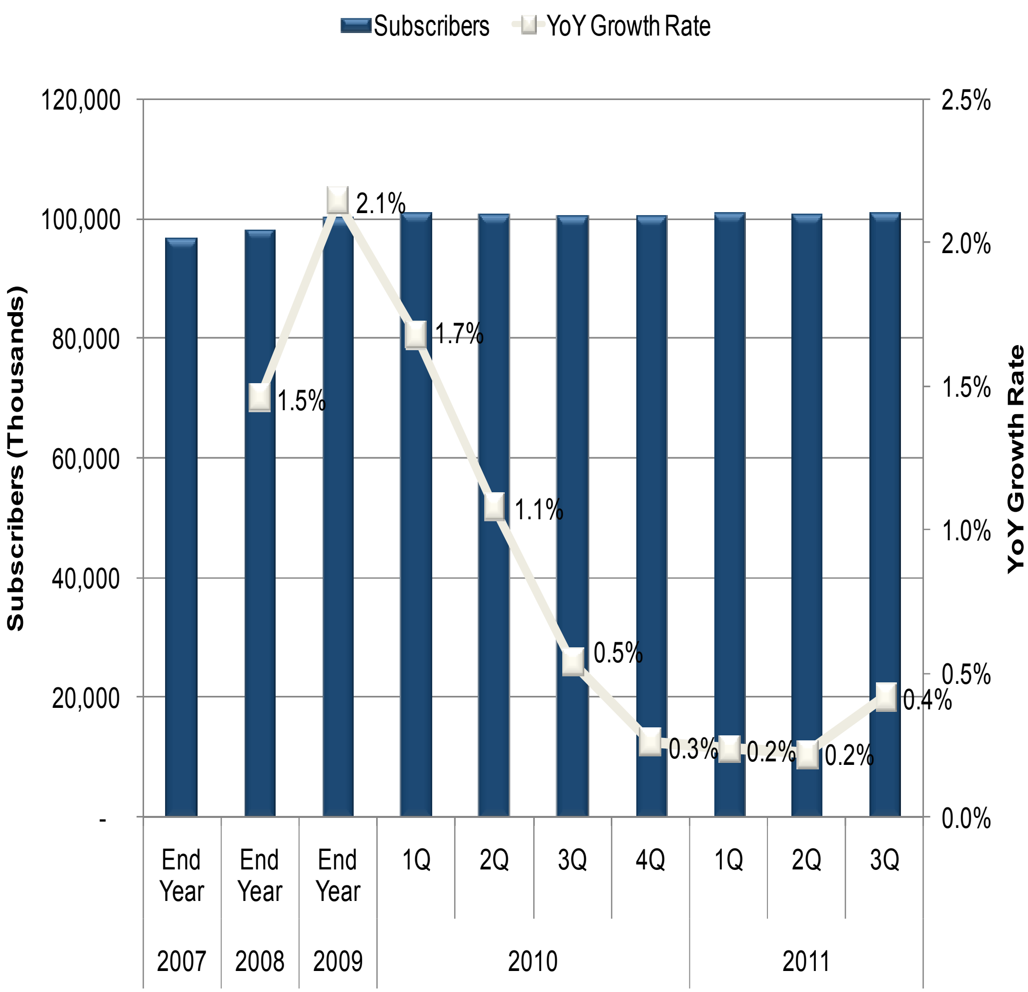


Nine Months Ended 2011 Stats

Subscribers *(Thousands)*		**Sub Market Share**	
Cable	25,759	Cable	29.3%
Telco	59,798	Telco	68.1%
VoIP	2,272	VoIP	2.6%
Total	87,829	Total	100.0%
Revenue *($Million)*		**Sub Net Adds/(Loss)** *(Thousands)*	
Cable	$8,018	Cable	1,770
Telco	$18,181	Telco	(5,077)
VoIP	$626	VoIP	2
Total	$26,825	Total	(3,305)

Note: All figures are rounded. Source: Frost & Sullivan analysis.

Video Services

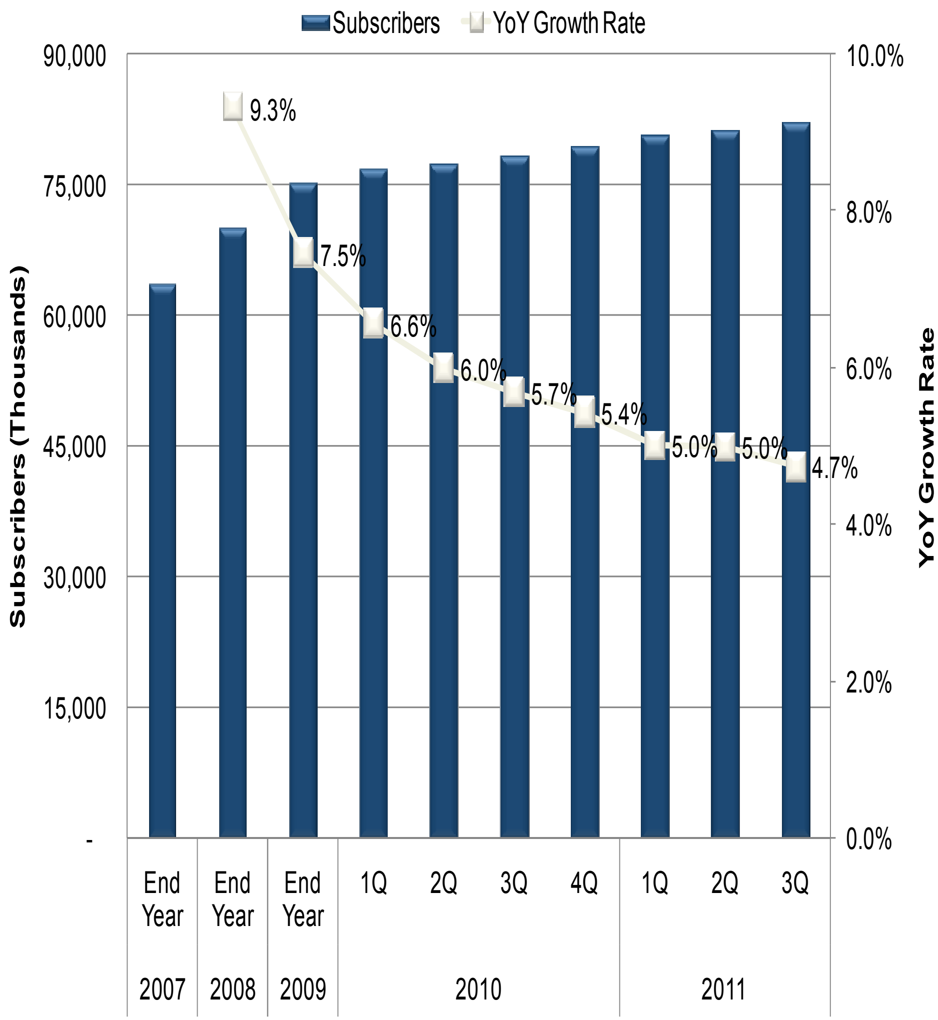


Nine Months Ended 2011 Stats

Subscribers *(Thousands)*		**Sub Market Share**	
Cable	58,601	Cable	58.1%
IPTV	8,600	IPTV	8.5%
Satellite	33,705	Satellite	33.4%
Total	100,906	Total	100.0%
Revenue *($Millions)*		**Sub Net Adds/(Loss)** *(Thousands)*	
Cable	$39,020	Cable	(1,248)
IPTV	$5,807	IPTV	1,254
Satellite	$26,257	Satellite	272
Total	$71,084	Total	278

Note: All figures are rounded. Source: Frost & Sullivan analysis.

Broadband Services



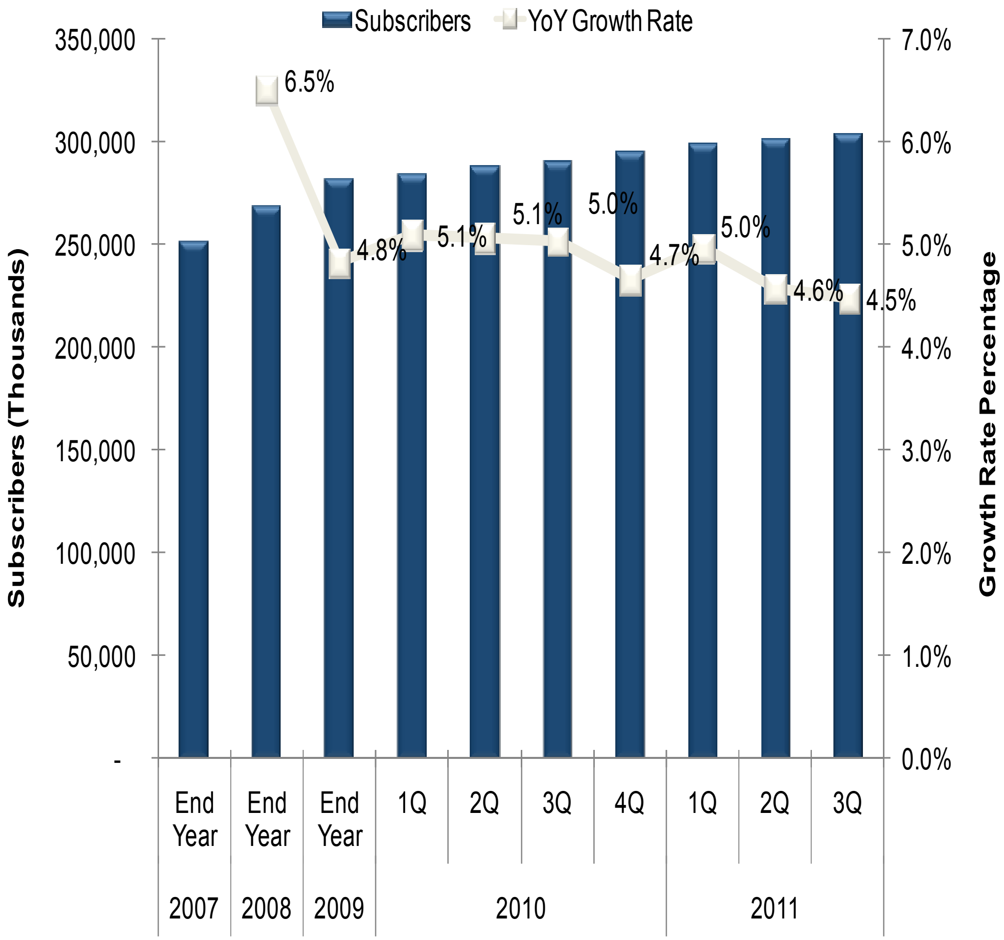
Nine Months Ended 2011 Stats

Subscribers *(Thousands)*		**Sub Market Share**	
Cable	45,319	Cable	55.2%
DSL	28,023	DSL	34.2%
FTTx	7,636	FTTx	9.3%
Satellite	1,054	Satellite	1.3%
Total	82,032	Total	100.0%

Revenue *($Millions)*		**Sub Net Adds/(Loss)** *(Thousands)*	
Cable	$16,333	Cable	1,700
DSL	$10,580	DSL	(14)
FTTx	$3,893	FTTx	914
Satellite	$681	Satellite	61
Total	$31,487	Total	2,661

Note: All figures are rounded. Source: Frost & Sullivan analysis.

Wireless Services



Nine Months Ended 2011 Stats

Subscribers *(Thousands)*		**Sub Market Share**	
Postpaid	232,001	Postpaid	76.3%
Prepaid	72,103	Prepaid	23.7%
Total	304,104	**Total**	100.0%
Revenue *($Millions)*		**Sub Net Adds/(Loss)** *(Thousands)*	
Postpaid	$139,628	Postpaid	2,785
Prepaid	$14,309	Prepaid	6,276
Total	$153,937	**Total**	9,061

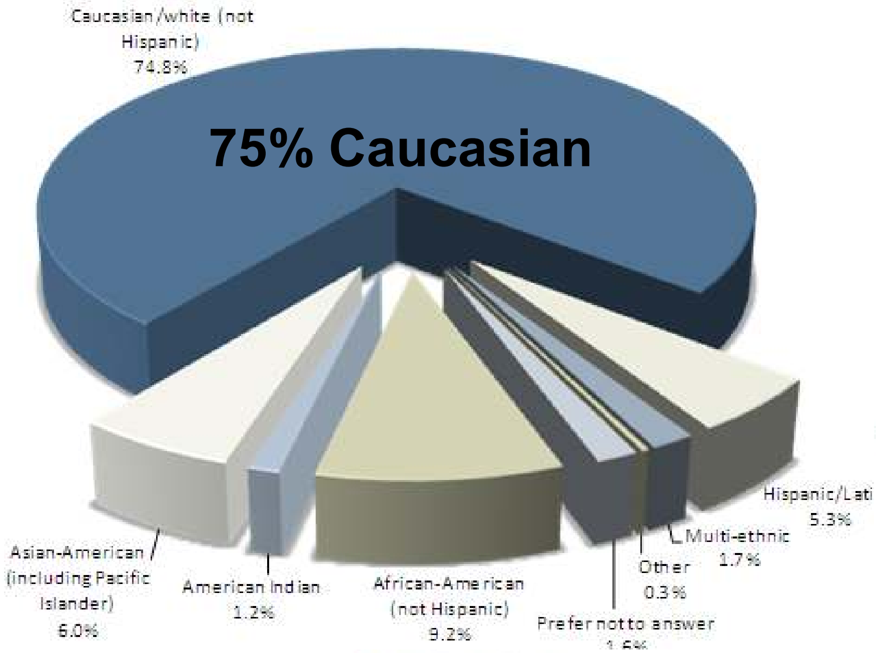
Note: All figures are rounded. Source: Frost & Sullivan analysis.

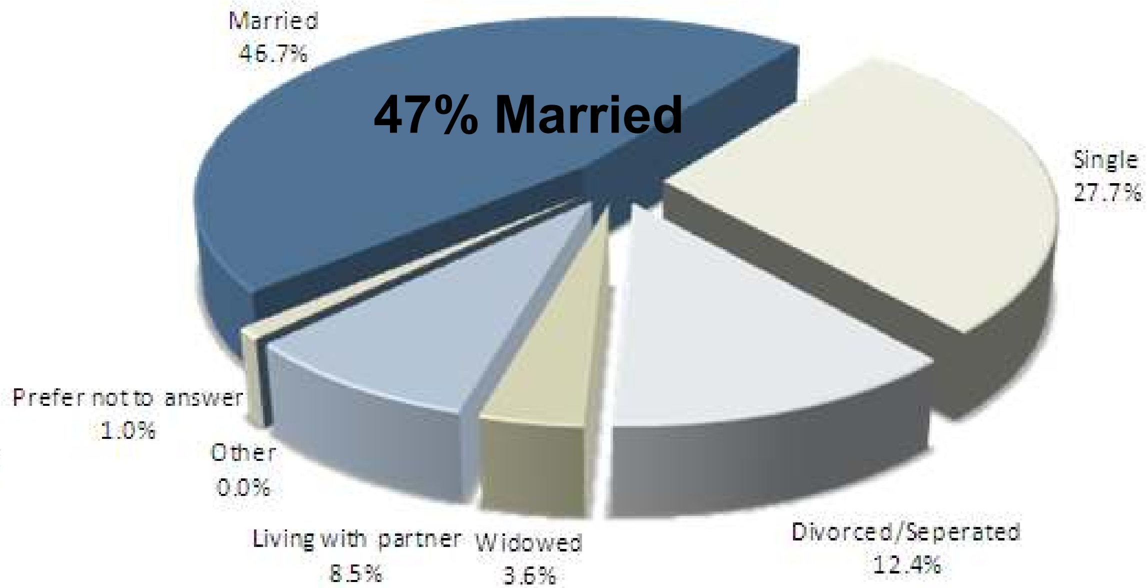
End of the Current Paradigm

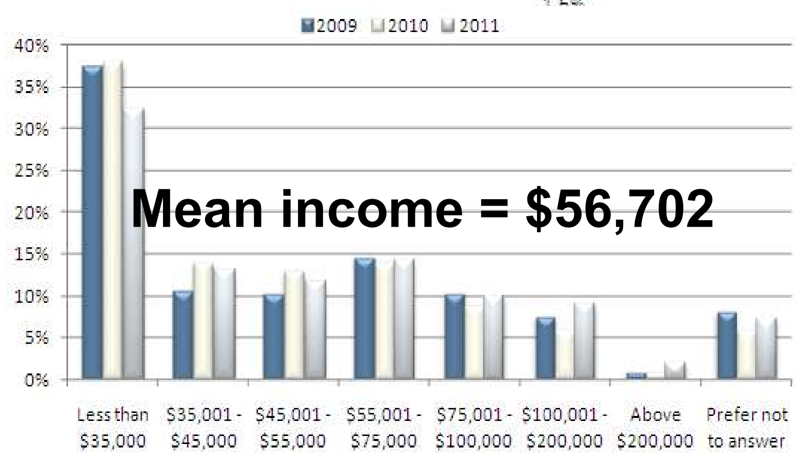
Critical Implications

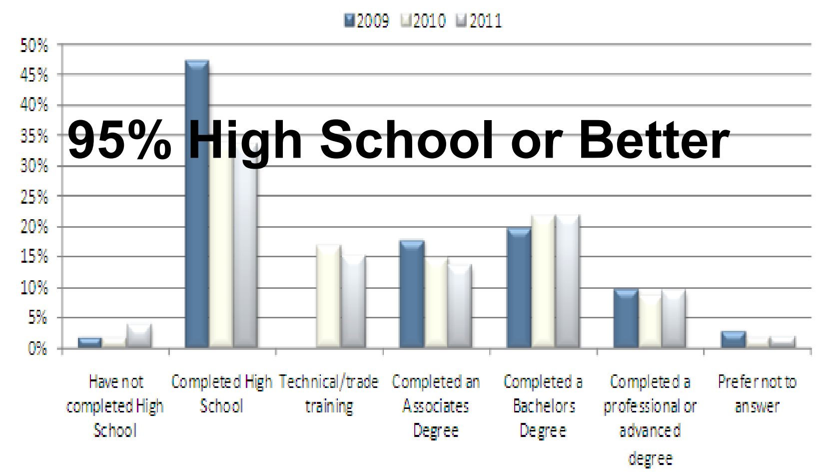
- Consumer communication preferences undergoing a paradigm shift
- Significant implications for communication service providers and policy makers
- Consumers are
  - Worried about the economy
  - Seeking greater value through bundled service packages
  - Willing to switch providers to get what they want

Demographics of Consumer Study (Sample = 2052)





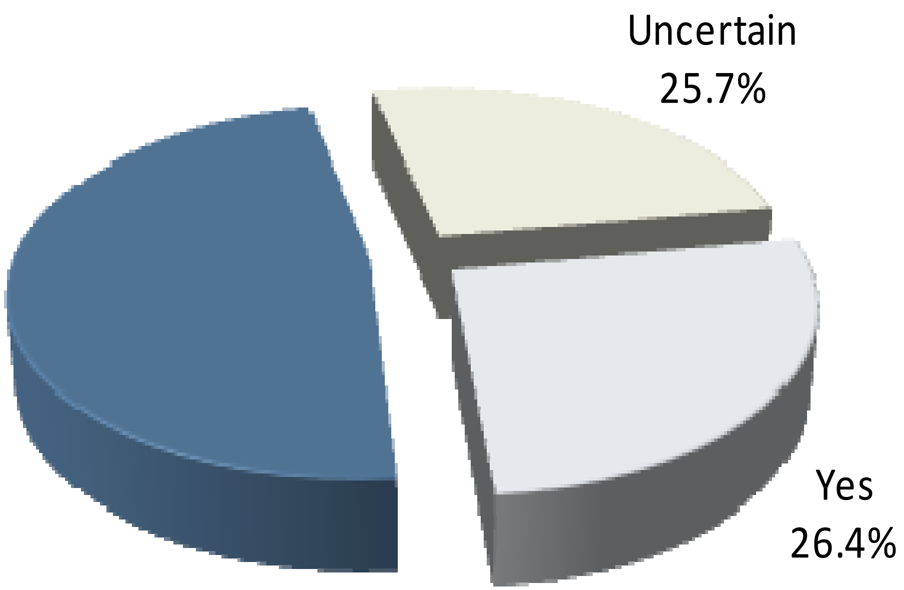




Source: All graphs from Stratecast

Market Characterized by Consumer Pessimism

Do you expect the economy to improve in the next year?



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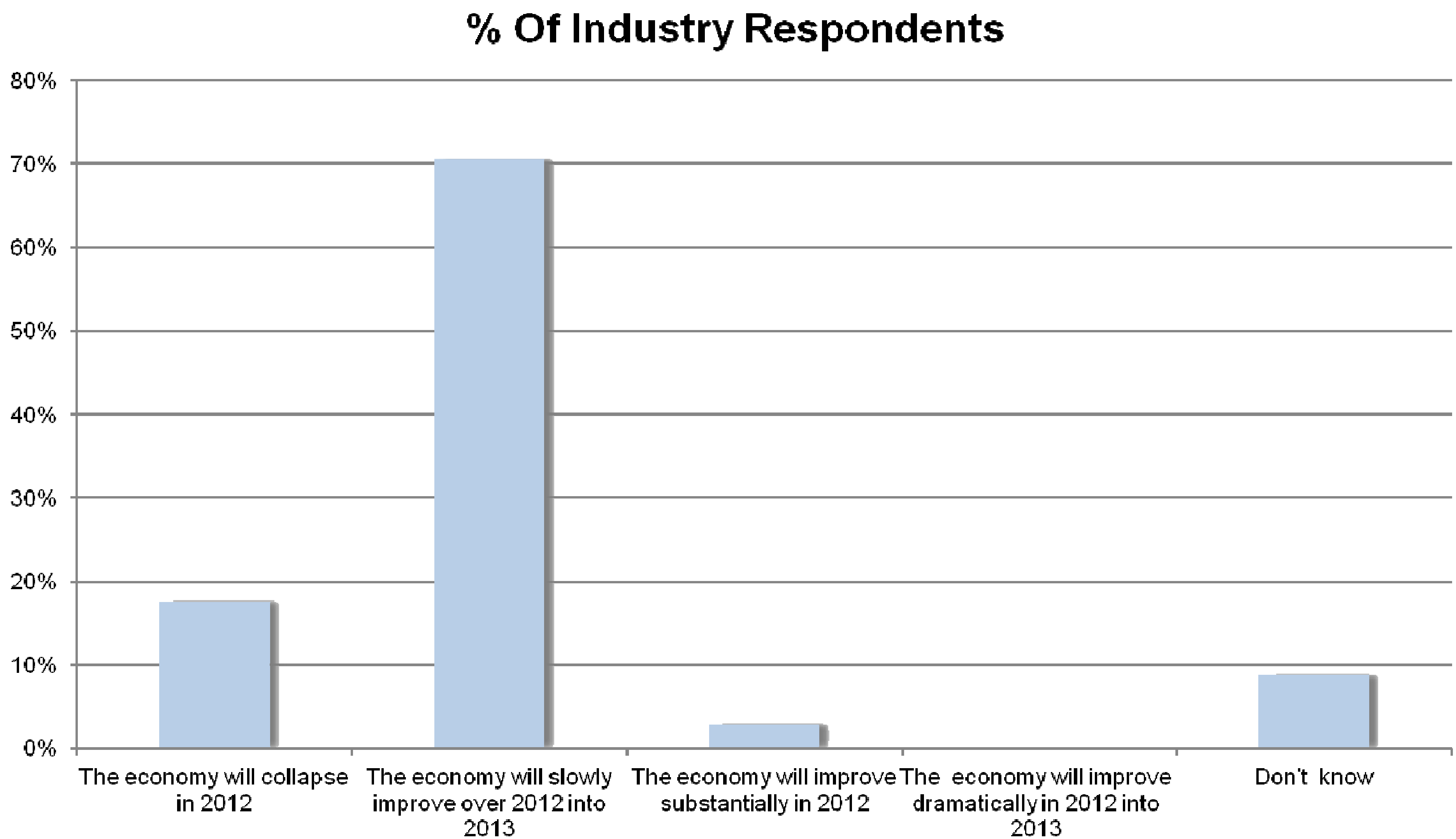
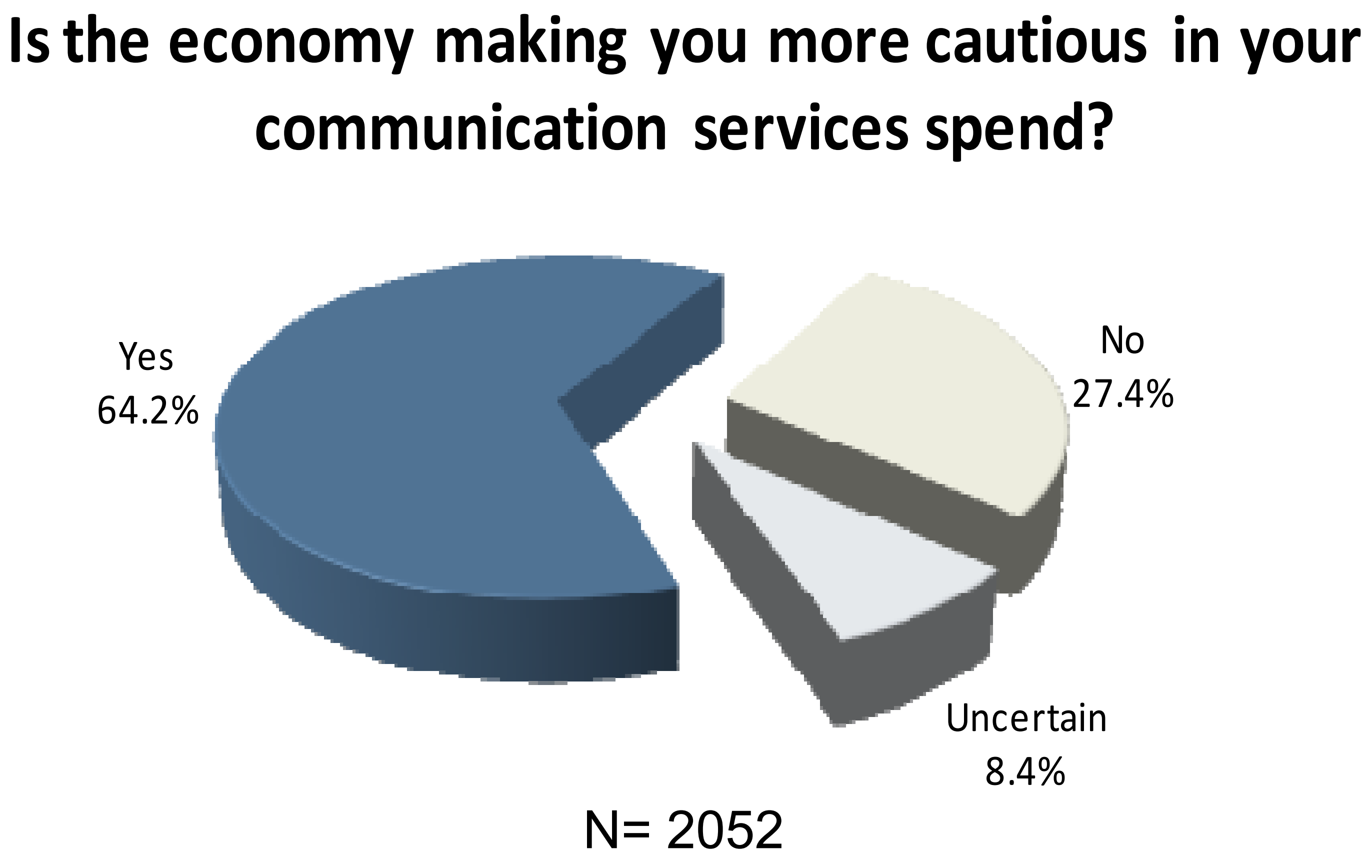
Source: Stratecast

But the Industry Isn't all that Optimistic Either



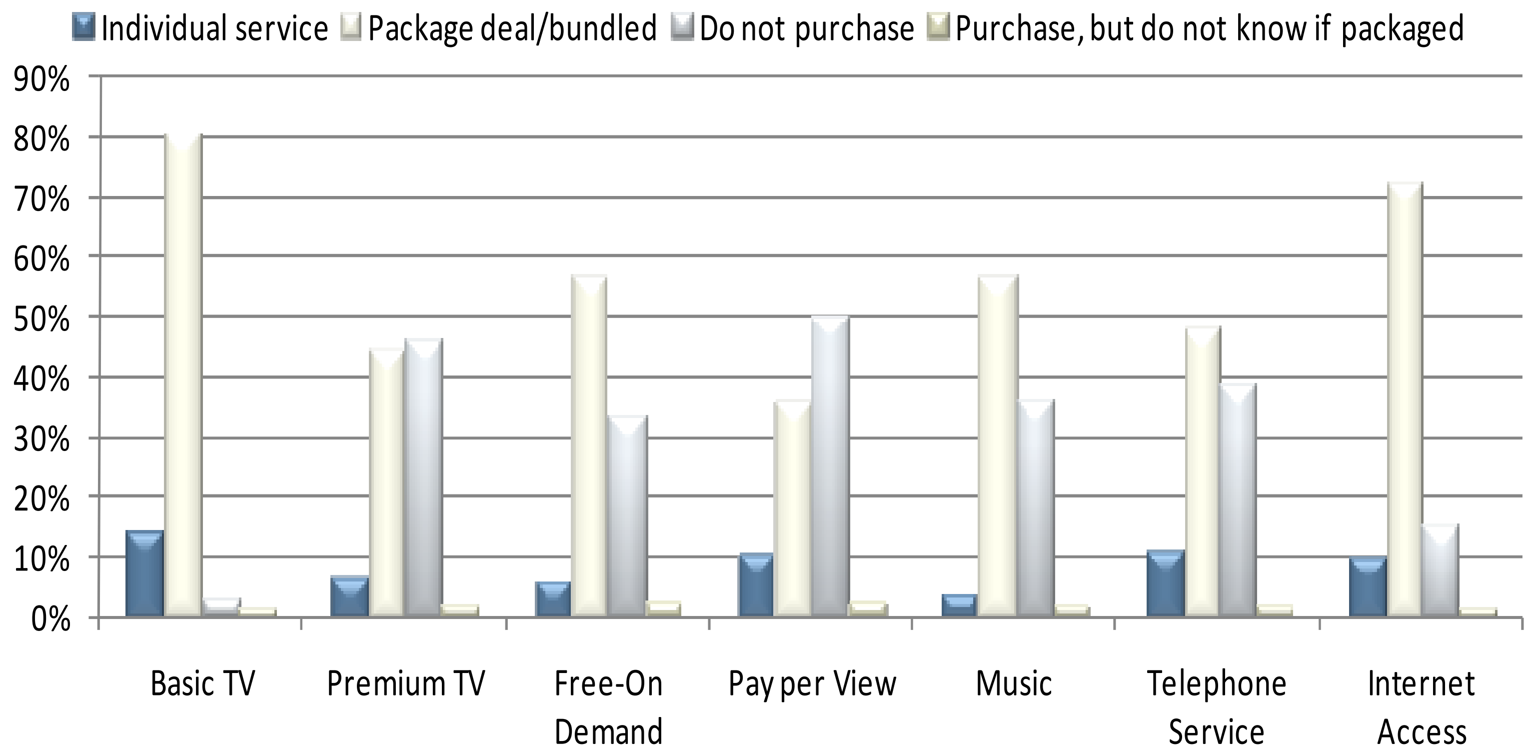
This Pessimism Extends to Communications Spend



Source: Stratecast

Consumer Preference is Shifting to Favour Bundles

- How do you purchase your communication services (cable MSO subscribers)?



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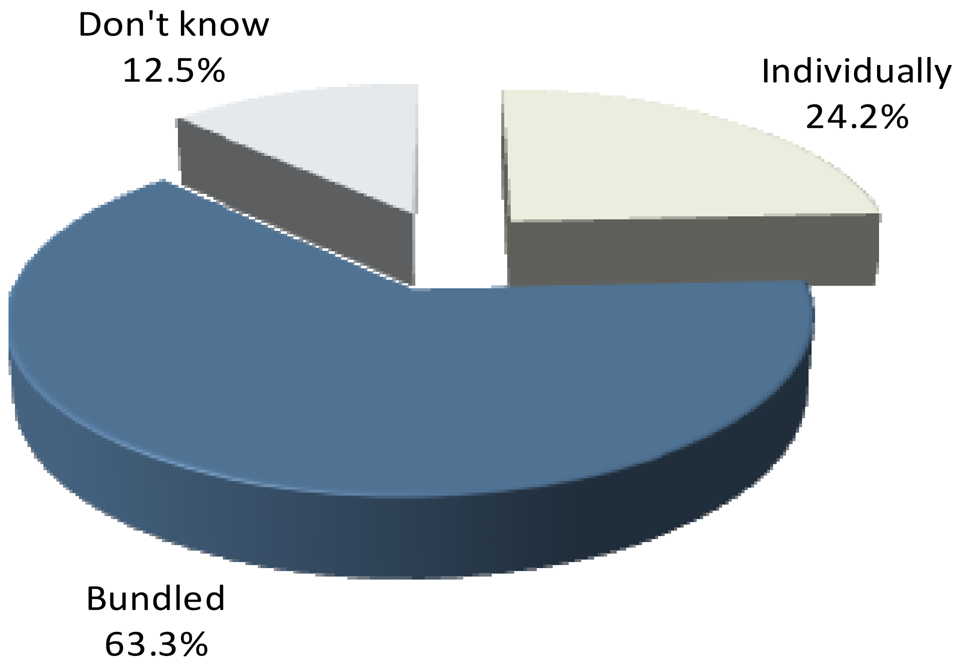
Source: Frost & Sullivan

Service Bundles Drive Value Perception

- At the same price, would you prefer a bundled service or a stand alone service?



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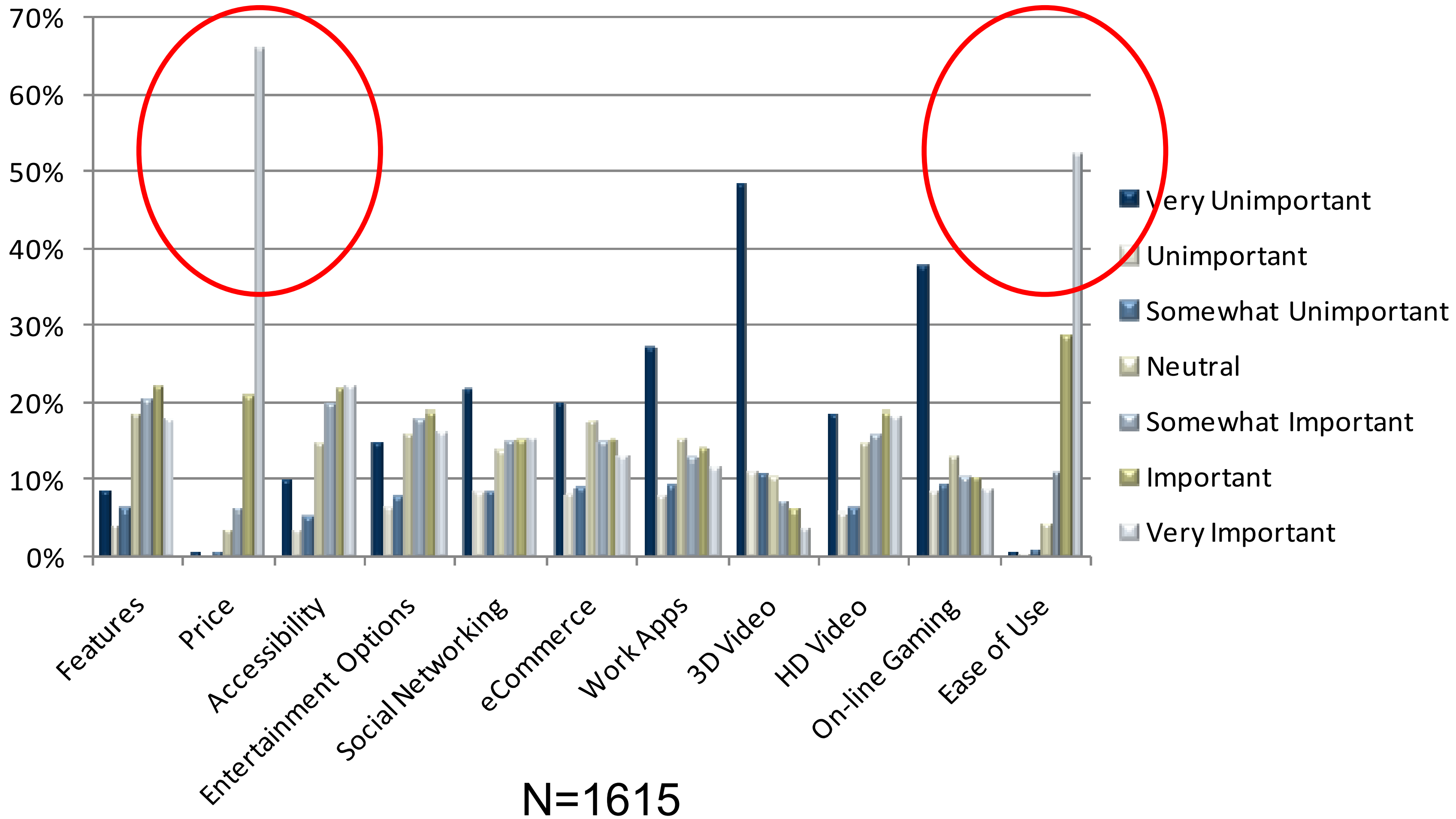
Source: Frost & Sullivan

But Price and Ease of Use Determine Bundle Value Perception…



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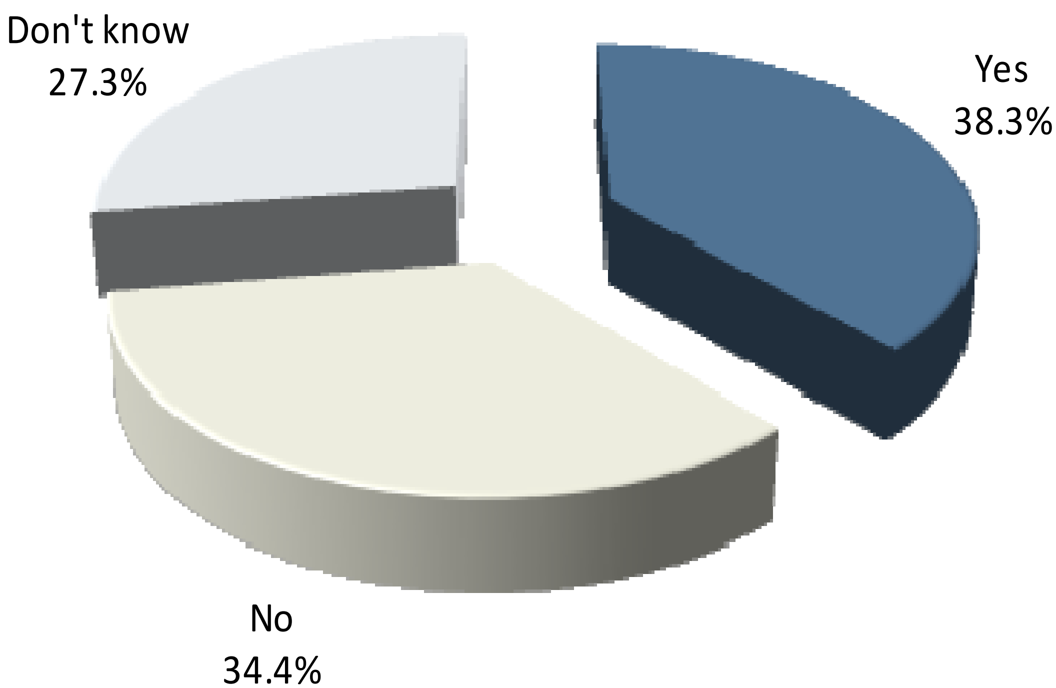
Source: Frost & Sullivan

Service Bundles are Driving Churn

- If a service provider had a service bundle that included a service you wanted, would you change service providers to get it?



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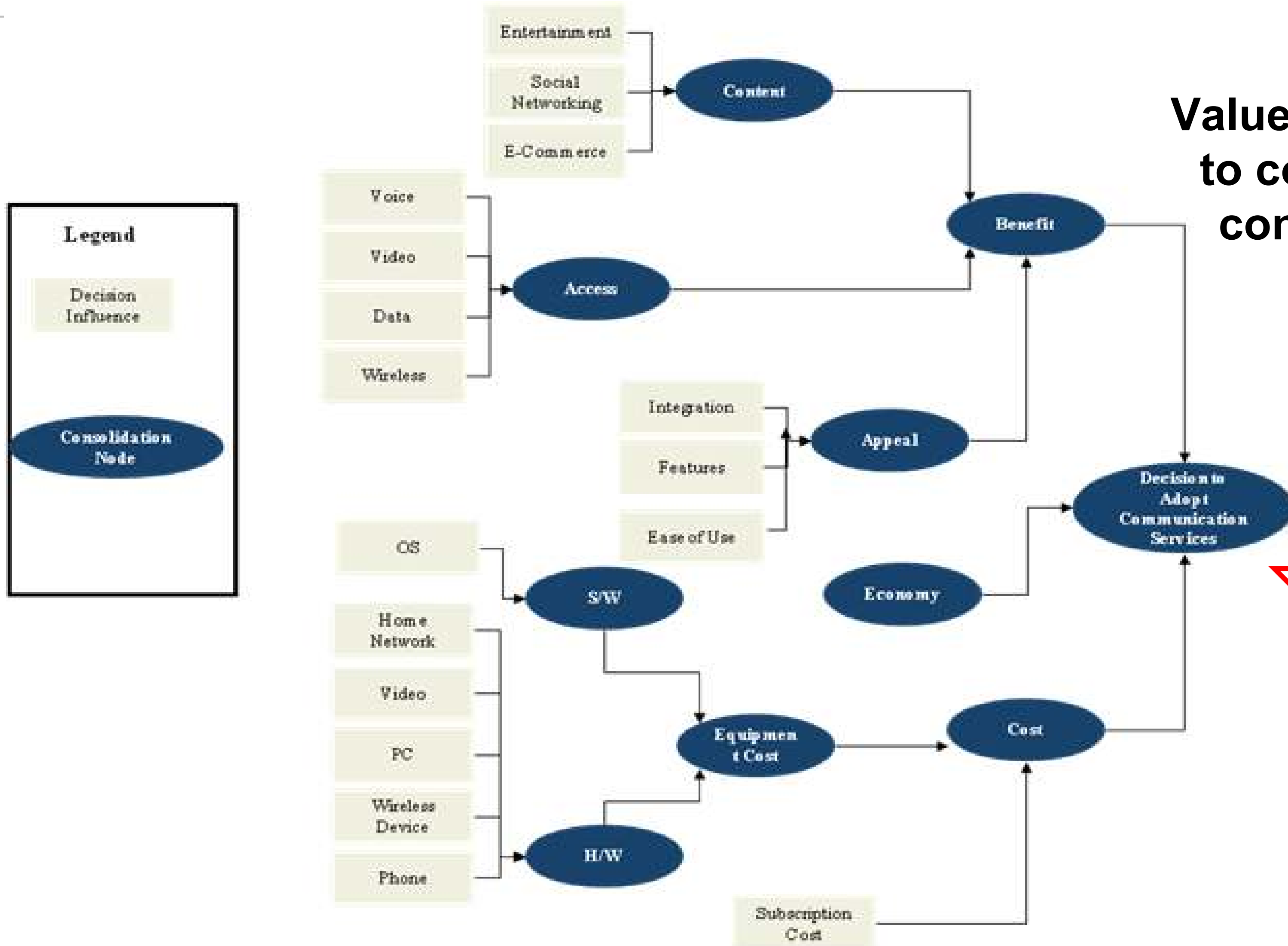
Source: Frost & Sullivan

Consumer Communications Value Assessment has Shifted



Source: Stratecast

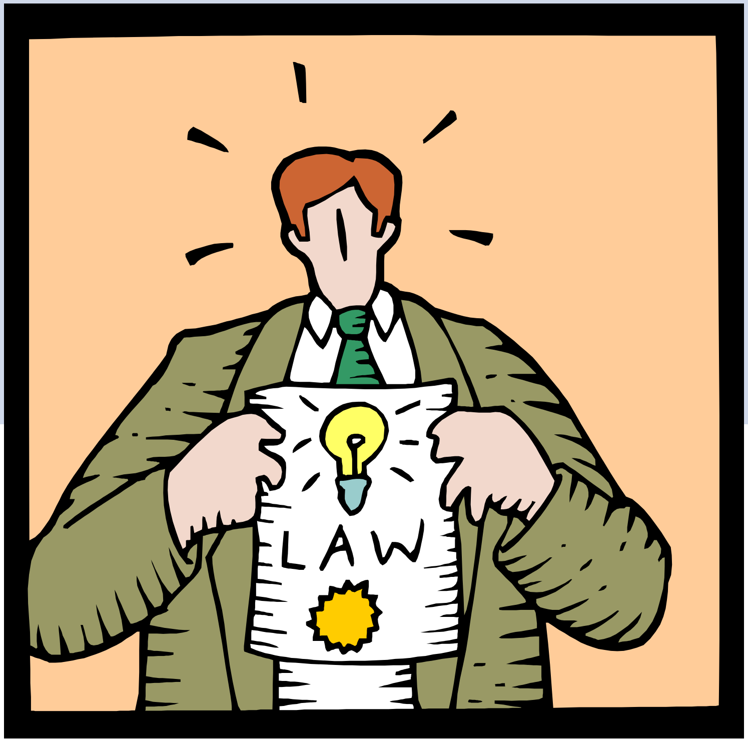
Value shifting to cost side concerns

Short Term Predictions

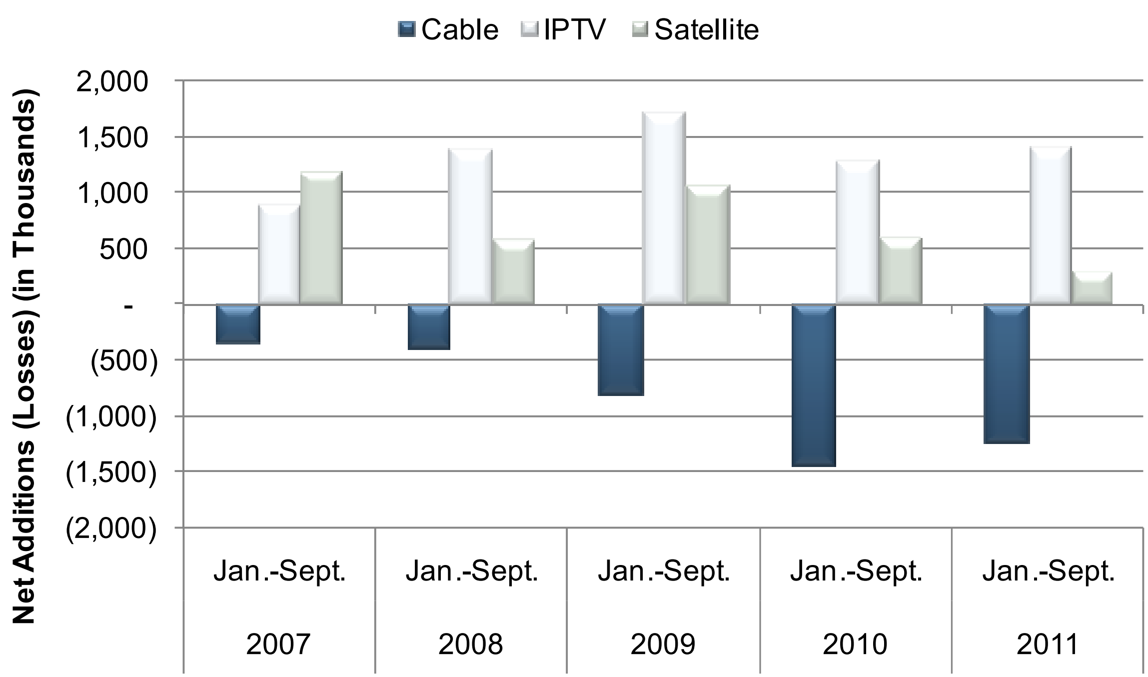
2012 Prediction	Impact
Cloud services enter consumer mainstream: Especially in the area of media management, consumer participation in the cloud will increase.	As the Christmas season drives the penetration of Apple products that come preconfigured to connect to Apple iCloud, the cloud will finally be poised to enter the mainstream. Whereas 2011 was characterized by consumer ambivalence towards things cloud, in 2012 the buzz will be all about new functions the iCloud enables. Expect Amazon and Google to pitch their consumer cloud capabilities as well. Expect Cable MSOs to make competitive cloud service offerings to participate in the cloud movement.

2012 Prediction	Impact
The rise of telemetry: Telemetric services such as security alarming and utility and power management will become components of communication service packages.	As the industry develops ways to support telemetry over IP (Internet protocol), telemetric services will become part of both network operators' offerings as well as over-the-top offerings. Expect increasing numbers of security offerings and a small, but growing number of utility management offerings as well from Service Providers.

2012 Prediction	Impact
Regulation shifts its focus from telephony to broadband access: As consumers increasingly drop landline service in favor of alternatives (many of which have been relatively unregulated), regulators will concentrate on imposing common carriage rules on broadband delivery.	With the advent of nearly ubiquitous wireless connectivity, the old regulatory constructs designed to support voice access are beginning to fall apart. Now, regulation has a new focus, and we expect that both the FCC and state regulators will again proceed down the path of universal service and common carriage regulation; now focused on broadband access. Since this covers any network operator or service provider, we can expect that 2012 will be characterized by an increasing wave of regulation that applies to many new players.



2012 Prediction	Impact
Video service subscription growth will continue to erode while broadband growth will increase: As over-the-top services achieve higher quality, increased broadband network penetration will continue to erode conventional video subscribership.	Content is increasingly available over broadband networks. As consumers figure this out, and as television sets increasingly come preconfigured to connect to home networks over Ethernet or Wi-Fi, many subscribers may modify traditional video service subscriptions. Cable MSOs will continue to invest in new video services such as TV Everywhere.

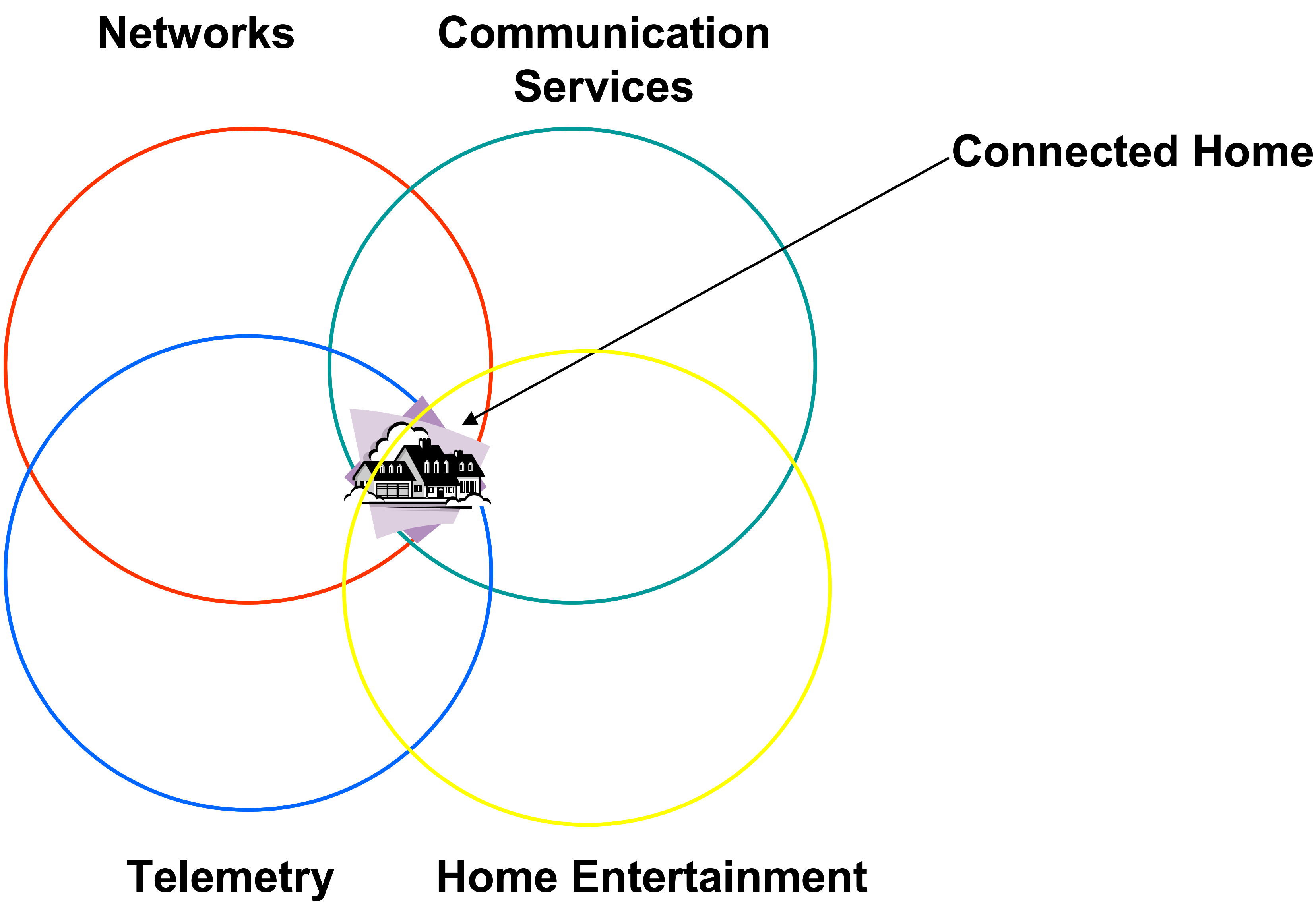


2012 Prediction	Impact
4G Wireless on the rise: Both AT&T and Verizon will achieve substantial penetrations for LTE in the U.S.	By the end of the year, most major metroplexes will have LTE service. This will signal a major shift from voice telephony as the focus of wireless mobility to data services, and will drive an increase in Smartphone adoption, video consumption and Wi-Fi services

2012 Prediction	Impact
Rise of third-party service providers: Network operators will find that they are increasingly confronting service and content providers who use over-the-top technology on the operators' networks to deliver competitive services.	Broadband is increasing in capability and penetration. Quality of experience available over-the-top will rival that of dedicated video and voice service offerings. Consumers will find that they have an equally rich service selection over their broadband connections and will begin to select services that match their interests over pre-configured, mass market content bundles. 2012 will see more broadband video offerings from the cable MSOs. 2012 will see the rise of virtual over-the-top broadcast networks, which offer many customized service offerings.

The New Paradigm: The Connected Home

Connected Home Components



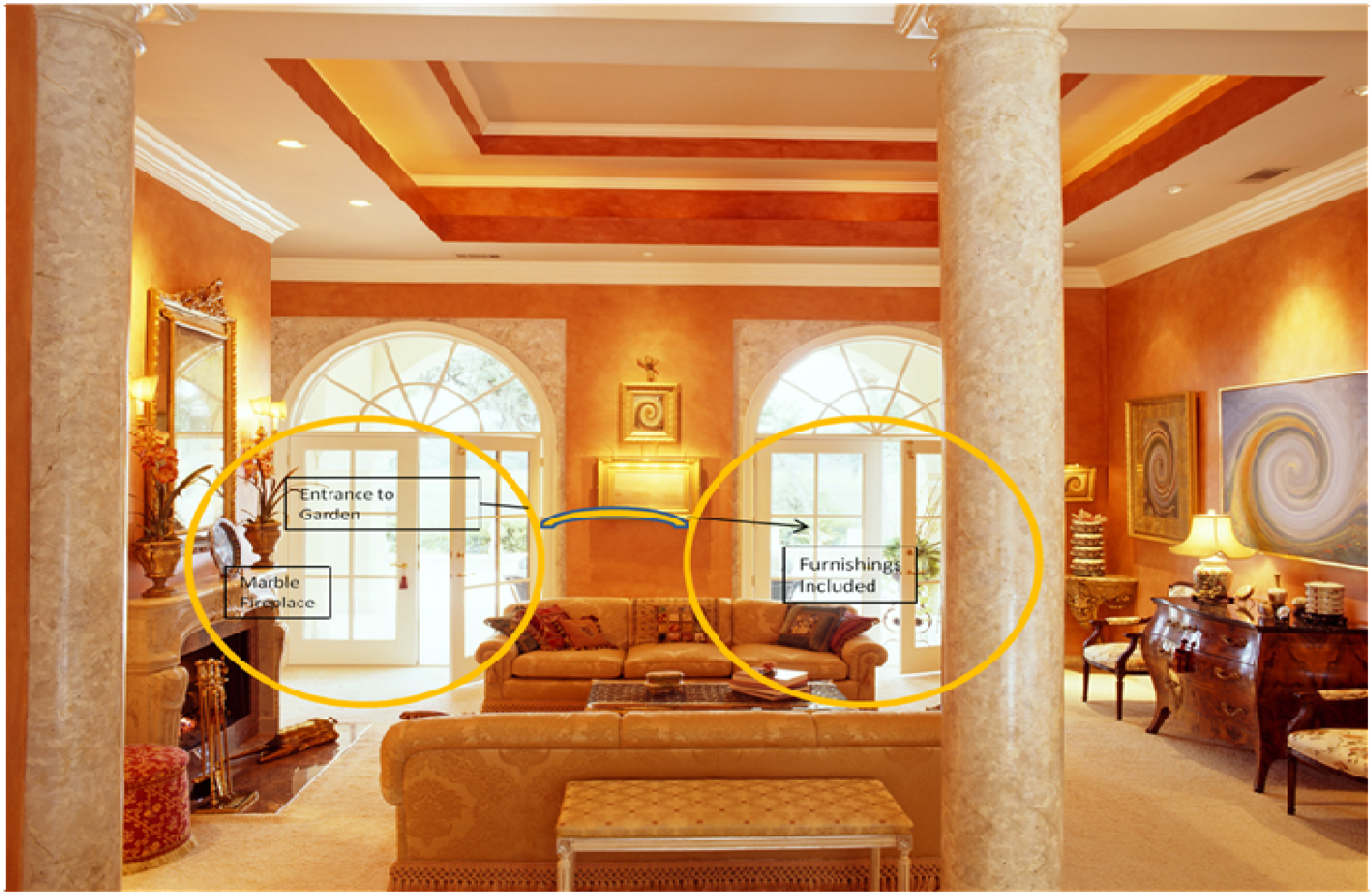
The Connected Home is not Necessarily Architectural

Source: Timberline Geodesics (used with permission)

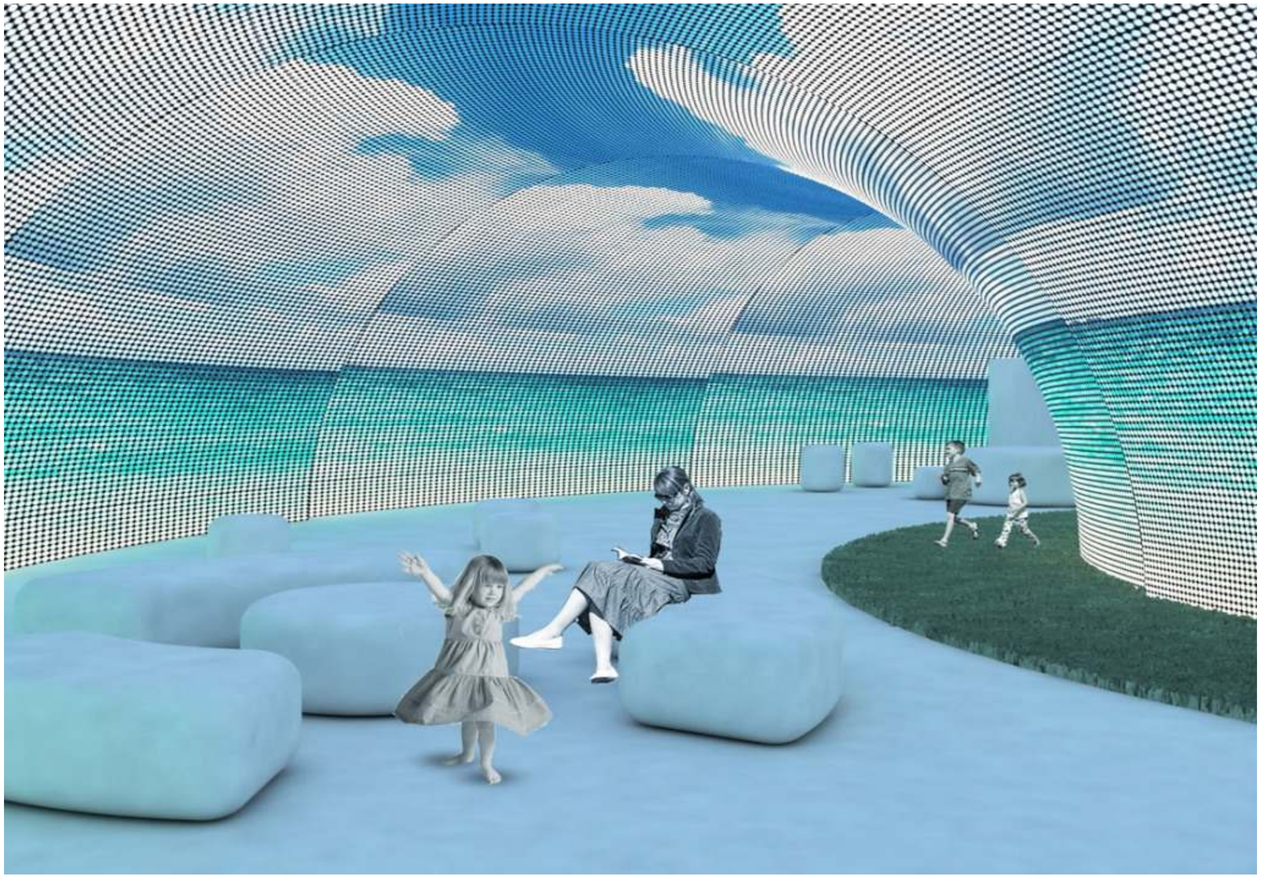
In fact, the Connected Home is Probably Virtual

Source: Sensics

A New View of Information: Augmented Reality



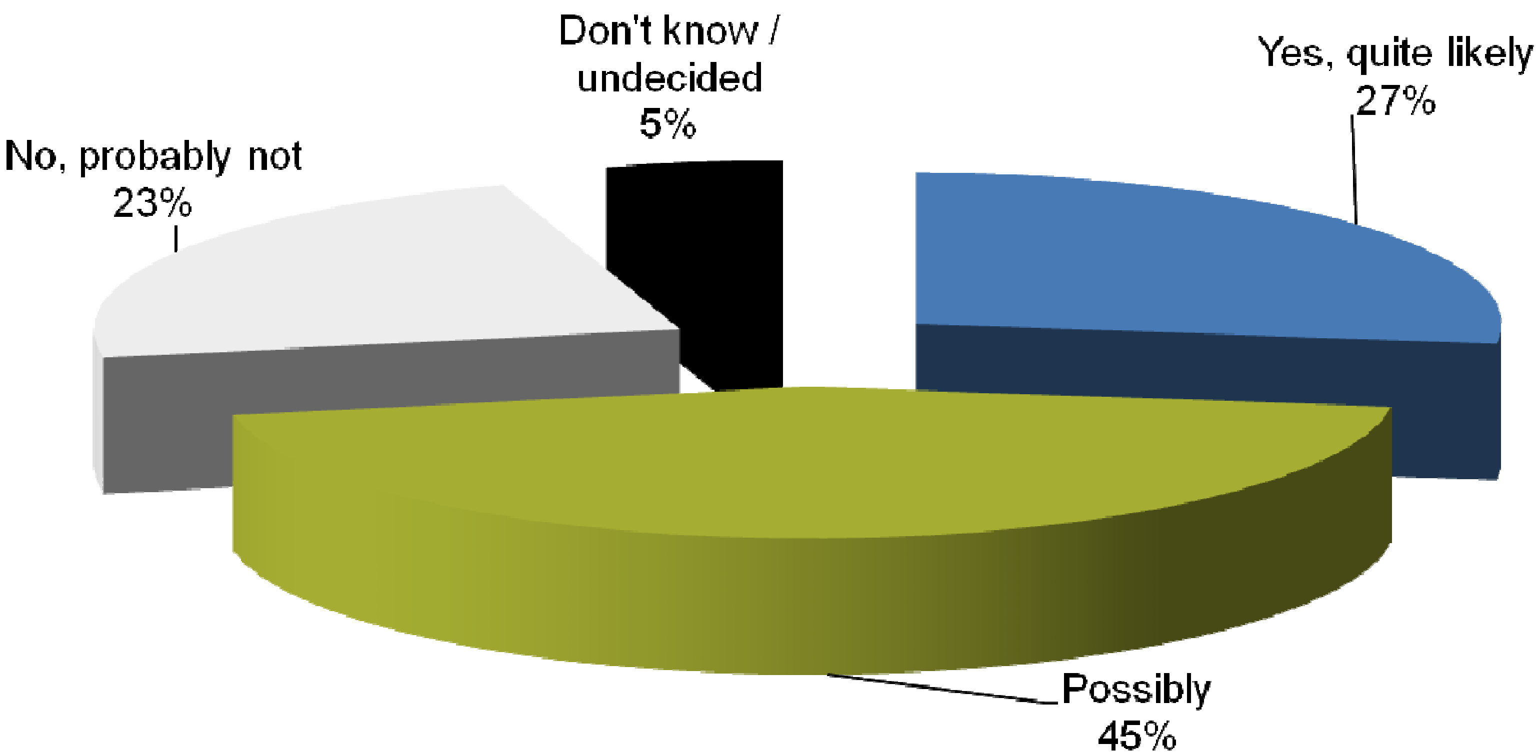
A New Vision for the Connected Home Space



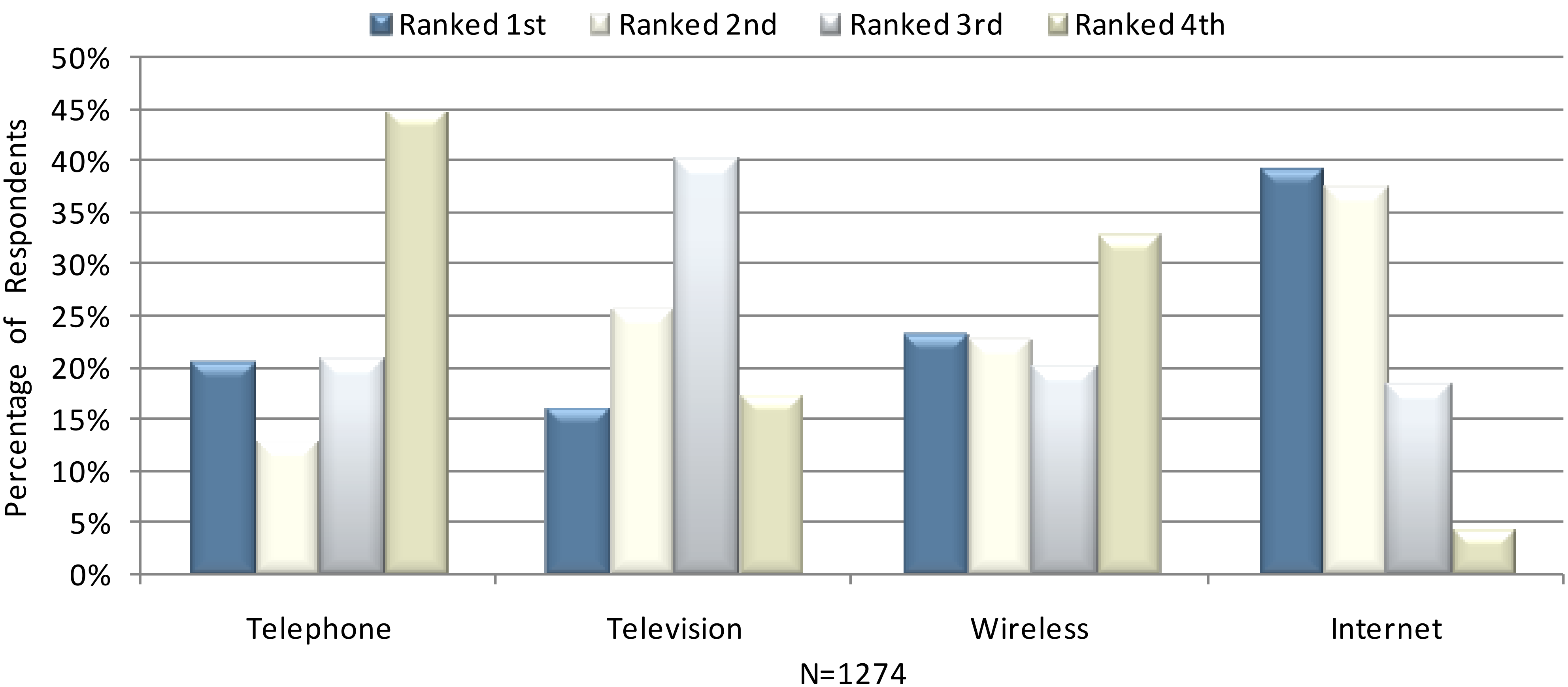
Source: Domagoj Marakovic, aps.arh.; used with permission of the artist

Connected Living Integrates Video Services: Both Directions

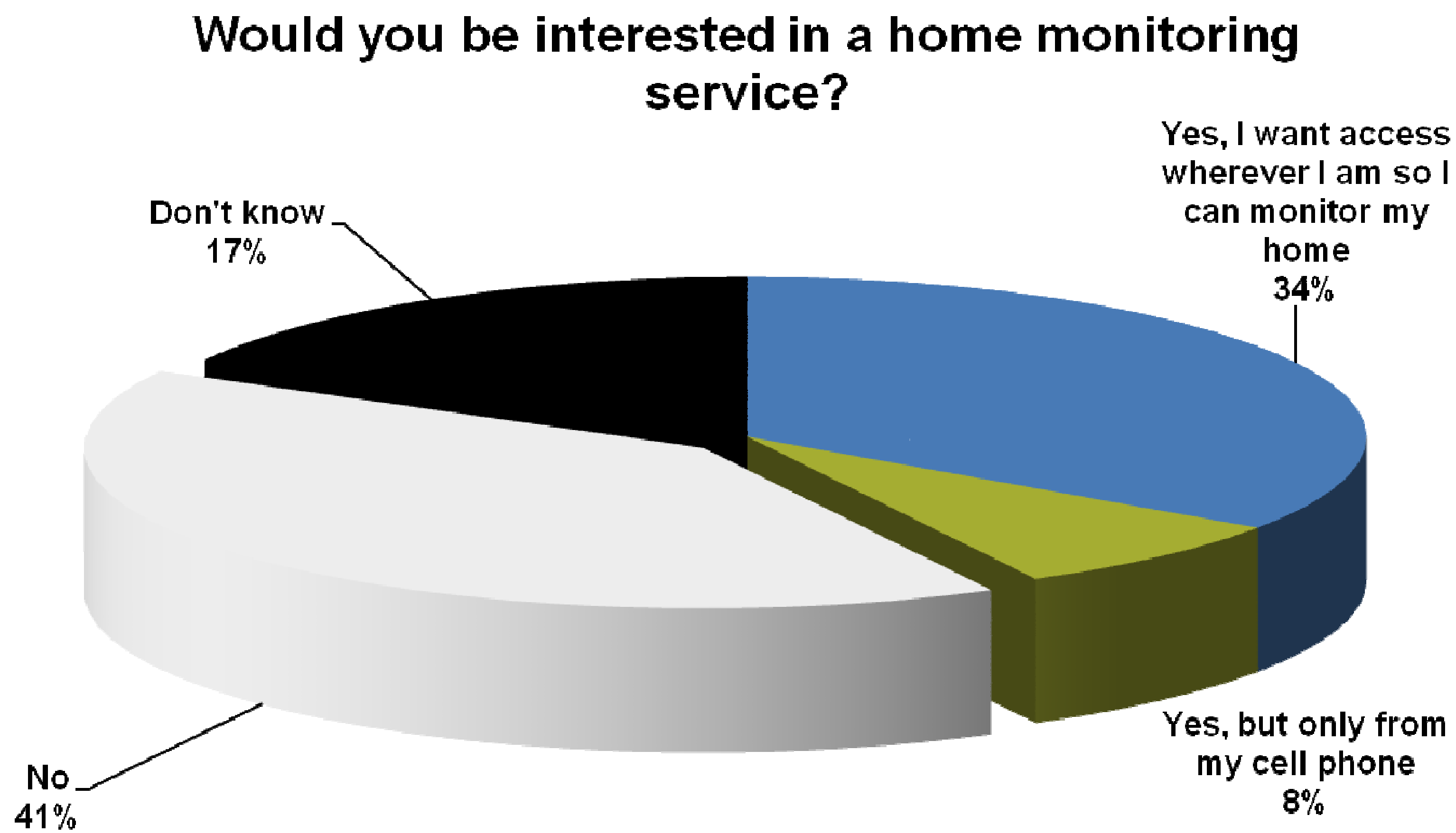
Would you subscribe to a tele-presence service?



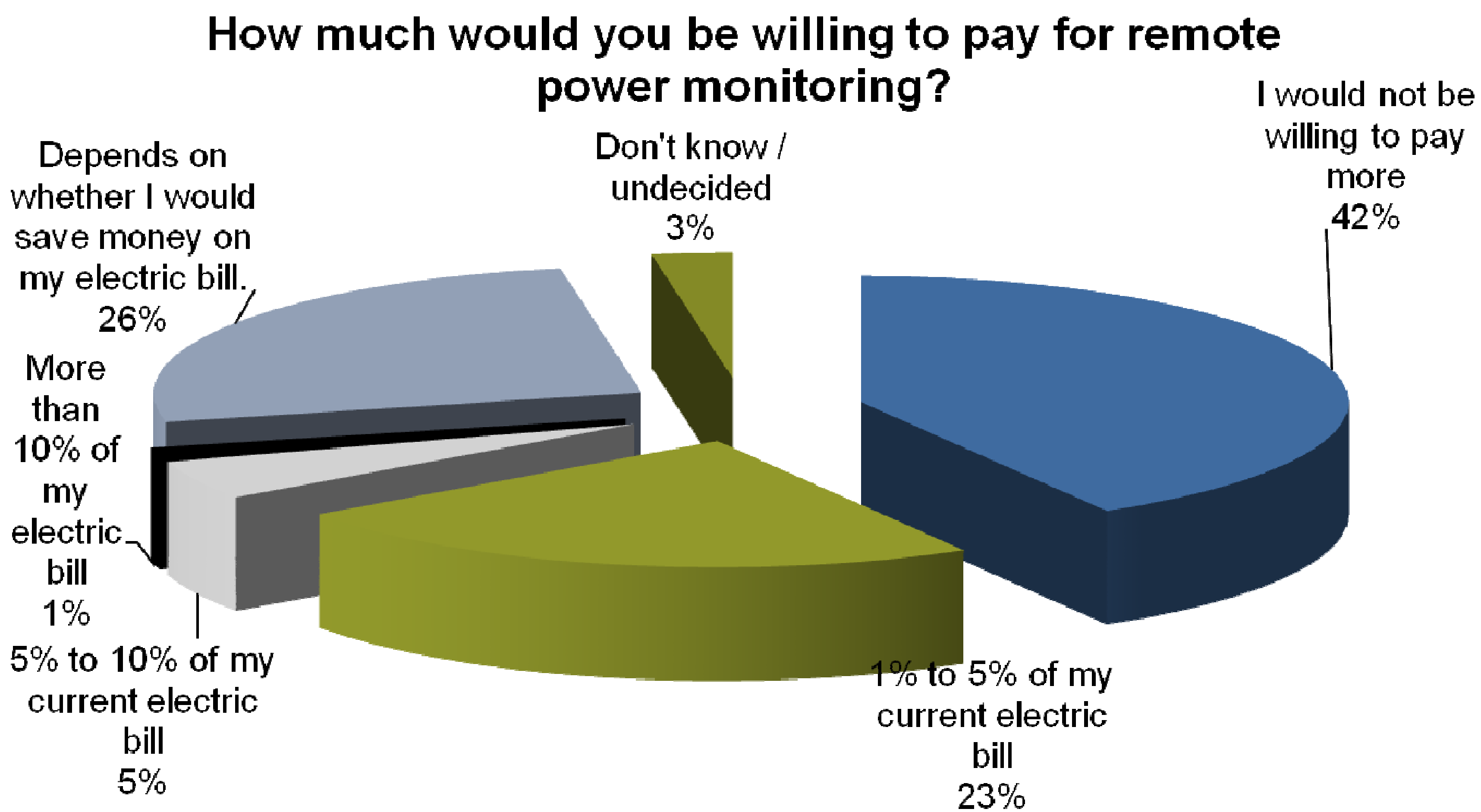
Broadband is Foundational for the Connected Home



Connected Home May Involve Security Management



However, the Connected Home is not Necessarily about Utility Management



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Conclusions and Recommendations

Recommendations

- The telecommunications market is likely to remain healthy in 2012, but will undergo some substantial changes in consumption
- Consumers will likely favor well-integrated service bundles. However, with consumer confidence at a low ebb, the only way to increase spend and retain customers is to focus on the bundle
- Bundles, though, need to be comprehensive: features and mobility must be a part of the bundle
- However, bundles can’t be simply patched together: ease of use is essential
- The paradigm of the future: Connected Home - Know it Love it, Live it!!