



Rogers acquires Call-Net (Sprint Canada)

COMMENT - May 11, 2005

On May 11, 2005 Rogers announced the acquisition of Call-Net, valuing it at \$8.71 per share for a transaction value of \$330 million. The deal gives Rogers an instant 10% penetration of its cable subs for telephony service. Call-Net has 500,000 local line customers, 200,000 of which are in Rogers Cable territory, although they have not yet fully analyzed the overlap. The addition of traditional technology telephone subs (as opposed to VoIP) was identified as a recognition that Rogers will go forward with multiple technologies - cable, DSL, resale, VoIP, wireless, unbundled loop, etc. Rogers also gets instant re-entry into the business markets as Call-Net's revenues are over 60% in business and wholesale services. Call-Net's mobile customers are resold FIDO service, already being carried by Rogers from its acquisition of Microcell last year.

Rogers makes extensive use of wholesale services from MTS Allstream but stated that the agreements with MTS Allstream remain unchanged. Rogers stated that Call-Net's fiber assets have good synergy with assets Rogers kept when it sold Rogers Telecom to Allstream (AT&T Canada at the time).

Rogers said the acquisition continues a "natural consolidation" of the industry. It has been in talks with other cablecos concerning the Call-Net subscribers out of territory. During the Quebecor conference call concerning their 1Q05 results (also on May 11), Quebecor said the chances of them making a competing offer were virtually nil and they mentioned they had a call from Rogers to have initial discussion on Call-Net subscribers that would be in Quebecor's cable territory.



There was no indication as to any change to the agreement Call-Net entered into with Bell Canada on May 2 regarding the option to purchase CLEC assets in Eastern Canada and the extension of Bell's service agreement beyond December 2006. Call-Net had acquired the GT/Group Telecom assets in Bell's ILEC territory as part of Bell's acquisition of 360 Networks. Rogers thus now has another venue to "work" with Bell Canada in addition to the Inukshuk venture. Bell Canada has a position in Inukshuk, a Microcell venture that Rogers acquired as part of that acquisition. Rogers Media is also in partnership with Bell Globemedia for the 2010 Olympics coverage.

Also - to the extent that Call-Net has customers in Atlantic Canada, this could pit Rogers against its cable colleague Eastlink in places like Halifax and Charlottetown. Rogers is already present in New Brunswick and Newfoundland.

Overall the deal appears to value Call-Net at less than one times revenue, an attractive price that could attract other offers. The Rogers agreement requires approval by June 30 and there is a \$10 million break up fee.