



## **Rogers ups the ante for Microcell**

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Rogers Wireless Inc. has upped the ante in the takeover of Microcell. On September 20, 2004 it made a friendly offer at \$35 per share for a total of \$1.4 billion. This increases the price offered by Telus by 27%, equating to \$1,130 per subscriber for approximately 1.24 million subscribers. Telus' offer – now extended to October 12 – was valued at \$1.1 billion.

### Industry Canada played its card.

During its policy review for 3G, Industry Canada heard from the carriers that there is no pressing need for new spectrum. So one can conclude that Industry Canada lifted the spectrum cap – that kept licensees to 55 MHz maximum – now in order to pave the way for bidders to take over Microcell – no one else other than Microcell appears to be “in play”. Since there has not yet been a move to lift foreign ownership restrictions, one can further deduce that – expressly or de facto – Industry Canada believes there is only room for three players in the market. Removing the spectrum cap while maintaining foreign ownership restrictions virtually assures an industry consolidation – something which Microcell itself pointed out in its March 2004 submission to Industry Canada concerning the spectrum cap policy.

### What Rogers wants to buy – network, customers, licenses

So the door is wide open for Microcell to be bought. What does Rogers want to buy... Microcell's network assets amounted to \$357 million at year-end 2003. This however was net of a \$407 million write-down done during restructuring. Microcell's network is thus worth in the range of \$765 million.

Rogers' bid thus buys a \$765 million network, leaving \$635 million to cover other things. Microcell's subscribers will add over 30% to Rogers' customer base. Rogers' customer acquisition cost is currently running at \$370 for each added customer. So Microcell is worth \$460 million on that basis – before considering the impact of acquiring the subscribers immediately instead of over a year or more.

After paying for the network and the customers, that leaves \$175 million to cover intangibles such as licenses and the FIDO brand. Microcell carries these at over \$200 million. Intangibles – licenses in particular – can be worth more than book value. In the 2001 auction, Rogers paid \$394 million for licenses with less capacity and similar coverage. Bell spent almost twice as much. And Microcell has fixed wireless licenses as well.



### Opening salvo in the fixed wireless wars

Fixed wireless is not to be underestimated. Microcell has 100 MHz in the 2.5 GHz MCS band and is in a JV with MTS Allstream and an affiliate of US-based McCaw. Rogers had coveted this very spectrum when it lost a 1999 award process run by Industry Canada. In February 2004, Rogers rekindled its interest, acquiring fixed spectrum in the auction of 2300 and 3500 MHz licenses. Rogers paid \$5.9 million to cover 28 markets, accounting for over half of the proceeds of the auction. And it just plunked down \$2.2 million to participate in the auction of licenses that were leftover from February. While fixed wireless licenses are small in dollar terms, they are huge in capacity. With the promise of WiMAX and fixed service becoming nomadic, portable or mobile, Rogers would own an impressive arsenal.

Paraphrasing a famous line from a famous film made in 1967... Rogers knows: there's a great future in wireless. Think about it.

### Pesky competitor or frisky companion?

Telus' bid would have resulted in eliminating a pesky competitor. Conventional wisdom was that Rogers and Bell were not overly upset by the idea. Conventional wisdom is not always correct of course. Why would Rogers, or for that matter Bell, be pleased by the idea of Telus becoming #1 in the industry on a national basis? Stimulated by the elimination of the spectrum cap, the adrenaline started flowing and Rogers stepped in to bump Telus. Telus may not be too unhappy about not having to spend \$1.1 billion to see Microcell go away anyway, but now they will become the third of three. And who wants to be Budget when you can be Hertz?

But unlike Telus, Rogers and Microcell have a common network platform. Rogers can get more synergy – rid itself of a competitor, get a not-too-used-up network, and adopt a new little buddy at the same time if it wants to. At the flick of a switch, FIDO customers can amble into Rogers' network – and into the extensive US coverage of AT&T Wireless. This is a powerful feat Microcell was not able to accomplish on its own. And Rogers could consider exploiting the highly successful FIDO brand to go head-to-head with Bell just as its youth-oriented venture with Virgin Mobile is ramping up.

Rogers will have a few other things to deal with... Microcell has over 40,000 wholesale customers – some of which are bundled with service from Sprint Canada – and recently entered into an agreement to lease its network to Primus Canada which intends to operate as a mobile virtual network operator (MVNO) like Virgin. Also, Rogers has not yet stated intent regarding local-line competitor packaged CityFIDO, but a bundle with Rogers' cable-VoIP service could be powerful.



Where can it go from here?

For its \$1.1 billion, Telus would be buying licenses, customers, and tax losses and eliminating a competitor, but it would have to convert Microcell to CDMA. Or perhaps Telus wants to convert the rest of its network to GSM – perhaps not a bad idea and one that would reduce dependency on working over the Bell network in the East. Telus can make more immediate use of the tax losses than Rogers can. Given Microcell’s positive EBITDA that comes with the deal, Telus likely has some room to move – upwards that is – if it wants to. Although the Rogers’ bid is already putting the deal value (equity + debt) in the range of 18x EBITDA, perhaps getting a bit “rich”. But the game is not up yet... And if Bell steps in things could get even more interesting.

*The views expressed herein are solely those of Lemay-Yates Associates Inc.  
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*Please visit our web site at [www.LYA.com](http://www.LYA.com) or contact us at 514-288-6555.*

*Lemay-Yates Associates Inc., 2075 University Street, Suite 1000, Montreal H3A 2L1 CANADA*