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9B17M072

SHAW COMMUNICATIONS: BECOMING A CONNECTIVITY PURE PLAY?

Jeremiah De Sousa wrote this case under the supervision of Professors Rod White and W. Glenn Rowe solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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Brad Shaw, chief executive officer of Shaw Communications (Shaw), was looking forward to the upcoming 2015 Christmas break. It had been a very busy fall, culminating with the public announcement of Shaw’s industry-altering acquisition of the independent cellular phone network provider WIND Mobile (WIND) for CA$1.6 billion.[[1]](#footnote-1) When completed, this acquisition would add cellular services to Shaw’s existing consumer connectivity businesses of cable and satellite television, Internet, and landline telephone services, making Shaw’s connectivity portfolio similar to that of the other major Canadian telecommunications players—Rogers Communications (Rogers), Bell Canada (Bell), and TELUS Communications (TELUS). But another major strategic decision loomed, and Brad wanted to reflect on it before the January board meeting.

In addition to its telecommunications or connectivity assets, Shaw also held significant media assets, including Shaw Media, which was 100 per cent owned by Shaw Communications. During the fall of 2015, an internal team had explored how best to construct Shaw’s participation in the media business. In part, this consideration was motivated by the WIND acquisition, which had been implemented with bridge financing. Shaw had a strong balance sheet and could handle the additional debt. If Shaw’s media assets were deemed to be non-strategic; they could be sold, in whole or in part, to retire the bridge financing and provide greater financial flexibility. The company had developed a specific proposal for reorganizing Shaw’s media assets and generating funds, and it would be considered at the next board meeting.

Reducing its media assets would make Shaw more of a “pure-play connectivity company.” Was this approach the right way to go? With widespread high-speed Internet access to consumers’ homes, and increasingly to their mobile devices, the connectivity and media industries were changing dramatically. Brad knew that most other major Canadian telecommunication players had, over the past two decades, acquired and continued to hold significant media assets. How important might the control of media assets be to Shaw’s connectivity businesses? What ownership and governance structure was most likely to maximize the value of Shaw’s media assets? Brad looked forward to the holiday break so he would have time to think more about these important questions and prepare for the January board meeting.

SHAW COMMUNICATIONS

Founded in Edmonton, Alberta, as Capital Cable Television Company, Shaw was entering its 50th year in business. The company had grown to offer a breadth of services beyond its founding consumer cable business. Throughout its existence, and at its height, Shaw’s cable television division was the largest in Canada (per subscription totals) and dwarfed all other divisions within Shaw. However, recent results indicated a new reality for Shaw; the company’s cable television division was no longer its largest division. Due to the rapid changes in consumer preferences, Shaw’s Internet division outpaced its other divisions, at 1.77 million subscribers by the end of fiscal 2015.

Shaw’s major business lines were consumer, media, and business network and infrastructure services. Business Network Services combined Shaw’s services for both business and public sector customers. Business Infrastructure Services had been formed with the 2014 acquisition of ViaWest, based in Denver, Colorado, to provide a growth platform for cloud and data centre services for business customers. Shaw’s consumer connectivity and media businesses are described in the next section. Financial results are provided in Exhibit 1. Fiscal 2015 financial results by line of business were as follows (in $ millions):

Consumer Business[[2]](#footnote-2) Media

Revenue $3,752 $766 $1,080

Operating Income[[3]](#footnote-3) $1,686 $351 $342

Operating Margin (%) 44.9 45.8 31.7

CONSUMER CONNECTIVITY AT SHAW

Television

The television services industry in Canada was traditionally delivered through two different systems: either a wired-cable connection or a direct-to-home satellite connection. Approximately 11 million Canadian families subscribed to one of these two television configurations. During 2015, Shaw’s TV subscribers totalled 2.58 million[[4]](#footnote-4) (see Exhibit 2).

Cable television (CATV) to consumers’ homes was federally regulated by the Canadian Radio-television and Telecommunications Commission and used a broadcast distribution undertaking (BDU) with a video programming service provider such as Shaw. The “content” could be anything from the news to TV shows and was gathered by paying a licensing fee to content owners for the rights to distribute. The content was then distributed over the local cable distribution network. The network consisted of coaxial and fibre-optic cables to subscriber residences.[[5]](#footnote-5) Shaw’s CATV network served the provinces of British Colombia and Alberta and reached some customers in Saskatchewan, Manitoba, and Northern Ontario.

Shaw was one of two BDUs that offered satellite TV services. Satellite was typically the solution for customers who lived in rural areas located outside the coverage areas of existing cable networks. Shaw’s satellite subscriptions made up approximately 30 per cent of its total TV subscriptions. Over the past five years, Shaw’s TV business overall had contracted at an average annual rate of 5 per cent, which was consistent with the declining consumption of traditional television services (see Exhibit 3).

Broadband Internet[[6]](#footnote-6)

In 1996, Shaw expanded its service offerings to include Internet access. Leveraging its existing cable network, the company first offered Internet service to residents of Calgary before expanding the service throughout its entire network. Internet service was delivered through the same fibre-coaxial cable network used to serve television subscribers.

Shaw’s Internet product was its only consumer service to experience growth over the past five years, averaging an increase of 2 per cent annually (see Exhibit 4). Shaw also offered its Internet subscribers Wi-Fi access points in public areas outside their homes. Deployed in 2011, Shaw Go Wi-Fi enriched the customer experience as an alternative to relying on expensive mobile data services. At no extra charge, Shaw’s Internet subscribers had access to approximately 75,000 access points from Victoria, British Columbia, to Sault Ste. Marie, Ontario. Industry incumbents expected growing consumer demand for both higher-speed Internet access and greater bandwidth, driven by bandwidth-intensive applications, including streaming video, digital downloading, and interactive gaming (see Exhibit 5). Shaw hoped its Shaw Go Wi-Fi initiative could be a differentiating factor in an industry that competed with prices and bundling.

Telephone

During 2005, Shaw expanded its connectivity services with the launch of its wired home phone service employing Internet protocol switching technology, called Voice over Internet Protocol (VoIP). This phone service, which used the Internet to send and receive calls, was carried over the same cable distribution network that connected subscribers to television and the Internet. Shaw’s home phone product saw strong growth from its inception, peaking at 1.38 million subscribers in 2014 (see Exhibit 6). However, heightened competition and the trend of households to rely solely on wireless phone services negatively affected Shaw’s home landline phone subscriptions. In fiscal 2015, Shaw lost 83,000 landline phone customers.

When completed in 2016, the acquisition of WIND would give Shaw a significant foothold in the mobile/wireless phone market. Leveraging its existing backbone network, Shaw would benefit from economies of scope and be able to gain and retain customers through the standard industry practice of bundling two or more services. Many customers seemed to prefer not splitting up their telecommunications services. It was standard practice to give consumers modest discounts on posted prices if they signed up for multiple services. Further, the wireless segment was the largest and fastest-growing segment of consumer connectivity among Canadian households (see Exhibit 7).

Founded in 2008, WIND was a Canadian communications and investment company. It launched its mobile phone service in the Greater Toronto Area and Calgary in 2009, and expanded to cover Canada’s main metropolitan areas. WIND benefited from a government and regulator that favoured more competition in Canada’s mobile market, and it had received a spectrum licence at a low price.[[7]](#footnote-7) WIND’s current network needed expansion, as it relied heavily on the network of other wireless carriers when its subscribers were outside the coverage of WIND’s cellular network. Industry experts predicted that Shaw might need to invest $250 million to ensure the current upgrade was completed in a timely way. By the end of 2015, WIND was expected to have more than 940,000 subscribers (see Exhibit 8).

Shaw’s Media Businesses

In October 2010 Shaw purchased Canwest Global Communications Corporation (Canwest), a significant Canadian media company. The acquisition made Shaw a vertically integrated telecommunications company that both created content and delivered it to consumers through its connectivity platforms, notably television. Shaw paid approximately $2 billion for Canwest and renamed it Shaw Media, a division of Shaw Communications. Shaw Media operated some of Canada’s most popular specialty channels, including HGTV Canada and Canada’s second-largest conventional network, Global Television (see Exhibit 9).[[8]](#footnote-8) Through Shaw Media, Shaw derived revenues from advertising and subscriptions to its specialty channels.

Revenues from Shaw Media had remained stable since the acquisition and were in line with industry trends. However, traditional sources of revenue from media content were expected to decrease in the future as advertisers shifted more of their budgets to online platforms and specialty video programming to meet the increasing demand for unregulated over-the-top (OTT) streaming video services (e.g., Netflix and YouTube) and other offerings available over Internet connections.

The consumption of video content from OTT providers and other Internet-streaming services was expected to continue and perhaps accelerate. In partnership with Rogers, Shaw Media had responded by launching an OTT video service called Shomi for $8.99 a month; the service allowed on-demand access to selected movies and television programs from any platform (TV, tablet, smartphone, or computer). Released in November 2014, Shomi currently served just less than half a million Canadian households (compared with 5.5 million Canadian households for Netflix, the leading OTT provider).

Ownership of Shaw Communications and Corus

The Shaw family held significant ownership in both Shaw Communications and Corus Entertainment Inc. (Corus). Shaw Communication’s Class B non-voting shares were widely held and were trading between $26 and $28 per share. The Shaw family, largely through the Shaw Family Living Trust, held approximately 79 per cent of the Class A voting shares in Shaw, and approximately 9 per cent of the Class B shares. The Shaw family also held approximately 84 per cent of the Class A voting shares in Corus and approximately 7 per cent of the Class B non-voting shares.

CANADIAN TELECOMMUNICATIONS INDUSTRY

Canada’s consumer telecommunications market was dominated by a small number of large ownership groups. The top five groups, Bell, Rogers, TELUS, Shaw, and Vidéotron,[[9]](#footnote-9) accounted for about 84 per cent of industry revenues. The next five largest entities, Bragg Communications Inc., Cogeco Inc., Manitoba Telecom Services Inc. (MTS), SaskTel, and Telesat Canada, accounted for approximately 8 per cent of market share, and all remaining groups/entities accounted for the balance. Of the top five companies, Bell and TELUS had begun as telephone companies founded in the early 20th century—Bell in Ontario and Quebec, and TELUS in Alberta and British Columbia. The others—Shaw, Rogers, and Vidéotron—began as CATV providers during the 1960s. Shaw started business in Alberta, Rogers in Ontario, and Vidéotron in Quebec.

ROGERS Communications

Ted Rogers, the entrepreneurial founder of Rogers Communications (Rogers), started Rogers Cable in 1967. Rogers eventually became the largest cable provider in Canada. After its first pioneering wireless cellphone call in 1985, and backed by international giants such as Microsoft, AT&T, and British Telecommunications, Rogers invested heavily in the wireless sector through the 1980s and 1990s. Rogers was also the first to deliver high-speed Internet over its CATV network.

Media Assets

In 1994, Rogers established Rogers Media by acquiring Maclean-Hunter, a Canadian communications company. MacLean-Hunter’s assets included cable television services in 35 Ontario markets and media assets, including *Maclean’s Magazine*, *The Financial Post*, 21 radio stations, television station CFCN in Calgary, and a significant minority share in the CTV television network (see Exhibit 9). Rogers continued to build its media assets, becoming Canada’s largest publishing company, Rogers Publishing Limited, in addition to owning 52 radio stations and dozens of specialty channels. Rogers Media generated $2.1 billion[[10]](#footnote-10) in revenues during fiscal year 2015 with the majority being earned through its substantial sports content. Rogers owned the Toronto Blue Jays Baseball Club and had a 38 per cent stake in Maple Leaf Sports & Entertainment Ltd., which owned the Toronto Raptors, Toronto Maple Leafs, and the Toronto FC soccer club. In 2015, Rogers Sportsnet signed a 12-year exclusive Canadian National Hockey League (NHL) licensing agreement to broadcast all televised live NHL hockey games within Canada.

Connectivity Businesses

Rogers offered connectivity solutions across all platforms: telephone, Internet, television, and wireless services. Revenues from its connectivity business totalled $11.1 billion for fiscal 2015.[[11]](#footnote-11) Rogers was Canada’s largest wireless service provider and was backed by an extensive high-speed wireless data network that reached 93 per cent of Canadians. While Rogers cellular service competed nationally with country-wide coverage, its physical cable network restricted its other connectivity services. The company’s service territory for television, Internet, and VoIP home landline phones covered approximately 4.2 million homes in Ontario, New Brunswick, and Newfoundland, representing approximately 31 per cent of the Canadian market.

BELL Canada

The Bell Telephone Company was founded in Boston, Massachusetts, on July 9, 1877, following the invention and patent of the telephone by Alexander Graham Bell. A few years later in 1880, Bell Telephone Company of Canada was established. A government-granted monopoly on Canadian long-distance telephone service gave Bell dominance in the telephony market for most of the 20th century. However, between 1980 and 1997, the federal government largely deregulated the telephony industry, and Bell Canada’s monopoly ended. The majority of Bell’s operations were contained within Ontario and Quebec, while a partnership with another telecommunications company in 2006 allowed Bell to service eastern Canada under the brand Bell Aliant.

Media Assets

Bell Media was Canada’s leading content-creation company with premier assets in television, radio, and digital media. Bell Media owned 30 local television stations, led by CTV, which had been Canada’s highest-rated television network since 2002, in addition to 30 specialty channels, including its sports channel TSN and pay TV services (see Exhibit 9). Bell Media was also Canada’s largest radio broadcaster, operating 105 licensed radio stations in 54 markets across the country. Bell Media operated more than 200 websites and delivered OTT TV with its CraveTV and GO video-streaming services. In addition, Bell, along with Rogers, owned 37.5 per cent of Maple Leafs Sports and Entertainment.

Connectivity Businesses

Bell was Canada’s largest communications company with more than 21 million subscribers across its connectivity platforms. In 2015, Bell accumulated revenues of $12.3 billion for its wireline services (Internet, home phone, television) and $6.9 billion for its cellular services. Its wireline services covered only Ontario, Quebec, and Atlantic Canada. Bell’s cellular service, in conjunction with TELUS, reached 96 per cent of Canadians and was projected to reach 98 per cent by the end of 2016. To mark its 135th anniversary in 2015, Bell announced plans to invest $20 billion in network infrastructure by the end of 2020 to further solidify its lead in communications innovation and accessibility in Canada.[[12]](#footnote-12)

Bell was Canada’s largest television service provider with nearly three million subscribers for Bell Satellite TV and Bell Fibe TV. Fibe TV, a newer Internet protocol TV (IPTV) service delivered by way of the company’s broadband fibre-optic network, included the state-of-the-art high-definition personal video recorders (HD PVRs), on-demand movies, TV online, and flexible programming. IPTV had proven to be very competitive with conventional CATV service.

TELUS Communications

In 1885, TELUS Communications (TELUS) completed its first telephone call in Edmonton, Alberta, the city in which the company was founded. From 1904 to 1990, TELUS was an Alberta government-owned entity and experienced very little competition. The telephone company was privatized in 1990 and merged with the British Columbia Telephone Company in 1999. TELUS TV had introduced its Optik TV IPTV service in selected Alberta and British Columbia communities in 2005, and added satellite television service in 2009.

Media Assets

Over the past 15 years, while other telecommunication providers acquired media assets, TELUS was the exception. Since 2000, the company had invested $30 billion in core infrastructure improvements.[[13]](#footnote-13) Regulatory guidelines required BDUs that owned content to distribute their content to third parties at the same relative price. Thus, TELUS was able to offer its subscribers their content of choice and pay a fee to the owners, whether to Rogers, Bell Media, or other media companies such as Corus.

Connectivity Businesses

As a pure-play connectivity company, TELUS offered Internet, television, home phone, and wireless services. Its complete range of service offerings was available in Western Canada. Its wireless services were also available in Ontario, Quebec, and the rest of Eastern Canada. TELUS earned revenues of $5.6 billion and $6.3 billion in 2015 for its wireline and cellular services, respectively.[[14]](#footnote-14) By way of an agreement with Bell, TELUS and Bell shared cellular network coverage across most of Canada and were able to reach 99 per cent of Canadians. TELUS emphasized customer service and its network reliability. The company received fewer complaints than any other national carrier.

INDUSTRY TRENDS AND REGULATION

The average Canadian household spent approximately $203 per month on telecommunication services, an increase of $11.92 (6.2 per cent) per month over the prior year. The increase was driven mostly by changes in spending on wireless and Internet services, which had grown by 14.1 per cent and 10.0 per cent, respectively.[[15]](#footnote-15) The growth in demand for these services was driven by the demand for bandwidth to deliver data-intensive services, such as web browsing, photo sharing, game playing, and video streaming.

Media Flexibility

Increasingly, technology advances enabled consumers to view the content they wanted to see, when and where they wanted to see it. Using Internet-streaming video-on-demand providers, such as Netflix and YouTube, meant that viewers could select what they wanted to watch and view it when they wanted to view it. Tablets and mobile phones with Wi-Fi and cellular network connectivity enabled viewers to watch video almost anywhere.[[16]](#footnote-16)

Canadian CATV consumers were also being offered more flexible options. The CTRC had recently instituted its new pick ’n’ pay policy requiring BDUs to provide a basic “skinny” package of television channels and allowing consumers to purchase additional media content on a channel-by-channel basis. Previously, consumers had been required to buy tiered bundles of channels. This change had implications for the revenues of the BDUs and the pass-through revenues for media specialty channels.

Bundling

Market concentration in connectivity services played a role in the rise of bundling. Large players that offered a full range of connectivity services—wireline phone, TV, wireline Internet, and cellular services—were well positioned to offer their customers discounts in exchange for subscribing to their range of connectivity services. Over the past five years, the number of subscriptions with bundled services rose from 8.8 million to 10.4 million subscribers.[[17]](#footnote-17)

Wireless and Cellular Connectivity

Wireless market penetration in Canada was approximately 82 per cent of the population and was expected to grow at an estimated 1.4 per cent annually. In addition, the growing functionality of mobile devices had led to an increase in demand for higher levels of mobile data at higher download speeds. While revenues from cellular data consumption were expected to increase across the industry, greater access to public Wi-Fi was expected to moderate the growth of these revenues.

CATV or Streaming Video

The increased adoption of OTT services such as Netflix, and connectivity platforms such as Google Chromecast and Apple TV, were attracting viewers from cable TV. BDUs attempted to participate in this trend by launching their own on-demand TV services—for example, Shaw and Rogers launched Shomi, while Bell launched Crave TV. While OTT services competed against BDU TV services, they fuelled Internet data consumption across all platforms (mobile and in-home Internet). Cable and wireline companies were upgrading their networks, increasing their bandwidth by using technologies such as fibre-to-the-home. Newer cellular and Internet Wi-Fi technologies provided faster data communication speeds, allowing television and Internet signals to reach consumers and their devices more quickly.

Combining Content with Connectivity

The benefits of owning connectivity and media content assets were unclear—especially in Canada. The Canadian Radio-television Telecommunications Commission required telecommunications companies that held media assets to provide equal access to their owned media content from all other telecommunications providers. In addition, with the possible exception of sports, much of the most popular content viewed in Canada originated in the United States.

Many U.S. media companies were enormous. For example, The Walt Disney Company had a market capitalization of approximately US$160 billion.[[18]](#footnote-18) Many of the large U.S. media companies were already combined with connectivity companies. For example, Comcast, the largest U.S. cable provider, owned NBCUniversal, which included the NBC television network, CNBC, MSNBC, and Universal Studios. Thus, large parts of the most popular North American content were well beyond the reach of even the largest Canadian telecommunications companies.

THE PROPOSAL FOR MEDIA RESTRUCTURING

After its acquisition of WIND Mobile, Shaw offered a complete repertoire of connectivity services. Merging Shaw Media with Corus would establish Shaw as a pure-play, full-connectivity company and strengthen Corus. Corus, originally a part of Shaw, had been spun off into an independent publicly listed company in 1999, due to regulatory restrictions at the time for vertically integrated companies. Corus was a Canadian-based integrated media and content company that created, licensed, and delivered content across a variety of platforms. The company’s portfolio included specialty television channels such as ABC Spark (formally ABC Family), Disney, and Teletoon in addition to 39 radio stations.

Shaw’s internal team assigned to analyzing the possible sale, together with a leading independent advisory firm, concluded that a fair value for Shaw Media would be $2.65 billion. A similar conclusion was reached by the financial advisors to Corus Entertainment.[[19]](#footnote-19) The transfer of Shaw Media to Corus was expected to generate $40 million to $50 million in cost synergies annually, in addition to significant potential revenue synergies. Together, Shaw Media and Corus would have a share of English TV viewership comparable to that held by Bell, potentially representing one-third of what Canadians watched (see Exhibit 10).

Shaw Media could be sold to Corus for some combination of cash and Corus shares. The structure of a deal to sell Shaw Media to Corus would need to be carefully considered—particularly, the amount in cash and the number of Corus shares (see Exhibit 11). Proceeds from the sale in the form of cash could be beneficial for Shaw; however, taking shares rather than cash would provide Shaw Communications with an ownership position in Corus, and the impact of any cash payment on Corus’s balance sheet would need to be considered by Corus’s board (see Exhibits 12 and 13).

Such a deal would be contrary to past practice in the Canadian telecommunications industry, as the largest players, Bell and Rogers,[[20]](#footnote-20) had backward vertically integrated into content. By owning content, BDUs were able to promote and tailor channel packages to favour their own content. Also, media content had been a stable source of income. In exchange for the upfront windfall of cash that could be generated by the sale of Shaw Media, Shaw Communications would be giving up both its ability to use its own content to leverage its connectivity assets and a stable source of free cash flow. Departing from normal industry practice and becoming more of a connectivity pure play would be a significant strategic move for Shaw.

EXHIBIT 1: SHAW Communications FINANCIAL REPORTS, 2011–2015 STATEMENT OF COMPREHENSIVE INCOME (in CA$ millions)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2011** | **2012** | **2013** | **2014** | **2015** |
| Revenue |  |  |  |  |  |
| Consumer | 3,850 | 3,945 | 4,036 | 3,768 | 3,752 |
| Media | 891 | 1,053 | 1,106 | 1,096\* | 1,080\*\* |
| Business | – | – | – | 484 | 766 |
| Intersegment eliminations |  |  |  | (107) | (110) |
| Total | 4,741 | 4,998 | 5,142 | 5,241 | 5,488 |
| Cost of revenue | (1,959) | (2,036) | (2,022) | (2,092) | (2,174) |
| Gross profit | 2,782 | 2,962 | 3,120 | 3,149 | 3,314 |
|  |  |  |  |  |  |
| Employee salaries and benefits | (751) | (835) | (900) | (945) | (987) |
| Amortization (PPE, intangibles, and other) | (736) | (808) | (854) | (765) | (895) |
| Operating income | 1,295 | 1,319 | 1,366 | 1,439 | 1,432 |
|  |  |  |  |  |  |
| Interest expense | (335) | (330) | (311) | (271) | (283) |
| Other income (expense) | (207) | (14) | 12 | 27 | 25 |
| Income before taxes | 753 | 975 | 1,067 | 1,195 | 1,174 |
|  |  |  |  |  |  |
| Provision for income taxes | (205) | (214) | (283) | (308) | (294) |
| Other income | 14 | – | – | – | – |
|  |  |  |  |  |  |
| **Net Income** | **562** | **761** | **784** | **887** | **880** |

Note: \* Operating income was $353 before restructuring costs and amortization; \*\* Operating income was $342 before restructuring costs and amortization; PPE = property, plant, and equipment.

Source: Company files.

EXHIBIT 1 (CONTINUED)

STATEMENT OF FINANCIAL POSITION (in CA$ millions)

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | | **ASSETS** | **2011** | **2012** | **2013** | **2014** | **2015** | | **Current assets** |  |  |  |  |  | | Cash and cash equivalents | 443 | 427 | 422 | 637 | 398 | | Receivables | 443 | 433 | 469 | 474 | 464 | | Inventories | 97 | 102 | 96 | 119 | 60 | | Other current assets | 279 | 89 | 208 | 103 | 87 | | Total current assets | 1,262 | 1,051 | 1,195 | 1,333 | 1,009 | |  |  |  |  |  |  | | **Non-current assets** |  |  |  |  |  | | Net property, plant, and equipment | 3,200 | 3,242 | 3,370 | 3,652 | 4,220 | | Equity and other investments | 13 | 13 | 10 | 60 | 97 | | Goodwill | 815 | 715 | 698 | 698 | 1,506 | | Intangible assets | 6,955 | 7,355 | 7,153 | 7,198 | 7,459 | | Other long-term assets | 281 | 346 | 306 | 309 | 273 | | Total non-current assets | 11,264 | 11,671 | 11,537 | 11,917 | 13,555 | |  |  |  |  |  |  | | **Total assets** | **12,526** | **12,722** | **12,732** | **13,250** | **14,564** | |  |  |  |  |  |  | | **LIABILITIES AND SHAREHOLDERS’ EQUITY** |  |  |  |  |  | | **Current liabilities** |  |  |  |  |  | | Short-term debt | – | 451 | 998 | – | 608 | | Taxes payable | 12 | 156 | 136 | 341 | 195 | | Deferred revenues | 155 | 157 | 172 | 183 | 196 | | Other current liabilities | 964 | 831 | 899 | 872 | 939 | | Total current liabilities | 1,131 | 1,595 | 2,205 | 1,396 | 1,938 | |  |  |  |  |  |  | | **Non-current liabilities** |  |  |  |  |  | | Long-term debt | 5,256 | 4,812 | 3,868 | 4,690 | 5,061 | | Deferred taxes liabilities | 1,699 | 1,085 | 1,142 | 1,105 | 1,135 | | Minority interest | 241 | 281 | 231 | 235 | 237 | | Other long-term liabilities | 981 | 1,195 | 1,104 | 1,122 | 784 | | Total non-current liabilities | 8,178 | 7,373 | 6,345 | 7,152 | 7,217 | |  |  |  |  |  |  | | Total liabilities | 9,309 | 8,968 | 8,550 | 8,548 | 9,155 | |  |  |  |  |  |  | | Common and preferred shareholders | 3,217 | 3,754 | 4,182 | 4,702 | 5,409 | |  |  |  |  |  |  | | **Total liabilities and stockholders’ equity** | **12,526** | **12,722** | **12,732** | **13,250** | **14,564** | |
|  |

Note: Common shares comprised 22,420,064 Class A voting shares and 451,471,562 Class B non-voting shares. Both categories of shares received the same dividend.

Source: Created by case author based on data from Shaw annual reports, accessed March 27, 2017, www.shaw.ca/uploadedFiles/Corporate/Investors/Financial\_Reports/COR\_Investors\_FinRep\_AnnualReport\_2011.pdf; www.

shaw.ca/uploadedFiles/Corporate/Investors/Financial\_Reports/SCIAnnualReport2012.pdf; www.shaw.ca/uploadedFiles/

Corporate/Investors/Financial\_Reports/SCI2013annualreport.pdf; www.shaw.ca/uploadedFiles/Corporate/Investors/

Financial\_Reports/1SCIAnnReport2014.pdf; www.shaw.ca/uploadedFiles/Corporate/Investors/Financial\_Reports/2015\_

Annual\_Report.pdf.

EXHIBIT 2: TELEVISION SUBSCRIBERS OF the four MAJOR CANADIAN PROVIDERS, 2011–2015 (IN MILLIONS)

Source: Created by case author based on data from 2011–2015 annual reports from Rogers, Bell, TELUS, and Shaw.

EXHIBIT 3: AVERAGE TRADITIONAL TELEVISION VIEWING HOURS IN CANADA,  
2011–2014

Source: Canadian Radio-television and Telecommunications Commission, *Communications Monitoring Report 2015: Canada’s Communications System: An Overview for Citizens, Consumers, and Creators*, October 2015, accessed February 2017, www.crtc.gc.ca/eng/publications/reports/PolicyMonitoring/2015/cmr.pdf.

EXHIBIT 4: INTERNET SUBSCRIBERS OF the four MAJOR CANADIAN PROVIDERS, 2011–2015 (IN MILLIONS)

Source: Created by case author based on data from 2011–2015 annual reports from Rogers, Bell, TELUS, and Shaw.

EXHIBIT 5: AVERAGE INTERNET TELEVISION VIEWING HOURS IN CANADA, 2008–2015

Source: Canadian Radio-television and Telecommunications Commission, *Communications Monitoring Report 2015: Canada’s Communications System: An Overview for Citizens, Consumers, and Creators*, October 2015, accessed February 2017, www.crtc.gc.ca/eng/publications/reports/PolicyMonitoring/2015/cmr.pdf.

EXHIBIT 6: WIRELINE TELEPHONE SUBSCRIBERS OF MAJOR CANADIAN PROVIDERS, 2011–2015 (IN MILLIONS)

Source: Created by case author based on data from 2011–2015 annual reports from Rogers, Bell, TELUS, and Shaw.

EXHIBIT 7: RESIDENTIAL CONNECTIONS in canadian households, BY PLATFORM, AS A PERCENTAGE OF TOTAL CONNECTIONS, 2010–2014

Source: Canadian Radio-television and Telecommunications Commission, *Communications Monitoring Report 2015: Canada’s Communications System: An Overview for Citizens, Consumers, and Creators*, October 2015, accessed February 2017, www.crtc.gc.ca/eng/publications/reports/PolicyMonitoring/2015/cmr.pdf.

EXHIBIT 8: WIRELESS TELEPHONE SUBSCRIBERS OF the four MAJOR CANADIAN PROVIDERS, 2011–2015 (IN MILLIONS)

Source: Created by case author based on data from 2011–2015 annual reports from Rogers, Bell, TELUS, and Shaw.

**EXHIBIT 9: PORTFOLIO OF TOP MEDIA BRANDS FOR BIG FOUR ROGERS, BELL, SHAW AND CORUS**

|  |  |  |  |
| --- | --- | --- | --- |
| **Rogers** | **Bell** | **Shaw** | **Corus** |
|  |  |  |  |
| G4 Canada | Bravo | Action | ABC Spark2 |
| FX Canada | Business News Network | BBC Canada1 | Cartoon Network2 |
| FXX Canada | The Comedy Network | DIY Network1 | CMT1 |
| OLN | CP24 | Global News | Cooking Channel2 |
| Sportsnet | CTV News Channel | Food Network1 | Cosmopolitan TV1 |
| Sportsnet 360 | Discovery Channel Canada1 | History2 | Disney Channel2 |
| Sportsnet One | E! Canada | HGTV1 | Disney Junior2 |
| Sportsnet World | Fashion Television | Lifetime2 | Nickelodeon2 |
| The Shopping Channel | Gusto | MovieTime | Oprah Winfrey Network2 |
| MTV Canada | National Geographic1 | Teletoon |
| Viceland | Much | Showcase | Treehouse TV |
| WWE Network | Space | Slice | W Network |
|  | TSN |  | YTV |

Notes: 1Partnership involving 70%–90% ownership and managing control; 2Under license.

Source: Case authors.

**EXHIBIT 10: ENGLISH TV VIEWERSHIP BY MEDIA PROVIDER, 2015**

Source: Corus Entertainment Inc., *Corus Management Information Circular, for the Special Meeting of Shareholders Regarding the Proposed Acquisition of Shaw Media Inc*., February 9, 2016, accessed February 2017, www.corusent.com/wp-content/uploads/2016/02/corus\_management\_inf\_circular.pdf.

EXHIBIT 11: HISTORICAL SHARE PRICEs for Shaw communications and Corus, 2010–2015

Source: Shaw Communications, “Shaw Communications Inc. (SJR),” Yahoo Finance, accessed February 2017, https://ca.finance.yahoo.com/quote/SJR?ltr=1.

EXHIBIT 12: KEY FINANCIAL RATIOS FOR the FOUR LARGEST CANADIAN TELECOMMUNICATION COMPANIES AND CORUS, 2015

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Debt to Equity** | **Return on Equity** | **Interest Coverage** | **Free Cash flow/Sales%** | **Return on Assets** | **Net Debt to LTM EBITDA** |
| Shaw | 0.94 | 16.66 | 5.15 | 10.03 | 6.05 | 2.33 |
| TELUS | 1.46 | 18.27 | 5.06 | –8.22 | 5.57 | 2.80 |
| Bell | 1.18 | 21.08 | 4.59 | 9.82 | 5.36 | 2.46 |
| Rogers | 2.76 | 24.60 | 3.39 | 9.27 | 4.96 | 3.61 |
| Corus\*\*\* | 0.54 | –2.02 | 1.23 | 20.71 | –0.93 | 2.95 |

Note: LTM EBITDA = Last Twelve Months Earnings before Interest Taxes Depreciation, and Amortization; TELUS’s free cash flow/sales% had averaged 7.11 over the previous five years; Corus’s return on equity, return on assets, and net debt to LT EBITDA had averaged 13.6, 6.83, and 2.3, respectively, over the previous five years.

Source: Created by case author based on financial data for Shaw, TELUS, Bell, Rogers, and Corus from Morningstar, accessed March 27, 2017, http://quote.morningstar.ca/Quicktakes/stock/keyratios.aspx?t=SJR.B&region=CAN&culture=en-CA&ops=clear; <http://quote.morningstar.ca/Quicktakes/stock/keyratios.aspx?t=T&region=CAN&culture=en-CA&ops=clear>; <http://quote.morningstar.ca/Quicktakes/stock/keyratios.aspx?t=BCE&region=CAN&culture=en-CA&ops=clear>; http://quote.

morningstar.ca/Quicktakes/stock/keyratios.aspx?t=RCI.B&region=CAN&culture=en-CA&ops=clear; <http://quote.morningstar>.

ca/Quicktakes/stock/keyratios.aspx?t=CJR.B&region=CAN&culture=en-CA&ops=clear.

EXHIBIT 13: SUMMARY FINANCIAL INFORMATION FOR CORUS, 2013–2015

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2013** | **2014** | **2015** |
| Revenues | 752 | 833 | 815 |
| Profit | 243 | 266 | 253 |
| Net (loss) income attributable to shareholders | 160 | 150 | −25 |
| Total assets | 2,167 | 2,785 | 2,632 |
| Total bank debt and notes | 539 | 874 | 801 |

Source: Adapted from Corus Entertainment, 2015 Annual Report, 11, accessed February 2017, www.corusent.com/wp-content/uploads/2015/12/Corus\_AR2015\_v7\_online.pdf.

1. All currency amounts are in Canadian dollars unless otherwise indicated. [↑](#footnote-ref-1)
2. For fiscal year 2015, Business Network Services accounted for $520 million of revenue and $246 million of operating income; the remainder was Business Infrastructure Services. [↑](#footnote-ref-2)
3. The operating income represents income before restructuring and amortization. [↑](#footnote-ref-3)
4. Shaw’s 2.58 million subscribers were split between 1.77 million cable subscribers and 0.81 million satellite subscribers. [↑](#footnote-ref-4)
5. Coaxial connections used a shielded copper wire to carry electrical signals, while optical connections used a fibre-optic cable to transmit signals as pulses of light. Fibre provided more bandwidth and could transmit data at higher speeds and over longer distances. [↑](#footnote-ref-5)
6. Broadband Internet was also known as high-speed Internet. In Canada, the average Internet speed was 12 megabits per second. [↑](#footnote-ref-6)
7. Spectrum was licensed by Industry Canada under the Radiocommunication Act. [↑](#footnote-ref-7)
8. Content for channels was either created by Shaw or produced by a third party, with Shaw holding the rights to distribution in Canada. [↑](#footnote-ref-8)
9. Vidéotron was owned by Quebecor and provided CATV, high-speed Internet, mobile phone, and home phone services, primarily in the largely francophone province of Quebec. [↑](#footnote-ref-9)
10. Rogers Communications Inc., *Rogers Communications Inc. 2015 Annual Report*, accessed May 12, 2017, http://netstorage-ion.rogers.com/downloads/IR/pdf/annual-reports/Rogers-2015-Annual-Report.pdf. [↑](#footnote-ref-10)
11. The $11.1 billion revenue represented revenues of $0.5 billion for telephone, $1.6 billion for television, $1.3 billion for Internet, and $7.7 billion for wireless services. Rogers Communications Inc., *Rogers Communications Inc. 2015 Annual Report*, accessed May 12, 2017, http://netstorage-ion.rogers.com/downloads/IR/pdf/annual-reports/Rogers-2015-Annual-Report.pdf. [↑](#footnote-ref-11)
12. BCE Inc., *Leading the Way in Communications: BCE Inc. 2015 Annual Report*, accessed March 2017, www.bce.ca/investors/AR-2015/2015-bce-annual-report.pdf. [↑](#footnote-ref-12)
13. Christine Dobby, “Telus Proves That Owning Content Not Crucial for Telecoms,” *Financial Post*, March 25, 2013, accessed May 12, 2017, http://business.financialpost.com/fp-tech-desk/telus-proves-that-owning-content-not-crucial-for-telecoms [↑](#footnote-ref-13)
14. Telus Communications, 2015 Annual Report, accessed May 12, 2017, http://about.telus.com/servlet/JiveServlet/previewBody/6010-102-1-6648/TELUS%202015%20Annual%20Report.pdf [↑](#footnote-ref-14)
15. Aaron Saltman, “Why Canadians are Spending More on Wireless and Internet Services,” *CBC News*, October 25, 2015, accessed May 12, 2017, www.cbc.ca/news/business/crtc-communications-costs-1.3285809 [↑](#footnote-ref-15)
16. Although streaming large amounts of good-quality video over the latest-generation cellular networks was feasible, it was still prohibitively expensive for large amounts of video content. [↑](#footnote-ref-16)
17. Ellen Roseman, “Why Do Phone, Internet and TV Service Prices Keep Rising?,” *Toronto Star*, January 11, 2016, accessed May 12, 2017, https://www.thestar.com/business/personal\_finance/spending\_saving/2016/01/11/why-do-phone-internet-and-tv-service-prices-keep-rising-roseman.html [↑](#footnote-ref-17)
18. “Walt Disney Market Cap,” YCharts, accessed February 9, 2016, https://ycharts.com/companies/DIS/market\_cap. [↑](#footnote-ref-18)
19. Corus Entertainment Inc., Notice of Special Meeting and Management Information Circular for the Special Meeting of Shareholders Regarding the Proposed Acquisition of Shaw Media Inc. March 9, 2016, February 9, 2016, accessed March 4, 2017, www.corusent.com/wp-content/uploads/2016/02/corus\_management\_inf\_circular.pdf. [↑](#footnote-ref-19)
20. Vidéotron also owned French content. [↑](#footnote-ref-20)