INSEAD

The Business School for the World®

INS273

The Bid for Bell Canada Enterprises (BCE)

03/2014-5737

This case was written by Lori Einheiber, Research Associate at INSEAD, former Director of Corporate Strategy and Development at BCE, under the supervision of Laurence Capron, Paul Desmarais Chaired Professor of Partnership and Active Ownership, and Urs Peyer, Associate Professor of Finance, both at INSEAD. It is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. The data presented in this case has been entirely derived from publicly available sources.

Additional material about INSEAD case studies (e.g., videos, spreadsheets, links) can be accessed at cases.insead.edu.

Introduction

> *"We ran Bell as if it were going to be forever. It has a good balance sheet, good cash flow, conservatively managed from a financial point of view, at the inflection point where more of its revenue is coming from growth areas instead of traditional areas. In the old days that would have been considered the most perfect kind of management. It's a different world."*
>
> Richard Currie, Chairman of the Board, BCE, 2007[1]

On April 16, 2007, as Lori Einheiber was getting settled into her new apartment in Montreal, Québec, excited about starting her new job as Director of Corporate Strategy and Development with Bell Canada Enterprises (BCE), she heard the unexpected news. BCE, the oldest and largest telecommunications company in Canada, with approximately $17 billion in revenue, was suddenly 'in play'.

The company had just announced publicly that two separate consortiums of private equity players – (1) Kohlberg Kravis Roberts & Co. (KKR) and the Canadian Pension Plan Investment Board (CPP), and (2) Providence Equity Partners (Providence) and Ontario Teachers' Pension Plan (OTPP) – were interested in a potential transaction involving BCE. After months of trying to downplay rumours, BCE realized a major change was inevitable. Its stock price had risen 26% since the rumours of a potential change of control had started in November 2006 (see Exhibit 1). Possible strategic alternatives that BCE was considering included being taken private by financial buyers, a merger with Telus, the second-largest telecommunications company in Canada, or the implementation of changes but under the current ownership structure.

Late that morning, Lori received a phone call from her new boss and was asked to take on the lead director role for the taking private scenario. Separately, a co-director would work on the option of a merger with a strategic buyer, Telus. On the one hand, Lori was excited about the prospect of working on what could potentially be the largest transaction in Canadian history, if not the largest leveraged buyout globally. On the other, she was well aware of the challenges that lay ahead for BCE. The board of directors would face a difficult decision in choosing the best option for the company. Could the Bell team determine a 'fair' price to ask from the private equity firms and/or from Telus? Would the Canadian government approve? How would the structure of the organization change post acquisition? How would her job be affected?

The Canadian Telecom Market

Canada is a unique country geographically, demographically and politically. Its territory is the second largest in the world, and yet its population is relatively small – only 32.9 million people.[2] The majority of Canadians live within 200 kilometres of the United States border and are concentrated in just a few major cities. Politically, Canada is a liberally linked federation

1 "Dealmaker's parting shot", National Post, July 7 2007
2 Central Intelligence Agency (CIA) – World Fact Book: Country comparisons, Area.

of provinces, each with significant responsibility for its own affairs.[3] Accordingly, the Canadian telecommunications industry plays a vital role in the social and economic fabric of Canada, linking the remote rural areas and the vast northern regions to the rest of the country.

Telecommunications: A Canadian Love Affair

"Under yon roof of mine the telephone was born."

Alexander Melville Bell (Alexander G. Bell's father), at the Ontario Board of Trade banquet, Brantford, 1881

Canada has been consistently at the forefront of telecommunications technology. In 1874, the concept of the telephone was developed by Alexander Graham Bell at his parents' home in Brantford, Ontario.[4,5] In 1901, Marconi's first transatlantic radio transmission was received in Newfoundland.[6] In 1954, JANET, the first commercial meteor-burst communication system, was built in Canada.[7] Canada had the world's first nationwide digital network (1971) and the Western world's first domestic satellite communications system (1972).[8] By 2006, 98% of Canadian households subscribed to a landline or mobile phone service.[9]

The telecommunications industry is one of the strongest sectors in Canada, contributing 4.1% to GDP in 2006. Total revenue for the industry grew at a compounded annual growth rate of 3.0% from 2003 to 2006 and reached $36.1 billion in 2006 (see Exhibit 2). Although the demand for traditional landline phone services was declining, the industry was expected to continue to grow at a similar pace on the strength of increased demand for mobile phone and internet services.[10]

The Canadian telecommunications landscape changed dramatically in the twentieth century. Historically a monopolistic market with one telephone provider – Bell Canada, part of the Bell System – it had evolved into a highly competitive field where many players competed for market share (see Exhibit 3). While large incumbents still captured the lion's share of the market, competitors to the traditional telephone companies continued to increase their share of total telecommunications revenue.

Canada's telecommunications industry is regulated by the Canadian Radio-Television and Telecommunications Commission (CRTC), an independent public authority that falls under

---

3 Canadian Developments in Telecommunications: An Overview of Significant Contributions, Thomas L. McPhail and David C. Coll, 1987.
4 It should be noted that there is an ongoing debate on whether Alexander G. Bell or Elisha Gray, who filed a patent for the telephone on the same day in Washington in 1876, was the first inventor of the telephone.
5 International Telecommunications Union.
6 Guglielmo Marconi, seated before a wireless receiver installed in the tower on Signal Hill at St. John's, Newfoundland, succeeded in picking up a signal transmitted from his station at Poldhu in Cornwall. Newfoundland and Labrador Heritage website.
7 Canadian Communications Research Centre.
8 In 1972, Telesat Canada launched the first domestic communications satellite, ANIK, to serve the vast Canadian continental area. NASA History Division.
9 CRTC
10 *Ibid.*

Industry Canada (Ministry of Industry), and is subject to the Telecommunications Act (1993) and Bell Canada Act (1987) and their amendments.

Telecommunication Services

The telecommunications market in Canada can be divided into two market segments: wireline (or fixed-line) services and wireless services.

Wireline Services

The wireline market segment remains an important part of the telecommunications industry, with many areas of the country more reliant on wireline than wireless infrastructure. The segment accounted for approximately 64% of total telecommunications industry revenue in 2006.[11] Wireline services include local and access telephone, long distance, data (including internet access), and video and equipment.

Local and Access Telephone & Long Distance

The main incumbents in traditional wireline services are Bell Canada (which dominates the Ontario and Quebec markets), Telus (whose main strength is in Alberta and British Columbia), Bell Aliant (the Atlantic provinces) and SaskTel (Saskatchewan). Combined, these four companies control about 90% of local lines. However, they have been gradually losing market share as regulators continue to encourage increased competition, starting with the long-distance market and, more recently, local service and internet telephony (VoIP).[12]

Other players include MTS-Allstream, Sprint Canada and FCI Broadband. There are also numerous smaller operators, especially in the long-distance market, known as resellers, which buy capacity in bulk from the main players. The most prominent include U.S.-based Primus Telecommunications and YAK Communications.[13]

The traditional wireline sector, where competition is weakest, still faces the toughest regulations on local and access services. The CRTC maintains tight controls on local telephone rates and access charges. In 2007, approximately 30% of residential lines and 40% of business lines continued to be regulated. Though competitive pressure from the expansion of wireless coverage has pushed incumbents to lobby for additional deregulation, in the shorter term, as in many other markets around the world, deregulation is unlikely to progress where jobs or Canadian interests are at risk.[14]

Internet or Broadband Services

In terms of competition, the market for internet services in Canada is very different from that of the local, access and long-distance market. Internet access is extremely widespread and has little potential for further expansion. Competition for market share is fierce. Canada has

11 Treasury Board of Canada Secretariat
12 CRTC
13 Primus was among the companies seeking to make inroads into the local phone market by using VoIP technology.
14 CRTC

approximately 1,000 internet service providers (ISPs), of which 80% offer high-speed access.[15] Though the market is fragmented, Bell Canada, Shaw and Rogers Cable hold the top three market share positions, with approximately 22%, 17% and 13%, respectively.[16]

Video

Cable TV services developed rapidly in Canada as a means of enhancing reception. The cable TV market is dominated by a few multiple systems operators (MSOs), which continue to buy up smaller operators in rural areas.[17] MSOs also provide telephony and internet services. Notable operators are Rogers Cable (which operates 157 cable systems in the key urban markets of Toronto, New Brunswick, southwestern Ontario and Ottawa), Shaw Communications (122 systems in western Canada), Cogeco Cable (151 systems in Ontario and Québec) and Vidéotron (53 cable systems in Québec). The first direct-to-home (DTH) services were launched in 1997 by Star Choice, a company which was later acquired by Shaw Communications. Later on, the service was surpassed by the second DTH entrant, Bell ExpressVu, a wholly owned subsidiary of Bell Canada.[18,19]

Equipment

With its limited telecommunications equipment manufacturing base, Canada runs a trade deficit in telecommunications and technology products. Its most important technology manufacturers include Nortel Networks (telecommunication equipment), Celestica (electronic components), IBM Canada (computer equipment and services) and Hewlett-Packard Canada (computer equipment and services). Other important players include Research in Motion (RIM, handheld communications devices), the Canadian subsidiary of JDS Uniphase (fibre-optic communications), Xerox Canada (office equipment), Honeywell (industrial equipment and processes) and Cisco Systems Canada (communications equipment).[20]

Wireless Services

The wireless market segment consists of telecommunications services provided via mobile wireless access facilities. Wireless services accounted for approximately 36% of total telecommunications industry revenue in 2006, more than 50% of its EBITDA, and nearly all of its growth since 2003 (see Exhibit 4). These services include mobile telephony and mobile data such as text messaging, roaming, wireless internet access and paging services. More than

15 The Economist Intelligence Unit
16 CRTC
17 An MSO is an operator of multiple cable television systems. A cable system, by the US Federal Communications Commission definition, is a facility serving a single community or a distinct governmental entity, each with its own franchise agreement with the cable company. The term is usually reserved for companies that own a very large number of cable systems.
18 DTH is a digital satellite service that provides television services direct to subscribers anywhere in the country. Since it makes use of wireless technology, programmes are sent to the subscriber's television direct from the satellite, eliminating the need for cables and any cable infrastructure.
19 CRTC
20 *Ibid.*

98% of Canadians have access to wireless services and approximately 72% of households or 61% of the Canadian population subscribe to them.[21]

The wireless segment is dominated by three national mobile wireless network operators – Rogers Communications, Telus and Bell Canada.[22] There are also two regional wireless providers, MTS-Allstream (Manitoba) and Sasktel (Saskatchewan), and a number of mobile virtual network operators (MVNOs), the largest being Primus Telecommunications Canada and Virgin Mobile Canada.[23,24] Primus entered the market in 2004. Virgin, jointly owned by Bell Canada and the Virgin Group of the UK, entered the market in 2005.

Wireless communication is popular and still expanding rapidly, but is not available in some of the more remote areas of Canada. Prices to consumers, however, are high by international standards—in a recent report, the OECD ranked Canada as the world's third most expensive developed country for wireless services.[25,26]

Bell Canada Enterprises

Bell Canada Enterprises (BCE), a former conglomerate with mainly one remaining asset, Bell Canada, was the largest telecommunications company in Canada with over $17 billion in revenue in 2006 (see Exhibit 5). Bell Canada, BCE's core business operation, was a leading national provider of wireline and wireless communications services, internet access, data services, and video services to residential and business customers (see Exhibit 6). Montreal-based BCE also owned approximately 53% of telephone company Bell Aliant, 15% of CTVglobemedia, and various stakes in other phone, internet and satellite communications companies.[27] In 2007, BCE's CEO was Michael J. Sabia.

The Early Years

Historically, Bell Canada had been one of Canada's most important and most powerful companies. In 1877, Alexander Graham Bell assigned 75% of his telephone patent to his father, Alexander Melville Bell, who along with a friend started the first commercial telephone business in Canada. In 1879, in order to join his son in the United States, Melville Bell sold his rights to the patent to the National Bell Telephone Company of Boston. In 1880, the National Bell Telephone Company of Boston established the Bell System in Canada and developed the Bell Telephone Company of Canada. With a government-granted monopoly on Canadian long-distance telephone service, the Bell Telephone Company of Canada serviced

---

21 CRTC
22 Bell Canada offers wireless services in all Canadian provinces except Saskatchewan and Manitoba.
23 A Mobile Virtual Network Operator (MVNO) is a mobile operator that does not own its own spectrum and usually does not have its own network infrastructure. MVNOs have business arrangements with traditional mobile operators to buy minutes of use for sale to their own customers.
24 Other MVNOs operating in Canada include PC (President's Choice) Mobile, Sears Connect, Petro Canada Mobile, 7-Eleven Wireless, Videotron and others.
25 Organisation for Economic Cooperation and Development
26 CRTC
27 BCE 2006 Annual Report

more than 200,000 subscribers by 1914. On March 7, 1968, the Bell Telephone Company of Canada was officially renamed Bell Canada.

Telephone Services for All Canadians

Bell Canada originally extended phone lines from as far east as Nova Scotia to as far west as the Rocky Mountains (Alberta). However, at the time, Bell focused most of its resources on meeting the demand for services in major eastern cities in Ontario, Quebec and the Maritime provinces.

In the early twentieth century, independent companies appeared in Ontario, Quebec and the Maritime provinces to meet the needs of rural areas without adequate Bell Canada service. Bell sold its Atlantic operations in the three Maritime provinces, creating four separate operating companies.[28] In the 1960s, Bell reacquired interests in all its former Atlantic companies, which merged into Aliant (now Bell Aliant) in 1990. Bell went on to acquire most of the independent companies in Ontario and Quebec.

Similar investments happened in western Canada. By 1912, the three Prairie provinces (Manitoba, Saskatchewan and Alberta) had purchased Bell Canada operations to create provincially controlled utility companies. In the 1990s, Manitoba moved to privatize its telephone utility to create MTS and Alberta privatized Alberta Government Telephones to create Telus. SaskTel continues to be a crown corporation.

British Columbia was served by numerous small operators that mostly merged to form BC Tel in the late 1960s. It was sold to Telus in 1999. Canada's northern territories were serviced mostly by Canadian National Telecommunications, a subsidiary of Canadian National Railways, which later became Northwestel. In 1988, Northwestel was acquired by BCE.

In addition to Bell Canada, the Bell System also included Northern Electric, an equipment manufacturer. Bell Canada sold telephone services as a local exchange carrier, and Northern Electric designed and manufactured telephone equipment. In 1964, Bell Canada acquired 100% of Northern Electric. However, though it retained majority control, Bell's ownership stake in Northern Electric declined through planned public stock offerings. Northern Electric renamed itself Northern Telecom in 1976 (which became Nortel Networks in 1998).

Deregulation

Between 1980 and 1997, the federal government almost totally deregulated the telecommunications industry. Regional companies who were part of the Bell Canada alliance could now compete against each other. In April 1983, as a result of deregulation, Bell Canada Enterprises (BCE) was formed as the parent company to Bell Canada and Northern Telecom. As of 2000, BCE no longer owned Nortel, and Bell Canada itself provided local phone service only in major city centres in Ontario and Quebec.

---

28 Newfoundland Telephones (which later was organized as NewTel Communications), Maritime Telephone and Telegraph Company (which was later known as MTT and also owned PEI-based Island Telephone), and Bruncorp (the parent company of NBTel).

Convergence Strategy

In the late 1990s, BCE's management team felt it was in a position to take advantage of the emerging internet market in Canada and pursued a convergence strategy. Its aim was to combine both content creation and distribution within BCE. From 1999 to 2002, under the leadership of CEO Jean Monty, BCE pursued its strategy and acquired a number of assets: CTV television network (2000), The Globe and Mail national newspaper (2001), later to be combined with Bell Canada's internet portal to form Bell Globemedia, and Teleglobe (2000), an international telecommunications carrier.

By 2002, it was generally agreed that the convergence strategy had failed. BCE unwound its portal from Bell Globemedia and, after spending billions of dollars financing Teleglobe, exited the business and took a charge on its balance sheet of $7.5 billion to write off its holdings of the company.[29]

Michael J. Sabia as CEO

By the time Michael J. Sabia took over BCE in April 2002, the expensive convergence strategy had tested shareholders' patience. Sabia, a former federal public servant and CFO of Canadian National Railway, began selling non-core and underperforming assets, returning BCE's focus to its core telephone business.[30,31]

From 2002 to 2006, the Bell executive team continued to push its "focus on core" strategy, but BCE's stock price continued its lacklustre performance. The market believed BCE had exhausted its opportunities with this strategy and did not understand what management would do next. Moreover, the company's revenues had essentially stayed flat, growing less than 1% from 2005 to 2006, compared with telecommunications industry growth of almost 5% over the same period.[32]

Bell Canada's basic phone business, historically the cash cow that funded the company's growth, was in decline. New internet telephony services, implementable with minimal capital investment by cable companies on their broadband networks, were being offered at an extremely competitive price.[33] Though the customer losses from its basic phone business appeared to be slowing, Bell Canada saw attrition of more than one million local land-line customers between 2005 and 2006 (~8% of Bell Canada's total network access services), mostly to Rogers Communications and Quebecor.[34] Bell's wireless and internet revenues were growing, but barely enough to cover its landline revenue decline. In 2006, the wireless operations of Rogers Communications and Telus outperformed Bell Canada's, capturing approximately 70% of all new subscribers.

---

29 BCE 2002 Annual Report
30 Prior to BCE, Sabia was CFO of Canadian National Railway Co. and deputy secretary to the cabinet in Canada's Privy Council Office, which provides essential advice and support to Canada's Prime Minister and Cabinet.
31 "Debt Ridden; The story of the BCE deal", Financial Post, September 27, 2008
32 "Teacher's Bet", The Globe and Mail, August 29, 2008
33 *Ibid*.
34 BCE 2006 Annual Report

By late 2006, Sabia was under pressure from shareholders to deliver value. One option was to sell Telesat Holdings Inc., a satellite communications company created by the Canadian government in 1969. Another option was converting BCE into an income trust. Under an income trust structure, corporate taxes would be minimal as most of BCE's cash would be distributed to its unit holders. Shortly after the plan was set in motion, Canada's Finance Minister, Jim Flaherty, closed the tax loophole and announced that the government would begin taxing income trusts in 2011.[35]

On December 18, 2006, BCE announced it had sold Telesat for $3.25 billion to the Public Sector Pension Investment Board and Loral Space and Communications Inc. The deal was set to close on October 27, 2007 and to generate a gain of $2.3 billion before taxes (and $1,890 million after tax[36]) for BCE (see Exhibit 7). While the Telesat proceeds put BCE in a comfortable cash position, Sabia was concerned about the forecasts he had received of sales, costs, and investments for the next five years (2007-2011) based on the assumption of continuing as a stand-alone company (Exhibit 8). He sensed that with no clear strategic plans for its future, BCE might become a prime private equity target.

BCE as an Acquisition Target

> *"You guys are in play. You may not know it, but you're in play."*
>
> Jim Leech, CEO, OTPP, to Michael Sabia, CEO, BCE, February 2007[37]

According to its regulatory filings, BCE rejected a number of advances to take the firm private. Despite BCE's pushback, by March 2007 KKR had partnered with CPP, and Providence had partnered with OTPP to pursue the potential leveraged buyout of BCE. Soon after, OTPP filed with the U.S. Securities and Exchange Commission signalling a change in the status of its 5% investment in Bell [TSE:BCE] from passive to active. Realizing they couldn't avoid a sale or recapitalization, BCE's board kick-started the auction process, pitting the two private equity consortiums against each other and, a few weeks later, attracting a third consortium led by U.S. private equity firm Cerberus Capital Management. Later, BCE also started talks with rival Telus.

35 "Debt Ridden; The story of the BCE deal", Financial Post, September 27, 2008
36 The tax on long term capital gains in Canada is applied to 50% of the gain. The corporate tax rate in Canada is 36%. The sale of Telesat is subject to the normal corporate tax rate. Therefore it's 2.3B - (2.3B x .5 x .36 = $410M) = ~1.9B. In the reported financial statements of BCE, BCE's tax rate is 28.3%. It corresponds to the effective tax rate after tax credits BCE receives from the government.
37 "Debt Ridden; The story of the BCE deal", Financial Post, September 27, 2008

Private Equity Leveraged Buyout

> *LBOs are back, only they've rebranded themselves private equity and vow a happier ending. The firms say this time it's completely different. Instead of buying companies and dismantling them, as was their rap in the '80s, private equity firms… squeeze more profit out of underperforming companies.*
>
> "Private Equity Firms Spin Off Cash", Matt Krantz, USA Today, 2006

Private equity (PE), by definition, is money invested in companies that are not publicly traded on a stock exchange, or invested as part of buyouts of publicly traded companies in order to make them private companies. Among the most common investment strategies in private equity are leveraged buyouts (LBO).

In an LBO, a company is acquired using a large amount of borrowed money (bonds or loans) to pay for the acquisition. Often, the assets of the company being acquired, as well as the assets of the acquiring company, are used as collateral for the loans. The purpose of leveraged buyouts is to allow companies to make large acquisitions without having to commit a lot of capital. In an LBO there is usually a ratio of 80% debt to 20% equity.

The 'Golden Age' of Private Equity, 2003-2007

The expansion of the PE asset class occurred through a series of boom and bust cycles beginning in the middle of the twentieth century. As the century came to an end, and with it the dot-com bubble and the tremendous growth in venture capital,[38] PE firms spent the next two to three years dealing with major losses in telecommunications and technology companies. They were also constrained by tight credit markets. However, changes starting in 2003, such as decreasing interest rates, loosening lending standards and regulatory changes for publicly traded companies (specifically the Sarbanes-Oxley Act), set the stage for a massive boom in private equity. By 2004 and 2005, major buyouts were once again becoming common. As 2005 ended and 2006 began, new records for the largest buyout were set and surpassed several times.[39] In 2006, PE firms bought 654 U.S. companies for a total of $375 billion, representing 18 times the level of transactions closed in 2003 (see Exhibit 9).[40] An important contributor to the rise in PE deals was the historically low cost of debt financing. Exhibit 10 shows the TED spreads, a measure of the premium for risky debt, from 1997-2009.[41]

38 Venture capital is a subcategory of private equity that refers to equity investments made, most typically, in less mature companies.

39 http://www.mahalo.com/private-equity-in-the-2000s

40 "The Private Equity Boom", Washington Post, March 2007.

41 The TED spread is the price difference between three-month futures contracts for U.S. Treasuries and three-month contracts for Eurodollars having identical expiration months. The TED spread can be used as an indicator of credit risk. This is because U.S. T-bills are considered risk free while the rate associated with the Eurodollar futures is thought to reflect the credit ratings of corporate borrowers. As the TED spread increases, default risk is considered to be increasing, and investors will have a preference for safe investments. As the spread decreases, the default risk is considered to be decreasing.

Attractiveness of BCE

Providence, a PE firm based out of Rhode Island, had been pursuing BCE for months. As a leading investor in media, entertainment, communications and information services companies, the firm had been among the unsuccessful bidders for Telesat, BCE's satellite subsidiary.[42]

BCE's cash position and stagnant performance were highly attractive. In late 2006, Providence contacted its bankers, Citigroup Inc., about a potential LBO of BCE. Citi viewed BCE as beyond Providence's reach because of the level of debt that would have to be raised to acquire it.[43] Comparable M&A transactions in the telecommunications industry at that time were priced 6-12 times the target's 12-month EBITDA (see Exhibit 11). The market was expecting a deal of BCE's size to be priced at the lower end of the range, close to 6-8.[44]

Moreover, according to Canadian federal law foreign companies can own no more than 46.7% of telecom providers.[45] The market expected that 80% of the acquisition price would be debt and the remainder would be equity, of which almost 50% needed to be Canadian sourced. Assuming BCE was priced at an EBITDA multiple of seven times, this would amount to approximately $5 billion CAD. Despite these obstacles, Providence would not be deterred.

Providence was not alone. According to company filings with securities regulators, BCE knew that KKR, a leading global alternative asset manager, had opened a file on the company and was interested in a potential transaction. In November 2006, Sabia met with Henry Kravis, co-founder and co-CEO of KKR, who confirmed that his firm was interested in a potential leveraged buyout of BCE.[46] At that time, the BCE leadership team and board of directors were not interested in being taken private.

Likewise, OTPP, the third-largest pension fund in Canada and BCE's single largest shareholder (holding 5% of its outstanding shares), was also considering the possibility of participating in taking BCE private.[47,48]

42 "Debt Ridden; The story of the BCE deal", Financial Post, September 27, 2008
43 *Ibid*.
44 "KKR, Canadian Pension Funds Are in Talks to Buy Out BCE", Wall Street Journal, April 18 2007.
45 "Pipeline: It's Showtime As Canada's BCE Turns On An LBO", High Yield Report, July 9 2007.
46 "Debt Ridden; The story of the BCE deal", Financial Post, September 27, 2008
47 Once a PE firm has bought up all the publicly traded stock of a target company, the company is then said to have gone "private."
48 "Debt Ridden; The story of the BCE deal", Financial Post, September 27, 2008

Extracting Value from BCE as an LBO Firm

When the auction finally started at the end of April 2007, three consortia of PE firms took part in the process: KKR/CPP, Providence/OTPP, and Cerberus.[49,50,51] The PE firms believed that under their ownership they could make the sort of changes to BCE that the current management team, which only owned 0.2% of the shares outstanding,[52] couldn't – or wouldn't – do while it was a public company. In order to meet quarterly performance targets, public companies often feel pressured to focus on short-term earnings rather than long-term value creation. PE would reinforce the focus on value creation by increasing the incentives using stock options and bonuses which were designed to roughly double the benefit from an increase in the share price relative to the status quo – plus make such benefits available down to the Director level (rather than the one level higher VP level for the existing incentive scheme).

Some argued that BCE was a highly bureaucratic company with a bloated management structure, too many management layers, and too low spans of control (management-to-employee reporting ratio). The first step at fixing BCE's bloated structure was to slash about 2,500 management jobs (about 6% of BCE's workforce or 15% of management) at its main Bell Canada phone company unit to clamp down on operating costs. The plan would reduce the number of business units managed at the highest level (Executive Vice-President level) from seven to three, hence reducing the size of the senior management team. The second step consisted of rightsizing or extending the spans of control throughout the rest of the organization. Benchmarks and best practices were used to help determine spans –with a rule of thumb of no more than 8 layers from the bottom to CEO and a least 6 spans/direct reports per manager. The consultants and PE firms used managers at each level to help determine the optimal team structure. Some strategic business units (e.g. wireless) had slightly less aggressive targets. The PE firms estimated that a combination of a leaner management structure with headcount reduction would result in an improvement of BCE's SG&A-to-sales ratio (selling, general and administrative expenses) by three percentage points within two years.[53]

Although BCE targeted to maintain its capital intensity ratio (capital expenditures-to-sales ratio) at 2006 levels, the private equity firms thought they could reduce BCE's capital spending within two years to be more in line with best-in-class comparable companies.[54,55] Future capital investments would be centred on the wireless side of the business, with minimal maintenance investments on the wireline side.[56] BCE's average capital intensity in 2006 was approximately 17%, while the average capital intensity for best-in-class

49 KKR/CPP consortia also included Canadian buyout firm Onex.

50 Providence/OTPP consortia also included Chicago, US-based private equity firm Madison Dearborn Partners.

51 The Cerberus Consortium included: Hospitals of Ontario Pension Plan, Hong Kong/Canadian billionaire Richard Li, Manulife Financial Corp. and Calgary Herald owner CanWest Global Communications Corp.

52 Source: SEC Form 40-F filed Mar-14-2007, page 5.

53 "Teacher's Bet", The Globe and Mail, August 29, 2008

54 BCE 2006 Annual Report

55 "Teacher's Bet", The Globe and Mail, August 29, 2008

56 Improvements in wireless technologies were less capital intensive than investments in wireline. Wireless technologies also had a shorter depreciation life.

telecommunications companies in Canada and the US ranged between 14-16%.[57,58] Following an acquisition by PE, capital intensity at BCE was expected to decrease by three percentage points within two years. To reduce CAPEX, the PE firms were expected to follow three guiding principles:

- Cost restructuring, especially in IT and Network. (a lot of capex projects weren't properly providing true NPV and there were opportunities to reduce them)
- Developing cross-business unit platforms (e.g. reducing redundant investments across business units (BU) and reviewing expenditures more closely to identify opportunities that could benefit multiple Bus).
- Adopting a "pennies count" mentality

From an operational standpoint, private equity firms were expected to improve working capital management, back to BCE's 2005 level, i.e., –8% of revenues[59] instead of –1% for 2006. PE firms plan to review payment terms across the company (dealers, procurement, handsets) and to implement more favourable terms with the vendors (that prolongs the use of cash). They were also focusing on inventory management by reducing the number of handsets and other tech devices carried, resulting in streamlined and relevant (higher turnover) products.

Furthermore, as a private company, BCE would benefit from additional SG&A savings (estimated at 0.3% of sales) by being delisted. Typical costs of public company are: board of directors, annual and quarterly reporting, filings with TSX and NYSE (BCE had to meet both Canadian and American public company requirements), investor relations, and other public relation costs (community, corporate responsibility, etc.)

The private equity consortiums believed they could amass the 80% debt and 20% equity needed for the acquisition, even though the credit market had started to show signs of tightening in April 2007. They were confident that they could finance C$26.678 billion (about 70% of the debt value) at an average interest rate of 8% using senior secured bank debt and rolling over some existing senior debt.[60] The existing debt, worth $5.2 billion due after 2010, that would be rolled over was the debt without a change-of-control clause in the bond indentures (bond covenants). Their average maturity was 10 years. Since there was no contractual obligation by the LBO buyer to repay the debt, these bonds would be kept as part of the debt financing in the LBO with adverse effects for such bondholders. Prior to the LBO announcement the cost of this debt was 6.7% (with a coupon rate of 6.7% corresponding to the average cost of debt; see Exhibit 12). The rating of the pre-LBO debt was BBB. The announcement of an LBO deal would increase the average cost of this $5.2 billion debt (the

57 According to the CRTC, best-in-class capital intensity was 13% for wireless providers and 19% for incumbent wireline providers in 2006.

58 2006 average capital intensity for comparable US-based companies: AT&T, Verizon and Qwest. Capital IQ.

59 Note that this working capital improvement results in a one-time cash inflow for 2007, the first year of the forecast period. These working capital numbers exclude the estimated need of 2% of sales of operating cash.

60 "Timeline: Credit crunch to downturn", BBC news. August 2009.

yield) to 9.95%, corresponding to yields of junk bond rated debt, and a corresponding drop in value of the debt.

The remainder of the debt could be sourced from a mix of unsecured (20% of total debt corresponding to $7.622 billion) and subordinated unsecured debt (10% of total debt, corresponding to $3.811 billion), with expected interest rates of 11% and 13.5% respectively.[61]

In terms of equity, by partnering with the largest Canadian pension funds, private equity firms and independently wealthy Canadian investors, the private equity firms ensured they could meet the foreign ownership restrictions (46.7%) set by the Canadian government.

A Merger of Equals

Telus, the largest telecommunications company in Western Canada and second-largest in the country, joined the auction in early May 2007 (see Exhibit 13).[62] Telus had long been seen by some of the most senior managers at BCE as the preferred partner in any merger or acquisition deal, given the fit between the two operating companies. The merger would yield extensive financial and strategic synergies and could provide a platform for growth domestically and potentially internationally. From a regulatory perspective, such a merger would be an appealing "Made in Canada" solution; however, a combination of Bell Canada's and Telus' wireless businesses would face intense scrutiny from Canada's federal regulators.[63] The amalgamation of the two companies would control most of Canada's local phone service and about 60% of the wireless market.[64]

In terms of residential phone service, Bell Canada and Telus had near-monopolies in Eastern and Western Canada.[65] While the two companies had little overlap on the regions where they offered residential phone service, BCE and Telus competed head to head for business customers and for wireless customers. Industry observers estimated the companies could save around $1 billion in annual costs within five years by merging the wireline businesses, corresponding to a drop in operating costs/sales of approximately five percentage points for BCE.[66] They would not need as many call centres, phone stores, billing operations or service staff when operations overlapped.

As one, Bell Canada and Telus would capture more than 50% of wireless subscribers in all but two provinces. In 2006, Bell's wireless unit earned 18% less revenue per user than Telus, largely due to lower average revenue per wireless user (ARPU).[67] Some felt that Telus could close this gap within five years by migrating some of Bell's low ARPU customers to Telus' phone plans that generated higher ARPU, and grandfathering some of BCE's low-value

61 "Teachers plans record sale of junk bonds to fund deal", The Globe and Mail, 7 July 2007
62 "Telus takeover of BCE would yield 'significant synergies', Entwistle says", The Canadian Press, June 22 2007.
63 "Telus joins bidding for Bell", Calgary Herald, June 21 2007
64 "Telus not out of BCE race yet", Toronto Star, July 2 2007.
65 "The merger talks of Telus and BCE", The Globe and Mail, June 22 2007
66 "Telus joins bidding for Bell", Calgary Herald, June 21 2007
67 "Nobody really said goodbye; Sabia was merely a custodian, not a visionary", Financial Post, September 22 2007.

wireless plans. The improvement in wireless ARPU could increase annual revenue for BCE by 4% in the first year and then generate an incremental annual revenue growth of 1.5%.

Moreover, a combined Telus-BCE could save on capital investments. Telus and BCE's capital spending overlapped in areas of R&D, network upgrades and wireless investments. Telus' capital intensity ratio (capital expenditures-to-sales ratio) in 2004-2006 averaged 14%, while BCE's was close to 17%. If the companies joined, it was expected that BCE's capital intensity ratio could be cut down to Telus' historical levels within five years. (Exhibit 14 contains information on the cost of capital of BCE and Telus at the end of 2006 and additional information about the cost of capital for BCE if merged with Telus).

Any acquisition offer from Telus would be a combination of cash and shares, but the exact mix of the two was unknown. J.P. Morgan was ready to finance a bid from Telus that would likely be half cash and half shares.[68]

> *"For investors it comes at a materially lower leverage risk, maintaining an investment grade credit rating, preserving a dividend stream, and as well it provides a number of technical and tax advantages."*
>
> Telus CEO Darren Entwistle, Canadian Press, 2007

The Challenges Ahead

Lori Einheiber knew there was a lot of hard work ahead. BCE would need to be ready for the due diligence process for the potential acquirers within a couple of weeks. Key stakeholders across the company and a dedicated deal team would need to be assembled swiftly. Most importantly, however, BCE needed to be equipped with a clear understanding of its fair value, in all the possible scenarios: as a standalone company, to a financial buyer, and to Telus (or possibly another strategic player).

As she prepared for her first day of work, Lori was energized by the challenges facing the company:

- What was BCE's fair value? What synergies could be realized in each scenario?
- Would the shareholders vote for a private equity transaction or would they favour a 'Made in Canada' transaction, e.g. the merger with Telus?
- How would the Canadian government react to Telus entering the acquisition race? Would a combination of BCE with Telus be a possibility given the anti-trust issues?
- With the shifting credit market conditions, could the private equity firms secure enough bank debt at reasonable interest rates?
- What ancillary consequences could arise from the increased leverage required by the LBO (e.g. debt ratings, litigations)?

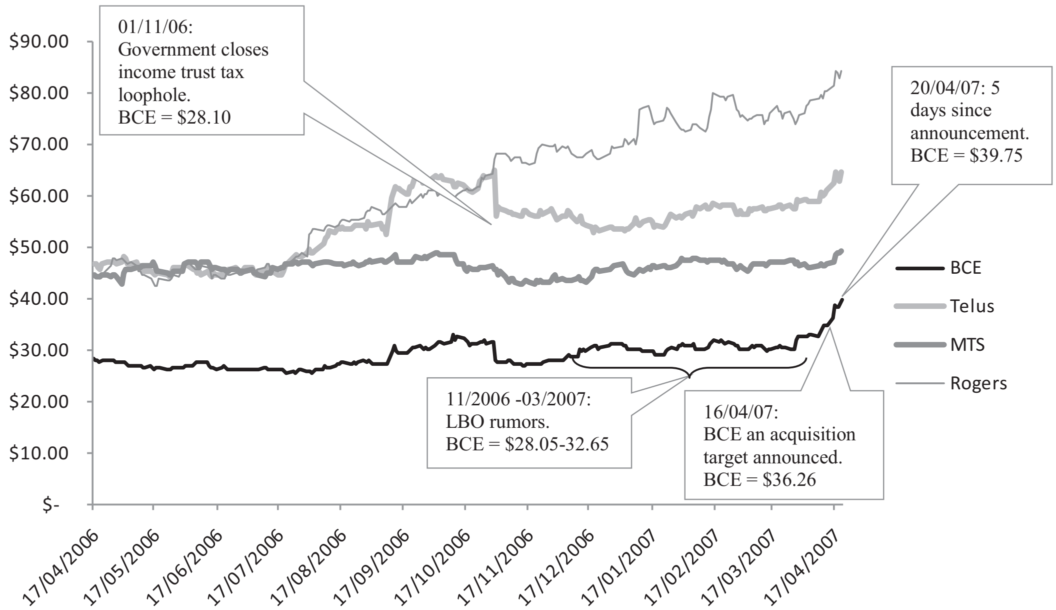
68 "Telus takeover of BCE would yield 'significant synergies', Entwistle says", The Canadian Press, June 22, 2007.

- Should the Board of Directors consider the impact of the LBO on the bondholders? What were their duties?
- What would BCE's organization look like post an LBO or merger scenario?

Lori knew all these questions would need answers and began to map out how she would move things forward.

Exhibit 1

BCE and Main Competitors Stock Price, April 17, 2006 to April 20, 2007



Notes: Rogers Communications stock price adjusted for 2:1 stock split on December 27 2006.

MTS = Manitoba Telecom.

Source: Yahoo Finance. Stock prices April 17, 2006 to April 20, 2007

Exhibit 2

Canadian Telecommunications and Broadcasting Revenues, 2003-2006

CAD$ in billions	**2003**	**2004**	**2005**	**2006**	**CAGR**
Wireline	23.9	24.0	23.5	23.4	-0.53%
Wireless	8.1	9.5	11.0	12.7	11.90%
Total telecommunications revenues	32.0	33.5	34.5	36.1	3.06%
Radio AM/FM	1.2	1.2	1.3	1.4	3.93%
Television	4.3	4.5	4.7	5	3.84%
BDU	4.7	5	5.3	5.8	5.40%
Total broadcasting revenues	10.2	10.8	11.3	12.2	4.58%
Total telecommunications and broadcasting revenues	42.2	44.3	45.8	48.3	3.43%

Source: CRTC

*Broadcast Distribution Undertaking - distributors of video programming (primarily the cable television companies (Rogers, Shaw, etc.), direct-to-home (DTH) satellite providers (Bell ExpressVu and Star Choice) and others)

Exhibit 3

Key Players in the Canadian Telecommunications Sector, 2007

Company Name	Ownership	Market
Bell Canada	Bell Canada Enterprises (~90%), minority owners (~10%)	Fixed-line telephone (local, domestic long-distance, international), mobile, data, Internet, satellite TV, digital TV, VoIP
TELUS	Public (100%)	Fixed-line telephone (local, domestic long-distance, international), mobile, data, Internet, IP TV
Bell Aliant Regional Communications Income Fund	Bell Canada Enterprises (53%)	Fixed line telephone (local, domestic long-distance, international), data
Manitoba Telecom Services (MTS)	Publicly Traded, Bell Canada Enterprises (22%)	Fixed-line telephone (local, domestic long-distance, international), mobile, data, Internet, IP TV
Saskatchewan Telecommunications (SaskTel)	Crown Investments Corp (100%)	Fixed-line telephone (local, domestic long-distance, international), mobile, data, Internet
Rogers Wireless	Rogers Communications (100%)	Mobile
Rogers Cable	Rogers Communications (100%)	Cable TV, data, Internet, telephony
Shaw Communications	JR Shaw Group (76.5%)	Cable TV, data, Internet, telephony, satellite TV, VOD (Video on demand), DTH
Videotron	Quebecor Media Inc. (100%)	Cable TV, data, Internet, telephony, VOD
Cogeco Cable	COGECO (39.2%), free float (60.8%)	Cable TV, data, Internet, telephony

Source: CRTC

Exhibit 4

Canadian Telecommunications EBITDA Margins (%), 2003-2006

	2003	2004	2005	2006
Wireless	38.4%	39.0%	39.9%	44.1%
Wireline	30.3%	29.9%	28.1%	27.2%
Total	32.4%	32.5%	31.9%	33.1%

Source: CRTC

Exhibit 5

BCE Consolidated Financials, 2004-2006

Exhibit 5A. BCE Consolidated Statement of Operations

CAD$ in Millions	2004	2005	2006	2006 (adjusted for Telesat sale)
Operating revenues	17,009	17,605	17,713	17,255
Operating Expenses	(9,895)	(10,371)	(10,384)	(10,227)
EBITDA	7,114	7,234	7,329	7,028
Amortization expense	(3,000)	(3,061)	(3,129)	(3,077)
Net benefit plans cost	(241)	(359)	(513)	(513)
Restructuring and other items	(1,219)	(55)	(355)	(355)
Operating income	2,654	3,759	3,332	3,083
Other (expense) income	439	28	(176)	(176)
Interest expense	(961)	(949)	(952)	(952)
Pre-tax earnings from continuing operations	2,132	2,838	2,204	1,955
Income Taxes	(605)	(803)	(85)	(75)
Non-Controlling Interest	(132)	(201)	(228)	(228)
Earnings from continuing operations	1,395	1,834	1,891	1,652
Discontinued operations	129	127	116	116
Extraordinary gain	69	-	-	-
Net earnings	1,593	1,961	2,007	1,768
Dividends on preferred shares	(70)	(70)	(70)	(70)
Net earnings applicable to common shares	1,523	1,891	1,937	1,698
Number of Common Shares Outstanding (millions)	926	927	811	
Number of Employees ('000s)		56	54	
Key Financial Metrics				
EBITDA Margin	41.8%	41.1%	41.4%	40.7%
Operating Profit Margin	15.6%	21.4%	18.8%	17.9%
Profit Margin	9.4%	11.1%	11.3%	10.2%
Amortization % of Rev	17.6%	17.4%	17.7%	17.8%
Change in Working Capital % of Rev			2.0%	
Tax rate	28.4%	28.3%	3.9%	3.9%
Capex	(3,272.00)	(3,357.00)	(3,133.00)	(2,945.00)
Capex % of Rev	19.2%	19.1%	17.7%	17.1%

Notes:
2006 Income Taxes – reflect the recognition of a one-time $431 million tax asset, taken due to the impending sale of Telesat, and a one-time ~$100 million of favourable tax audit settlements and non-taxable income from Bell Aliant.

Non-Controlling Interest – reflects the percentage ownership of a subsidiary owned by others multiplied by the amount of the subsidiaries after tax earnings. Change reflects decrease in ownership over time. Bell achieved its ownership goal in 2006.

Discontinued operations – reflects gain (loss) on disposition of assets.

Source: www.BCE.ca. 2006 BCE Form 40F, 2005-2007 BCE Q4 Results, BCE Annual Reports 2004-2006

Exhibit 5B. BCE Consolidated Balance Sheet

CAD$ in Millions	2004	2005	2006
ASSETS			
Current Assets			
Cash & Cash Equivalents	313	349	581
Accounts Receivables	1,951	1,525	1,868
Other Current Assets	1,061	915	1,233
Current Assets of Discontinued Operations	383	894	2
Total Current Assets	3,708	3,683	3,684
Capital Assets	21,104	21,772	22,079
Other Long-Term Assets	2,628	2,306	2,816
Indefinite Life Intangible Assets	2,916	2,899	2,902
Goodwill	7,756	5,966	5,475
Non-Current Assets of Discontinued Operations	1,028	3,856	1
TOTAL ASSETS	39,140	40,482	36,957
LIABILITIES			
Current Liabilities			
Accounts Payable and Accrued Liabilities	3,444	3,085	3,236
Interest Payable	183	170	165
Dividends Payable	297	343	315
Debt Due Within One Year	1,272	1,161	986
Current Liabilities of Discontinued Operations	271	828	-
Total Current Liabilities	5,467	5,587	4,702
Long Term Debt	11,685	11,855	11,867
Other Long-Term Liabilities	4,834	4,807	4,841
Non-Current Liabilities of Discontinued Operations	222	614	-
TOTAL LIABILITIES	22,208	22,863	21,410
Non-Controlling Interest	2,908	2,898	2,180
SHAREHOLDERS EQUITY			
Preferred Shares	1,670	1,670	1,670
Common shares	12,354	16,806	13,487
Contributed surplus		1,081	2,555
Deficit		(4,763)	(4,343)
Currency translation adjustment		(73)	(2)
TOTAL SE	14,024	14,721	13,367
TOTAL LIABILITIES & SE	39,140	40,482	36,957

*Other long-term liabilities (for 2006): 2,350 future income taxes; 1,538 accrued benefit liability; 399 deferred revenue on long-term contracts; 168 deferred contract payments; 386 other.

** Other long-term assets (for 2006): 1,110 accrued benefit assets; 255 future income taxes; 754 investments at cost; 393 investment tax credits receivable; 94 deferred debt issuance costs; 87 long-term notes and other receivables; 123 other.

*** Note that cash is not equal to the ending cash in the cash flow statement because for 2004/05 some cash is included in 'current assets of discontinued operations'. Source: www.BCE.ca. BCE Annual Reports 2004-2006.

Exhibit 5C. BCE Consolidated Cash Flow Statement

CAD$ in Millions	**2004**	**2005**	**2006**
Cash Flows from Operating Activities			
Earnings from Continued Operations	1,395	1,834	1,891
Adjustments:			
Amortization Expense	3,000	3,061	3,129
Net Benefit Plans Cost	241	359	513
Restructuring and Other Items	1,219	55	355
Net losses (gains) on investments	(351)	(38)	26
Future Income Taxes	(79)	719	(13)
Non-Controlling Interest	132	201	228
Contributions to Employees Pension Plans	(95)	(206)	(172)
Other Employee Future Benefit Plans Payments	(81)	(93)	(96)
Payments of Restructuring and Other Items	(251)	(171)	(225)
Operating Assets and Liabilities	138	(384)	(247)
	5,268	**5,337**	**5,389**
Cash Flows Used in Investing Activities			
Capital Expenditures	(3,272)	(3,357)	(3,133)
Business Acquisitions	(1,118)	(228)	(71)
Business Dispositions	2	-	-
Bell Aliant Regional Communications income fund	-	-	(255)
Increase in Investments	(57)	(233)	(304)
Decrease in Investments	711	17	64
Other investing activities	183	39	(2)
	427	**(3,762)**	**(3,551)**
Other Financing Activities			
Increase (Decrease) in Notes Payables and Bank Advances	90	(69)	(57)
Issue of Long-Term Debt	461	1,095	4,392
Repayment of Long-Term Debt	(1,691)	(1,073)	(4,767)
Issue of Common Shares	32	25	29
Repurchase of Common Shares	-	-	(1,241)
Issue of Equity Securities by Subsidiaries to Non-Contolling Interest	8	1	13
Redemption of Equity Securities by Subsidiaries from Non-Controlling Interest	(25)	(78)	(305)
Cash dividends paid on common shares	(1,108)	(1,195)	(1,169)
Cash dividends paid on preferred shares	(85)	(86)	(84)
Cash dividends/distributions paid by subsidiaries to non-controlling interest	(179)	(169)	(293)
Other Financing Activities	(74)	(64)	(157)
	(2,571)	**(1,613)**	**(3,629)**
Cash Provided by (Used In) Continuing Operations	(854)	(38)	(1,951)
Cash Provided by (Used In) Discontinued Operations	512	103	2,087
Net Increase (Decrease) in Cash and Cash Equivalents	(342)	65	136
Cash and Cash Equivalents at Beginning of Period	722	380	445
Cash and Cash Equivalents at End of Period	**380**	**445**	**581**
Income taxes paid (net of refunds)	148	206	199
Interest Paid	916	899	874

Source: www.BCE.ca. BCE Annual Report 2006

Exhibit 6

BCE Revenues by Product Line, 2006

CAD$ in Millions	**2006**	**% of Total**
Local and access	5,212	29%
Long distance	1,798	10%
Wireless	3,491	20%
Data	4,120	23%
Video	1,150	6%
Terminal sales and other	1,577	9%
Total Bell Canada	17,348	98%
Other BCE	535	3%
Inter-segment Eliminations*	(170)	-1%
Total BCE	17,713	100%

*Intersegment eliminations represent cases such as services sold by Wireless unit to the Wireline unit.

Source: www.BCE.ca. BCE Annual Report 2006

Exhibit 7

Telesat: Select Financials and Acquisition Information

Sale terms:

Acquisition Price (CAD$ mil)	$3,250
Gain on sale before taxes	$2300
Close date	27/10/2007

Select financial details:

CAD$ in Millions	**2006**	**% Total 2006**
Operating Revenue	458	2.6%
Operating Expense	157	1.5%
EBITDA	301	4.1%
Amortization	52	1.7%
Capital Expenditures	188	6.0%

Note: The tax on long term capital gains in Canada is applied to 50% of the gain. The corporate tax rate in Canada is 36%. The sale of Telesat is subject to the normal corporate tax rate. Therefore the tax on the deal is = 2.3B x .5 x .36 = $410M. In the reported financial statements of BCE, BCE's tax rate is 28.3%. It corresponds to the effective tax rate after tax credits BCE receives from the government.

Source: www.BCE.com. BCE Annual Report 2006

Exhibit 8

Cash Flow Forecasts for Standalone BCE

Assumptions:
The below assumptions apply for the 5-year forecast period from 2007-2011

Item:	Value:	Explanations:
Revenue growth (per year)	0.5%	(revenue 2006 of C$17,255 based on Exhibit 5A)
EBITDA margin	40.7%	(% of revenue)
Depreciation	13.3%	(as % of capital assets last year)
		(capital assets in 2006 = C$22,079; Exhibit 5B)
		(capital assets next year = capital assets today + capex – depreciation)
Net benefit plans cost[69]	5%	(% of operating costs) operating costs = revenues – EBITDA
Capital expenditures	17.1%	(% of revenue)
Working capital (WCR)	1.0%	(as % of revenue)
		(operating cash + acc. receivable + other current assets – acc. payable)
		(operating cash = 2% of revenue)
Tax rate	28.3%	
Proceeds from Telesat sale in 2007	(Exhibit 7)	

Source: Case writers' estimates based on historical performance

69 These are costs to cover the pension promises going forward. Differences between current pension assets and pension liabilities are not covered by this item. In Exhibit 5A these costs are not listed as part of the operating costs but are subtracted only after EBITDA.

Exhibit 9

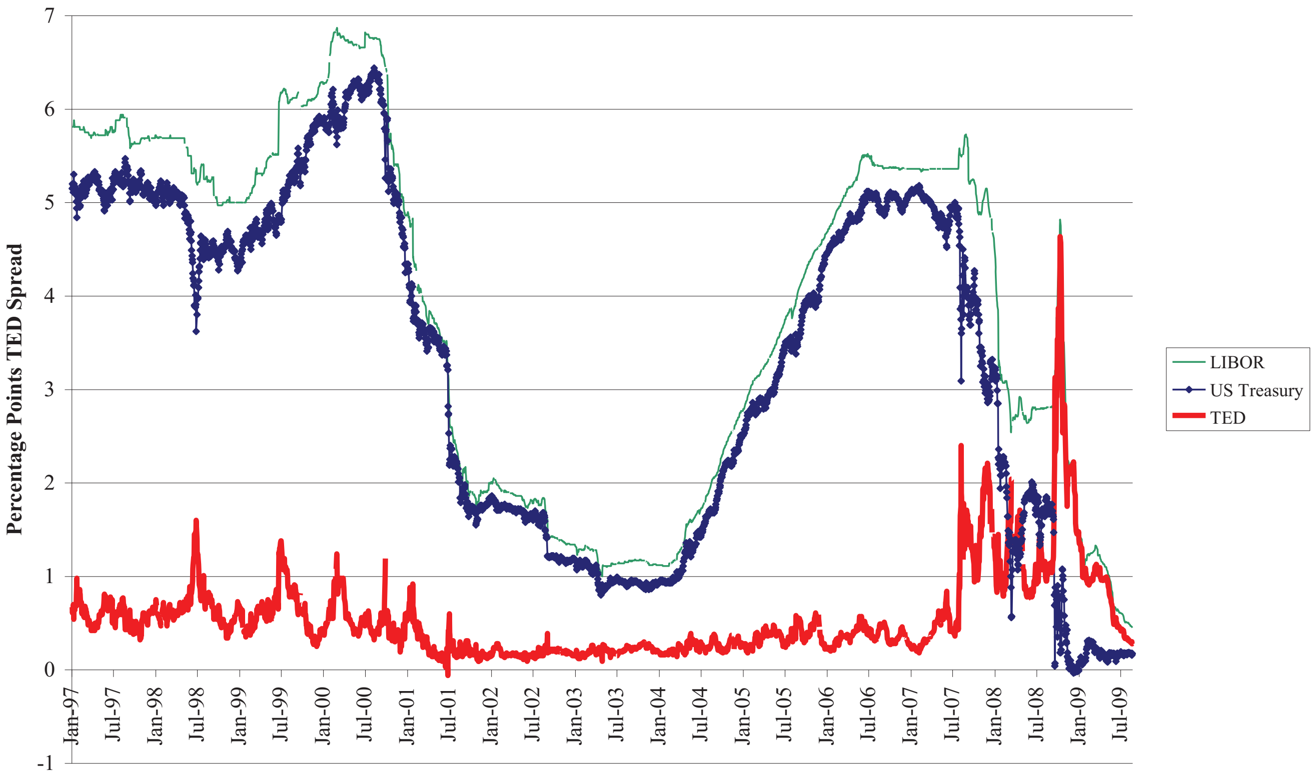
Select Leveraged Buyouts, 2004-2006

Announcement Date	Target Name	Target Industry Sector	Acquiror Name	Acquiror Industry Sector	% Acquired	Total Transaction Value (TTV) ($mil)	Target Revenues LTM* ($mil)	Target EBITDA LTM ($mil)	Price Per Share	Premium over share price before announcement	Deal structure ($mil)
Sep-04	Metro-Goldwyn-Mayer (MGM)	Media and Entertainment	Sony Corp of America, Providence Equity Partners, Texas Pacific Group, Comcast Corporation and DLJ Merchant Banking Partners	Media and Entertainment; Private Equity	100%	4,800		370	$12.00		1,600 equity 3,200 debt
Mar-05	Toys "R" Us	Toys and electronics retailer	KKR Group, Bain Capital, and Vornado Realty Trust	Private Equity and REIT	100%	6,600	11,500	507	$26.75		1,350 equity 3,250 debt
Sep-05	The Hertz Corporation, subsidiary of Ford Motor Co.	Automobile rentals	Clayton Dubilier & Rice, the Carlyle Group, and Merrill Lynch Global Private Equity	Private Equity	100%	15,000	6,700		n/a		2,300 equity; 12,700 debt
Dec-05	Georgia Pacific Corp	Pulp and paper company	Koch Industries Inc	Holding Company	100%	21,000	19,660	2,800	$48.00	39.00%	
Sep-06	Freescale Semiconductor	Semiconductor maker	Blackstone Group, Texas Pacific Group, The Carlyle Group and Permira Advisors LLP	Private Equity	100%	17,600	5,600		$40.00	30.00%	7,150 equity 10,450 debt
Jul-06	HCA	Hospital Chain	Kohlberg Kravis Roberts, Bain Capital, Merrill Lynch and Frist family (founding family)	Private Equity	100%	33,000		4,469	$51.00	16.44%	8,000 equity 25,000 debt
Dec-06	Harrah's	Casinos and Resorts	Texas Pacific Group (TPG) and Apollo Management	Private Equity	100%	27,390	9,675	2,600	$90.00	36.00%	6,890 equity 20,500 debt
Feb-07	TXU	Utility company	KKR, Texas Pacific Group and Goldman Sachs	Private Equity	100%	45,000		5,200	$69.25	25.00%	9,000 equity 36,000 debt

* LTM: Last Twelve Months

Exhibit 10

TED Spread (3 month LIBOR rate minus the 3 month T Bill rate)



The price difference between three-month futures contracts for U.S. Treasuries and three-month contracts for Eurodollars having identical expiration months. The Ted spread can be used as an indicator of credit risk. This is because U.S. T-bills are considered risk free, while the rate associated with the Eurodollar futures is thought to reflect the credit ratings of corporate borrowers. As the Ted spread increases, default risk is considered to be increasing, and investors will have a preference for safe investments. As the spread decreases, the default risk is considered to be decreasing. (Source: Investopedia.com)

INSEAD

The Business School for the World®

Exhibit 11

Select M&A Comparables, 2004-2006

Announce-ment Date	Target Name	Acquiror Name	Acquiror Nation	% of Shares Acq.	Value of Transaction ($mil)	Enterprise Value ($mil)	Equity Value ($mil)	Price Per Share	Target Net Sales LTM ($mil)	Target EBITDA LTM ($mil)	Target Share Price 1 Day ($)	Target Share Price 1 Week ($)	Target Share Price 4 Weeks ($)	Enterprise Value/ EBITDA LTM
10/01/05	Fox Entertainment Group Inc	News Corp	United States	23.53	7,054	39,182	34,466	34.27	12,869	2,726	31.22	31.34	30.05	14.4
07/03/05	Insight Communications Co Inc	Investor Group	United States	86.73	605	3,384	714	11.75	1,062	455	9.68	9.50	10.44	7.4
20/06/05	Cablevision Systems Corp	Investor Group	United States		7,587	19,424	9,777	33.50	4,959	1,377	26.87	26.91	25.65	14.1
10/07/05	US Unwired Inc	Sprint Corp	United States	100.00	1,325	1,338	1,072	6.25	536	96	6.16	5.99	5.03	14.0
31/10/05	O2 PLC	Telefonica SA	Spain	100.00	31,659	31,407	31,268	3.55	12,535	3,331	2.39	2.81	2.83	9.4
16/03/06	Telefonica Moviles SA	Telefonica SA	Spain	7.50	4,214	69,205	56,188	12.98	19,554	6,730	12.61	11.82	11.61	10.3
22/03/06	ITV PLC	Investor Group	United Kingdom		9,327	10,135	9,279	2.26	3,745	850	2.04	1.95	1.98	11.9
24/04/06	Deutsche Telekom AG	Blackstone Group LP	United States	4.50	3,320	121,658	72,668	17.32	72,775	21,839	16.91	16.59	16.80	5.6
08/10/06	Cablevision Systems Corp	Investor Group	United States		8,638	22,569	10,730	36.26	5,110	1,380	23.93	22.71	23.52	16.4
16/11/06	Clear Channel Commun Inc	BT Triple Crown Co Inc	United States	100.00	25,874	25,893	17,874	36.00	4,740		34.38	34.54	30.61	
													Min	**5.6**
													Max	**16.4**
													Average	**11.5**

Source: CapitalIQ.com

Exhibit 12

BCE Long-Term Debt

CAD$ millions	**Weighted Average Interest Rate**	**Maturity**	**2006**
BCE Inc. - Notes	7.35%	2009	650
Bell Canada			
Debentures	6.87%	2007-2035	7025
Debentures	9.84%	2041-2054	700
Subordinated Debentures	8.21%	2026-2031	275
Capital Leases	6.42%	2007-2047	975
Other			40
Total - Bell Canada			**9015**
Bell Aliant			
Non-revolving term facility	*floating: 6%*	2009	1235
Debentures, Notes, Bonds	5.19%	2007-2020	1549
Other			28
Total - Bell Aliant			**2812**
Telesat - Debt	7.78%	2007-2010	253
Total			12730
Unamortized Premium			123
Debt due within one year			-986
Total Long Term Debt			11867

Source: www.BCE.com. 2006 BCE Annual report

Exhibit 13

Telus Select Financials, 2004-2006

Exhibit 13A. Telus Consolidated Statement of Operations

Income Statement			
CAD$ in Millions	**2004**	**2005**	**2006**
Operating revenues	7,581	8,143	8,682
EBITDA	3,091	3,295	3,590
Depreciation expense	(1,308)	(1,343)	(1,353)
Amortization expense	(335)	(281)	(223)
Operating income	1,448	1,672	2,014
Other expense and Financing Costs	(622)	(642)	(533)
Income Taxes	(255)	(322)	(352)
Non-Controlling Interest	(5)	(8)	(9)
Net earnings	566	700	1,121
Number of Common Shares Outstanding (Millions)	355		
Number of Employees ('000s)	26		
Key Financial Metrics			
EBITDA Margin	40.8%	40.5%	41.3%
Depreciation and Amortization % of Rev	22%	20%	18%
Operating Profit Margin	19%	21%	23%
Profit Margin	7%	9%	13%
Tax Rate	31%	31%	24%
Capex % of Rev	17%	16%	9%

Source: www.Telus.com. 2004-2006 Telus Annual Reports, 2005 Telus Financial Review, 2007 Telus Q2 interim results.

Exhibit 13B. Telus Consolidated Balance Sheet

CAD$ in Millions	**2004**	**2005**	**2006**
ASSETS			
Cash & Cash Equivalents	897	9	(12)
Short-term investments			110
Other Current Assets	1,751	1,234	1,246
Capital Assets	11,221	10,942	10,982
Other Assets	3,969	4,038	4,181
Total Assets	17,838	16,222	16,508
LIABILITIES			
Current Liabilities	1,969	2,028	3,738
Current Maturities of LT Debt	4	5	1,434
Long-Term Debt	6,332	4,640	3,494
Other Long-Term Liabilities	1,506	1,635	1,257
Future Income Taxes	992	1,024	1,067
Non-Controlling Interest	13	26	24
Total Liabilities	10,812	9,352	9,580
SHAREHOLDERS EQUITY			
Shareholders Equity	7,026	6,870	6,928
Total Liabilities and SE	17,838	16,222	16,508

Source: www.Telus.com. 2004-2006 Telus Annual Reports, 2005 Telus Financial Review, 2007 Telus Q2 interim results.

Telus Consolidated Cash Flow Statement

CAD$ in Millions	**2004**	**2005**	**2006**
Cash flow from operating activities	2,538	2,915	2,804
Cash flows used in investing activities	(1,300)	(1,355)	(1,675)
Capital Expenditures	(1,319)	(1,319)	(1,618)
Other	20	(36)	(57)
Cash flows provided (used) in financing activities	(348)	(2,447)	(1,149)
Net Increase (Decrease) in Cash and Cash Equivalents	890	(888)	(20)
Cash and Cash Equivalents at Beginning of Period	6.2	897	9
Cash and Cash Equivalents at End of Period	897	9	(12)

Source: www.Telus.com. 2004-2006 Telus Annual Reports, 2005 Telus Financial Review, 2007 Q2 Telus interim results.

Exhibit 14

Cost of Capital Information

Variable	Value	Source
BCE beta	0.7	Bloomberg (based on daily return relative to TSE index between 1/2002 and 12/2006)
Telus beta	1.25	Bloomberg (based on daily return relative to TSE index between 1/2002 and 12/2006)
Market risk premium	6.9%	Historical average risk premium (1926-2007), JPMorgan[70]
BCE weighted-average cost of debt	6.7%	Exhibit 12 (Dec, 2006)
Telus weighted-average cost of debt	6.9%	Case writer's estimates (Dec, 2006)
Risk-free rate (Dec 2006)	4.1%	Bank of Canada (10-year benchmark bond yield, Dec. 2006)
Stock price BCE (CAD)	31.40	Dec 29. 2006
Stock price Telus (CAD)	53.52	Dec 31.2006
Number of shares outstanding BCE	811m	Dec 31. 2006
Number of shares outstanding Telus	355m	Dec 31. 2006
BCE cost of debt if merged with Telus	7.7%	Case writer's assumption given the planned leverage for Bell of D/E = 1

70 JPMorgan, The most important number in Finance, May 2008.