MOODY'S INVESTORS SERVICE

INDUSTRY OUTLOOK

Annual Outlook for the Wireless-Telecom Industries in the U.S. and Canada

Smartphones Jump-Start Growth in 2010-11

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Our outlooks for the wireless-services industries in the U.S. and Canada express our expectations for fundamental credit conditions over the next 18 months.

» **U.S.**: Our positive outlook for the U.S. wireless-services industry is based on our forecast for a 4.5% rise in revenue and a 6.0% increase in EBITDA in 2011, on top of a strong 2010, as smartphones and emerging devices from the iPad to home-security alarms jump-start growth.

» In the U.S., rising demand for smartphones will cause handset subsidies to rise, creating a new front in the price wars and one tilted heavily in favor of the largest carriers and those whose service is perceived to be highly reliable.

» U.S. carriers will continue to throw off a lot of free cash flow in 2011, upwards of 10% growth and double expected revenue growth, as EBITDA margins improve slightly and capital-spending levels hold steady.

» **Canada** (page 3): Our stable outlook for Canada's wireless-services industry is based on our view that increasing competition will limit EBITDA growth to about 2.5% through 2011. But the industry will benefit from the same positive trends driving the U.S. market, namely rising data-services revenue tied to smartphones.

Overview: U.S.

Our positive outlook is based on our view that the U.S. wireless-services industry will follow up a strong 2010 with a 4.5% revenue increase and a 6.0% rise in EBITDA in 2011, driven by the blowout success of smartphones.

More than 90% of people in the U.S. already have cellphones but only 30% of those devices are smartphones, essentially creating a market within a market for the wireless-services industry. Data-service revenue tied to smartphones will fuel overall top-line growth and push up post-paid ARPU over the next two years even in the absence of meaningful subscriber growth.

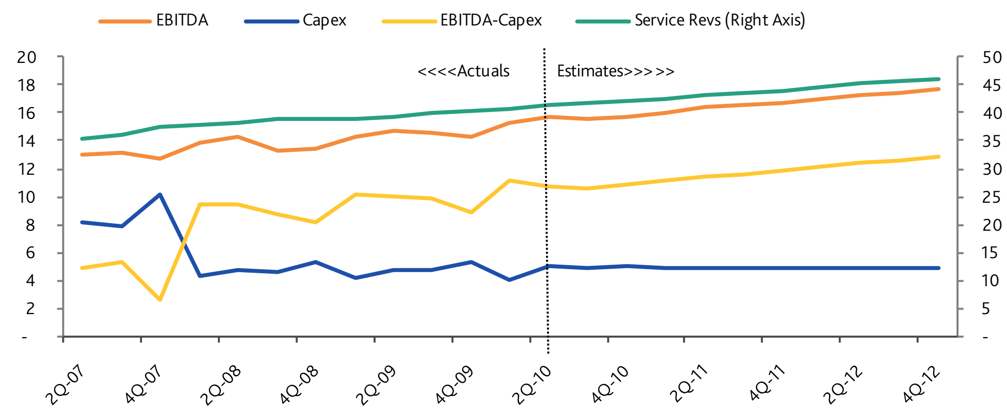
Wireless services for new devices, ranging from the iPad to medical-monitoring systems, will also lift revenue and represent a compelling growth opportunity for the industry over the longer term.

But smartphones will be the main driver of revenue growth in the next year. The catch is that companies will also have to spend more on subsidizing the cost of smartphones for customers who sign up for the pricier data plans. Handset subsidies will likely be the next front in the price wars, one that will be tilted heavily in favor of the largest carriers and those whose service is perceived to be the most reliable.

Subscriber growth, at an expected 4% a year, will slow in the postpaid segment (made up of subscribers who get a monthly bill). Most new subscribers will sign up for prepaid plans. But even prepaid carriers, including Leap and MetroPCS, will see greater demand for data services, pushing up revenue growth industry-wide.

All told, we expect the U.S. wireless industry will report free cash flow growth of about 10%, double expected revenue growth, as EBITDA margins improve somewhat and capital-spending levels hold steady. Capital-spending budgets will remain flat as companies invest in their networks to keep up with data traffic, but capital intensity (measured by capital spending divided by revenues) should trend lower, thanks to solid revenue growth.

U.S. Wireless Carriers: Forecasts for 2010-12



Notes: Data through second quarter of 2010 are reported numbers by Verizon Wireless, AT&T Mobility, Sprint Nextel, T-Mobile USA, Leap Wireless and MetroPCS. Data for third quarter through 2012 are Moody's estimates. Data are in billions of U.S. dollars.
Sources: Company filings and Moody's estimates

U.S. Wireless Carriers: Forecasts for 2010-12

	2008	2009	1H'10	2010E	2011E	2012E
Subscriber Growth	6.1%	6.6%	5.6%	4-5%	3-4%	2% to 3%
ARPU Growth	-2.6%	-1.1%	-1.7%	-1.5%	-0.5%	-0.5% to flat
Service Revenue Growth	7.8%	2.4%	3.4%	4-5%	4-5%	3% to 5%
Churn	1.9%	1.9%	1.8%	1.8%	1.7%	1.7% to 1.8%
Capital Spending / Revenue	12.4%	11.9%	11.8%	11.5%	11.0%	10% to 11%
EBITDA/Service Revenue	35.4%	36.5%	36.9%	37.5%	38.0%	38% to 39%
EBITDA-Capex Growth	103.0%	27.0%	10.0%	8-10%	8-10%	6% to 8%

Notes: Data through second quarter of 2010 are reported numbers by AT&T Mobility, Leap Wireless, MetroPCS, Sprint Nextel, T-Mobile USA, and Verizon Wireless. Data for third quarter through 2012 are Moody's estimates.
Sources: Company filings and Moody's estimates

Overview: Canada

Our outlook for Canada's wireless-telecom industry is stable based on our view that despite subscriber growth of about 6% a year, increasing competition will limit EBITDA growth to about 2.5% in each of the next two years.

New wireless-services carriers are set to compete for customers against the big three incumbents--Rogers, TELUS and Bell Canada—following the government's auction of wireless spectrum in 2008. Videotron, the leading cable-TV service provider in Quebec, Canada's second-largest market after Ontario, is scheduled to introduce cellphone service in September, for example, and we believe its core video operations will allow it to subsidize start-up losses in its wireless unit as it launches service and takes share away from the incumbents.

Price competition tied to new entrants will weigh on ARPU, which we think will decline to about $55 in 2011, from $57 today, on a blended prepaid-postpaid basis. EBITDA margin, now at about 43%, will also take a hit as companies spend more on handset subsidies and use aggressive rate plans to gain new subscribers; we also expect retention costs will increase as companies vie for market share. We expect annual subscriber growth of about 6% over the next couple of years, bringing market penetration to about 75% by the end of 2011.

The main difference between the Canadian market and the U.S. market is that competition is only starting to ramp up in Canada, and it will accelerate substantially over the next couple of years as new companies enter the market. At the same time, though, Canada's wireless carriers stand to benefit from many of the trends that support a positive industry outlook in the U.S., namely the proliferation of powerful new handsets that offer the opportunity to increase data revenues and to offset weakness in voice-services pricing.

Canada's Wireless Carriers: Forecasts for 2010-12

	2008	2009	1H'10	2010E	2011E	2012E
Subscriber Growth	7.7%	6.3%	6.3%	6.0%	6.0%	6.0%
ARPU Growth	1.8%	-2.8%	-0.2%	-1.0%	-0.5%	-1.0%
Service Revenue Growth	11.0%	3.0%	6.0%	5.0%	4.5%	4.5%
Churn	1.4%	1.4%	1.6%	1.6%	1.7%	1.8%
Capital Spending / Revenue	16%	15%	13%	13%	12%	12%
EBITDA / Service Revenue	42.3%	42.1%	42.7%	42.6%	42.1%	41.2%
EBITDA-Capex Growth	7%	6%	14%	8%	5%	2%

Notes: Data through second quarter of 2010 include reported numbers for BCE, Rogers and TELUS, and estimates for the balance of the market. Data for the second half of 2010 through 2012 are Moody's estimates.
Sources: Company filings and Moody's estimates

Key Trends for U.S. Market

Smartphones Open Up a New Market, Reducing the Reliance on Subscriber Growth

AT&T, Verizon and Sprint, which together account for a little over 80% of wireless-industry revenue, are looking at wireless-service revenue growth of about 4.5% in 2010 and 4.5% in 2011, thanks to pricey data plans for smartphones.

Smartphones are essentially creating a new market for the wireless-services industry. Over 90% of people in the U.S. already pay for basic voice and text service, leaving little room for subscriber growth. But only 30% of those phones are smartphones, giving the industry a chance to jump-start revenue growth in a market that is otherwise nearly fully penetrated.

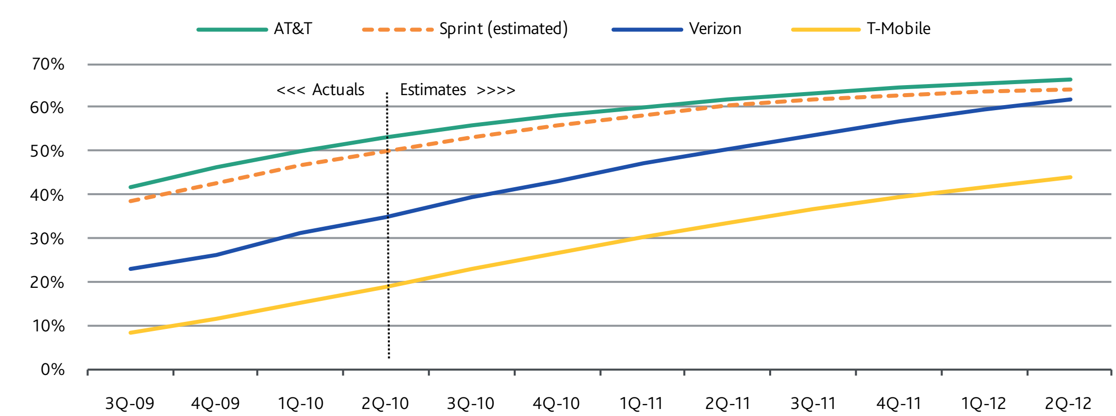
Smartphones generate higher revenue per subscriber than basic phones. The industry is able to charge more for the data-rich features of smartphones like the iPhone, Evo and BlackBerry devices than it can for basic voice service. According to AT&T, a smartphone like the iPhone generates 1.7 times more average revenue per user (ARPU) on a monthly basis than the company's other devices.

Product mix is becoming increasingly important. As smartphone subscribers increase in proportion to a carrier's total subscriber base the added data revenues give a corresponding boost to total ARPU. At AT&T, where 53% of postpaid customers pay for smartphone service, average revenue per customer tops $62 a month on a postpaid basis, the highest in the industry. This compares with $53 at Verizon, where 35% of its postpaid customers are smartphone subscribers.

However, carriers with relatively low smartphone penetration rates, such T-Mobile (at 19%) and the prepaid carriers, will have potential for greater ARPU growth than their more-highly penetrated peers. Lower smartphone penetration rates mean these companies have a longer runway to travel. We expect industry smartphone penetration to increase to about 55%, likely sometime around 2014.

By then, though, carriers will be able to increase data revenues yet another way by charging more for 4G services that promise greater bandwidth and faster Internet speeds. Sprint does this today, charging an incremental $10 a month for its 4G service in certain cities. Our view is that 4G will essentially reset the clock for the carriers to begin another round of upselling that will lead to still-higher ARPU. At that point, phones that look smart today will look dumb, and customers will want to upgrade their phones, again.

Smartphone Penetration



Notes: Penetration rates reflect qualitative information, as each carrier may define the rate differently. In general, the rate reflects the proportion of a carrier's postpaid base that is equipped with smartphones (i.e., devices with a Qwerty keypad and an HTML browser). Sprint figures are Moody's estimates.
Sources: Company filings, conference-call transcripts and Moody's estimates

In addition, 4G networks and the open-network requirements that came with some of the licenses awarded in the 700 megahertz auction in 2008 will accelerate the market for new applications, such as machine-to-machine connections and new devices like the iPad. We see a significant revenue opportunity for these devices in the transportation, healthcare and energy markets, in addition to consumer electronics, down the road. However, as the carrier would have upgraded its data networks by that time, price competition may enter into the data markets, similar to what is happening now in voice services.

U.S. Market:
The Catch: As Demand for Smartphones Rises, Handset Subsidies Will Likely Climb

Handset subsidies will likely be the next front in the price wars, one that will be tilted heavily in favor of the largest carriers and those whose network service is perceived to be among the best.

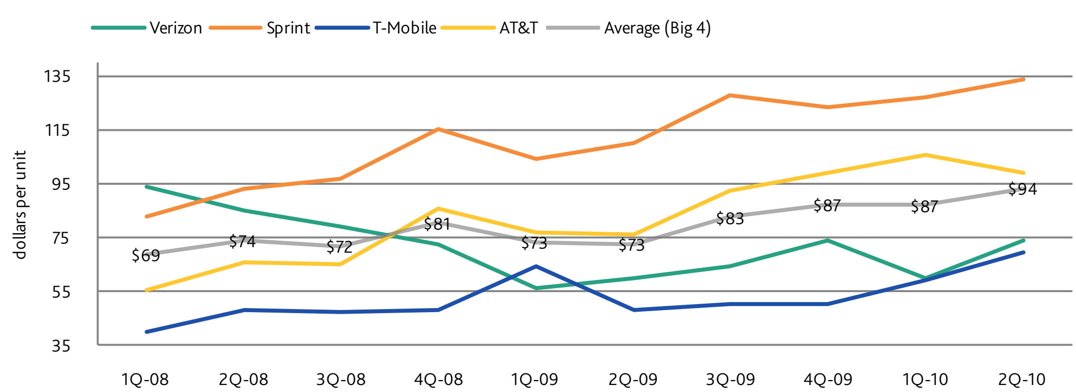
Handset subsidies are aimed at attracting new subscribers and getting existing ones to upgrade to more-costly data plans by footing part of the one-time cost of a smartphone, rather than by cutting the recurring cost of monthly service. So the one catch to rising data-service revenue is that handset subsidies will likely climb further.

We already see evidence that this is playing out. We estimate that in just two years average handset subsidies from the U.S. carriers rose to $94 per phone from $69 per phone, suggesting that carriers must incur higher upfront costs to sign up and retain subscribers. If competition pushes up subsidies to the point where they offset increases in monthly data revenue— an unlikely event over the next 18 months, in our view--margins would deteriorate and the benefits of smartphone penetration would fall away.

Service quality plays a key role in how much a carrier must spend on a subsidy. Two examples at opposite extremes are Verizon and Sprint.

Verizon, which we believe has the highest perceived network quality, has the lowest handset subsidy in the industry at 31% of the cost of a phone, on average. Conversely, Sprint's average 64% subsidy is much higher than Verizon's, despite similar scale. We believe this disparity is mostly tied to unfavorable perceptions about Sprint's service quality.

Handset Subsidy



Notes: Handset subsidy is estimated by Moody's based on companies' reported equipment revenues and costs and our estimates for total handset demand (i.e., gross adds plus estimated upgrades). Differences in the accounting treatments of equipment revenues or costs may affect the comparability of the data. Moody's believes these differences are minor.
Sources: Company filings and Moody's estimates

U.S. Market:
New Pricing Will Help Align Costs to Revenues, Supporting 10% Free-Cash-Flow Growth

We expect the wireless industry will report free-cash-flow growth of 10%, roughly double expected revenue growth, as EBITDA margin remains strong and capital-spending hovers close to current levels.

EBITDA margins, which range from a low of about 19% at Sprint (which is struggling to recover from its ill-fated merger with Nextel) to a high of about 45% at Verizon (where handset subsidies are the lowest in the industry, by far), should slowly trend higher. Long-term contracts tied to smartphones should boost profitability by helping to keep customer churn low. And with most of the heaviest capital spending now largely behind the industry, it can take greater advantages of economies of scale.

Although carriers will need to upgrade their networks in order to keep up with the rise in data traffic, we expect capital-spending budgets will remain relatively flat over the next two years. The exception is AT&T, which is increasing its wireless spending in order to bolster its network's ability to handle the rapidly increasing load created by the iPhone, iPad and other data-centric devices. But capital intensity (measured by capital spending divided by revenue) should decline a little from last year, thanks to still-healthy revenue growth. Data-service revenues, thanks in part to new pricing plans, will help offset the cost of maintaining the network.

AT&T's new pricing plan, introduced in June, is aimed at aligning revenue with the rising cost of providing data service on its network. Under its tiered-pricing plans, AT&T now charges a higher fee to customers who regularly download data-intensive files like picture and videos, which can cripple the network. At the same time, it is offering lower-priced plans to customers who download less data.

More carriers are bound to follow this model. Verizon also changed its data-pricing structure, requiring all of its smartphone subscribers to purchase a data plan. Although Verizon currently does not have metered pricing for data, we think all the carriers eventually will follow AT&T's lead as smartphone penetration increases and consumers use even more bandwidth-intensive services.

Conclusion

Our positive outlook for the U.S. wireless-services industry is based on our forecast for a 4.5% increase in revenue and a 6.0% rise in EBITDA in 2011, as smartphones and emerging devices fuel growth.

But the catch to rising demand for smartphones is that handset subsidies will likely rise, creating a new front in the price wars and one tilted heavily in favor of the largest carriers and those whose service is perceived to be among the best.

Our stable outlook for Canada's wireless-services industry is based on our view that increasing competition will limit EBITDA growth to about 2.5% through 2011. But the industry will benefit from the same positive trends driving the U.S. market, namely rising data-services revenue tied to smartphones.

Appendix

Ratings List

NAME	COUNTRY	CFR	SENIOR UNSECURED	OUTLOOK
AT&T Mobility LLC	U.S.		A2	Negative
Cellco Partnership (Verizon Wireless)	U.S.		A2	Stable
United States Cellular Corporation	U.S.		Baa2	Stable
Sprint Nextel Corporation	U.S.	Ba2		Negative
NTELOS Inc.	U.S.	Ba3		Stable
MetroPCS Communications, Inc.	U.S.	B1		Stable
Leap Wireless International, Inc.	U.S.	B2		Stable
Clearwire Communications LLC	U.S.	Caa1		Stable
Bell Canada	Canada		Baa1	Stable
Rogers Communications Inc.	Canada		Baa2	Stable
TELUS Corporation	Canada		Baa1	Stable

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