BMO Nesbitt Burns

Canadian Cable Industry

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Industry Rating: **Outperform**

Favourable Fundamentals: Re-Introducing Coverage with an Outperform Rating

- We are re-introducing research coverage on the Canadian cable industry with an Outperform rating. Our investment thesis is based on three principal tenets:
- *We believe 2001 represents an inflection point in financial and operating fundamentals.* In our view, capital spending has peaked for the cycle. New services currently being invested in will drive revenue and EBITDA growth going forward. Return on capital and assets will improve, and we believe, drive share prices.
- *The cables are attractive from the perspective of relative market performance.* Cable stocks have underperformed the TSE300 year to date (along with the TMT group). We believe there is a reasonable likelihood of money inflows into the group as investors take profits from cyclical and industrial stocks.
- *The spectre of foreign ownership relaxation appears more likely than ever.* An industry taskforce recently released a report recommending the removal of foreign ownership restrictions. The Minister of Industry Canada has indicated that he will review the report "with interest". While nothing involving the federal government is certain, the likelihood of liberalization is high. We suggest a two-year time frame, with some stops and starts along the way. That said, it's hard to see how this won't result in multiple expansion.

BMO NBI has provided advice for a fee with respect to SJR.B within the past 12 months.

BMO NBI has undertaken an underwriting liability with respect to CCA within the past 12 months.

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Fundamental Review

Highlights

We are forecasting high single digit EBITDA growth for cable companies.

We believe 2001 represents a peak year in cyclical capital spending.

We expect a mature core video business will generate modestly positive growth as price increases in tiered services are offset somewhat by stalled growth or modest declines in basic subscribers.

New services will drive growth. They include (in order of importance and introduction), high-speed Internet, digital cable and Video on Demand (VOD). We are less certain regarding the upside of interactive television (iTV) and IP telephony.

The key growth driver over our forecast period is high-speed Internet services. Subscriber penetration is expected to double by the end of 2003; the pricing environment is extremely attractive and margins already exceed 30%. We estimate the return on invested capital (ROIC) for cable modems is in the 30% to 40% range.

We believe new digital video services will begin to have material profit contributions beginning in 2003. We expect the industry will achieve penetrations in the 25% to 30% range relatively quickly. We estimate the return on invested capital (ROIC) for cable modems is in the 15% to 20% range.

We believe the impact of the next generation of services including VOD, iTV and IP, are years out. IP is the most controversial service from both a capital and strategic perspective.

We anticipate a relatively stable competitive environment. Our contention is that the impact of the domestic direct-to-home satellite industry (DTH) is already discounted in stock valuations. In our view, the same applies for digital subscriber line (DSL) competition, which is uneven across Canada. The emergence of a third layer of competition – the overbuilders (CLECs) has stalled after the contraction in telecom valuations and access to capital markets has evaporated.

In summary, investment positives include:

- Increasing EBITDA
- Declining Capex
- Accelerating marginal returns on invested capital
- Less restrictive content ownership regulations
- Continuing consolidation opportunities
- Increasing likelihood of foreign ownership relaxation

Negatives and risks include:

- Primary competitors are significantly larger and well-financed entities
- Potential margin compression from new services
- Companies are controlled though multiple voting shares
- Balance sheets reflected cyclical highs in capital spending

Company Highlights

Our report examines the operating and financial fundamentals of the domestic cable business. We have supported our analysis with a North American context on selected operating and valuation metrics. Specific company analysis and stock recommendations are summarized as follows:

Cogeco Cable (CCA – $28.80) – Cogeco Cable is the fourth-largest cable company in Canada. It has slightly less than 900,000 subscribers, located in Ontario (70%) and Quebec. Cogeco's operating margins and organic growth forecasts are at the low end of industry ranges reflecting a lack of operating scale, an intense competitive environment in Eastern Canada (versus BCE) and recent operating challenges. Rogers owns roughly 11% of the outstanding equity of CCA. The stock is rated Market Perform. Our one-year target price is $35.

Regional Cablesystems Inc. (REG – $11.45) – Regional services roughly 250,000 cable subscribers in small to mid-markets across Canada. Its systems operate in much more deregulated environment relative to larger market operators. Regional has operating margins among the highest in the industry. We believe the company has significant consolidation opportunities based on its track record of successfully acquiring and integrating assets. Moreover, its faces little competition for acquisitions in its core markets. Lastly, Regional is also unique in that it has no controlling shareholder and a single class of stock. Regional is rated Outperform. Our one-year target price is $17.

Rogers Communications Inc. (RCI.B – $23.00) – Rogers is a diversified *communications media* company with operations in cable (2.2 million subscribers), wireless – Rogers AT&T Wireless (RCM.B); currently 51%-owned but being privatized – media (radio, publishing, television) and sports (Toronto Blue Jays; 80%-owned). We believe Rogers core cable assets serving the lucrative southern Ontario market are undervalued based on increasing EBITDA and declining Capex. Moreover, Rogers has the most upside exposure to any sector revaluation based on foreign ownership relaxation. Lastly, any stability and improvement in the domestic wireless market bodes well for Rogers. Rogers is rated Outperform. Our one-year target price is $32.

Shaw Communications Inc. (SJR.B - $35.99) – Shaw is unique among cable operators. It is a distribution company first, a cable company second and a DTH operator third. Shaw dominates the cable industry in Western Canada (two million subscribers) and owns one of two national DTH operators (Star Choice – almost 600,000 subscribers). The company also owns some uplinking operations (Cancom) and is building a national fibre backbone to support its core operations. Shaw's competitive market is more benign than that of other major cable

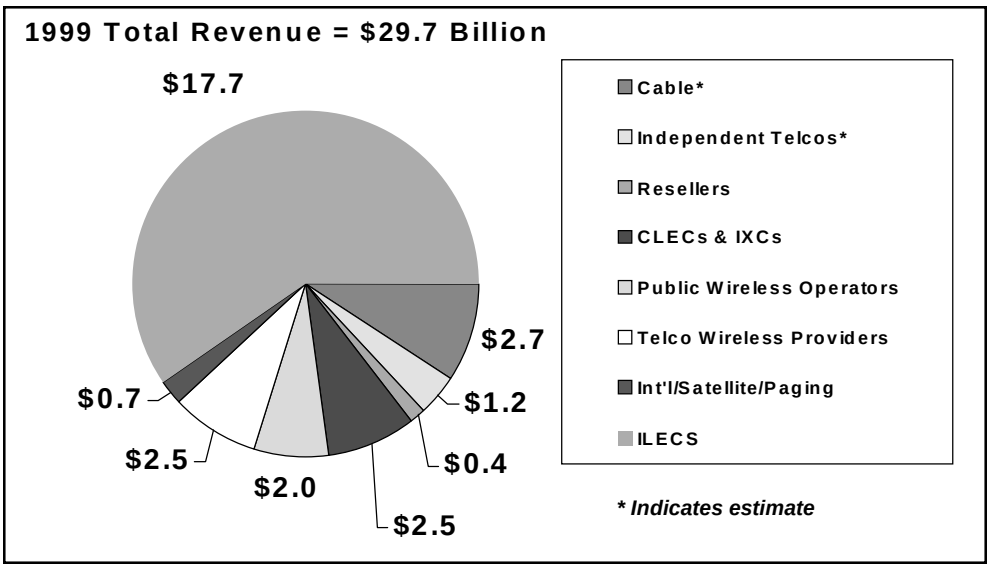
operators. Lastly, Shaw has been the most successful cable operator in creating shareholder value. Shaw is rated Outperform. Our one year target price is $40.

Quebecor Inc. (QBR.B – $25.15) – Quebecor Inc. is a holding company with two core assets – a 28% stake in Quebecor World (IQW – $39.68; rated Outperform) and a 55% interest in Quebecor Media. The latter is the third-largest cable operator in Canada (1.5 million subscribers, formerly known as Videotron) and dominates the Province of Quebec. We have included Quebecor Media in selected sections for illustrative purposes. However, very little operating information is available regarding the cable assets since the acquisition of Videotron last fall. We have concerns regarding Quebecor Media's high debt level, unproven business model and limited experience in cable operations. Quebecor Inc. is rated Market Perform. Our one-year target price is $30.

The Landscape

By way of introduction, Charts 1 through 3 illustrate the domestic and continental landscape for companies competing in the residential video, data and voice services market.

Chart 1: *Canadian Telecommunications Services Industries*



- In Canada, the cable industry is relatively small compared to incumbent local exchange carries (ILEC – principally Bell Canada and Telus) based on revenues.

Chart 2: *Canadian Cable/ Telecommunications Market Capitalization (C$ billions)*

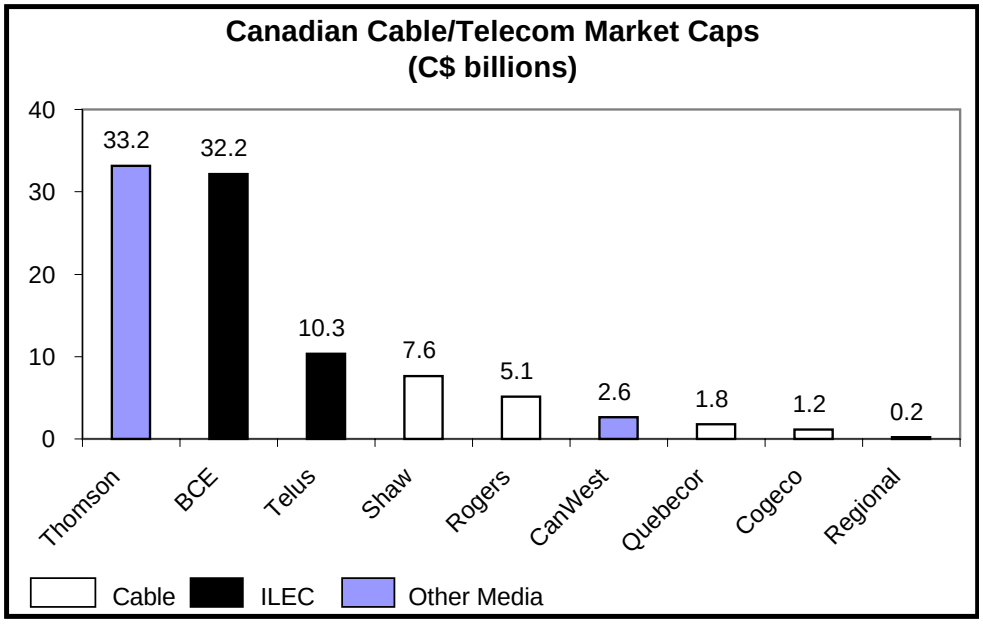
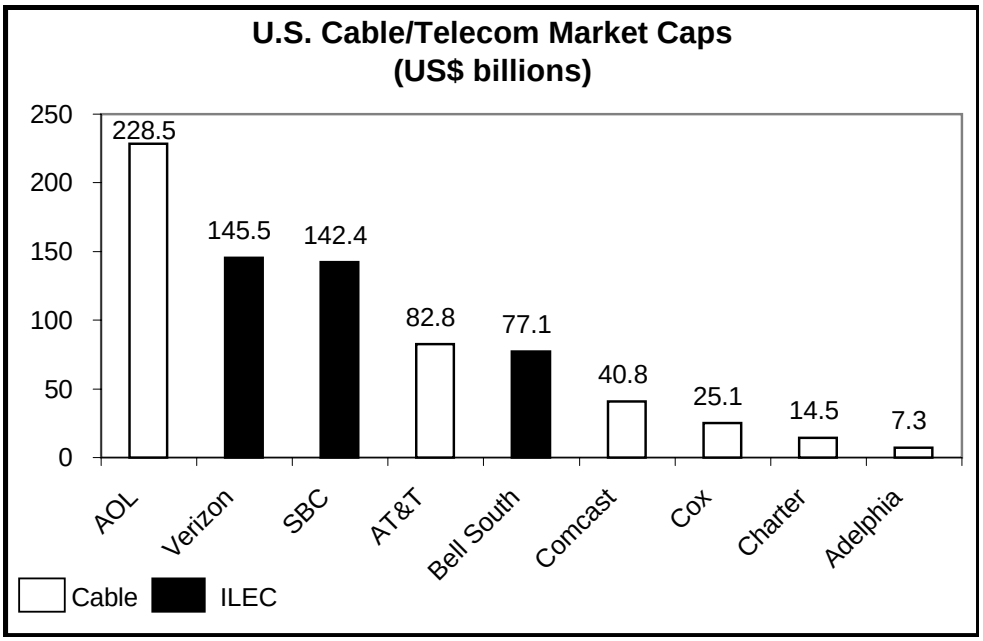


Chart 3: *U.S. Cable/ Telecommunications Market Capitalization (US$ billions)*



- In the U.S. and Canada, the ILECs have significantly larger market capitalizations than that of most cable companies.
- AOL Time Warner and AT&T are diversified media/communications companies which own extensive cable assets.

Table 1: *North American Subscriber Overview*

North American Subscriber Overview			
	Canada		**U.S.**
(in millions)			
TV Households	11,619	**TV Households**	101,000
Basic Cable Subscribers	8,349	**Basic Cable Subscribers**	68,000
DTH Subscribers	1,255	**DTH Subscribers**	14,500
Total Pay TV Subs	9,604		82,500
Basic as % of Total HH	71.9%	**Basic as % of Total HH**	67.3%
DTH as % of Total HH	10.8%	**DTH as % of Total HH**	14.4%
Basic as % of Total Pay Subs	86.9%	**Basic as % of Total Pay Subs**	82.4%
DTH as % of Total Pay Subs	13.1%	**DTH as % of Total Pay Subs**	17.6%
High Speed Internet Subs	982	**High Speed Internet Subs**	4,120
HS as % of Basic	11.8%	**HS as % of Basic**	6.1%
Digital Subscribers	615	**Digital Subscribers**	9,738
Digital as % of Basic	7.4%	**Digital as % of Basic**	14.3%
Avg. Rev/Sub	$41.35	**Avg. Rev/Sub**	$44.16
Avg. EBITDA/Sub (2001E)	$17.50	**Avg. EBITDA/Sub (2001E)**	$20.48

- The U.S. cable basic industry has less penetration of homes than in Canada.
- The DTH business in the U.S. has roughly a three-year head start compared to the Canadian industry.
- The penetration of digital subscribers and high-speed Internet services is inversely proportional between the U.S. and Canada. Digital penetrations are higher in the U.S. largely based on digital channel availability. U.S. operators also enjoy a more favourable regulatory environment with respect to set top box cost recovery.

Summary Financials

Table 2 highlights the EBITDA segments of the domestic cable companies. For illustrative purposes, we have included comparable data for BCE and Telus based on BMO Nesbitt Burns Research.

Table 2: *Canadian Cable and Telecom Companies EBITDA Analysis*

Canadian Cable and Telecom Companies EBITDA Analysis

Estimated 2001 EBITDA By Division (in $millions)	Cable					ILEC	
	Cogeco	Regional	Rogers	Shaw	Quebecor Media	BCE	Telus
Cable	151	42	452	416	250		
Residential Internet	14	4	64	64	25	(100)	(65)
Wireless			438			545	325
DTH				(56)		(140)	
Media			80		257	170	
Wireline						6,819	2,390
International						143	
Other			(80)	34	31	400	146
Total	**165**	**46**	**954**	**458**	**563**	**7,837**	**2,796**
% of total							
Cable	92%	91%	47%	91%	44%		
Residential Internet	8%	9%	7%	14%	4%	-1%	-2%
Wireless			46%			7%	12%
DTH				-12%		-2%	
Media			8%		46%	2%	
Wireline						87%	85%
International						2%	
Other			-8%	7%	6%	5%	5%

Souce: BMO Nesbitt Burns estimates

- Cogeco and Regional represent pure cable plays.
- Rogers and Quebecor Media have relatively diversified business mixes.
- Expectations for Shaw's current-year EBITDA do not yet reflect a projected swing in profitability from its DTH business. Shaw's businesses are focused on distribution activities.
- BCE is currently losing close to $250 million per annum in its DTH and DSL businesses.
- Telus is a relatively pure telecom play with operations focused on voice and data services.
- For illustrative purposes, we have segmented EBITDA generated from residential Internet services as a separate line item. It is usually carried in the aggregate EBITDA figure for each company.

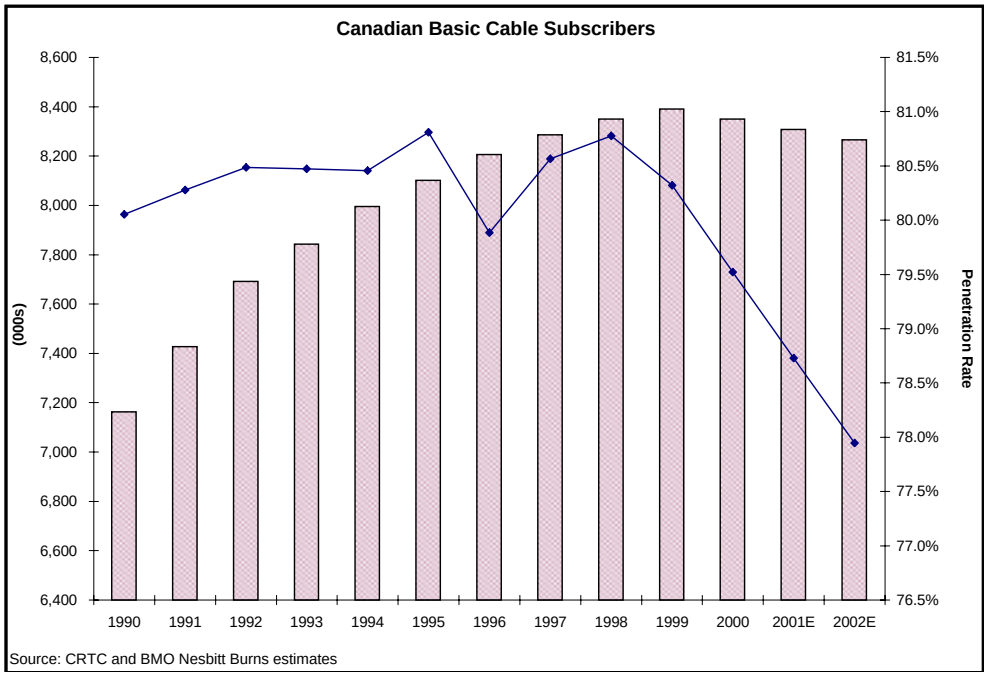
Fundamentals

The following is a review of operating fundamentals and core products/services for the domestic cable business. We believe the fundamental outlook for the domestic cable industry is set to turn positive. New services currently drawing investment will drive revenue and profit growth over the next three to five years. Importantly, the capital spending has peaked for the cycle.

Basic Cable – A Mature Business

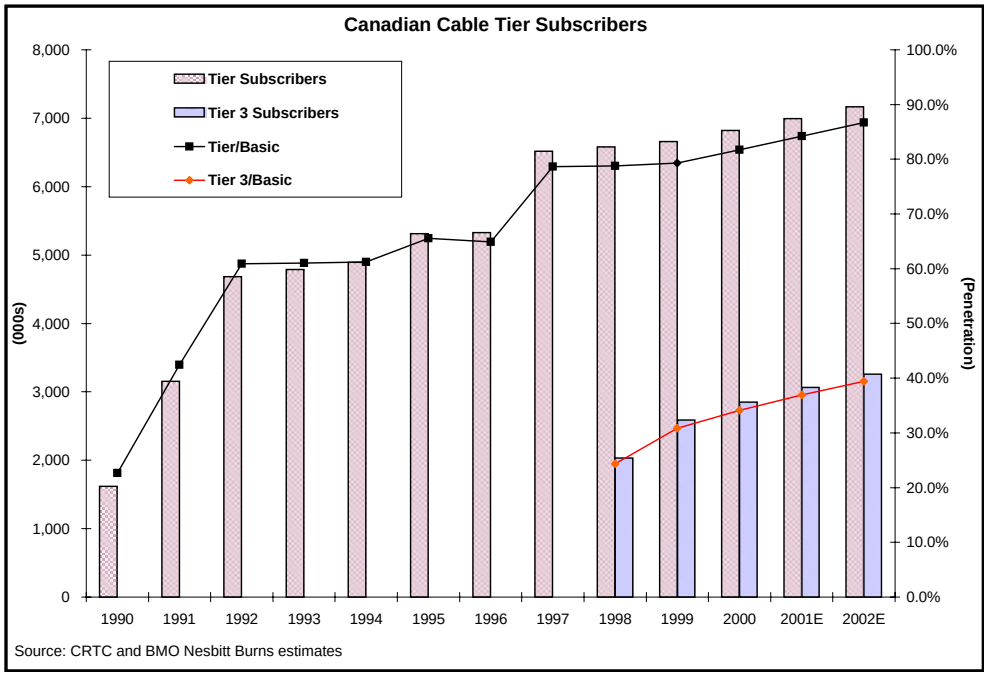
The core cable business in Canada has matured. Basic subscriber levels have peaked and the industry's share of homes served has declined with the emergence of competitive distribution alternatives (read DTH), particularly in non-served or under-served markets.

Chart 4: *Canadian Basic Cable Subscribers*



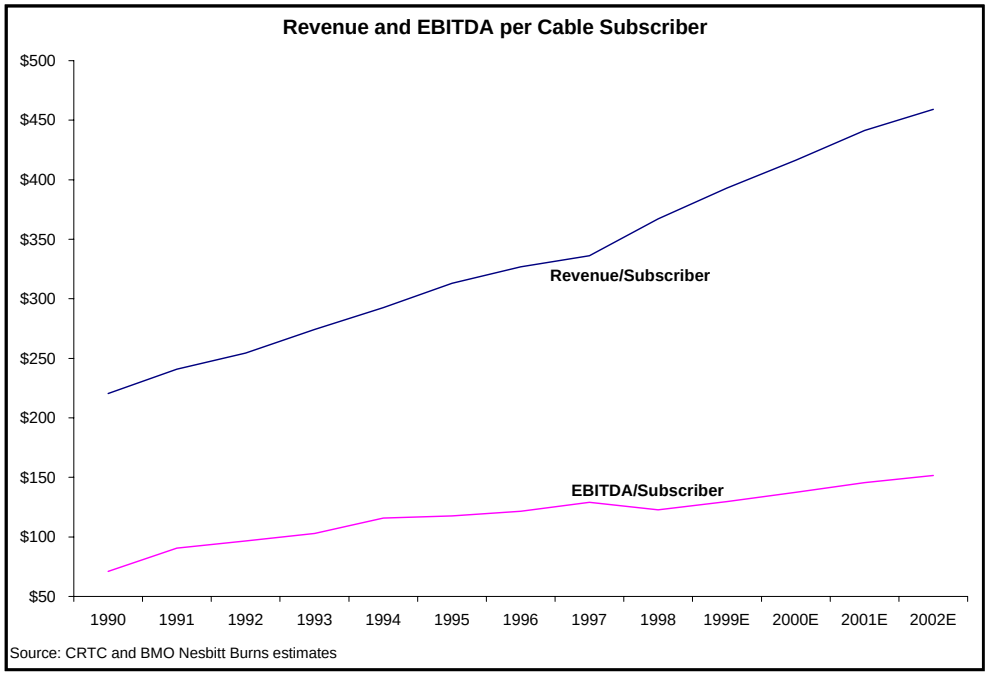
The traditional engine of growth for the industry has been the introduction of new services through a packing model known as programming tiers. Growth in analogue tiers has slowed.

Chart 5: *Canadian Cable Tier Subscribers*



Over the long term, the cable industry has been successful in generating increasing revenue and EBITDA per subscriber. We expect new services will re-accelerate this trend, as discussed below.

Chart 6: *Revenue and EBITDA per Cable Subscriber*



Growth Drivers

We expect the scale of the residential high-speed Internet services will drive EBITDA growth to the high single digits over the next two years, supported by contributions from digital video services in 2003 and 2004.

High Speed Internet

High Speed Internet is the near-term growth driver

The near-term catalyst for industry growth is based on two-way digital services. The most promising product is residential data. High-speed Internet services (often referred to as cable modems and branded by many operators as @HOME) represent a new, value-added product based on performance improvements over first generation services, known as dial-up, which operate over existing phone lines.

Pricing is attractive

The pricing environment for the service is very attractive. Current price points are roughly $40 per month. A recent announcement by AOL Time Warner that it intends to increase prices by roughly 9% for its dial-up service is very encouraging. EBITDA margins reflect the effects of its scalable nature and, at over 30% for major markets, are approaching existing cable margins. High-speed subscribers and penetrations are expected to double over the next three years.

Modems generate attractive ROIC

Lastly, cable modem subscriber acquisition costs are roughly $400 per subscriber before sales and marketing costs. We believe the marginal return on invested capital (ROIC) of cable modems is very attractive for cable operators, as highlighted in Table 3. Hardware costs are expected to decline with subscriber growth, which should accelerate investment returns.

Table 3: *ROIC Analysis – Cable Modem*

ROIC Analysis Cable Modem		
	Today	**2003E**
Modem Cost (including install)	400	325
Annual Revenue	480	480
Financing costs (7.5%)	30	24
ISP Payments (25%)	120	120
SG&A (25%)	120	120
	270	264
Pre-tax	210	216
Marginal income tax	84	86
After tax	126	129
Return	32%	40%

Source: BMO Nesbitt Burns estimates

The Competition – DSL

The competitive response from ILECs to cable modems is digital subscriber line of DSL services. Unlike dial-up, DSL users can surf the net and place voice calls simultaneously. DSL also offers comparable performance characteristics to cable modems. ILECs principal advantage over cable modems is financial scale. They also have an inherent upselling advantage from existing dial-up services.

Table 4: *Canadian High Speed Internet Statistics*

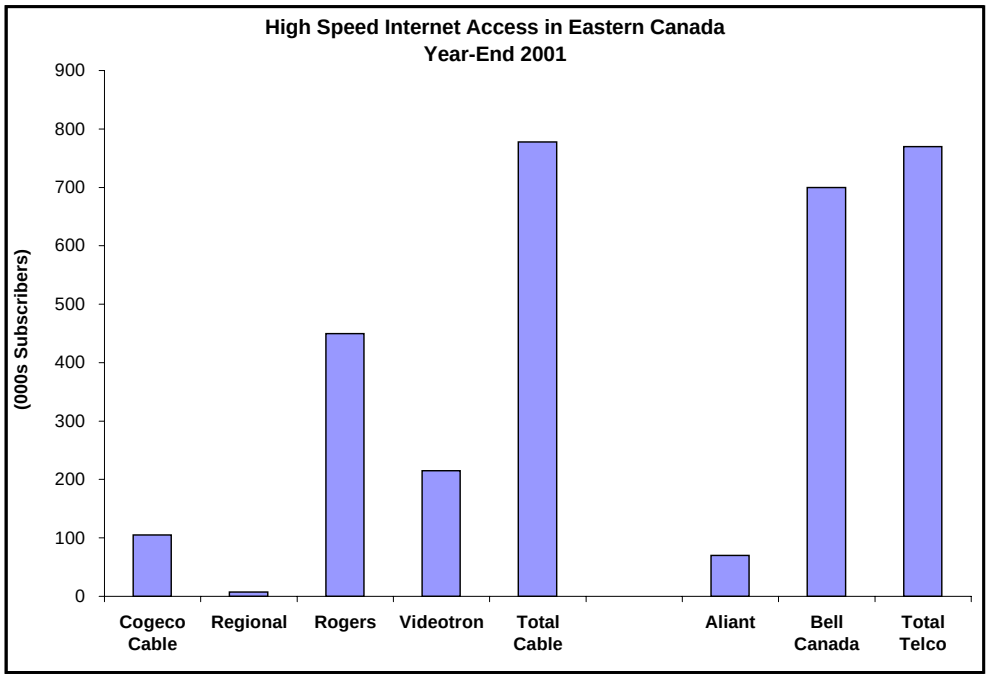
Canadian High-Speed Internet Subscriber Statistics								
Cable High Speed Internet Subscribers (000s)								
	1998	**1999**	**2000**	**2001E**	**2002E**	**2003E**	**2004E**	**2005E**
Cogeco	10	39	71	105	140	175	200	225
Regional	0	0	1	8	15	23	30	35
Rogers	54	186	312	450	575	650	725	770
Shaw	38	121	308	550	800	950	1,050	1,100
Quebecor	6	33	102	215	275	315	365	400
Total	**109**	**379**	**794**	**1,328**	**1,805**	**2,113**	**2,370**	**2,530**
DSL Internet Subscribers (000s)								
	1998	**1999**	**2000**	**2001E**	**2002E**	**2003E**	**2004E**	**2005E**
Aliant	5	15	36	70	104	136	169	201
Bell Canada	0	51	264	600	900	1,200	1,500	1,800
Manitoba Tel	0	3	11	36	59	80	98	117
TELUS	0	26	81	176	271	366	461	556
Total	**5**	**94**	**392**	**882**	**1,335**	**1,783**	**2,228**	**2,674**

Source: Company reports ; BMO Nesbitt Burns estimates.

DSL is a two-tier market in Canada based on geography

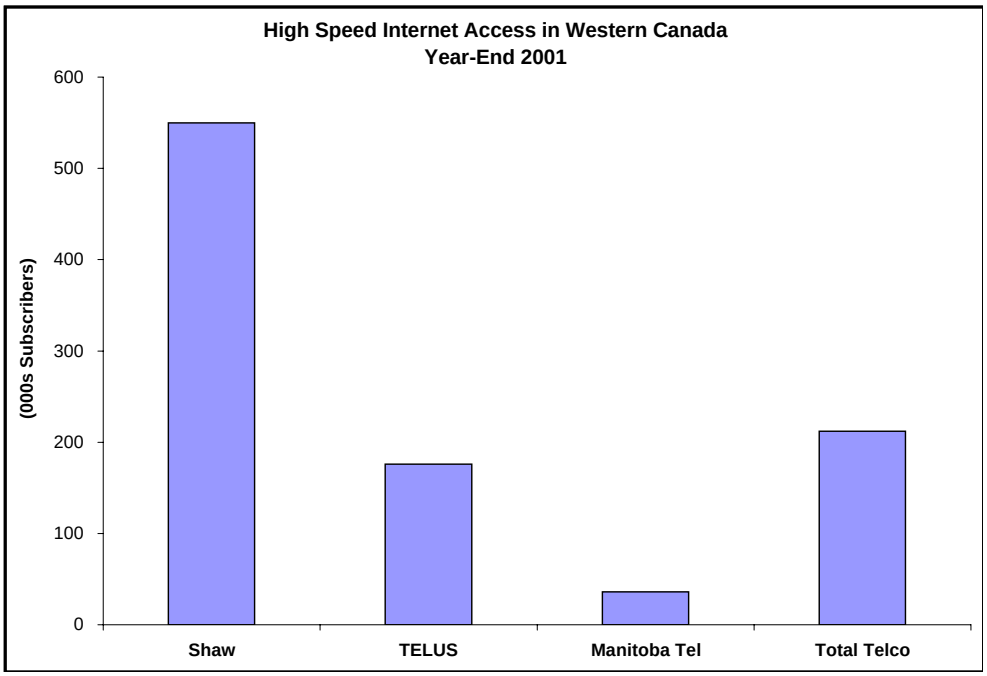
In Canada, the DSL market is essentially a two-tier market based on geography. Simply put, Eastern Canada is fiercely competitive between cable operators (Rogers, Cogeco and Quebecor; formerly Videotron) and BCE splitting the market roughly evenly. We estimate BCE will lose $100 million this year (after a $120 million drag on EBITDA in 2000) in its residential DSL initiative.

Chart 7: *High Speed in Eastern Canada*



In Western Canada, Shaw clearly dominates the market. We estimate Telus will lose $65 million in EBITDA this year in its residential DSL initiative.

Chart 8: *High Speed in Western Canada*



Digital Channels

Digital cable channels represent the second leg in the growth stool for cable. It is a core product extension that offers currently unavailable channels. It is worth noting that the core growth of the industry has historically been based on leveraging upgraded cables plant with expanded product offerings.

Roughly 50 digital channels are likely to be launched this fall

To date, the digital offering is regulated to basically what are essentially expanded pay and pay-per-view services. The industry will launch a plethora of new services this fall. Unlike previous channel launches, market forces will have a greater impact on the digital launch. The CRTC has licensed roughly 275 new services, 21 of which have must carry status. Clearly, many of the new services will never see the light of day. Many others will fail. After a consolidation phase, we expect branded channels or niche services with inexpensive programming costs will survive and eventually prosper. Sales and marketing, by distributor and programmer alike, will play a far more important role in the digital launch. Industry sources suggest that roughly 50 channels are likely to be launched this fall.

Cable companies face an incremental marketing challenge relative to previous channel launches. In order to receive digital services, subscribers will require a digital set top box. The industry will subsidize equipment costs through a monthly leasing model ($10 to $15 per month). Current box costs are in the $400 range but should decline rapidly as North American demand drives volumes.

Digital offers more consumer choice

Digital offers far more flexibility in programming packaging. In addition to themed tiers, the industry is expected to offer a la carte options. This will enable operators to avoid consumer backlash regarding tiering packages, which potentially force consumers to subscribe to un-

wanted product. Although a la carte packages offer increased consumer choice, they represent less attractive economics for programmers (who want wide audiences to maximize the upside in advertising revenues) and consumers (who forgo volume discounts).

An installed base of digital boxes is critical to drive future services

We view the new digital tiers as a short-term defensive strategy to respond to the expanded digital offerings of DTH. However, longer term, the strategy is offensive. After an inevitable shakeout, some digital channels will emerge. The ultimate winners and losers are less important for MSOs (Multiple System Operator – although they will retain equity positions in some channels, there are self-dealing carriage restrictions). The importance for cable operators is to get an installed base of digital set top boxes with critical mass, and importantly, financed by first generation digital offerings. Once accomplished, the installed digital platform sets the stage for a series of new or expanded product introductions as outlined below.

Lastly, digital subscriber acquisition costs are similar to those of cable modem subscribers, in the $400 range before sales and marketing costs. However, the return on invested capital (ROIC), while attractive, is less compelling than that of cable modems, as highlighted in Table 5.

Table 5: *ROIC Analysis – Digital Set-top Box*

ROIC Analysis Digital Set-top Box		
	Today	**2003E**
Box Cost	400	300
Annual Revenue	240	240
Financing costs (7.5%)	30	23
Programming (40%)	96	96
SG&A (10%)	24	24
	150	143
Pre-tax	90	98
Marginal income tax	36	39
After tax	54	59
Return	14%	20%

Source: BMO Nesbitt Burns estimates

As for financial impact, we expected limited contributions from the new digital tier in 2002. The channels will be launched in Q1/02 and will carry a three- to six-month free preview period.

Video on Demand (VOD) and Subscription Video on Demand (sVOD)

VOD has been 18 months away for 10 years

Video on Demand (VOD) is a controversial topic among cable products. Its infamy lies in a long history of hype and subsequent disappointment. Its seems to us that commercial launch has been 18 months away for about 10 years now.

However, a digital cable platform would certainly offer VOD its best chance of successful launch to date. A robust two-way return path and electronic programming guides (EPG) will finally make impulse buying a reality. Under analog configurations, subscribers implement purchase requests over the phone. The technology will also offer consumers the same functionality as VCRs (stop, pause capability). Incremental capital requirements for VOD, beyond an upgraded, two-way plant, are minimal.

Predicting consumer demand for the service is challenging. However, the experience of DTH operators is encouraging. DTH offer consumers expanded pay-per-view (sometimes referred to as near video on demand) with a user-friendly EPG.

The technology has yet to be widely launched commercially

There are two stumbling blocks. First, the technology platforms are not yet in place for commercial launch. Most operators in Canada will trial the technology this calendar year with a view to launch in 2002. Given the long history of broken promises from VOD, we have assumed a relatively conservative financial impact and do not expect noticeable contributions until 2004 at the earliest.

Content is a chicken and egg problem for VOD

Equally important to the scale of upside from VOD is the content issue. It is an age-old chicken and egg problem for pay-per-view. Hollywood studios generate roughly half of their revenues from video sales and rentals. Therefore, video enjoys a window of availability roughly 90 days prior to pay-per-view. It is a challenge for VOD operators to gain access to earlier windows in the absence of greater financial contributions to the studio bottom line. However, it's an equally tough challenge to drive volumes without earlier availability of key titles.

SVOD offers non-movie product on demand

A related product offering is known as subscription video on demand (SVOD). Simply put, SVOD offers non-Hollywood film product on demand through the VOD platform. This could include information programming, serial television product or other forms of niche programming. It would likely be priced economically and represent non-first run product. SVOD could be a useful product introduction targeted at conditioning consumer behaviour for increased purchases of VOD. AOL Time Warner's recent announcement that it will offer selected serial programming from HBO in an SVOD service is very encouraging.

DTH – The Competition

DTH has emerged in the last five years as the first viable competitive product to core cable services.

The money is in the blades (programming), not the razor (hardware)

DTH satellite services, also known as DBS (direct broadcast satellites) distribute video signals from geo-stationary satellites across continental footprints. The signals are received in relatively small receiving dishes and processed in set-top units. The digital technology provides high-quality signals and encryption technology limits piracy. Consumer price points have fallen dramatically as operators have subsidized hardware costs *("the money is in the blades, not the razor").*

Beyond signal clarity, the relative benefits of DTH over cable are based on expanded programming choice. As a digital platform, DTH is not capacity constrained like the existing analogue cable plant. On an order of magnitude basis, DTH offers two to three hundred programming options (as noted, most of which in Canada are currently expanded pay per view channels) versus 60 to 80 channels for major urban cable systems.

Digital cable will level the playing field with DTH

Digital cable will effectively level the playing field between DTH and cable from a programming and signal quality perspective. Moreover, the robust nature of a two-play digital cable plant will offer some performance advantages over DTH in the form of more robust interactivity for VOD and iTV (Table 6).

The domestic DTH business is three years behind the U.S.

The domestic DTH market is roughly three years behind the U.S. U.S. operators are roughly 50% more penetrated than Canada (16% versus 11% at year-end 2000). The latter also benefit from a less cabled market, more attractive population densities and greater programming options. Of note, the legitimate industry in Canada is CRTC-regulated and offers only those services on the Eligible Services List authorized by the CRTC. The market in Canada, including vacation properties, is roughly five million homes. A relatively small gray market exists in Canada in which consumers subscribe to U.S. services.

After several false starts (AlphaStar's insolvency and Power's exit from the business), a viable domestic direct to home (DTH) satellite industry is now in place. The industry is represented by two players, ExpressVu (owned by BCE) and Star Choice (owned by Shaw). The industry has grown from start-up to over 1.7 million subscribers in five years. We expect another 1.2 million subscribers by 2005.

Table 6: *Canadian Digital and DTH Subscriber Statistics*

Canadian Digital Cable and DTH Subscriber Statistics								
Digital Cable Subscribers (000s)								
	1998	**1999**	**2000**	**2001E**	**2002E**	**2003E**	**2004E**	**2005E**
Cogeco	0	0	79	110	150	200	250	300
Regional	0	0	5	10	15	20	23	25
Rogers	0	54	172	250	375	550	675	750
Shaw	70	121	163	275	450	700	850	1,000
Quebecor	0	15	58	100	150	200	225	250
Total	**70**	**190**	**477**	**745**	**1,140**	**1,670**	**2,023**	**2,325**
DTH Satellite Subscribers (000s)								
	1998	**1999**	**2000**	**2001E**	**2002E**	**2003E**	**2004E**	**2005E**
ExpressVu	179	416	722	1,078	1,378	1,578	1,703	1,778
Star Choice	109	241	445	625	850	1,000	1,075	1,125
Total	**288**	**657**	**1,167**	**1,703**	**2,228**	**2,578**	**2,778**	**2,903**

Source: Company reports ; BMO Nesbitt Burns estimates.

DTH has significant operating leverage once fixed costs are covered

The economics of the business are based on significant operating leverage off a high fixed cost base. Once the satellite is launched, uplink and call centres are in place and distribution channels are established, the marginal costs of each incremental subscriber are relatively low (marketing and equipment subsidies). However, it is a business requiring deep pockets to finance the high start-up costs. We estimate BCE has invested over $500 million to date in ExpressVu. Projected EBITDA losses in 2001 are $140 million and could be as high as $200 million in 2002. The aggregate investment to date in Star Choice is roughly $250 million (Shaw acquired a majority position in the company in 2000). It is projected to post modest EBITDA gains in 2002. Table 7 highlights selected characteristics of Star Choice and ExpressVu.

Table 7: *Canadian DTH Characteristics*

Canadian DTH Operating Characteristics			
		Star Choice	**Express Vu**
Launch Date		Fall 1997	Fall 1997
Owner		Shaw	BCE
Satellite		Anik E2, Anik F1	NIMIK
Programming		290 Audio and Video Channels	200 + Audio and Video Channels
Subscribers	YE 2001E	625,000	1,078,000
	YE 2002E	850,000	1,378,000
Net Adds	2001E	180,000	356,000
	2002E	225,000	300,000
EBITDA (in $millions)			
	2001E	(56)	(175)
	2002E	14	(50)
Expected EBITDA B/E		Q3/02	Q2/03

Source: Company reports, BMO Nesbitt Burns estimates

Interactive Television (iTV)

iTV will eventually exploit the convergence of the TV and PC

iTV is currently a development stage product. Its attractiveness lies in leveraging the digital platform of the upgraded cable plant. The "concept" is to exploit the convergence of the television and the computer. Therein lies the challenge. One is a passive, communal medium (lean back); the other an interactive, individual medium (push forward). Potential revenue sources include commissions on t-commerce (television commerce) and delivery of enhanced content (stock quotes, weather, games). Our crystal ball gets a little hazy trying to forecast the economics of a yet to be developed product, and as such, we have included no impact in our financial models. Our conservatism is effectively confirmed by AT&T's recent announcement that it is suspending its iTV trials based on technical problems.

Internet Protocol (IP) Telephony

Telephony services are important for bundling strategies...

By far the most contentious product for cable operators is telecom service. The strategic relevance is clear. ILECs are entering cable's core video business (Bell ExpressVu) and competing for their share of residential data (DSL). Entry into these competitive businesses is being largely financed with cash flow from local loop residential telephony businesses, which remains unchallenged with the financial failure of CLECs. Going forward, bundling of telecom-related products will only increase. Single service providers run the risk of increasing churn and or aggressive pricing competition through volume discounting.

...but carry high financial and execution risk

However, the issue is fraught with challenges for the cable operator. Displacing incumbent monopoly service providers requires deep pockets. Consider that domestic DTH business has invested over $1 billion in capital over five years to capture 12% market penetration and is still at least two years from positive EBITDA. Executives at Rogers are particularly aware of this challenge given their painful experience in the long distance business at Unitel.

There is also the issue of quality. Consumers are unlikely to experiment with a new technology for lifeline phone lines.

The technology options available for cable operators are Internet Protocol (IP) telephony or circuit-switched telephony. Circuit-switch telephony employs a dedicated connection for the length of the call. Circuit-switched platforms carry relatively higher up-front and operating cost profiles. Therefore, Canadian cable operators have elected to pursue IP technology for a telephony offering. Two large U.S.-based MSOs, Cox and AT&T, currently offer circuit – switched services.

IPT is the transmission of voice signals via Internet protocol over the Internet or a private network. IPT transmits data is packet form and there is no dedicated connection during an IP call.

IPT has yet to be commercially deployed

IP technology does exist today. However, it has yet to be commercially deployed. The primary restraining issues are voice quality, reliability and cost. Voice does not have rigorous bandwidth requirements. However, original cable plant configurations were obviously not designed for IPT and an upgraded, two-way digital plant is required to minimize noise ingression and maximize network reliability. The next generation of cable modems with IPT capability, referred to as DOCSIS 1.1, is not expected to be available until later this year. Lastly, powering is a major cost issue. Until a critical mass of IP subscribers is obtained, network powering is not economically feasible. Battery power is contemplated as an interim solution but introduces reliability issues and does not solve the cost problem. Industry estimates for IPT services range from $750 to $1,000 per subscriber, making current ROIC unattractive.

In summary, we believe the commercial introduction of IP services in Canada is four to five years out. We expect the domestic industry will wait for technology advances to improve the cost profile.

Media

As the primary distributors of entertainment content, cable companies have traditionally enjoyed a unique perspective on content ownership. The most successful exploiter of this positioning has been John Malone, former CEO of TCI Communications. TCI was the largest cable operator in the U.S. until the company was sold to AT&T in 2000. Mr. Malone successfully levered his control over access into equity positions in a myriad of start-up channels through the early development stages of the industry. Through his content vehicle, Liberty Media, TCI subsequently “traded up” from operating to corporate units. Liberty currently owns substantial equity positions in AOL Time Warner, USA Networks Inc. and Discovery Communications, to name a few, based on this strategy.

The concern over self-dealing or gate keeping became a concern to the CRTC in 1998 as digital cable rollouts were slower than originally expected. The delay in digital rollouts inflated the value of established analogue cable channels. In an effort to restrict any non-competitive behaviour by cable companies, the CRTC prevented cable operators from owning more than 30% of the equity in analogue specialty services, other than existing equity stakes, which were grandfathered.

This restriction, sometimes referred to as the undue preference rule, effectively prevented the cable companies from increasing their ownership in the fastest-growing segment of the content side of the business in Canada.

Cable companies can now acquire analogue cable channels

The CRTC recently repealed the undue preference rule. The ability of cable companies to acquire analogue services theoretically opens up another leg of growth for the business. However, its is worth noting that all the established analogue channels are held in secure hands. That is, in companies that are family or management controlled through multiple voting stock. For a more detailed review of several of these entities, please see our report "And Then There Were Three…" January 17, 2001.

Established channels are scarce assets

In essence, the development is largely a moot point for the industry other than Rogers. Shaw has already defined its media strategy since it spun out its media business (Corus Entertainment – CJR.B; $35.50 – rated Market Perform) in 1999. Shaw remains an active, and successful investor in equity stakes through Shaw Ventures. We believe Cogeco and Regional lack the scale to effectively compete in the specialty game. Quebecor Media already owns a dominant media presence in Quebec, and in our view additional acquisition would carry high regulatory risk. Moreover, the company's current financial condition constrains its ability to acquire assets.

Rogers will pursue control of Sportsnet

For Rogers, the development effectively allows it to reinitiate its pursuit of a controlling stake in CTV Sportsnet. The latter is a national sports channel launched in 1998. Rogers originally held a 20% stake and since doubled its position to 40% (from Molson). It claims a right of first refusal on the remaining equity blocks at CTV (40%) and Fox Sports (20%). As a condition of the acquisition in 2000 of NetStar, CTV was required to divest its position in Sportnet. However, since BCE acquired CTV later the same year, the latter has been reluctant to sell its stake to Rogers for obvious competitive reasons. We suspect court action may be required to resolve the ownership issue.

Lastly, for Rogers, Sportsnet represents more than a vehicle with which to participate in the growth of specialty services. As majority owner of the Toronto Blue Jays, Rogers can bring valuable content to the channel (and a hedge against increasing sports right fees). However, we believe shareholders in Rogers would be best served if the baseball team were placed in an off-balance sheet entity in return for equity.

The Players

The North American industry has consolidated into a handful of major players in the U.S. and Canada, as illustrated in Table 6, which compares the increasing concentration of major MSOs in the U.S. and Canada over the last five years.

Table 8: *Cable Consolidation Trends – U.S. and Canada*

Cable Consolidation Trends (United States)

	Current (Pro-forma Transactions)			December 31, 1997			
Rank	**Cable Operator**	**Subs**	**Share**	**Rank**	**Cable Operator**	**Subs**	**Share**
1	AT&T Broadband	14,682	21.6%	1	Time Warner	12,600	19.4%
2	AOL-Time Warner	12,800	18.8%	2	TCI Group	10,514	16.2%
3	Comcast Corp.	7,607	11.2%	3	MediaOne Group	4,910	7.6%
4	Charter Comm.	6,929	10.2%	4	Comcast Corp.	4,366	6.7%
5	Cox Comm.	6,193	9.1%	5	Cox Comm.	3,235	5.0%
6	Adelphia Comm.	5,652	8.3%	6	Cablevision	2,844	4.4%
7	Cablevision	2,969	4.4%	7	Adelphia Comm.	1,711	2.6%
8	Mediacom	1,619	2.4%	8	Jones Intercable	1,463	2.3%
9	Insight Comm.	1,285	1.9%	9	Century Comm.	1,306	2.0%
10	Classic Cable	404	0.6%	10	Marcus Cable	1,232	1.9%
	Total	**60,139**	**88.4%**		**Total**	**44,181**	**68.2%**

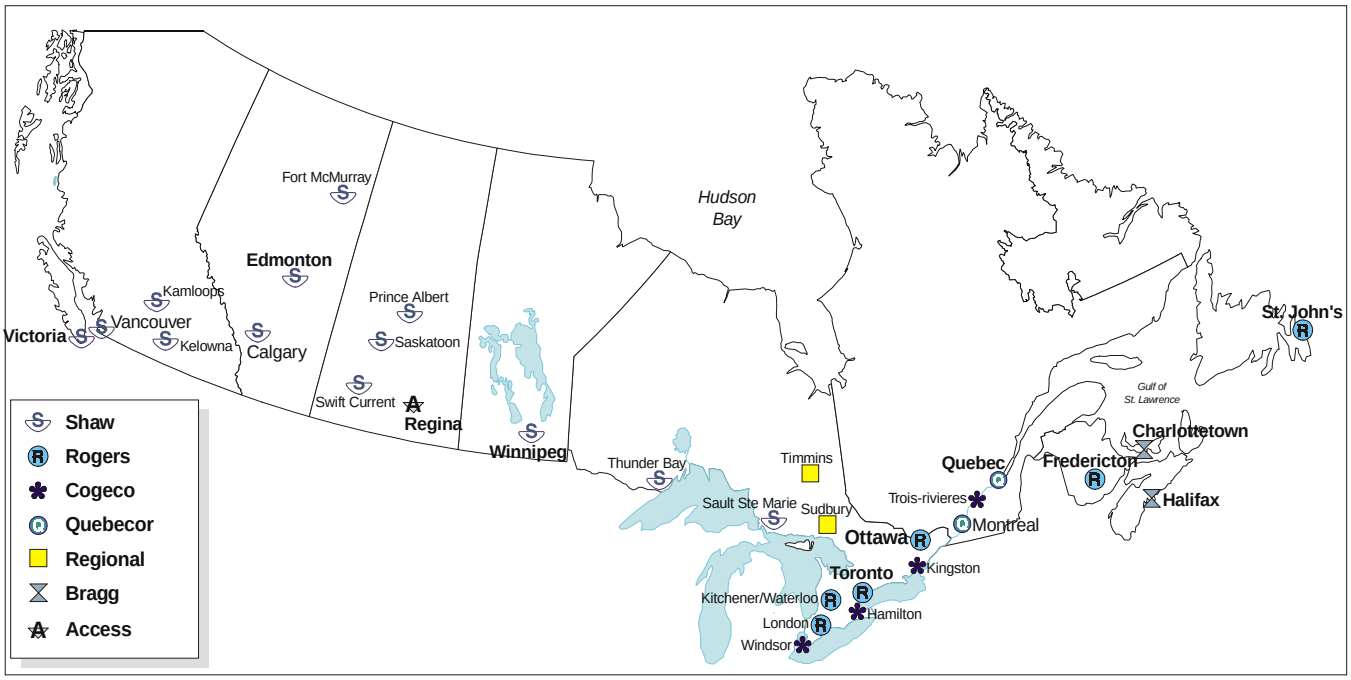
Cable Consolidation Trends (Canada)

	Current (Pro-forma Transactions)			August 31, 1997			
Rank	**Cable Operator**	**Subs**	**Share**	**Rank**	**Cable Operator**	**Subs**	**Share**
1	Rogers	2,372	28.4%	1	Rogers	2,230	26.9%
2	Shaw	2,073	24.8%	2	Videotron	1,577	19.0%
3	Quebecor Media	1,431	17.1%	3	Shaw	1,509	18.2%
4	Cogeco	907	10.9%	4	Cogeco	761	9.2%
5	Bragg*	244	2.9%	5	Fundy	185	2.2%
6	Regional	231	2.8%	6	Moffat	164	2.0%
7	Access*	84	1.0%	7	Regional	112	1.4%
8	Monarch*	48	0.6%	8	Bragg*	85	1.0%
9	Delta*	38	0.5%	9	Access*	70	0.8%
10	Mountain*	35	0.4%	10	Western Co-Ax*	64	0.8%
	Total	**7,463**	**89.4%**		**Total**	**6,757**	**81.5%**

Source: Company reports, BMO Nesbitt Burns estimates

In Canada, the industry has pursued a clustering strategy, as highlighted in Chart 9. Clustering drives efficiencies by driving economies of scale in operating, marketing and administrative functions.

Chart 9: *System Cluster Map*



- The industry has three dominant regional payers. Quebecor Media in Quebec, Rogers in Ontario (and the Maritimes) and Shaw in Western Canada.
- Cogeco's assets are an excellent potential fit with Rogers (70%) and Quebecor Media (30%).
- Regional's assets are adjacent all players, but primarily Rogers and Shaw.

The Next Round of Domestic Consolidation?

Consolidation was clearly a driver of equity valuations in 1999 and 2000. In Canada, the bellwether deals have been completed and the industry majors lie in secure (read family-controlled) hands. Moreover, the current state of balance sheets and equity values makes deal activity unlikely in the near term in the absence of an external catalyst (see discussion on foreign ownership). There are two exceptions.

- Cogeco Cable lacks scale (Table 9) and its margins are relatively low. Its systems are concentrated in Ontario (635,000 subscribers) and Quebec (260,000 subscribers). The former are an excellent fit with Rogers (300,000 of which were once owned by the company); the latter with Quebecor. To that end, Rogers owns 10% of the equity in Cogeco Cable.
- Regional Cablesystems is the lone consolidator of small market cable systems in Canada. Its systems are located across Canada with high concentrations in Ontario. We expect Regional to continue to tactically acquire small companies. The company is well run (operating margins 45%) and has a relatively less levered balance sheet. In time, we believe Regional will be consolidated into the dominant MSOs. It has no controlling shareholder.

Operating Review

Table 9 illustrates selected operating characteristics of the major MSOs in Canada.

Table 9: *Canadian MSO Operating Review*

Canadian Cable Companies Operating Review 2001E					
	Cogeco	**Regional**	**Rogers**	**Shaw**	**Quebecor Media**
Cable Division Only					
Revenue ($ millions)	443	98	1,232	1,089	725
EBITDA ($ millions)	165	44	501	480	275
EBITDA Margin (%)	37.0%	44.0%	40.7%	44.1%	37.9%
Subscribers (in 000s)					
Basic	895	251	2,295	2,075	1,413
Internet	105	8	450	550	175
Digital	110	10	250	275	100
Major Cable Region	ON and PQ	All Prov.	GTA ; S. Ont.	BC, AB, MB	PQ
Total Company					
Revenue ($ millions)	443	101	3,953	1,565	2,380
EBITDA ($ millions)	165	46	945	460	565
EBITDA Margin (%)	37.0%	46.0%	24.5%	29.4%	24.0%
Non-cable					
% of revenues	0%	3%	63%	31%	70%
% of EBITDA	0%	4%	46%	-4%	52%
Non-cable business	na	CAP N.O.	Wireless Radio Publishing Television Blue Jays	DTH Satellite Services IP Backbone	Newspaper publishing Television Portal eBusiness
Market Cap ($millions)	1,131	206	4,907	7,886	1,750
Debt:EBITDA	4.8	3.6	1.4	5.0	6.1

Source: Company reports, BMO Nesbitt Burns estimates

We note the following:

- Shaw is a pure play distribution company and unique among cable operators. It also is the premier company from an operating and mix perspective. It generates the highest operating margins (within cable) and the highest penetration of new services, particularly high-speed Internet. Furthermore, its asset mix is hedged against DTH competition. We expect EBITDA growth from DTH to accelerate sharply beyond 2002. Clearly, Telus is a less formidable competitor than BCE for DSL. Moreover, BCE is unable to bundle DTH with other services in Shaw's core markets.
- Rogers has the most diversified business mix in the group, with major assets in wireless and media. Its systems in the lucrative southern Ontario market (the GTA represents roughly 60% of its subscriber base) are highly clustered and valuable. However, it faces strong competition from BCE. Moreover, approximately 40% of subscribers are MDUs (multiple dwelling units) which carry inherently lower margins.
- Cogeco Cable lacks the scale of the top three players. We believe this is reflected in lower operating margins. Rogers owns roughly 10% of the outstanding equity in Cogeco Cable (but no multiple voting shares).
- Regional is focused on small market systems. As such, it operates in a relatively benign regulatory environment compared to larger systems. It has far more flexibility with respect to programming and pricing. This is offset somewhat by less economies of scale and more exposure to the DTH threat. We note with interest that Regional's margins are among the highest in Canada. Based on its competitive position, Regional "follows" industry leaders with regard to new product introductions. Lastly, as noted, Regional has unique acquisition opportunities among domestic cable companies. It is effectively the sole buyer of small market systems. We estimate Regional could add roughly 30% to its current subscriber base through an acquisition in the near term without additional equity.
- Unlike the other operators, Quebecor Media's cable assets are part of an integrated media enterprise pursuing a convergence strategy. The cable assets were acquired from Videotron in a debt-financed transaction. We believe the high debt levels and unproven convergent platform represent an above-average operating risk profile relative to the other public companies. We note that its assets compete directly with BCE in the latter's home market.

Growth Outlook

Table 10 reviews our EBITDA growth rates for the domestic operators.

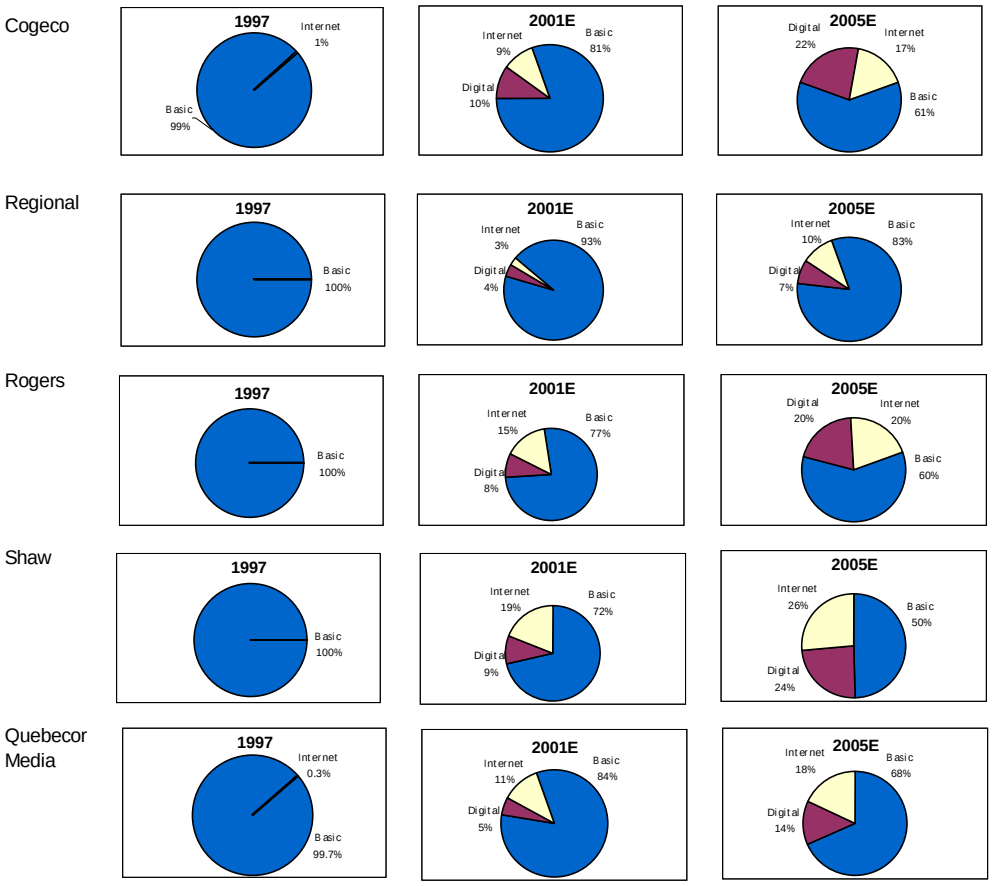
Table 10: *EBITDA Growth Rates*

EBITDA Growth Rates						
	Cogeco	**Regional**	**Rogers Cable**	**Rogers Comm.**	**Shaw Cable**	**Shaw Comm.**
EBITDA (in $millions)						
2000	140	74	458	918	359	398
2001E	165	78	516	955	416	460
2002E	188	86	563	1,076	475	649
2003E	204	93	614	1,267	521	833
2004E	220	100	663	1,469	558	956
2005E	234	107	714	1,648	599	1,070
YR/YR Growth						
2000	1%	13%	11%	3%	25%	28%
2001E	18%	6%	13%	4%	16%	16%
2002E	14%	10%	9%	13%	14%	41%
2003E	8%	8%	9%	18%	10%	28%
2004E	8%	7%	8%	16%	7%	15%
2005E	6%	7%	8%	12%	7%	12%

Source: BMO Nesbitt Burns estimates

Chart 10 illustrates the changing mix of each company's subscriber base as new revenue generating units are developed. We have not yet included any impact from IP Telephony subscribers in our analysis. VOD subscribers are included in digital.

Chart 10: *Subscriber Mix*

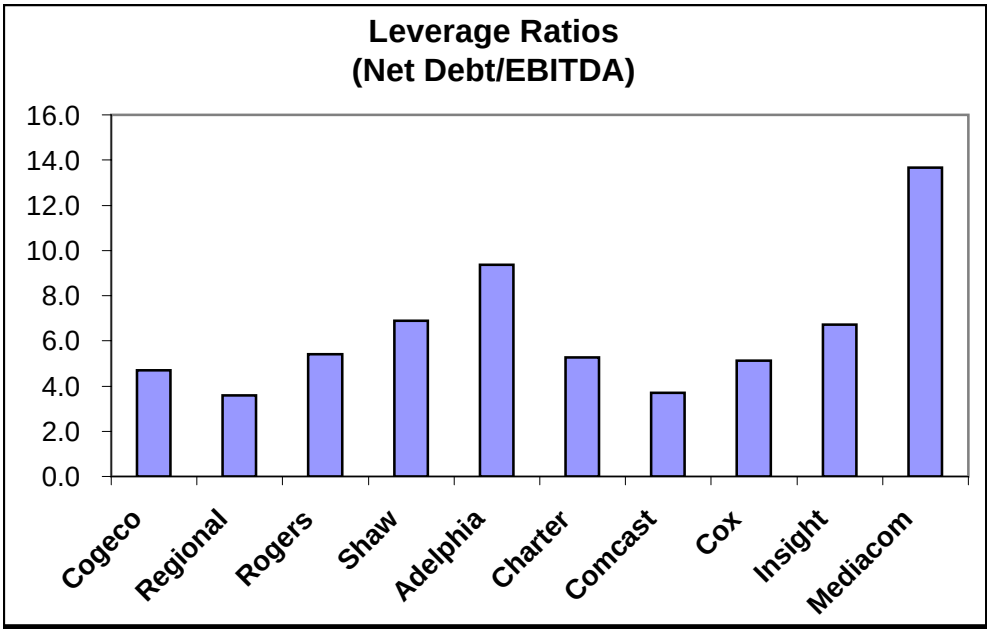


Financial Fundamentals

Cable balance sheets are levered

Throughout its history, the industry has operated like a utility. Periodic plant upgrades in advance of new service offerings are financed with debt. The leverage is in turn financed by the recurring revenues. In general, cable companies across North America have debt/EBITDA ratios of roughly five to one.

Chart 11: *Leverage Ratios (Net Debt/EBITDA)*



In Canada, the larger companies, Rogers and Shaw, have historically had to tap U.S. debt markets to finance their growth. This results in marginally higher borrowing costs due primarily to currency hedging expenses.

Table 11: *Canadian Cable Companies Debt Analysis*

Canadian Cable Companies Debt Analysis

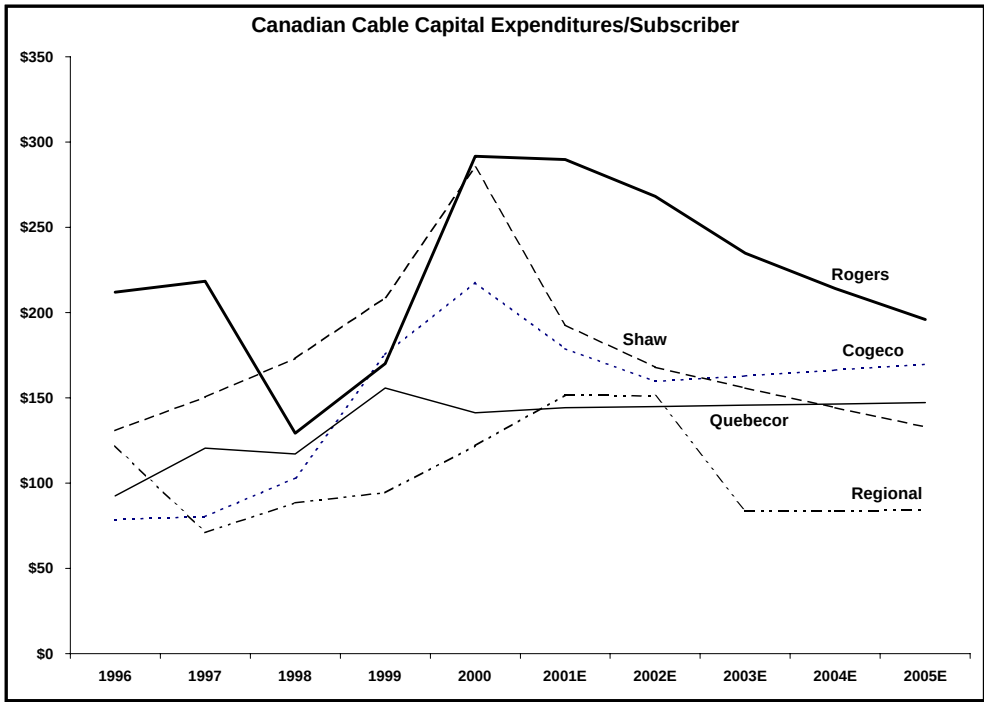
	Cogeco	Regional	Rogers	Shaw
Est Debt $million (YE - 01)	800	160	5,105	3,177
% Floating	66%	35%	15%	28%
% Fixed	34%	65%	85%	72%
% US$ Denominated	0%	0%	71%	56%
Est. Effective Rate	7.1%	7.5%	9.8%	8.5%

Note: % Floating is prior to any fixed rate swap arrangements.
Source: Company reports, BMO Nesbitt Burns estimates

Capex accelerated over the past five years due to new service demands

The spending cycle was particularly acute in the last five years, as an unprecedented bull market offered equity capital and lending rates have remained historically low. The introduction of digital services, notably Internet services, has accelerated spending due to more robust networks demands, and in particular, two-way capability.

Chart 12: *Capex per Subscriber*



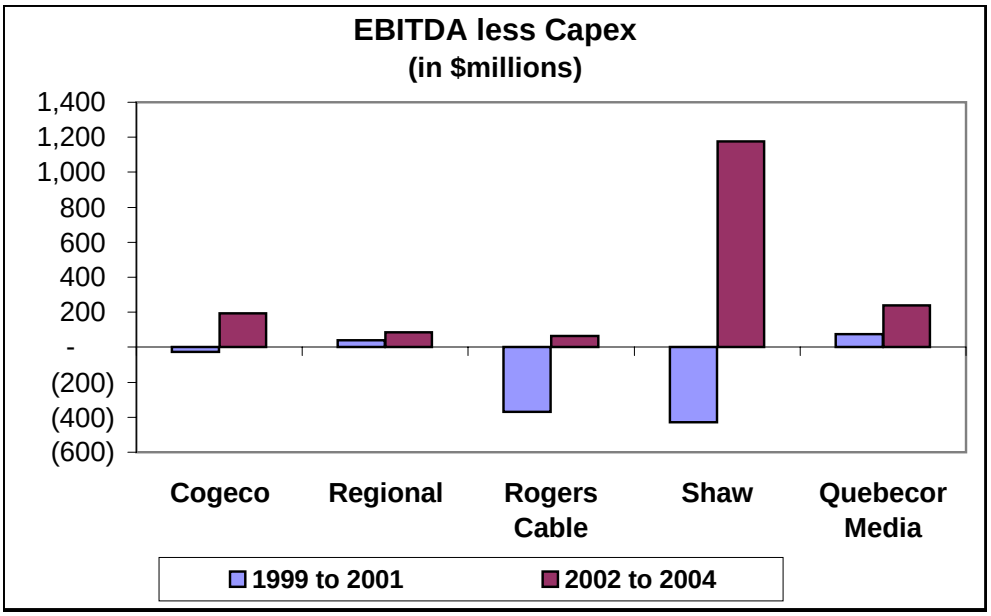
A final contributor to the current state of industry balance sheets has been the flurry of consolidation. System clustering and heightened capital requirements have increased the need for scale to compete. In partnership with rising equity markets, transaction prices have increased and some operators financed purchases with debt (Quebecor).

We believe cable Capex has peaked for the cycle

We believe the heavy lifting for cable operators is behind them and that 2001 represents an inflection point in the financial cycle for cable companies. The cable plant in major urban markets is roughly 90% rebuilt for two-way digital services. The ratio of demand driven Capex (set-top boxes, cable modems) will increase. We believe the next acceleration in capital spending will begin with IP telephony.

Therefore, we expect capital requirements to decline over the medium term. To help further illustrate the point, Chart 13 compares the net of EBITDA and Capex for domestic MSOs over the most recent three years and our forecasts for the next three years.

Chart 13: *EBITDA less Capex (in $ millions)*



Based on growing EBITDA and declining Capex, we believe investment and asset return will accelerate.

Return on Capital Employed (ROCE) is estimated to improve across the group, as illustrated in Table 12. We believe it is the direction of ROCE, not the absolute level, which drives share prices.

Table 12: *Canadian Cable Companies Investment Return Analysis – Return on Capital Employed (ROCE)*

Canadian Cable Companies
Investment Return Analysis
Return on Capital Employed (ROCE)

	Cogeco	Regional	Rogers	Shaw
2000	6.2%	10.1%	2.9%	3.6%
2001E	4.9%	8.6%	0.4%	0.5%
2002E	5.7%	9.1%	1.3%	2.0%
2003E	6.1%	10.5%	2.4%	5.3%
2004E	6.4%	11.7%	4.2%	7.8%
2005E	6.7%	13.0%	6.3%	10.4%

Return in net tangible assets (RONTA) is also forecast to increase. Once again, we believe direction is key for share price performance.

Table 13: *Canadian Cable Companies Investment Return Analysis – Return on Net Tangible Assets (RONTA)*

Canadian Cable Companies
Investment Return Analysis
Return on Net Tangible Assets (RONTA)

	Cogeco	Regional	Rogers	Shaw
2000	11.4%	17.0%	3.4%	6.6%
2001E	9.4%	15.7%	1.0%	2.1%
2002E	10.5%	15.7%	1.9%	5.4%
2003E	10.6%	17.4%	3.0%	11.6%
2004E	10.8%	19.0%	4.9%	14.7%
2005E	10.9%	20.5%	7.0%	16.5%

Relative Performance

We believe the cable group is attractive on a relative return basis compared to other market sectors.

The unprecedented dichotomy between tech performance and the rest of stock market has been a dominant theme over the last year. Since a market peak in September 2000, TMT (technology, media and telecom) sectors have plummeted 66% whereas the rest of the market is up 14%.

Tables 14 and 15 highlights year-to-date and one-year subgroup performance in the TSE. A variety of cyclical and commodity sectors (notably mining, auto parts, steels, oils) have posted sizable gains. The opposite end of the barbell is populated by cable, telecom and technology stocks. Our view is that the domestic cable groups represent, at worst, a safe haven over the near term. They are likely to benefit from incremental investor interest, as profits from cyclical sectors are re-deployed. The group offers liquidity (Rogers and Shaw have a combined float cap exceeding $10 billion) and relatively limited exposure to a stagnant economy. A high profile launch of new digital services in the fall may add to domestic investor enthusiasm.

Table 14: *TSE Subgroup Performance – % Price Change Year to Date*

TSE 300 Subgroups – % Price Change Year to Date (June 12, 2001)			
Autos & Parts	43.8%	Paper/Forest Products	6.8%
Mining	43.4%	Food Stores	5.9%
Wholesale Distributors	40.9%	Tobacco	5.3%
Steel	33.0%	Food Processing	2.8%
Building Materials	32.4%	Banks & Trusts	2.6%
Transport/Environment	28.1%	Biotechnology	0.8%
Conglomerates	26.6%	Fabricating/Engineer	0.5%
Integrated Mines	24.0%	Pipelines	-0.2%
Specialty Stores	23.8%	Transportation Equip.	-0.4%
Breweries/Beverages	14.0%	Hospitality	-0.9%
Household Goods	12.2%	**Publishing & Printing**	**-1.5%**
Gold & Precious Minerals	12.1%	Investment Companies	-2.9%
Oil & Gas Services	11.0%	**Cable/Entertainment**	**-3.4%**
Oil & Gas Producers	11.0%	Financial Management	-6.1%
Integrated Oils	10.9%	Insurance	-7.5%
Broadcasting	**10.1%**	**TSE 300 Composite**	**-9.0%**
Gas/Electr Utilities	8.3%	Chemicals/Fertilizers	-9.5%
Department Stores	7.8%	**Technology-Software**	**-14.3%**
Real Estate	7.2%	**Telephone Utilities**	**-16.7%**
		Technology-Hardware	**-51.9%**

Table 15: *TSE Subgroup Performance – % Price Change One Year Performance*

TSE 300 Subgroups – % Price Change 1 Year Performance (June 12, 2001)			
Mining	116.8%	Real Estate	17.3%
Wholesale Distributors	64.5%	Specialty Stores	16.0%
Breweries/Beverages	62.5%	Financial Management	11.8%
Conglomerates	51.6%	Gold & Precious Minerals	7.0%
Insurance	42.5%	Food Processing	4.7%
Tobacco	38.0%	Hospitality	4.5%
Gas/Electr Utilities	38.0%	Paper/Forest Products	-1.1%
Pipelines	37.9%	**Broadcasting**	**-1.7%**
Integrated Mines	35.9%	**Publishing & Printing**	**-2.2%**
Integrated Oils	33.1%	Biotechnology	-5.0%
Oil & Gas Producers	27.4%	**Cable/Entertainment**	**-5.3%**
Food Stores	27.2%	Steel	-9.4%
Transport/Environment	26.7%	**Telephone Utilities**	**-13.6%**
Oil & Gas Services	24.8%	Household Goods	-14.1%
Banks & Trusts	21.9%	**TSE 300 Composite**	**-15.8%**
Investment Companies	21.4%	Building Materials	-18.3%
Transportation Equip.	21.1%	Fabricating/Engineer	-21.5%
Autos & Parts	19.1%	Department Stores	-25.9%
Chemicals/Fertilizers	17.5%	**Technology-Software**	**-58.0%**
		Technology-Hardware	**-70.9%**

Chart 14 highlights the five-year performance of the cable sub-index relative to the overall TSE 300 as well as some significant events during the period. Chart 15 reviews individual relative performance.

Chart 14: *Relative Performance of Canadian Cable versus TSE 300 Index*

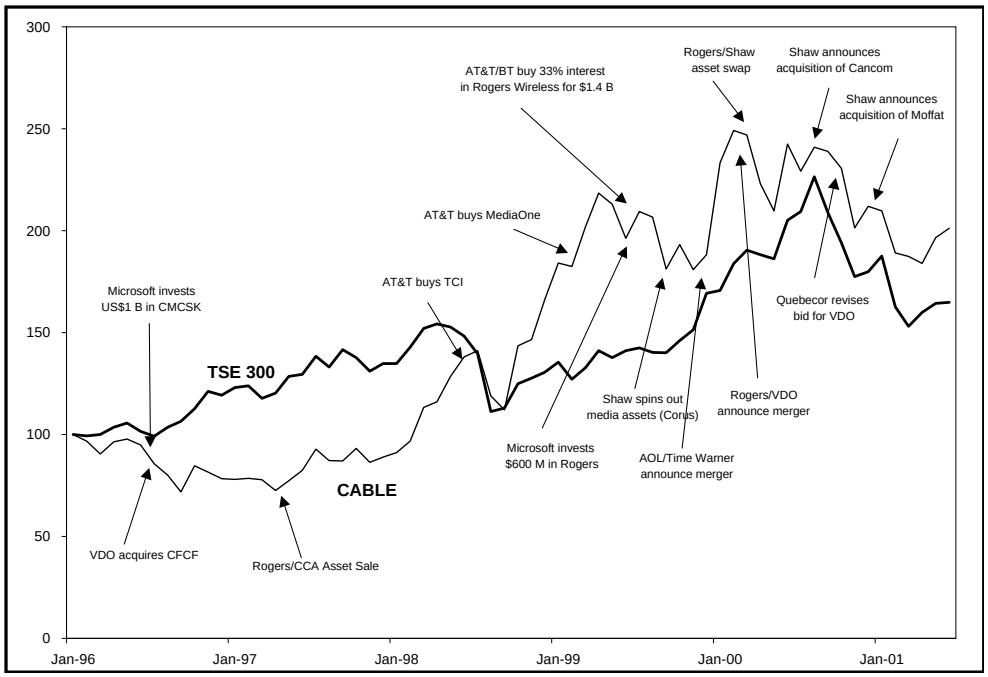
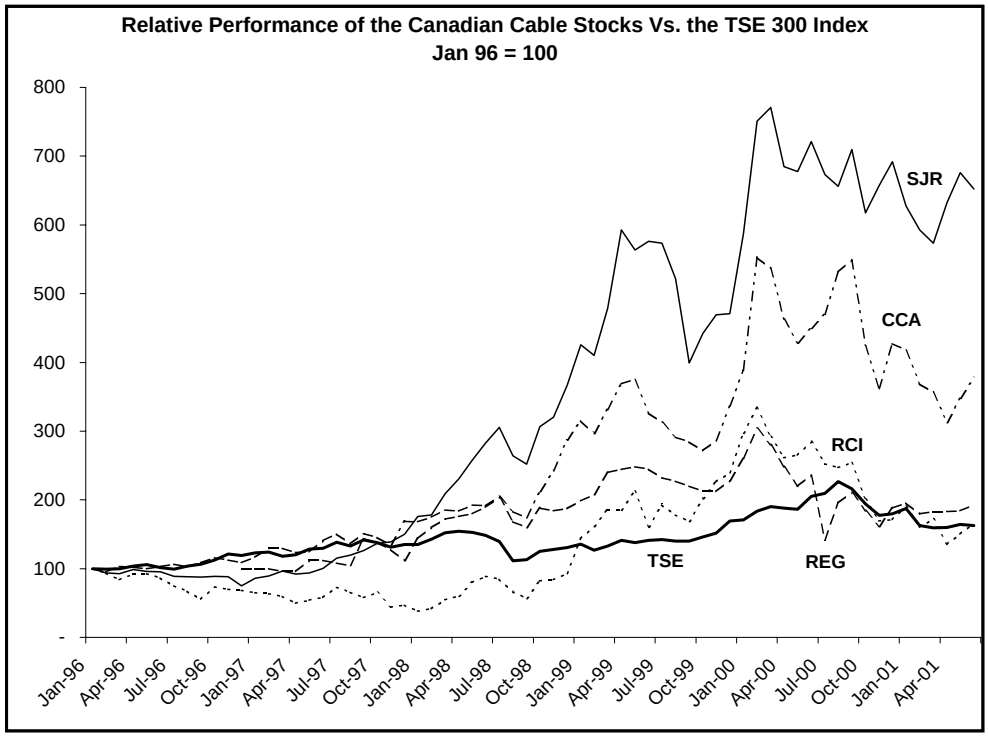


Chart 15: *Relative Performance of the Canadian Cable Stocks versus TSE 300 Index*



- Shaw has been the leader in shareholder value creation.
- Rogers has lagged the group since early 2000.
- Despite underperformance this year, the group has been a strong investment sector over the last five years.
- Consolidation has been a major driver of share prices.
- The impact of Microsoft's endorsement of the industry had a lagged impact on domestic equities.

Foreign Ownership Deregulation

In our view, a third driver of cable share prices over the next year will be multiple expansion based on an expected relaxation of foreign ownership regulations.

Under current rules, the ownership of domestic telecom and cable entities is restricted to foreigners through two acts of Parliament, the Telecommunications Act and The Broadcasting Act. Currently, non-Canadians are restricted to a maximum of 46.7% - 33% of equity at the holding company level and 20% at the operating company level.

The industry argument is based on cost of capital, not access to capital

The federal government has determined it is good public policy to establish universal broadband access to Canadians. However, to date, broadband access has been restricted to major and mid-markets. Incumbent distributors/carriers have indicated that one of the reasons that they have not built out the small markets is the high cost of capital due in part to a lack of foreign ownership. It is worth noting the issue is the cost of capital, not access to capital (Rogers and Shaw are active borrowers in U.S. debt markets).

The BBTF recommends foreign ownership relaxation for cable/ telecom infrastructure

To that end, in Canadian fashion, the government convened a national Broadband Taskforce in 2000 to review the issue and provide recommendations. The Task Force is comprised of industry and community leaders from industry and cultural entities. The report recommends the government relax foreign ownership of telecom infrastructure. It is widely regarded that deregulating the ownership of content is a political quagmire no one is willing to wade into at this time.

In recent comments, the Minister of Industry (who is overseeing the file), Brian Tobin, has indicated he is encouraged to receive the report. The comments have been interpreted by the industry as a positive signal for liberalization.

Nothing is certain in politics, but conditions appear favourable

Nothing is certain in politics. On the positive side, it is clear that telecom is a global business and that Canada's restrictive rules are relatively unique. It stands alone among the G7 with such restrictive rules on foreign ownership. Moreover, the government has been sympathetic to regulatory change in other major industries such as airlines and financial services (pending). Lastly, Minister Tobin's personal political aspirations (and a desire to establish pro-business credentials) may also influence the debate.

Is BCE still a sacred cow?

There are hurdles to overcome. The introduction of foreign capital in no way ensures the rollout of broadband services to outlying regions. The government could conceivably tie ownership liberalization to minimum service requirements in less economic regions. We believe the industry would be extremely sensitive to any punitive commitments. BCE is long regarded as a national champion and icon. A Liberal government may be uncomfortable allowing the sale of Canada's largest TMT entity to the U.S. Telecom ownership cannot be addressed without BCE. Since 1999 SBC Communications (previously Ameritech) has owned 20% of Bell Canada Holdings. Finally, the issue may get bogged down in politics. For instance, losing corporate head offices raises wider social issues that could be exploited by economic nationalists.

Rogers will have to separate its Media unit if ownership rules are changed

If ownership of infrastructure is deregulated, content businesses will have to be separated prior to the consumation of any transactions. The only cable company with exposure to content is Rogers (as noted, Shaw has already completed the spin-out of its media operations into Corus Entertainment). Rogers Media generates roughly $80 million in EBITDA and has assets in radio, publishing, new media and conventional television. For perspective, comparable media companies in Canada trade in the 10x to 12x EBITDA range.

Lastly, what is most unclear is what political capital the federal government will seek if and when it relaxes the rules. It could try and use the rule change as a bargaining chip in an unrelated trade issue with the U.S. Conversely, it may be willing to sell the issue domestically based on the promise of universal broadband availability. The issues are clearly complex and quite frankly, beyond our mandate of analysis. Our point is that a rapid and direct path to wide-open foreign ownership is, in our opinion, unlikely.

The AT&T ownership situation provides a relevant milestone date – June 30, 2003

However, there is a relevant date to focus the attention of the government. AT&T Canada is 29%-owned by AT&T Corp. and BT. The latter entities are committed to acquiring 100% of AT&T Canada – at the higher of a pre-determined floor price or market value – upon the relaxation of foreign ownership rules or by June 30, 2003. Clearly, AT&T/BT carry the financial risk and would be forced to find a domestic partner solution in the absence of liberalization. That said, AT&T Canada is a $10 billion entity (enterprise value) and AT&T/BT are global industry leaders. Clearly, the negotiation will have to be subtle, as the government will not wish to be perceived as having its hand forced. We reiterate that it is an opportunity to focus the attention of the government.

For illustrative purposes, Table 16 details current levels of foreign ownership in domestic telecommunications and cable entities.

Table 16: *Foreign Ownership of Canadian Carriers Subject to Foreign Ownership Restrictions*

Foreign Ownership of Canadian Carriers Subject to Foreign Ownership Restrictions

Company Name	Level of Ownership	Strategic Foreign Entity
BCE	Na	SBC Communications owns 20% of Bell Canada Holdings (BCH) and BCE owns the remaining 80%
TELUS	22%	Verizon
Rogers Wireless	31%	AT&T/British Telecom (50/50)
AT&T Canada	31%	AT&T/British Telecom (50/50)
Microcell	15%	Deutche Telecom (Formerly Voicestream)

Table 22 on page 36 highlights a sensitivity analysis among domestic cable stocks to a harmonization of local cable multiples to those in the U.S.

Valuation

The core valuation metrics for the cable industry are enterprise value to EBITDA and enterprise value per subscriber. A review of valuation metrics in a North American context is warranted. Table 17 reviews relevant operating and financial characteristics across the North American industry.

Table 17: *North American Operating Characteristics*

	Cogeco	Regional	Rogers	Shaw	Adelphia	Charter	Comcast	Cox	Insight	Mediacom
Cable Division (Estimate F/01)										
Basic Subscribers (000s)	895	251	2,295	2,075	5,947	6,995	8,426	6,299	1,291	787
Digital Subscribers (000s)	110	10	250	275	1,715	2,200	2,130	1,345	277	95
Internet Subscribers (000s)	105	8	450	550	420	635	905	970	100	45
Penetration %										
Digital	12%	4%	11%	13%	29%	31%	25%	21%	21%	12%
Internet	12%	3%	20%	27%	7%	9%	11%	15%	8%	6%
	Figures in C$				Figures in US$					
Cable Revenue per Subscriber	$495	$390	$628	$525	$601	$539	$602	$642	$570	$496
Cable EBITDA per Subscriber	$184	$175	$225	$231	$234	$253	$263	$246	$254	$235
Est. EBITDA Growth ('01-'03)	11%	7%	9%	12%	15%	13%	14%	14%	14%	60%
Total Company (Estimate F/01)										
Total Revenue	$443	$101	$3,953	$1,565	$3,574	$3,794	$9,507	$4,046	$736	$390
Total EBITDA	$165	$46	$945	$460	$1,392	$1,768	$2,855	$1,550	$328	$185
Est. EBITDA Growth ('01-'03)	11%	10%	16%	35%	15%	13%	17%	14%	14%	60%
Cable EBITDA as a % of Total	100%	96%	55%	104%	100%	100%	78%	100%	100%	100%
Market Cap ($millions)	1,141	195	4,833	8,352	7,171	13,600	42,898	24,840	1,641	1,522
Net Debt:EBITDA	4.7	3.6	5.4	6.9	9.4	5.3	3.7	5.1	6.7	13.7
EBITDA Margin	37%	46%	24%	29%	39%	47%	30%	38%	45%	47%

*Mediacom has entered into a transaction to purchase 840,000 subscribers from AT&T Broadband for $2.2 billion.
The transaction is expected to close in 2002.

Source: BMO Nesbitt Burns; Company Reports; I/B/E/S

Tables 18 and 19 detail selected transaction parameters for the Canadian and U.S. industry.

Table 18: *Selected Cable Transactions in the U.S.*

Selected Cable Transactions in U.S.					
Acquiring Company	**Acquired Company**	**Number of Subscribers**	**Purchase Price ($mm)**	**EV per sub**	**Date Announced**
AT&T	TCI	11,200,000	$48,000	$4,286	Jun-98
Cox Comm	Prime South	398,000	$1,300	$3,266	Oct-98
Comcast	MediaOne - Terminated	4,910,000	$20,900	$4,257	Mar-99
Adelphia Comm.	Century	1,600,000	$5,200	$3,250	Mar-99
Charter Comm	Helicon	171,000	$550	$3,216	Mar-99
AT&T	MediaOne	4,910,000	$29,500	$6,008	Apr-99
Adelphia Comm.	Harron Communications	300,000	$1,170	$3,900	Apr-99
Charter Comm	Avalon	260,000	$845	$3,250	May-99
Charter Comm	Falcon	1,000,000	$3,600	$3,600	May-99
Charter Comm	Fanch	547,000	$2,400	$4,388	May-99
Charter Comm	Bresnan	690,000	$3,100	$4,493	Jun-99
Cox Comm	TCA	883,000	$3,500	$3,964	Aug-99
Cox Comm	Media General	260,000	$1,400	$5,385	Oct-99
Comcast	Lenfest	1,250,000	$7,054	$5,643	Nov-99
Adelphia Comm.	Cablevison (Cleveland)	306,000	$1,530	$5,000	Dec-99
Cox Comm	Gannett	522,000	$2,700	$5,172	Jan-00
Adelphia Comm.	GS Communications	155,000	$836	$5,394	Jun-00
Charter Comm	AT&T (selected assets)	512,000	$1,790	$3,496	Feb-01
Mediacom	AT&T (selected assets)	840,000	$2,215	$2,637	Feb-01

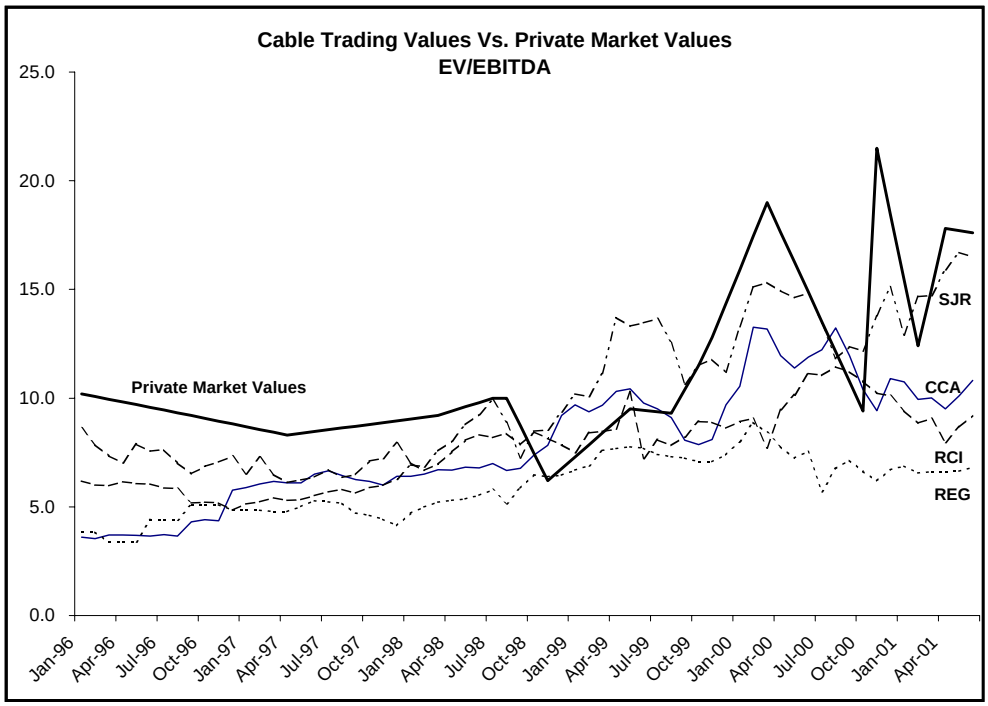
Table 19: *Selected Cable Transactions in Canada*

Cable Transactions in Canada								
Acquiring Company	**Acquired Company**	**Number of Subscribers**	**Purchase Price ($mm)**	**EBITDA ($mm)**	**EV/EBITDA**	**EV per sub**	**EBITDA per sub**	**Date Closed (expected)**
Rogers Comm.	McLean Hunter*	556,844	$751.7	$73.7	10.2	$1,350	$132	Dec-94
Videotron	CFCF Inc.	427,000	$515.0	$56.0	9.2	$1,206	$131	Sep-96
Cogeco Cable	Rogers Communications	300,000	$350.0	$42.0	8.3	$1,167	$140	Apr-97
Fundy Communications	Going Private Transaction	192,000	$244.7	$26.5	9.2	$1,274	$138	Mar-98
Moffat	Videotron- Alberta	162,000	$321.0	$32.0	10.0	$1,981	$198	Aug-98
Regional Cable	Northern Cable	102,000	$121.0	$19.5	6.2	$1,186	$191	Nov-98
Shaw Communications	Cogeco Cable- BC	20,500	$37.8	$4.0	9.5	$1,844	$195	May-99
Shaw Communications	Access Communications	83,500	$167.0	$18.0	9.3	$2,000	$216	Aug-99
Cogeco Cable	Cablevision	64,000	$162.5	$14.1	11.5	$2,539	$220	Oct-99
Shaw Communications	Fundy Cable	192,000	$460.0	$36.0	12.8	$2,396	$188	Nov-99
Rogers Comm.	Videotron	1,431,352	$5,068.3	$266.8	19.0	$3,541	$186	Mar-00
Cogeco Cable	Cablo G, Telecab, Lindsay	30,900	$47.0	$5.0	9.4	$1,521	$162	Oct-00
Quebecor Inc.	Videotron	1,431,352	$5,735.1	$266.8	21.5	$4,007	$186	Nov-00
Cogeco Cable	UMG	23,400	$53.0	$4.4	12.0	$2,265	$188	Nov-00
Cogeco Cable	Cablevue (Quite)	33,600	$82.0	$6.6	12.4	$2,440	$196	Feb-01
Rogers	Cable Atlantic	74,000	$232.0	$15.5	15.0	$3,135	$209	Feb-01
Shaw Communications	Moffat Communications	315,000	$1,226.9	$69.0	17.8	$3,895	$219	Apr-01
Bragg	Shaw (formerly Access)	80,000	$264.0	$15.0	17.6	$3,300	$188	Aug-01

*Cable assets only

Chart 16 illustrates the average private market value (transaction) versus long-term public market values (trading) in Canada.

Chart 16: *Cable Trading Values versus Private Market Values*



Finally, Table 20 compares current EV/EBITDA and EV per subscriber statistics across North America.

Table 20: *North American Cable Company Valuation Metrics*

North American Cable Company Valuation Metrics										
	Cogeco	**Regional**	**Rogers***	**Shaw***	**Adelphia**	**Charter**	**Comcast**	**Cox**	**Insight**	**Mediacom**
EV/EBITDA										
2001E	12.0x	7.8x	9.7x	17.4x	13.1x	16.9x	15.8x	15.8x	10.8x	14.0x
2002E	10.5x	7.1x	8.9x	14.4x	11.5x	13.9x	14.4x	13.8x	10.0x	13.3x
EV/Cable Subscriber										
2001E	$2,205	$1,451	$2,183	$4,084	$3,297	$3,981	$3,942	$3,952	$2,715	$3,370

** Deconsolidated*
Source: BMO Nesbitt Burns; I/B/E/S

We note the following:

- Values have appreciated in concert with the long-term increase of revenue and EBITDA per subscriber.
- The discount between public and private market values varies from roughly 50% in bear markets to 0% in bull markets.
- Canadian values – other than Shaw - are roughly two-thirds those of U.S. values.
- Based on its track record, business mix and operating performance, Shaw is the premium stock from a valuation perspective in Canada.
- We believe Cogeco's multiples reflect some takeover premium.

DCF Analysis

We have completed a discounted cash flow analysis for the four public Canadian MSOs. Complete schedules are included in appendix A. The following table summarizes our analysis.

Table 21: *Canadian Cable Companies DCF Analysis Summary*

Canadian Cable Companies DCF Analysis Summary				
	Cogeco	**Regional**	**Rogers**	**Shaw**
EBITDA CAGR (Total Co.)	7.1%	7.8%	10.8%	14.1%
WACC	9.0%	10.0%	11.5%	9.0%
Terminal Multiple	12x	10x	12x	13x
Estimated Value	$27.61	$16.60	$33.17	$41.10
Current Share Price	$28.80	$11.45	$23.00	$35.99

- With the exception of Cogeco, our DCF analysis suggests the shares in domestic cable stocks are undervalued at current prices.

Potential Take-out Scenarios

The following table illustrates the relative sensitivity of domestic cable stocks to an increase in valuation parameters based on foreign ownership relaxation. A 10% and 20% discount to average U.S. multiples has been applied to 2003 projected EBITDA.

Table 22: *Canadian Cable Companies Potential Takeout Value Analysis*

Canadian Cable Companies Potential Takeout Value Analysis				
	Cogeco	**Regional**	**Rogers**	**Shaw**
EBITDA 2003	204	56	614	676
Multiple	15	11	15	15
EV	**3,062**	**621**	**9,207**	**10,145**
Debt 2003	807	184	7,299	3,235
Non-cable value	-	-	6,763	3,307
Net Equity	**2,255**	**436**	**8,671**	**10,218**
Share base	39.700	16.816	230.890	232.000
Per share	$56.81	$25.96	$37.55	$44.04
Current share price	$28.80	$11.45	$23.00	$35.99
Discount	*49%*	*56%*	*39%*	*18%*
Basic subs	859,558	265,490	2,236,200	1,826,412
EV Value per basic sub	3,562	2,338	4,117	5,555

We note the following:

- Shaw has limited upside to sector revaluation in Canada given its current trading multiple.
- Rogers has attractive upside. Our model is conservative in that it isolates the impact of foreign ownership relaxation on cable valuations only and values Rogers Wireless at its current market price.
- Regional will theoretically benefit the most from any convergence of North American multiples.

Conclusion

In summary, we have a positive view on the Canadian cable sector and an Outperform rating.

Once again, our investment thesis is based on three principal tenets. We believe 2001 represents an inflection point in financial and operating fundamentals. In our view, EBITDA will grow in the high single digits for the core cable business and capital spending has peaked for the cycle. New services currently being invested in will drive revenue and EBITDA growth going forward. The key growth driver over our forecast period is high-speed Internet services followed by the development of a digital cable offering.

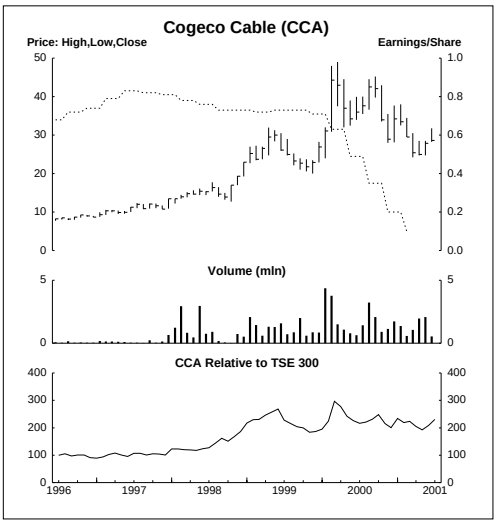
We also believe the cables are attractive from the perspective of relative market performance. We believe there is a reasonable likelihood of money inflows into the group as investors take profits from cyclical and industrial stocks. Lastly, the spectre of foreign ownership relaxation appears more likely than ever. While nothing involving the federal government is certain, the likelihood of liberalization is high. We suggest a two-year time frame, with some stops and starts along the way. That said, it's hard to see how this won't result in multiple expansion.

Our stock recommendations include an Outperform rating on **Regional Cablesystems Inc.** (REG - $11.45), **Rogers Communications Inc.** (RCI.B - $23.00) and **Shaw Communications Inc.** (SJR.B - $35.99). **Cogeco Cable** (CCA - $28.80) and **Quebecor Inc.** (QBR.B - $25.15) are rated Market Perform.

Appendix A

Cogeco Cable Inc. – Market Perform

Price (13 – Jun)	$28.80	**Target Price**	$35.00
52-Week High	$45.23	**52-Week Low**	$24.25
(FY – Aug)	**2000A**	**2001E**	**2002E**
EPS	$0.34	$0.12	$0.33
P/E		nm	90.6x
CFPS	$2.76	$2.80	$3.26
P/CF		10.7x	9.2x
Rev. ($mm)	371	443	490
EV ($mm)	1,996	1,973	2,007
EBITDA ($mm)	140	165	188
EV/EBITDA	14.2x	12.0x	10.7x
Dividend	$0.00	**Yield**	0.0%
Book Value	$17.66	**Price/Book**	1.7x
Shares O/S (mm)	39.7	**Mkt. Cap (mm)**	$1,187
Float O/S (mm)	18.5	**Float Cap (mm)**	$553



The Company

- Cogeco Cable Inc. is the fourth-largest cable company in Canada serving almost 900,000 subscribers in Ontario and Quebec. The Ontario systems (70% of subs) are concentrated in Oakville, Burlington, Hamilton, Niagara and southwestern Ontario. The Quebec systems are largely mid-markets. Cogeco Cable is controlled by Cogeco Inc. (86% voting control), which is in turn controlled by CEO Louis Audet.

Value Drivers

- Cogeco has underperformed the industry recently in terms of operating margin and profit growth.
- Management recently initiated programs to rationalize costs and improve operating performance. Roughly 12% of the workforce was terminated and expenditures related to telecom development were reduced. The company has also suspended dividend payments.
- The company's size represents operating challenges as it lacks the scale to efficiently amortize network, and increasingly, marketing costs. Moreover, it core competition is BCE, which has significant scale and is among the most focused ILECs in North America in terms of DSL, and it is clearly committed to its DTH initiative.

Outlook

- Our model assumes a growth profile slightly lower than that of larger cable operators. We have factored in cost savings and a slight improvement in operating margins.
- Cogeco's assets represent an excellent potential fit with Rogers Communications. Rogers owns 18% of the non-voting equity in Cogeco Cable.
- Cogeco is rated Market Perform.

Cogeco Cable Inc. – Financial Statements

Table A1: *Cogeco Cable Inc. – Consolidated Income Statement Year Ending August 31*

	2000	2001E	2002E	2003E	2004E	2005E
Revenues	**371.2**	**442.6**	**489.7**	**523.3**	**555.5**	**590.2**
Network fees	117.3	137.2	151.8	162.2	172.2	182.9
Other operating costs	106.5	132.8	142.0	149.1	155.5	165.2
Management fees	7.3	7.5	7.7	7.8	8.0	8.1
Sub-total	231.2	277.5	301.5	319.2	335.7	356.3
EBITDA	**140.1**	**165.1**	**188.2**	**204.1**	**219.8**	**233.8**
Depreciation and amortization	64.6	91.0	101.0	111.0	121.0	131.0
EBIT	**75.5**	**74.1**	**87.2**	**93.1**	**98.8**	**102.8**
Interest expense	48.4	55.0	58.0	58.0	58.0	58.0
Inusual items	(0.5)					
Pre Tax	**27.5**	**19.1**	**29.2**	**35.1**	**40.8**	**44.8**
Total income tax	15.9	14.3	16.1	18.6	21.0	22.7
Net Income - reported	**11.7**	**4.8**	**13.1**	**16.6**	**19.8**	**22.2**
Net Income - ongoing	**11.3**	**4.8**	**13.1**	**16.6**	**19.8**	**22.2**
Share Base - weighted	33.555	39.000	39.700	39.700	39.700	39.700
EPS - Basic	**$0.35**	**$0.12**	**$0.33**	**$0.42**	**$0.50**	**$0.56**
EPS - Excluding unusual items	**$0.34**	**$0.12**	**$0.33**	**$0.42**	**$0.50**	**$0.56**

Table A2: *Cogeco Cable Inc. – Balance Sheet as at August 31 ($mm)*

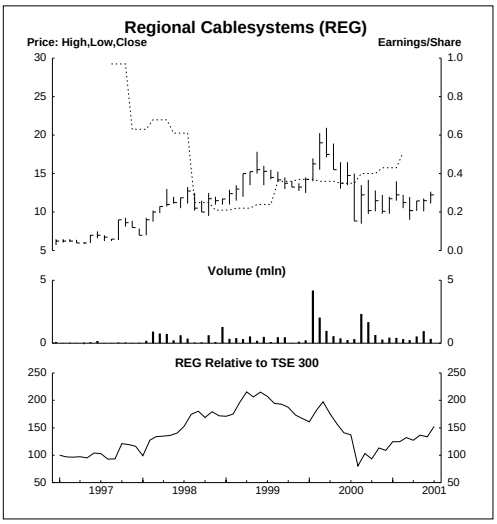
	2000	2001E	2002E	2003E	2004E	2005E
Cash & short-term investments	3.4	1.8	1.2	6.6	12.6	22.6
Receivables	60.2	65.2	65.2	65.2	65.2	65.2
Deferred expenes	33.6	33.0	27.3	21.6	16.0	10.3
Prepaid expenses	13.2	18.2	18.2	18.2	18.2	18.2
Current assets	**110.4**	**118.1**	**111.9**	**111.5**	**111.9**	**116.3**
Fixed assets	615.3	752.6	806.4	850.1	883.9	907.6
Investments	2.1	2.1	2.1	2.1	2.1	2.1
Customer base	700.3	839.6	830.5	821.4	812.3	803.2
Total Assets	**1,428.0**	**1,712.4**	**1,750.9**	**1,785.2**	**1,810.2**	**1,829.3**
Accounts payable & accrued liabilities	87.3	87.3	87.3	87.3	87.3	87.3
Deferred income/prepaid services	12.4	12.4	12.4	12.4	12.4	12.4
Current liabilities	**99.7**	**99.7**	**99.7**	**99.7**	**99.7**	**99.7**
Long term debt	748.0	799.8	811.5	813.2	799.9	776.6
Deferred income taxes	113.1	109.9	123.5	139.6	158.1	178.2
Total Liabilities	**960.9**	**1,009.4**	**1,034.7**	**1,052.5**	**1,057.7**	**1,054.5**
Capital stock	383.3	615.5	615.5	615.5	615.5	615.5
Retained earnings	83.9	87.5	100.7	117.2	137.1	159.3
Total Shareholders' Equity	**467.2**	**703.0**	**716.1**	**732.7**	**752.5**	**774.7**
Total Liabilities & Shareholders' Equity	**1,428.0**	**1,712.4**	**1,750.9**	**1,785.2**	**1,810.2**	**1,829.3**

Table A3: *Cogeco Cable Inc. – Statement of Changes in Financial Position, Year Ending August 31*

Cash Provided By (Used In):	2000	2001E	2002E	2003E	2004E	2005E
Operating activities	**81.9**	**79.3**	**129.4**	**145.4**	**161.0**	**175.1**
Financing activities	**282.4**	**145.1**	**10.0**	**-**	**(15.0)**	**(25.0)**
Investing activities	**(348.7)**	**(226.0)**	**(140.0)**	**(140.0)**	**(140.0)**	**(140.0)**
(Increase) decrease in net borrowings	**15.6**	**48.4**	**9.4**	**5.4**	**(9.0)**	**(14.9)**
Operating activities						
Net income	**11.7**	**4.8**	**13.1**	**16.6**	**19.8**	**22.2**
Unusual items net of tax	(0.3)					
Net income ongoing operations	**11.3**	**4.8**	**13.1**	**16.6**	**19.8**	**22.2**
Fixed asset depreciation	51.3	77.7	86.2	96.2	106.2	116.2
Customer base amortization	7.7	7.7	9.1	9.1	9.1	9.1
Amortization deferred charges	5.7	5.7	5.7	5.7	5.7	5.7
Amortization long-term financing benefits	1.7	1.7	1.7	1.7	1.7	1.7
Deferred income taxes	14.7	11.8	13.6	16.1	18.5	20.2
Deferred income taxes on unusual items	(0.2)	-				
Other	0.4	(15.0)				
Operating cash flow	**92.6**	**94.3**	**129.4**	**145.4**	**161.0**	**175.1**
Net Changes in Other Non-Cash Balances						
Current income tax on unusual items	-	-	-	-	-	-
Non-cash working items	(10.6)	(15.0)	-	-	-	-
Cash provided from operating activities	**81.9**	**79.3**	**129.4**	**145.4**	**161.0**	**175.1**
Investing activities						
Additions to fixed assets	(175.5)	(160.0)	(140.0)	(140.0)	(140.0)	(140.0)
Increase in deferred charges	(18.4)	-				
Business acquisitions	(155.4)	(66.0)				
Proceeds on disposals	0.8	-				
Other	(0.3)	-				
Cash used in investing activities	**(348.7)**	**(226.0)**	**(140.0)**	**(140.0)**	**(140.0)**	**(140.0)**
Financing activities						
Issue of long-term debt	293.0	50.0	10.0		(15.0)	(25.0)
Repayment of long-term debt	(2.5)	-				
Issue of sub voting shares	0.8	100.4				
Share issue costs	-	(4.3)				
Purchase of sub voting shares cancellation	(0.8)	-				
Dividends on multiple voting shares	(3.8)	(0.5)				
Dividends on sub voting shares	(4.3)	(0.6)				
Cash used in financing activities	**282.4**	**145.1**	**10.0**	**-**	**(15.0)**	**(25.0)**
Increase (decrease) in cash/equivalents	**15.6**	**(1.6)**	**(0.6)**	**5.4**	**6.0**	**10.1**
Cash/equivalents - beginning year	(12.2)	3.4	1.8	1.2	6.6	12.6
Cash/equivalents - end year	3.4	1.8	1.2	6.6	12.6	22.6

Regional Cablesystems – Outperform

Price (13 – Jun)	$11.45	**Target Price**	$17.00
52-Week High	$15.50	**52-Week Low**	$8.50
(FY – Aug)	**2000A**	**2001E**	**2002E**
EPS	$0.40	$0.32	$0.33
P/E		39.1x	37.9x
CFPS	$1.99	$1.77	$1.93
P/CF		7.1x	6.5x
Rev. ($mm)	97	101	112
EV ($mm)	415	366	392
EBITDA ($mm)	43	47	51
EV/EBITDA	9.6x	7.8x	7.1x
Dividend	$0.00	**Yield**	0.0%
Book Value	$6.82	**Price/Book**	1.8x
Shares O/S (mm)	16.8	**Mkt. Cap (mm)**	$210
Float O/S (mm)	16.0	**Float Cap (mm)**	$200



The Company

- Regional Cablesystems Inc. is a small and medium sized market cablesystem operator serving approximately over 250,000 subscribers across Canada. Roughly 40% of its subscribers are located in Northern Ontario including Sudbury and Timmins. Many of Regional's systems are essentially unregulated by the CRTC. Regional does not have a controlling shareholder.

Value Drivers

- Many of Regional's systems are essentially unregulated by the CRTC. The company has significantly more programming and pricing flexibility relative to major system operators. However, its systems are also relatively more exposed to the threat of DTH.
- Regional's operating margins are among the highest in the industry.
- The company is roughly halfway through a major capital program to upgrade its systems for two-way capability.
- Regional is attractively positioned for acquisitions as the effective sole consolidator of the small market cable industry in Canada. The company has an impressive track record of tactically acquiring and integrating systems over the last three years.
- The company has a relatively less levered balance sheet than other domestic cable companies. We estimate it has acquisition capacity to increase its subscriber base by as much as 30%.

Outlook

- Our model assumes an above-average growth profile for Regional. Moreover, we highlight the material upside from acquisitions going forward.
- In our view, Regional is attractively priced relative to its growth profile. The stock is rated Outperform.

Regional Cablesystems – Financial Statements

Table A4: *Regional Cablesystems Inc. – Consolidated Income Statement Year Ending August 31*

	2000	2001E	2002E	2003E	2004E	2005E
Revenues						
Cable	95.0	96.2	105.5	111.2	116.5	122.0
Internet, telecom & microwave	1.9	4.9	6.8	10.3	13.8	17.3
Total revenues	**96.9**	**101.1**	**112.3**	**121.5**	**130.3**	**139.4**
Direct costs						
Signal and copyright	22.8	22.6	25.3	26.7	28.0	29.3
Internet, telecom & microwave	0.7	0.9	1.4	2.1	2.8	3.5
Sub-total	23.5	23.5	26.7	28.8	30.7	32.8
Gross profit	**73.5**	**77.6**	**85.6**	**92.8**	**99.6**	**106.6**
Operating expenses						
Technical	15.2	16.6	18.5	19.5	20.4	21.4
Administrative	11.4	10.5	11.6	12.2	12.8	13.4
Marketing	3.8	3.7	4.3	4.6	4.8	5.0
Broadcast services	0.0	0.3	0.2	0.1	-	-
Sub-total	**30.4**	**31.1**	**34.6**	**36.4**	**38.0**	**39.8**
EBITDA	**43.0**	**46.5**	**51.0**	**56.4**	**61.6**	**66.8**
Depreciation and amortization	18.5	21.4	22.4	23.0	23.7	24.3
EBIT	**24.5**	**25.1**	**28.7**	**33.4**	**37.9**	**42.5**
Interest expense	10.8	12.0	12.5	12.5	12.5	12.5
Unusual items (gain)	1.3	(2.2)	-	-	-	-
Pre Tax	**12.4**	**15.3**	**16.2**	**20.9**	**25.4**	**30.0**
Total income tax	7.5	10.1	10.6	12.6	14.6	16.6
Non-controlling interest	0.2	-	-	-	-	-
Net Income	**4.7**	**5.1**	**5.6**	**8.2**	**10.8**	**13.4**
Discontinued operations	**-**	**-**	**-**	**-**	**-**	**-**
Net Income - reported	**4.7**	**5.1**	**5.6**	**8.2**	**10.8**	**13.4**
Net Income - ongoing	**5.4**	**3.8**	**5.6**	**8.2**	**10.8**	**13.4**
Share Base - weighted	14.888	16.195	16.816	16.816	16.816	16.816
Share Base - yearend	14.793	16.816	16.816	16.816	16.816	16.816
EPS - Basic	**$0.31**	**$0.32**	**$0.33**	**$0.49**	**$0.64**	**$0.80**
EPS - Excluding unusual items	**$0.40**	**$0.23**	**$0.33**	**$0.49**	**$0.64**	**$0.80**

Table A5: *Regional Cablesystems Inc. – Balance Sheet as at August 31 ($mm)*

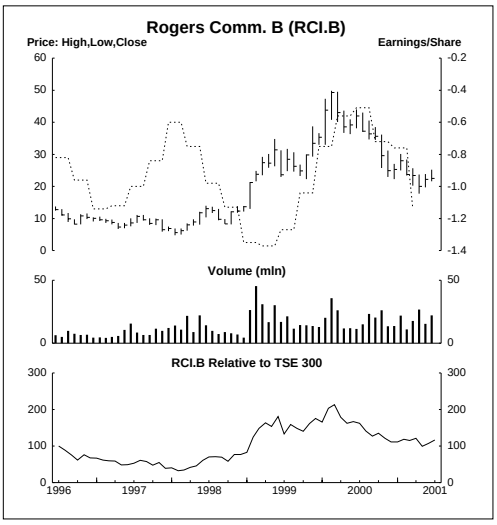
	2000	2001E	2002E	2003E	2004E	2005E
Cash	2.4	3.0	2.8	2.7	3.0	2.8
Accounts receivable	2.7	4.8	4.9	5.0	5.2	5.3
Inventory	2.6	2.6	4.0	4.1	4.2	4.3
Prepaid expenses	1.4	1.7	1.8	1.9	2.0	2.1
Current assets	**9.2**	**12.1**	**13.5**	**13.7**	**14.4**	**14.5**
Notes receivable related party	0.5	1.0	1.0	1.0	1.0	1.0
Capital assets	152.0	177.7	201.0	207.1	213.3	219.7
Subscriber costs	132.9	152.9	157.4	161.8	166.0	170.0
Deferred charges	2.7	2.5	2.3	2.1	1.9	1.7
Total Assets	**297.3**	**346.3**	**375.3**	**385.7**	**396.6**	**406.9**
Accounts payable & accrued liabilities	21.2	22.5	22.5	22.5	22.5	22.5
Subscriber prepayments	5.1	5.5	5.7	5.8	6.0	6.2
Current portion LTD	7.2	7.2	7.2	7.2	7.2	7.2
Current liabilities	**33.5**	**35.2**	**35.4**	**35.6**	**35.7**	**35.9**
Long term debt	147.7	164.2	183.0	179.7	173.5	163.3
Future income taxes	21.2	25.5	29.9	35.3	41.4	48.4
Non-controlling interest	4.722	-	-	-	-	-
Total Liabilities	**207.2**	**224.9**	**248.3**	**250.6**	**250.6**	**247.5**
Capital stock	151.8	177.9	177.9	177.9	177.9	177.9
Deficit	(61.6)	(56.5)	(50.9)	(42.6)	(31.8)	(18.5)
Total Shareholders' Equity	**90.2**	**121.4**	**127.0**	**135.2**	**146.0**	**159.4**
Total Liabilities & Shareholders' Equity	**297.3**	**346.3**	**375.3**	**385.7**	**396.6**	**406.9**

Table A6: *Regional Cablesystems Inc. – Statement of Cash Flow Year Ending August 31*

Cash Provided By (Used In):	**2000**	**2001E**	**2002E**	**2003E**	**2004E**	**2005E**
Operating activities	**30.5**	**28.0**	**30.9**	**36.4**	**40.4**	**44.5**
Financing activities	**24.7**	**40.6**	**17.8**	**(4.2)**	**(7.2)**	**(11.2)**
Investing activities	**(60.5)**	**(68.0)**	**(49.0)**	**(32.3)**	**(32.9)**	**(33.5)**
(Increase) decrease in net borrowings	**(5.3)**	**0.6**	**(0.3)**	**(0.1)**	**0.3**	**(0.2)**
Operating activities						
Net income	**4.7**	**5.1**	**5.6**	**8.2**	**10.8**	**13.4**
Amortization of capital assets	13.5	14.4	15.7	16.2	16.7	17.1
Amortization of subscriber costs	3.4	5.3	5.5	5.7	5.8	6.0
Amortization of deferred financing costs	1.4	1.5	1.0	1.0	1.0	1.0
Amortization of other deferred charges	0.2	0.2	0.2	0.2	0.2	0.2
Loss (gain) on disposal assets	0.1	(2.2)	-	-	-	-
Future income taxes	6.1	4.3	4.4	5.3	6.1	7.0
Non-controlling interest	0.2	-	-	-	-	-
Operating cash flow	**29.6**	**28.6**	**32.4**	**36.6**	**40.6**	**44.7**
Non-cash working items	0.8	(0.5)	(1.5)	(0.2)	(0.2)	(0.2)
Cash provided from operating activities	**30.5**	**28.0**	**30.9**	**36.4**	**40.4**	**44.5**
Investing activities						
Business acquisitions	(31.2)	(30.0)	(10.0)	(10.0)	(10.0)	(10.0)
Proceeds from disposal of assets	0.2	-				
Purchases of capital assets	(28.8)	(38.0)	(39.0)	(22.3)	(22.9)	(23.5)
Deferred charges	(0.7)	-				
Cash used in investing activities	**(60.5)**	**(68.0)**	**(49.0)**	**(32.3)**	**(32.9)**	**(33.5)**
Financing activities						
Issue of long-term debt	33.7	99.0	25.0	3.0		(4.0)
Repayment of long-term debt	(8.6)	(84.0)	(7.2)	(7.2)	(7.2)	(7.2)
Issue of shares	0.3	26.1				
Purchase of shares	(2.7)	-				
Investment by non-controlling shareholder	1.9	-				
Other		(0.5)				
Cash used in financing activities	**24.7**	**40.6**	**17.8**	**(4.2)**	**(7.2)**	**(11.2)**
Increase (decrease) in cash/equivalents	**(5.3)**	**0.6**	**(0.3)**	**(0.1)**	**0.3**	**(0.2)**
Cash/equivalents - beginning year	7.7	2.4	3.0	2.8	2.7	3.0
Cash/equivalents - end year	2.4	3.0	2.8	2.7	3.0	2.8

Rogers Communications Inc. – Outperform

Price (13 – Jun)	$23.00	**Target Price**	$32.00
52-Week High	$44.00	**52-Week Low**	$17.75
(FY – Dec)	**2000A**	**2001E**	**2002E**
EPS	-$0.76	-$1.55	-$1.86
P/E		na	na
CFPS	$2.66	$2.87	$2.93
P/CF		8.3x	8.1x
Rev. ($mm)	3,504	3,953	4,322
EV ($mm)	13,691	9,682	10,377
EBITDA ($mm)	918	955	1,076
EV/EBITDA	14.9x	10.1x	9.6x
Dividend	$0.00	**Yield**	0.0%
Book Value	$4.54	**Price/Book**	5.2x
Shares O/S (mm)	208.3	**Mkt. Cap (b)**	$4,957
Float O/S (mm)	135.4	**Float Cap (b)**	$3,223



The Company

- Rogers Communications Inc. is a diversified media company. It is the largest cable system operator in Canada with over 2.2 million basic subscribers, most of which are clustered in Toronto, Ottawa, London. Rogers is also the majority shareholder in Rogers Wireless Communications Inc. (TSE-RCM.B). Rogers Media is a wholly owned subsidiary which operates 30 radio stations, one television station and a portfolio of consumer and trade magazines. Lastly, the company owns 80% of The Toronto Blue Jays Baseball Club and holds minority interests in 10 specialty channels. Rogers is controlled by its founder and Chief Executive Officer, Edward (Ted) Rogers, who owns 90% of the multiple voting shares and approximately 35% of the overall outstanding equity of the company.

Value Drivers

- Rogers' cable assets in the lucrative southern Ontario market (the GTA represents roughly 60% of its subscriber base) are highly clustered and valuable. However, it faces strong competition from BCE. Moreover, approximately 40% of subscribers are MDUs (multiple dwelling units) which carry inherently lower margins.
- Rogers cable systems have withstood competition from satellite services fairly well. There has been no evidence of subscriber erosion to date.
- The recent announcement to take in the minority interest in Rogers AT&T Wireless appears well-timed and opportunistic. Sentiment toward the group is low and valuations have declined materially in the last year. Moreover, the public minority shareholders in the Wireless company appeared unwilling to finance its growth plan. Lastly, it is a stock transaction and does not impair Rogers balance sheet.
- Rogers Media (8% of EBITDA) results are expected to be soft this year based on tepid advertising market conditions and investment spending in new media initiatives.
- The recent repeal of the undue preference restriction effectively allows Rogers to pursue control of Sportsnet. We suspect court action may be required to resolve the issue.

Outlook

- Our model assumes an above-average growth profile for Rogers based on increasing EBITDA in cable and a return to double digit growth in Wireless.
- Rogers has significant upside to any relaxation in foreign ownership regulations. Rogers Media would likely be spun out to shareholders prior to any rule changes.
- Rogers is rated Outperform.

Rogers Communications Inc. – Financial Statements

Table A7: *Rogers Communications Inc. – Consolidated Income Statement Year Ending December 31*

	2000	2001E	2002E	2003E	2004E	2005E
Revenues						
Wireless	1,532.1	1,718.9	1,927.2	2,171.1	2,463.3	2,709.2
Cable	1,291.2	1,442.1	1,567.0	1,698.8	1,826.2	1,932.2
Media	681.0	689.0	721.9	762.2	799.3	838.3
Sports		103.0	106.0	109.2	112.5	115.8
Telecom						
Total Revenues	**3,504.2**	**3,953.0**	**4,322.1**	**4,741.3**	**5,201.2**	**5,595.5**
EBITDA						
Wireless	410.9	438.3	498.6	614.9	763.5	886.2
Cable	457.8	516.3	563.4	613.8	662.6	714.3
Media	77.4	80.0	89.2	98.6	103.1	107.9
Sports	-	(55.0)	(50.0)	(35.0)	(35.0)	(35.0)
Corporate	(28.4)	(25.0)	(25.0)	(25.0)	(25.0)	(25.0)
Reported EBITDA	**917.7**	**954.6**	**1,076.1**	**1,267.3**	**1,469.2**	**1,648.4**
Extraordinary items	(10.6)	(9.8)	-	-	-	-
EBITDA	**907.1**	**944.8**	**1,076.1**	**1,267.3**	**1,469.2**	**1,648.4**
Depreciation and amortization						
Wireless	334.6	414.0	495.0	557.0	610.0	645.0
Cable	348.3	400.0	435.0	465.0	495.0	520.0
Media	29.3	50.0	50.0	50.0	50.0	50.0
Sports		25.0	25.0	25.0	25.0	25.0
Corporate	18.6	25.0	25.0	25.0	25.0	25.0
Depreciation and amortization	730.8	914.0	1,030.0	1,122.0	1,205.0	1,265.0
EBIT						
Wireless	76.3	24.3	3.6	57.9	153.5	241.2
Cable	109.5	116.3	128.4	148.8	167.6	194.3
Media	48.1	30.0	39.2	48.6	53.1	57.9
Sports	-	(80.0)	(24.9)	(24.9)	(24.9)	(24.9)
Corporate	(57.5)	(59.8)	(50.0)	(50.0)	(50.0)	(50.0)
Total EBIT	**176.3**	**30.8**	**96.2**	**180.5**	**299.3**	**418.5**
Interest expense	359.6	400.0	450.0	475.0	450.0	425.0
Investment & other income (gain)	(2.4)					
Sub-total - non-operating items (gain)	(334.9)	(48.9)	-	-	-	-
Pre Tax	**154.1**	**(320.3)**	**(353.8)**	**(294.5)**	**(150.7)**	**(6.5)**
Total income tax	47.5	-	-	-	-	-
Income before non-controlling interest	**106.6**	**(320.3)**	**(353.8)**	**(294.5)**	**(150.7)**	**(6.5)**
Non-controlling interest	34.8	74.5				
Net Income - reported	**141.4**	**(245.8)**	**(353.8)**	**(294.5)**	**(150.7)**	**(6.5)**
Net Income - ongoing		**(245.8)**	**(353.8)**	**(294.5)**	**(150.7)**	**(6.5)**
Preferred dividends (att)	(30.4)	(54.5)	(54.5)	(27.3)	-	-
Convertible Preferred dividends (mfst)	(21.5)	(21.5)	(21.5)	(21.5)	(21.5)	(21.5)
Earnings available to shareholders	**89.6**	**(321.8)**	**(429.7)**	**(343.3)**	**(172.1)**	**(28.0)**
Share Base - Basic	203.761	207.000	230.890	230.890	230.890	230.890
Share Base - Adjusted basic	203.761	207.000	230.890	230.890	230.890	230.890
Share Base - Fully diluted	204.092	215.000	238.890	238.890	238.890	238.890
EPS - Basic	**$0.44**	**($1.55)**	**($1.86)**	**($1.49)**	**($0.75)**	**($0.12)**
EPS - Adjusted basic	$0.44	($1.55)	($1.86)	($1.49)	($0.75)	($0.12)
EPS - Fully diluted	$0.44	($1.50)	($1.80)	($1.44)	($0.72)	($0.12)

Table A8: *Rogers Communications Inc. – Balance Sheet as at December 31 ($mm)*

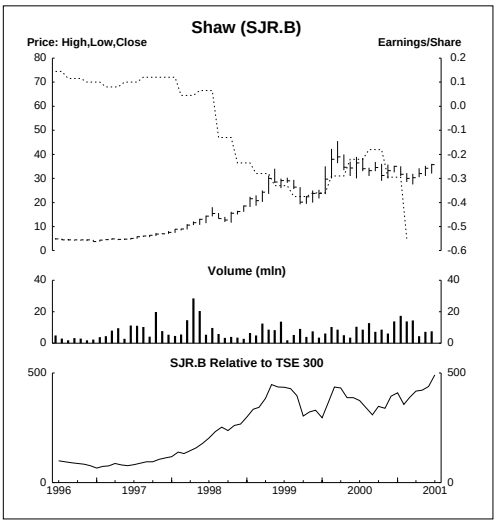
	2000	2001E	2002E	2003E	2004E	2005E
Cash & short-term investments	299.2	54.9	58.2	64.9	65.8	70.9
Receivables	501.6	501.6	501.6	501.6	501.6	501.6
Deferred charges	235.8	235.8	235.8	235.8	235.8	235.8
Other	235.9	240.9	240.9	240.9	240.9	240.9
Current assets	**1,272.4**	**1,033.2**	**1,036.4**	**1,043.2**	**1,044.1**	**1,049.1**
Fixed assets	4,047.3	4,951.5	5,134.7	5,300.9	4,984.1	4,582.3
Investments	972.6	972.6	972.6	972.6	972.6	972.6
Goodwill & other assets	1,573.9	1,740.7	1,699.5	1,658.3	1,617.1	1,575.9
Total Assets	**7,866.3**	**8,698.1**	**8,843.3**	**8,975.1**	**8,618.0**	**8,180.0**
Accounts payable & accrued liabilities	1,128.0	1,208.0	1,208.0	1,208.0	1,208.0	1,208.0
Unearned revenue	104.47	104.47	104.5	104.5	104.5	104.5
Current liabilities	**1,232.5**	**1,312.5**	**1,312.5**	**1,312.5**	**1,312.5**	**1,312.5**
Long term debt	3,957.7	4,507.7	5,082.7	5,557.7	5,372.7	4,962.7
Deferred income taxes	145.6	145.6	145.6	145.6	145.6	145.6
Total Liabilities	**5,335.7**	**5,965.7**	**6,540.7**	**7,015.7**	**6,830.7**	**6,420.7**
Non-controlling interest	114.4	0.0	0.0	0.0	0.0	0.0
Share capital	313.2	951.2	951.2	951.2	951.2	951.2
Convertible preferred securities	576.0	576.0	576.0	576.0	576.0	576.0
Warrants	24.0	24.0	24.0	24.0	24.0	24.0
Preferred securities	952.1	952.1	952.1	952.1	952.1	952.1
Contributed surplus	613.8	613.8	613.8	613.8	613.8	613.8
Retained earnings	(63.0)	(384.8)	(814.6)	(1,157.8)	(1,329.9)	(1,357.9)
Total Shareholders' Equity	**2,416.2**	**2,732.4**	**2,302.7**	**1,959.4**	**1,787.3**	**1,759.3**
Total Liabilities & Shareholders' Equity	**7,866.3**	**8,698.1**	**8,843.3**	**8,975.1**	**8,618.0**	**8,180.0**

Table A9: *Rogers Communications Inc. – Statement of Changes in Financial Position Year Ending December 31*

Cash Provided By (Used In):	**2000**	**2001E**	**2002E**	**2003E**	**2004E**	**2005E**
Operating activities	**755.7**	**553.8**	**676.2**	**827.5**	**1,054.3**	**1,258.5**
Financing activities	**1,200.3**	**949.0**	**499.0**	**426.3**	**(206.5)**	**(431.5)**
Investing activities	**(1,670.8)**	**(1,747.0)**	**(1,172.0)**	**(1,247.0)**	**(847.0)**	**(822.0)**
(Increase) decrease in net borrowings	**285.2**	**(244.2)**	**3.3**	**6.7**	**0.9**	**5.0**
Operating activities						
Net income	**141.4**	**(245.8)**	**(353.8)**	**(294.5)**	**(150.7)**	**(6.5)**
Depreciation & amortization	694.8	872.8	988.8	1,080.8	1,163.8	1,223.8
Goodwill & other amortization	36.0	41.2	41.2	41.2	41.2	41.2
Deferred income taxes	32.5	-	-	-	-	-
Non-controlling interest	(34.8)	(74.5)	-	-	-	-
Gain sale of subs/assets/investments	(112.5)	-	-	-	-	-
Share of income assoc. co's	2.7	-				
Accrued interest due repayment notes	9.1	-				
Dividends assoc. co's	1.5	-				
Operating cash flow	**770.8**	**593.7**	**676.2**	**827.5**	**1,054.3**	**1,258.5**
Net Changes in Other Non-Cash Balances	(15.1)	(39.9)	-	-	-	-
Cash provided from operating activities	**755.7**	**553.8**	**676.2**	**827.5**	**1,054.3**	**1,258.5**
Financing activities						
Issue of long-term debt	423.2	550.0	575.0	475.0		
Repayment of long-term debt	(115.8)	-			(185.0)	(410.0)
Financing costs incurred	(3.2)	-				
Issue of preferred securities/warrants	925.3	-				
Issue of capital stock	14.1	475.0				
Dividends on prefs	(43.2)	(76.0)	(76.0)	(48.7)	(21.5)	(21.5)
Cash used in financing activities	**1,200.3**	**949.0**	**499.0**	**426.3**	**(206.5)**	**(431.5)**
Investing activities						
Additions to fixed assets	(1,212.7)	(1,735.0)	(1,172.0)	(1,247.0)	(847.0)	(822.0)
Proceeds sale assets/investments	139.3	-				
Proceeds cablesystem exchange	46.7	-				
Investments	(308.0)	-				
Acquisitions	(209.3)	(12.0)				
Other	(126.8)	-				
Cash used in investing activities	**(1,670.8)**	**(1,747.0)**	**(1,172.0)**	**(1,247.0)**	**(847.0)**	**(822.0)**
Increase (decrease) in cash/equivalents	**285.2**	**(244.2)**	**3.3**	**6.7**	**0.9**	**5.0**
Cash/equivalents - beginning year	13.9	299.2	54.9	58.2	64.9	65.8
Cash/equivalents - end year	299.2	54.9	58.2	64.9	65.8	70.9
Additions to fixed assets						
Wireless	(526.0)	(1,063.0)	(550.0)	(700.0)	(350.0)	(350.0)
Cable	(650.3)	(650.0)	(600.0)	(525.0)	(475.0)	(450.0)
Media	(34.1)	(20.0)	(20.0)	(20.0)	(20.0)	(20.0)
Corporate	(2.3)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
Sub-total	(1,212.7)	(1,735.0)	(1,172.0)	(1,247.0)	(847.0)	(822.0)

Shaw Communications Inc. – Outperform

Price (13 – Jun)	$35.99	**Target Price**	$40.00
52-Week High	$39.00	**52-Week Low**	$27.50
(FY – Aug)	**2000A**	**2001E**	**2002E**
EPS	-$0.18	-$0.87	-$0.80
P/E		na	na
CFPS	$1.26	$1.42	$1.84
P/CF		24.1x	18.6x
Rev. ($mm)	971	1,519	1,870
EV ($mm)	8,962	10,585	10,745
EBITDA ($mm)	398	460	649
EV/EBITDA	22.5x	23.1x	16.7x
Dividend	$0.05	**Yield**	0.1%
Book Value	$11.13	**Price/Book**	3.1x
Shares O/S (mm)	232	**Mkt. Cap (b)**	$7,934
Float O/S (mm)	223	**Float Cap (b)**	$7,623



The Company

- Shaw Communications Inc. is a video and data distribution company. It is a leading cable system operator in Canada with over two million basic subscribers, most of which are clustered in Winnipeg, Calgary, Edmonton and Vancouver. It is the dominant cable and residential data company in Western Canada. Shaw also owns one of two domestic direct-to-home satellite operations, Star Choice, which has over 550,000 subscribers. Shaw Satellite Services, formerly known as Cancom, provides a variety of distribution services including satellite uplinking, remote tracking and distance learning. Big Pipe is a proprietary fibre backbone network for inhouse and third party data distribution for both consumer/residential and business markets. Lastly, Shaw also owns roughly 22% of Group Telecom. Shaw is controlled by its founder and Chairman, JR Shaw and the Shaw family. The Shaw family owns 76% of the voting shares and approximately 8% of the overall outstanding equity of the company.

Value Drivers

- Shaw cable systems are among the best-performing cable assets in North America. The operating margins are at the high end of industry range. The recent acquisition of Moffat Communications largely completes Shaw's cluster in Western Canada.
- The company's residential data service, Shaw@home, has the highest basic subscriber penetration in North America. Shaw is benefitting from a relatively benign competitive environment for data and video services compared to cable companies operating in Eastern Canada.
- Shaw's DTH business, Star Choice, is expected to reach breakeven EBITDA next year. Due to its highly scalable nature and fixed cost base, EBITDA growth will accelerate significantly after profitability is achieved.
- We expect some assets within Cancom will be divested opportunistically. We see limited fit and or growth with Learning Solutions (distance learning) and Tracking Solutions (mobile tracking for the trucking industry). We also expect U.S. cable assets (value approximately $200 million) will eventually be sold.

- Big Pipe is expected to generate modest EBITDA contributions next year. It offers longer-term strategic benefits related to proprietary Internet services and an interactive return path for Star Choice.

Outlook

- Our model assumes Shaw will lead the domestic industry in EBITDA growth based on a rapid rollout of its residential data service and Star Choice's turn to profitability.
- Based on current multiples, Shaw has limited upside to any relaxation in foreign ownership regulations.
- Shaw is rated Outperform.

Shaw Communications Inc. – Financial Statements

Table A10: *Shaw Communications Inc. – Consolidated Income Statement Year Ending August 31*

	2000	2001E	2002E	2003E	2004E	2005E
Revenues						
Cable	781.8	894.6	986.8	1,076.3	1,146.1	1,225.1
Internet	98.9	193.8	323.6	419.5	479.4	515.4
DTH	-	337.1	448.4	563.6	643.2	691.2
Satellite	71.9	119.4	124.9	131.1	137.6	144.5
Telecom (Big Pipe)	26.5	20.0	35.0	50.0	65.0	75.0
Other						
Intersegment	(8.1)					
Total Revenues	**971.0**	**1,564.8**	**1,918.6**	**2,240.5**	**2,471.4**	**2,651.2**
EBITDA						
Cable	358.5	416.0	475.3	521.1	557.8	599.3
Internet	33.4	63.9	113.3	155.2	191.8	216.4
DTH	-	(56.1)	14.0	99.2	144.2	187.4
Satellite	(1.5)	41.3	44.3	47.2	49.6	52.0
Telecom (Big Pipe)	7.3	(5.0)	2.0	10.0	13.0	15.0
Reported EBITDA	**397.7**	**460.2**	**648.9**	**832.8**	**956.3**	**1,070.2**
Amortization	222.7	430.0	525.0	500.0	490.0	475.0
Amortization of deferred IRU revenue	(3.0)	(3.9)	(3.9)	(3.9)	(3.9)	(3.9)
Total EBIT	**178.0**	**34.1**	**127.9**	**336.7**	**470.2**	**599.1**
Interest expense	121.0	185.0	220.0	210.0	200.0	180.0
Operating income before the following	**57.0**	**(150.9)**	**(92.1)**	**126.7**	**270.2**	**419.1**
Sub-total - non-operating items (gain)	(171.0)	(29.7)	-	-	-	-
Pre Tax	**228.0**	**(121.2)**	**(92.1)**	**126.7**	**270.2**	**419.1**
Total income tax	71.4	(36.4)	(32.2)	44.3	94.6	146.7
Income before the following	**156.6**	**(84.8)**	**(59.9)**	**82.3**	**175.7**	**272.4**
Equity loss on investees	41.6	78.8	79.4	73.4	47.6	16.9
Non-controlling interest	(3.5)	2.5				
Net income continuing operations	**118.5**	**(166.2)**	**(139.2)**	**9.0**	**128.1**	**255.5**
Dividends on preferred securities						
Net income available to common shareholders	**118.5**	**(166.2)**	**(139.2)**	**9.0**	**128.1**	**255.5**
Net loss disc operations	0.239					
Net income reported	**118.3**	**(166.2)**	**(139.2)**	**9.0**	**128.1**	**255.5**
Net income ongoing	**118.3**	**(146.9)**	**(139.2)**	**9.0**	**128.1**	**255.5**
Share base weighted	188.927	220.000	232.000	232.000	232.000	232.000
Share base year-end	205.625	232.000	232.000	232.000	232.000	232.000
EPS - Reported	**$0.45**	**($0.95)**	**$0.80**	**($0.14)**	**$0.37**	**$0.92**
EPS - Excluding unusual items	$0.63	$0.87	$0.80	($0.14)	$0.37	$0.92

Table A11: *Shaw Communications Inc. – Balance Sheet as at August 31 ($mm)*

	2000	2001E	2002E	2003E	2004E	2005E
Cash & short-term investments	-	64.0	0.9	2.3	2.5	7.2
Accounts receivables	89.5	89.5	89.5	89.5	89.5	89.5
Prepaids	9.3	9.3	9.3	9.3	9.3	9.3
Current assets	**98.8**	**162.8**	**99.7**	**101.2**	**101.4**	**106.0**
Investments & other assets	1,068.4	928.7	849.4	776.0	728.4	711.5
Property, plant and equipment	1,683.4	2,107.3	2,172.5	2,198.3	2,073.9	1,928.8
Deferred charges	152.9	157.9	157.9	157.9	157.9	157.9
Subscriber base & broadcast licences	2,318.4	3,518.4	3,518.4	3,518.4	3,518.4	3,518.4
Total Assets	**5,321.9**	**6,875.2**	**6,797.9**	**6,751.8**	**6,580.0**	**6,422.6**
Bank indebtedness	27.0	27.0	27.0	27.0	27.0	27.0
Accounts payable & accrued liabilities	335.0	335.0	335.0	335.0	335.0	335.0
Income taxes payable	2.0	2.0	2.0	2.0	2.0	2.0
Unearned revenue	45.5	45.5	45.5	45.5	45.5	45.5
Current portion long-term debt	187.3	187.3	187.3	187.3	187.3	187.3
Current liabilities	**596.8**	**596.8**	**596.8**	**596.8**	**596.8**	**596.8**
Long term debt	1,590.3	2,335.3	2,426.3	2,331.3	1,946.3	1,401.3
Deferred credits	541.6	541.6	541.6	541.6	541.6	541.6
Deferred income taxes	184.9	184.9	155.9	195.8	280.9	413.0
Non-controlling interest	17.8	20.3	20.3	20.3	20.3	20.3
Total Liabilities	**2,931.4**	**3,678.9**	**3,740.9**	**3,685.8**	**3,386.0**	**2,973.0**
Share capital	2,136.0	3,108.0	3,108.0	3,108.0	3,108.0	3,108.0
Retained earnings	254.4	88.3	(51.0)	(42.0)	86.1	341.7
Cumulative translation adjustment	0.0	0.0	0.0	0.0	0.0	0.0
Total Shareholders' Equity	**2,390.4**	**3,196.3**	**3,057.0**	**3,066.0**	**3,194.1**	**3,449.6**
Total Liabilities & Shareholders' Equity	**5,321.9**	**6,875.2**	**6,797.9**	**6,751.8**	**6,580.0**	**6,422.6**

Table A12: *Shaw Communications Inc. – Statement of Changes in Financial Position Year Ending August 31*

Cash Provided By (Used In):	**2000**	**2001E**	**2002E**	**2003E**	**2004E**	**2005E**
Operating activities	**253.1**	**313.5**	**432.2**	**618.3**	**746.8**	**875.5**
Financing activities	**698.6**	**1,708.0**	**-**	**-**	**-**	**-**
Investing activities	**(970.7)**	**(1,957.5)**	**(586.3)**	**(521.9)**	**(361.7)**	**(325.9)**
Discontinued operations	19.0	-	-	-	-	-
(Increase) decrease in net borrowings	**(0.0)**	**64.0**	**(154.1)**	**96.4**	**385.2**	**549.6**
Net borrowings, beginning of year	(0.0)	-	-	64.0	(154.1)	160.5
Net borrowings, end of year	-	64.0	(154.1)	160.5	231.1	710.1
Operating activities						
Net income	**118.5**	**(166.2)**	**(139.2)**	**9.0**	**128.1**	**255.5**
Amortization	222.7	430.0	525.0	500.0	490.0	475.0
Amortization of deferred IRU revenue	(3.0)	(3.9)	(3.9)	(3.9)	(3.9)	(3.9)
Deferred income taxes	37.0	-	(29.0)	39.9	85.1	132.0
Gain on sale assets	(88.0)	-	-	-	-	-
Gain on sale investments, net	(143.2)	(32.7)	-	-	-	-
Gain on sale of stock	(33.2)	(4.0)	-	-	-	-
Equity loss on investees	41.6	78.8	79.4	73.4	47.6	16.9
Non-controlling interest	(3.5)	2.5	-	-	-	-
Debt restructuring costs	98.0	9.0	-	-	-	-
Other	(9.0)	-	-	-	-	-
Operating cash flow	**237.8**	**313.5**	**432.2**	**618.3**	**746.8**	**875.5**
Net Changes in Other Non-Cash Balances	15.3	**-**	**-**	**-**	**-**	**-**
Cash provided from operating activities	**253.1**	**313.5**	**432.2**	**618.3**	**746.8**	**875.5**
Investing activities						
Additions to property, plant & equipment	(583.6)	(700.0)	(479.4)	(454.4)	(329.4)	(304.4)
Cable systems acquisitions	(145.2)	(1,200.0)	-	-	-	-
Other acquisitions	(135.9)	-	-	-	-	-
Proceeds on sale of asset	53.7	243.0	-	-	-	-
Proceeds on sale of cablesystems	-	220.0	-	-	-	-
Proceeds on sale of investments	667.5	158.5	-	-	-	-
Investments	(788.9)	(524.0)	-	-	-	-
Additions to equipment subsidies		(150.0)	(106.9)	(67.5)	(32.3)	(21.5)
Addition to deferred charges	(38.3)	(5.0)	-	-	-	-
Cash used in investing activities	**(970.7)**	**(1,957.5)**	**(586.3)**	**(521.9)**	**(361.7)**	**(325.9)**
Financing activities						
Increase (decrease) in bank indebtedness	(4.7)	-	91.0	(95.0)	(385.0)	(545.0)
Proceeds on pre-payment of IRU	283.1	-	-	-	-	-
Debt restructuring costs	(90.6)	(9.0)	-	-	-	-
Issue of long-term debt	2,231.1	1,618.0	-	-	-	-
Repayment of long-term debt	(2,007.4)	(873.0)	-	-	-	-
Issue of equity instruments	339.9	190.0	-	-	-	-
Issue of Class B shares	(1.0)	782.0	-	-	-	-
Purchase of Class B shares for cancellation	(13.8)	-	-	-	-	-
Preferred shares redeemed	-	-	-	-	-	-
Dividends etc on equity instruments	(37.9)	-	-	-	-	-
Cash used in financing activities	**698.6**	**1,708.0**	**91.0**	**(95.0)**	**(385.0)**	**(545.0)**
Increase (decrease) cash media bus	(0.3)	-	-	-	-	-
Increase (decrease) cash paging bus	19.3	-	-	-	-	-
Increase (decrease) in cash/equivalents	**(0.0)**	**64.0**	**(63.1)**	**1.4**	**0.2**	**4.6**
Cash/equivalents - beginning year	-	(0.0)	64.0	0.9	2.3	2.5
Cash/equivalents - end year	(0.0)	64.0	0.9	2.3	2.5	7.2
Additions to fixed assets	**2000**	**2001E**	**2002E**	**2003E**	**2004E**	**2005E**
Cable	307.4	400.0	350.0	325.0	300.0	275.0
Internet	137.7	-	-	-	-	-
DTH		114.4	24.4	24.4	24.4	24.4
Satellite	20.6	15.0	5.0	5.0	5.0	5.0
Telecom	85.8	170.6	100.0	100.0	-	-
Corporate	32.0					
Total	**583.6**	**700.0**	**479.4**	**454.4**	**329.4**	**304.4**

Appendix B – DCF Analysis

Table B1: *Cogeco Cable – DCF Analysis*

Cogeco Cable DCF Analysis	2000a	2001E	2002E	2003E	2004E	2005E	2006E	2007E	2008E	2009E	2010E	CAGR
EBITDA	140	165	188	204	220	234	250	268	286	307	328	7.1%
Growth Rate			*14.0%*	*8.5%*	*7.7%*	*6.4%*	*7.0%*	*7.0%*	*7.0%*	*7.0%*	*7.0%*	
EBITA	132	157	179	195	211	225	241	259	277	298	319	
Less:												
Taxes 35% EBITDA	(46)	(55)	(63)	(68)	(74)	(79)	(84)	(91)	(97)	(104)	(112)	
Capital Expenditure	(176)	(160)	(140)	(140)	(140)	(140)	(140)	(140)	(140)	(140)	(140)	
Unlevered Free Cash Flow	(82)	(50)	(14)	(4)	6	15	26	37	49	62	76	
Discount Factor	9.0%	1.00	0.92	0.84	0.77	0.71	0.65	0.60	0.55	0.50	0.46	
NPV of Free Cash Flow		(50)	(13)	(3)	5	11	17	22	27	31	35	
Cumulative Free Cash Flow		**(50)**	**(63)**	**(67)**	**(62)**	**(51)**	**(35)**	**(12)**	**15**	**46**	**81**	
Terminal Value	NPV of 12x 2010 EBITDA										**1,812**	
Gross Equity Value											**1,893**	
Less: Net Debt											(798)	
Plus: Investments @ market											-	
Equity Value											**1,095**	
Shares Outstanding											39.7	
DCF Per Share											$27.61	

Table B2: *Regional Cablesystems – DCF Analysis*

Regional Cablesystems
DCF Analysis

	2000A	2001E	2002E	2003E	2004E	2005E	2006E	2007E	2008E	2009E	2010E	CAGR
EBITDA	43	46	51	56	62	67	72	78	84	91	98	7.8%
Growth Rate			*9.9%*	*10.6%*	*9.2%*	*8.5%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	
EBITA	40	41	46	51	56	61	66	72	78	85	92	
Less:												
Taxes 35% EBITDA		(14)	(16)	(18)	(20)	(21)	(23)	(25)	(27)	(30)	(32)	
Capital Expenditure	(60)	(68)	(49)	(32)	(33)	(33)	(33)	(33)	(33)	(33)	(33)	
Unlevered Free Cash Flow	(17)	(36)	(14)	6	9	12	16	19	23	28	32	
Discount Factor	10.0%	1.00	0.91	0.83	0.75	0.68	0.62	0.56	0.51	0.47	0.42	
NPV of Free Cash Flow		(36)	(13)	5	7	8	10	11	12	13	14	
Cumulative Free Cash Flow		**(36)**	**(49)**	**(43)**	**(36)**	**(28)**	**(19)**	**(8)**	**4**	**17**	**31**	
Terminal Value	NPV of 10x 2010 EBITDA										**416**	
Gross Equity Value											**447**	
Less: Net Debt											(168)	
Plus: Investments @ market											-	
Equity Value											**279**	
Shares Outstanding											16.816	
DCF Per Share											$16.60	

Table B3: *Rogers Communications Inc. – DCF Analysis*

Rogers Communications
DCF Analysis
Unlevered Model

	2000A	2001E	2002E	2003E	2004E	2005E	2006E	2007E	2008E	2009E	2010E	CAGR
EBITDA	907	945	1,076	1,267	1,469	1,648	1,813	1,995	2,194	2,413	2,655	10.9%
Growth Rate			*13.9%*	*17.8%*	*15.9%*	*12.2%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	
EBITA	871	904	1,035	1,226	1,428	1,607	1,772	1,954	2,153	2,372	2,614	
Less:												
Taxes 35% EBITA		(316)	(362)	(429)	(500)	(563)	(620)	(684)	(754)	(830)	(915)	
Capital Expenditure	(1,213)	(1,735)	(1,172)	(1,247)	(847)	(822)	(822)	(822)	(822)	(822)	(822)	
Unlevered Free Cash Flow	(306)	(1,106)	(458)	(409)	122	264	371	489	618	761	918	
Discount Factor	11.5%	1.00	0.90	0.80	0.72	0.65	0.58	0.52	0.47	0.42	0.38	
NPV of Free Cash Flow		(1,106)	(411)	(329)	88	171	215	254	289	319	345	
Cumulative Free Cash Flow		**(1,106)**	**(1,517)**	**(1,846)**	**(1,758)**	**(1,587)**	**(1,372)**	**(1,118)**	**(829)**	**(510)**	**(166)**	
Terminal Value	NPV of 12x 2010 EBITDA										**11,960**	
Gross Equity Value											**11,794**	
Less: Net Debt											(6,488)	
Plus: Investments @ market											1,548	
Equity Value											**6,854**	
Shares Outstanding											207	
DCF Per Share											$33.11	

Table B4: *Shaw Communications Inc. – DCF Analysis*

Shaw Communications
DCF Analysis

	2000A	2001E	2002E	2003E	2004E	2005E	2006E	2007E	2008E	2009E	2010E	CAGR
EBITDA	398	460	649	833	956	1,070	1,177	1,295	1,424	1,567	1,724	14.1%
Growth Rate			*41.0%*	*28.3%*	*14.8%*	*11.9%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	
EBITA	377	425	598	782	906	1,020	1,127	1,245	1,374	1,517	1,674	
Less:												
Taxes 35% EBITDA	(132)	(149)	(209)	(274)	(317)	(357)	(395)	(436)	(481)	(531)	(586)	
Capital Expenditure	(850)	(586)	(522)	(362)	(326)	(326)	(326)	(326)	(326)	(326)	(326)	
Unlevered Free Cash Flow	(584)	(275)	(82)	197	313	387	457	533	617	710	812	
Discount Factor	9.0%	1.00	0.92	0.84	0.77	0.71	0.65	0.60	0.55	0.50	0.46	
NPV of Free Cash Flow		(275)	(76)	166	242	274	297	318	338	356	374	
Cumulative Free Cash Flow		**(275)**	**(350)**	**(184)**	**58**	**332**	**629**	**947**	**1,285**	**1,641**	**2,015**	
Terminal Value	NPV of 13x 2010 EBITDA										**10,317**	
Gross Equity Value											**12,332**	
Less: Net Debt											(3,177)	
Plus: Investments @ market											375	
Equity Value											**9,530**	
Shares Outstanding											232	
DCF Per Share											$41.08	