

# Millennium-Skyline



## The Rise of Tier 2 Telcos: A Special Briefing

**Strategic Implications for  
Service Providers, Equipment Suppliers, and Investors**

**June, 2009**

Tier 2 telephone companies are consolidating into a major telecommunications service provider market segment. Historically, the Independent Operating Companies (IOCs) served small cities and towns, and rural markets where the Regional Bell operating companies (RBOCs) did not operate. Because of their small size and rural markets, the IOCs often have been viewed as poor relations to the RBOCs.

No more!

A wave of IOC consolidations combined with RBOC sell-offs of rural lines has led to the formation of a stratum of companies with a significant scale of operations and buying power and substantially different strategies than AT&T and Verizon, the last RBOCs. We count Qwest as part of the Tier 2 group because its make-up and actions are closer to a large IOC than to either remaining RBOC. These Tier 2 companies are planning a new investment wave to upgrade and modernize their amalgamated networks in order to deliver new broadband services and to drive new revenue streams. Furthermore, some of these companies now own blocks of wireless licenses acquired in

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FCC's recent AWS and 700 MHz auctions, and plan to build out these licenses with broadband wireless technology as a key strategic element to grow their businesses.

Here is a snapshot of the M&A activity that has taken place already:

- 2000: VALOR Telecom formed from acquired assets from GTE Southwest.
- 2002: Alltel purchases 600,000 lines in Kentucky from Verizon
- 2005: Alltel spins off its wireline business and merges with VALOR to form Windstream with 3.4 million access lines in 16 states.
- 2005: CenturyTel sells its wireless operations to Alltel, becomes a pure ILEC.
- 2006: Frontier acquires Commonwealth Tel
- 2006: EMBARQ (formerly Sprint LTD) is spun off from Sprint-Nextel
- 2007: Consolidated Communications acquires North Pittsburgh Systems
- 2007: Windstream acquires CT Communications
- 2008: Fairpoint, itself formed from rural ILEC acquisitions, acquires 1.5 million lines in New England from Verizon
- 2008: CenturyTel acquires EMBARQ becoming the largest IOC with 7.5 million lines in 22 states, and creates a new company named CenturyLink.
- 2009: Windstream acquires D&E Communications
- 2009: Frontier acquires 4.8 million former GTE lines from Verizon to grow to 7.0 million lines in 27 states

The result of these moves is a Tier 2 market segment comprised of Qwest, Cincinnati Bell, CenturyTel, Fairpoint Communications, Frontier Communications, NTELOS, TDS Telecom, and Windstream. Each spends over \$100 million a year in capex and, together, they exhibit some formidable metrics. Here are the numbers:

- Nearly 32 million switched access lines
- Close to 8.4 million broadband lines (incl. xDSL, FTTx, xPON)
- More than 17,000 CO switches (both circuit & packet)
- Over 72,000 DLC/NGDLC terminals (est. 35% fiber-fed)
- 413 AWS/700 MHz licenses (purchased for \$1.3 billion)
- \$30 billion revenue guidance for full-year 2009
- Almost \$4.3 billion capex guidance for full-year 2009

More important, unlike the AT&T and Verizon, the Tier 2 carriers can qualify for the Broadband Stimulus funding that will be available later this year.

The reordering of the IOC line-up and the rise of the Tier 2 telcos has significant, and strategic, implications and opportunities for competing service providers, equipment vendors, and investors.

# The Rise of Tier 2 Telcos: A Special Briefing

To help you understand the new Tier 2 market segment, Millennium-Skyline Project will conduct **The Rise of Tier 2 Telcos\_A Special Briefing** exclusively for your company. The briefing will address:

- Each telco is different. What are their respective network strategies and plans?
- How much capex will the Tier 2 telcos invest in their networks over the next several years as they integrate and modernize their amalgamated facilities? What products will they be looking for to do it?
- What sort of wired broadband deployments are planned? What are target penetration levels, and by when? How will legacy DLC/NGDLCs be handled?
- How will the circuit-to-packet (C2P) CO switch migration be rolled out? Do the incumbent CO switch vendors have the inside track, or is there room for new entrants?
- What sort of broadband wireless deployments are planned? Over what timeframe? What are the implications for base stations, site selection, back-haul, etc?
- What about AC and DC power systems for all of these network upgrades?
- What does all this mean for your company? What are your opportunities or risks?

**The Rise of Tier 2 Telcos\_A Special Briefing** is a 90-minute Webinar conducted in an interactive format. We will email you a copy of the Powerpoint presentation for your internal use at the conclusion of the session.

**The Rise of Tier 2 Telcos\_A Special Briefing** is delivered on a ‘one company-at-a-time’ basis with up to 25 participants in your domestic and overseas locations. Our pre-paid fee for this session is \$1,950.

Millennium-Skyline Project is a collaboration of Millennium Marketing and Skyline Marketing Group. Your Webinar presenters are Kermit Ross and John Celentano, two highly-experienced and well-respected telecom market analysts and consultants who have hard-earned reputations for delivering solid data, insightful analyses, and critical recommendations on which to base your strategic plans.

Contact John Celentano, President, Skyline Marketing Group, at (443) 519-5527 or [john@skylinemarketing.com](mailto:john@skylinemarketing.com) right away to reserve your date for **The Rise of Tier 2 Telcos\_A Special Briefing**.