



Ten Predictions That Will Rock 2004

By Don Kent ■ *eCablevision Consulting*

Before we examine any prognostications for 2004, let's first grade the 2003 forecasts. Because, after all, if my predictions weren't close for 2003, then it's best just to turn the page to the next column and move on. Okay, here goes my report card for the 2003 predictions:

1. Will 2003 be a turnaround for the telecom industry? I said "yes" but it would be conviction less bottoming out that bumps along without the typical growth and resurgence that accompanies most bottoms. I'll give myself an "A-" on this one, because while things haven't gotten worse, they don't feel a lot better.

2. The credit squeeze will continue and mitigate the benefits of a low prime rate. Okay, I did pretty well on this one with the Fed ending the year at a 1% rate, although the rates have stayed flatter for longer than I thought they would. It's a "B" for me.

3. Spam will get worse - much worse. Three for three here. Anyone could have predicted spam would have gotten worse, but unfortunately and even though I said spam would double in 2003, it was slightly worse than even that. This is an "A," I wish I were wrong, though, as I clean out dozens of emails that entice me to increase my sexual potency or reduce my mortgage payments. Sigh.

4. 2003 won't be quite as awful as 2002 for the cable industry. In fact, cable stock prices were up 18% for the year, although far below their 2000, 2001, and 2002 highs. And some stocks, like Insight, will end the year down almost 20% in 2003. I made five predictions about the cable industry and was lucky for each one of them. So I'll take an "A-" on this one too.

5. Continued pressure for the RBOCs. Well, I got this one mostly right—except I didn't see how aggressively the RBOCs would price DSL to fend off the cable industry's share of the broadband market. Still, I think I should get at least a B+ on this one because we all know what direction revenue and the number of lines served has been going in 2003 – down and down.

6. WiFi – a winner for the WLAN – but not ready for

prime time as a residential broadband product. WiFi was a winner for WLANs in 2003—but the "hot spot" model hasn't died quite as quickly as I thought it would (although several telecoms have announced cutbacks in the number of hot spots they plan to offer). My score, therefore, is a "B."

7. Customization becomes real. A watched kettle won't boil. Or something like that. Customization continued to stagger forward, without any new breakthroughs that are commercially available. I blew this one so this one's an "F." Sometimes good things take just a little longer, though.

"Here are the specific sector predictions that will rock Broadband Service Providers' 2004!"

8. Broadband MMDS remains zzzzz. Unfortunately, I get an "A" on this one. Enough said.

9. AOL vs. MSN – and the winner is? Who would have guessed? Okay, I did. AOL did begin to hemorrhage customers and MSN is slowly closing the customer gap, while doing a reasonably effective job marketing their services through companies such as Verizon and Qwest. An "A" for me.

10. It feels like 2002 all over again. God, this is so painful. It's like déjà vu all over again. I'll give myself an "A-" on this one because I nailed virtually every prediction in this category. My final comment was "and on December 31, 2003, many will be happy that the year is finally over...and will be hoping for a better 2004." That feels about right, doesn't it?

Well we all know that past performance is no guarantee of success (all the mutual funds are required to say something like this by their own lawyers after becoming mired in the morass that seems to affect all of our finan-

cial institutions), but I'll go out on a limb once again and offer my 2004 predictions. Sadly, many of them will sound painfully familiar to last year's articles (if you've not kept your January 2003 copy of *Broadband Properties*—then it's your own fault. You can contact the magazine and purchase another copy if you feel a masochistic compulsion to read the painful details of the 2003 predictions). Here are the specific sector predictions that will rock Broadband Service Providers' 2004!

First and on a macro basis: I predict the stock market will be down in 2004. Why? Mainly because while the GNP will generally continue to improve economically, irrational exuberance has gotten ahead of itself with a 20% market gain, and things that are too good to be true usually aren't. Courtesy of Barra Research (www.barra.com), one can see that the PE ratio for the

"agents of change" buffet them. What will cause all of this chaos? Two things, mainly. The coming impact of VOIP and IPTV which will effectively change the playing field of the giant RBOCs, LECs and MSOs legacy product advantages. More about this later, but no one is going to be happy about betting capital when the dust is so thick that it's impossible to tell if any of the existing players will be the ultimate winners. Whew!

2. The credit squeeze will continue and mitigate the benefits of a low prime rate. While the prime rate will increase moderately in 2004 (by 100 to 150 basis points), rates will remain relatively low but ISPs will find it nearly impossible to borrow. Financial institutions will continue being concerned about this sector and permit borrowing on the low end of multiples of cash flow. Unless a company is generating lots of cash flow from which to

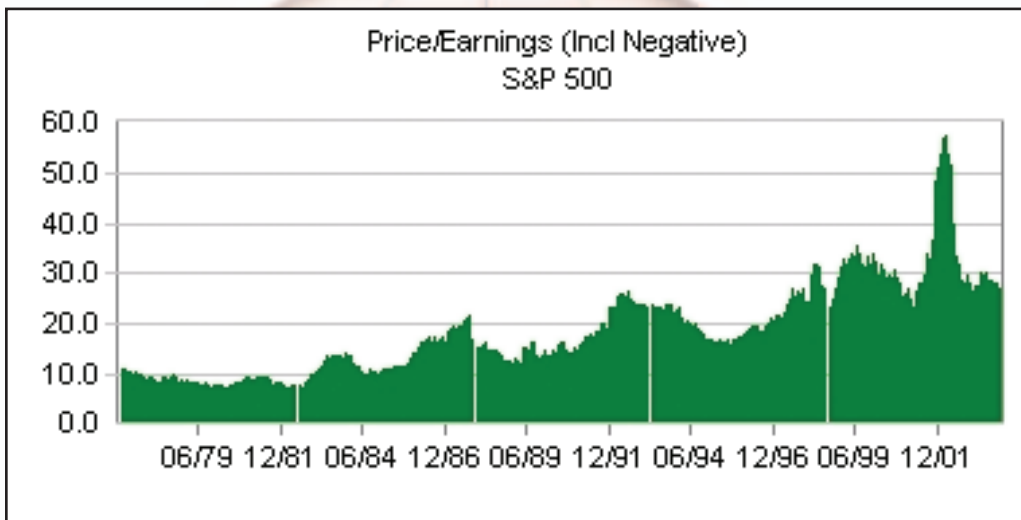
support senior or subordinated debt, financial institutions will be cautious about accepting risk in an industry with massive overcapacity and unpredictable changes in technology that could shake the existing players upside down.

3. Spam will get worse - much worse. It's easy to say that spam will get worse in 2004 but I predict it will get much worse

than most expect, perhaps doubling once again to exceed the amount of legitimate emails that circulate in

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America's piece of cyberspace by the end of 2004. Anti-spam software will help, but it won't be able to effectively stem the growing tidal waves of spam. Some will complain that the cure of anti-spam software will be worse than the disease. The government will try to act, but this



S&P 500 that has averaged 15 during the last seventy plus years remains at a frothy 27. Sorry folks, the sad reality is this shows that we have just gotten a bit ahead of ourselves. Again. This means that my best guess is that 2004 will be a pretty bumpy and somewhat unpleasant ride since no one likes to lose money. Seat belts on and please pass all of your drinks to the flight attendants passing through the aisle.

Now for ten predictions that will form the basis of the 2004 landscape, and rock the world of many a company in the telecom sector:

1. A turnaround in the telecom industry? The convictionless bottoming out that bumps along without the typical growth and resurgence that accompanies most bottoms will continue. ISPs will need to keep their seatbelts fastened again in 2004 as forces best described as

is an international problem and the folks in some countries won't see this problem as being high on their priority list. For the first time, some people will begin to use email less (that's right LESS) than in 2003 because the spam is so out of control. Governments will pass increasingly tougher laws, but once all that is said is done, much more will be said than done.

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4. **2004 will be a better year for the cable industry.** Stocks will be generally up, as DSL struggles to gain market share and DBS nibbles away at cable's video customer base. However, cable's ARPU will continue to climb, causing Wall Street to forgive many of cable's other sins. Also, VOIP will be a hot buzzword and will begin to be deployed in 2004. While we might not see significant revenues generated from it, hope springs eternal at Wall Street. More cable operators will generate free cash flow, balancing investors holding cable stock fears that a DirecTV on steroids will become a significantly more formidable competitive threat. .

5. **Continued pressure for the RBOCs.** While remaining as the pillars of strength in the telecom industry, the Regional Bell Operating Companies (RBOCs) will continue to lose primary and additional phone lines as they did in 2003. These companies will feel a bit like the long distance companies just a few years ago as their competitors use new technologies such as VOIP to deliver calls less expensively. DSL will slowly continue to be rolled out and remain a price leader as the RBOCs see it as a way to compete against cable's "triple threat" of voice, video, and data. The smartest Bells (such as Canada Bell) will quickly begin testing Microsoft's IPTV initiative (or other video over Internet protocol alternatives). Still, many won't and will discover in a few years, and too late, that they missed a golden opportunity and are bait for consolidation.

6. **WiFi – a winner for the WLAN – but not ready for**

prime time as a residential broadband product. As a residential broadband delivery service, Wi-Fi will continue to be a technology seeking a market. While the economics of using WiFi for a wireless LAN are overwhelming, companies that seek to serve up broadband to customers via a network of "hot spots" will struggle to build a viable business. Their long-term outlook: dismal. Cool technology and useful too but who's going to pay for it?

7. **Broadband MMDS remains zzzzz.** MMDS broadband will remain in suspended animation yet another year hibernating until an economically feasible non-line-of-site technology can combine with indoor antennas and self-provisioning technology. And worse yet, additional "free" bandwidth made available by the FCC will make this slice of spectrum less valuable. There will be limited testing of non-line-of-site indoor antennas, but no real wide scale deployment in 2004. Timing is everything and I'm beginning to worry about MMDS.

8. **AOL vs. MSN – and the winner is...?** AOL's bleeding will continue to accelerate (although its Roadrunner broadband service will remain very healthy). And MSN will slowly continue to narrow the customer gap between it and today's ruling 650-pound gorilla. AOL will continue to struggle to create synergy from the content side of its business and they just won't be able to put the pieces together to materially affect their business in 2004. AOL's plan to save its customers from churning to discount carriers (like NetZero) will have some success but it will likely cannibalize AOL more extensively than is predicted. Microsoft will continue to gain market share through its relationships with Charter, Qwest, and Verizon, all of which will serve as symbiotic players in Microsoft's MSN Everywhere plan.

9. **The beginning of "the mother of all changes."** Dang, this is really going to hurt. The telecom, cable, and broadband, industries will become less forgiving as 2004 is a year where the murkiness grows and financial clarity diminishes. New technologies and rumors of new technologies will whipsaw stock valuations and the fortunes of many companies that are pure play and lack other business, such as content. How will VOIP impact the RBOCs and LECs? How will Microsoft's IPTV and other enhanced video compression algorithms change how digital video can be distributed to the consumer? Will virtual "eCablevision" companies eventually spawn, as something like the great grandchildren of Movielink? The truth is no one really knows, although all the analysts

and industry experts will tend to have several different and conflicting opinions on each subject, depending upon the audience that they are addressing. 2004 will continue to be a year of company consolidation, trying to make packaging work, and using new technologies to reduce product costs so that companies can more effectively compete. Ultimately, 2004 will be one year closer to the day when all cable, phone, power, and wireless "pipes" are commodities and that today's major players will be in life and death struggles with virtual companies that offer the same services with a fraction of the overhead. This upheaval will become a little bit more evident to some in 2004 and by 2006; the writing will be on the

wall, as they say (and most folks will say "oh I predicted that this would happen years ago).

10. And on December 31, 2004, many will be happy that the year is finally over...and will be hoping for a better 2005. Whoops, I said it again. ■

About the Author

Don Kent is has spent over 26 years working with early stage companies specializing in the delivery of broadband and digital content services. Please address questions or topics that you'd like to see discussed in subsequent columns to Dkent@eCablevision.com.



Predictions for 2004

By Jimmy Schaeffler ■ *The Carmel Group*

A. The biggest story of 2003 for the multichannel industry was the purchase of DirecTV, finally, by News Corp and Fox. It is the beginning of a new phase of remarkable change for an industry that has seen a huge degree of change already in the delivery of HDTV, SVOD, DVRs and iTV.

B. Looking ahead to 2004 and beyond, the new "killer application" that offers the greatest potential to drive satellite demand is the two-way broadband Internet access by satellite that offers quality and affordability.

C. The biggest developments during 2004 will be the following:

- 1) There will be a marked increase in the number of small-to-medium-sized U.S. cable systems that will be filing for bankruptcy, selling or merging with related entities. This will be due to the enhanced competitive pressure that the satellite industry will place on them, due in large measure to enhanced competitive pressure developing between EchoStar and DirecTV for that elusive "new" subscriber.
- 2) The consumer electronics (CE) industry, especially retail stores, will start to become a focal point for the purchase of Internet, video and telecom-related products and services—for multichannel cable, telephony,

wireless and satellite—not unlike a row of auto stores in many communities. After all, there is a great deal of similarity between autos and the video/Internet/telecom worlds. Consumers typically spend unique, focused time with/in each, measuring several hours a day for many folks, and both products/services "capture" their users in a special, exclusive environment during that time, in a way that few other things can.

3) GMH's Spaceway will show the world what the true capabilities are for two-way satellite broadband. If it works in the SOHO environment, expect a growth spurt in 2005 and beyond, as GMH tries to figure ways to get it into the single-family dwelling.

4) EchoStar gets more and more into CE retail and making set-top boxes more and more magical (which they have to do to compete with Murdoch).

D. For either positive or negative reasons, the following people or sectors bear watching closely during 2004:

- 1) News Corp./DirecTV
- 2) News Corp/DirecTV
- 3) News Corp./DirecTV, and
- 4) The big cable companies and their response to 1, 2 and 3.