

# A "Top Down" View of A Vibrant U.S. Telecom Services Industry (\$ Billions)

CIBC Traffic Forecasts									
Year	Local VGEs (Millions)	Long Haul Transport Supply (Millions)	CBO Nominal GDP	CIBC Telecom Revenue as % of GDP	Projected Telecom Sales	Healthy Ratio of Mkt Value to Revenue	Healthy Market Value	Current Mkt Value	Current Mkt Value as % of Healthy Mkt Value
2002	540	7,633	\$10,348	2.9%	\$300	2.00	\$600	\$392	65.3%
2004	833	17,301	\$11,627	3.0%	\$349	2.03	\$709		
2006	1,124	52,372	\$12,880	3.1%	\$399	2.07	\$826		
2008	1,399	76,429	\$14,254	3.1%	\$442	2.10	\$929		
ACGR	17.20%	46.81%	5.48%	1.68%	6.66%	1.68%	7.55%		

Sources: Tim Horan, *Communications Services Industry: Long Term Outlook*, CIBC, April 1, 2002; Compustat

# Even Though Telecom Traffic Growth Remains High, Capital Spending Throughout the Industry Continues to Head in the Wrong Direction

(\$ in millions)	2001A	2002E	2003E	2004E	2005E	2006E	5-Yr CAGR 2001-2006
Local Exchange Carriers	\$29,392	\$18,500	\$15,000	\$15,501	\$16,516	\$18,146	-9%
CLECs	4,458	1,500	600	500	400	300	-42%
IXCs	39,105	12,800	11,500	11,842	12,134	12,511	-20%
ISPs	2,290	1,000	600	600	500	400	-30%
Cable Companies	17,338	14,800	12,500	11,875	12,172	12,902	-6%
<b>U.S. Total</b>	<b>92,583</b>	<b>48,600</b>	<b>40,200</b>	<b>39,958</b>	<b>41,340</b>	<b>43,839</b>	<b>-14%</b>
<b>Year-over-year growth</b>		-47.5%	-17.2%	0.7%	3.3%	5.4%	
<b>Regional Bell Company</b>							
<b>Capital Intensity Ratios</b>							
		<b>2002E</b>	<b>2003E</b>	<b>2004E</b>	<b>2005E</b>	<b>2006E</b>	
Cap Ex as a % of Sales		17.8%	14.3%	14.5%	15.0%	16.0%	
Cap Ex per Access Line		\$128	\$101	\$103	\$107	\$116	
<i>Source: J. Parmelee, Telecom Equipment - Wireline Update, Credit Suisse First Boston, 26 Sept 2002.</i>							
<i>Note: Cap ex per access line forecasts assume total switched access lines (wholesale and retail) grow by 2% per year over the 2002-2006 period</i>							

# Creating Shareholder Value May Prompt the New AT&T to “Harvest” Its Business

<i>Business Services</i>	2003	2004	2005	2006	2007	2008	2009	2010	ACGR
Revenue	\$26,367	\$26,566	\$26,831	\$27,100	\$27,372	\$27,644	\$27,920	\$28,200	1.0%
EBITDA	\$7,929	\$8,102	\$8,184	\$8,266	\$8,348	\$8,432	\$8,516	\$8,601	1.2%
CapEx	\$3,600	\$3,200	\$2,800	\$2,600	\$2,200	\$2,000	\$1,600	\$1,600	-10.9%
<b>CapEx % of Rev</b>	<b>13.7%</b>	<b>12.0%</b>	<b>10.4%</b>	<b>9.6%</b>	<b>8.0%</b>	<b>7.2%</b>	<b>5.7%</b>	<b>5.7%</b>	
<i>Consumer Services</i>									
Revenue	\$8,641	\$6,996	\$5,867	\$5,393	\$5,352	\$5,405	\$5,459	\$5,514	-6.2%
EBITDA	\$2,471	\$2,001	\$1,678	\$1,543	\$1,552	\$1,568	\$1,584	\$1,600	-6.0%
CapEx	\$100	\$80	\$80	\$60	\$60	\$60	\$60	\$60	-7.0%
<b>CapEx % of Rev</b>	<b>1.2%</b>	<b>1.1%</b>	<b>1.4%</b>	<b>1.1%</b>	<b>1.1%</b>	<b>1.1%</b>	<b>1.1%</b>	<b>1.1%</b>	
<i>AT&amp;T</i>									
<b>Total Revenue</b>	<b>\$34,608</b>	<b>\$33,162</b>	<b>\$32,298</b>	<b>\$32,093</b>	<b>\$32,324</b>	<b>\$32,649</b>	<b>\$32,979</b>	<b>\$33,314</b>	<b>-0.5%</b>
EBITDA	\$9,690	\$9,784	\$9,529	\$9,466	\$9,535	\$9,755	\$9,893	\$9,994	0.4%
<b>Dep. &amp; Amort</b>	<b>\$5,576</b>	<b>\$5,422</b>	<b>\$5,156</b>	<b>\$4,887</b>	<b>\$4,600</b>	<b>\$4,273</b>	<b>\$3,958</b>	<b>\$3,653</b>	<b>-5.9%</b>
<b>Interest Expense</b>	<b>\$2,320</b>	<b>\$1,895</b>	<b>\$1,702</b>	<b>\$1,664</b>	<b>\$1,620</b>	<b>\$1,552</b>	<b>\$1,465</b>	<b>\$1,359</b>	<b>-7.4%</b>
Taxes	\$807	\$1,110	\$1,202	\$1,312	\$1,492	\$1,768	\$2,012	\$2,242	15.7%
Prefered Dividends	\$139	\$132	\$130	\$112	\$98	\$98	\$99	\$99	-4.7%
Net Income	\$848	\$1,225	\$1,339	\$1,491	\$1,725	\$2,063	\$2,360	\$2,641	17.6%
<b>Capital Expenditures</b>	<b>\$3,740</b>	<b>\$3,320</b>	<b>\$2,920</b>	<b>\$2,700</b>	<b>\$2,300</b>	<b>\$2,100</b>	<b>\$1,700</b>	<b>\$1,700</b>	<b>-10.7%</b>
<b>Free Cash Flow</b>	<b>\$5,950</b>	<b>\$6,464</b>	<b>\$6,609</b>	<b>\$6,766</b>	<b>\$7,235</b>	<b>\$7,655</b>	<b>\$8,193</b>	<b>\$8,294</b>	<b>4.9%</b>
<b>CapEx as % of Revenue</b>	<b>10.8%</b>	<b>10.0%</b>	<b>9.0%</b>	<b>8.4%</b>	<b>7.1%</b>	<b>6.4%</b>	<b>5.2%</b>	<b>5.1%</b>	
Source: Greg Gorbatenko, CFA, CPA, CMA, Loop Capital Markets 27 Sept 2002									