THE STRATEGIC MIRROR REPORT

US Wireless Carrier Trends: Q2 2008

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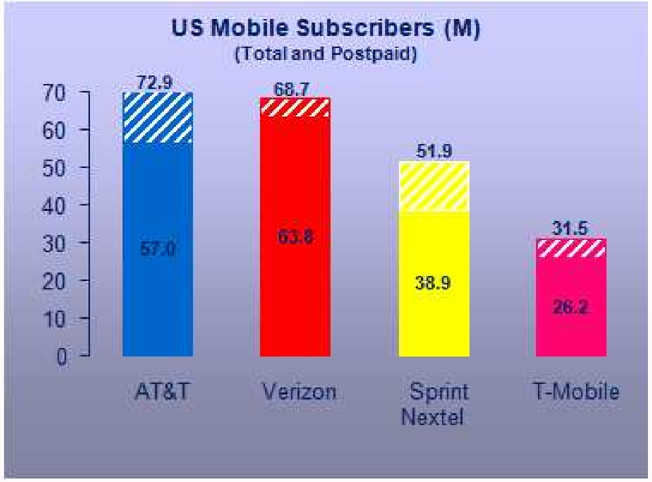
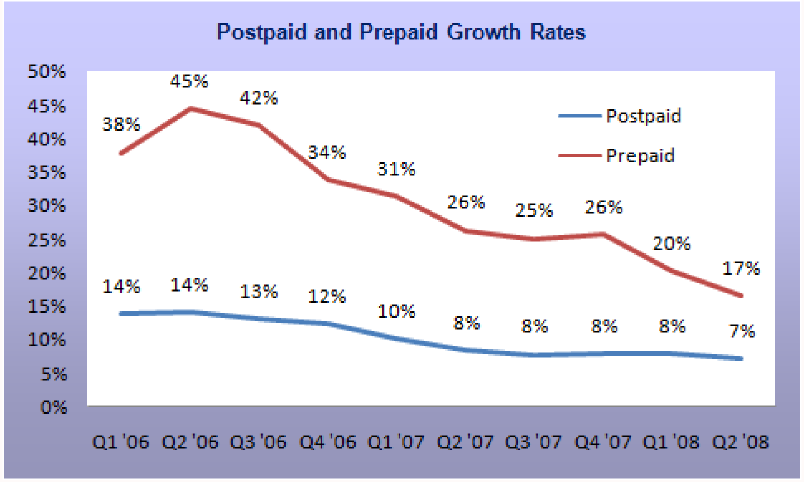
http://www.strategicmirror.com

Overview

- US mobile subscriber trends
- Carrier revenue trends
- Impact of the iPhone
- Data revenues and usage trends
- Smartphone and 3G devices
- Device revenues and carrier subsidies
- Mobile messaging and browsing

Top four US carriers have 85.6%[1] of total subscribers

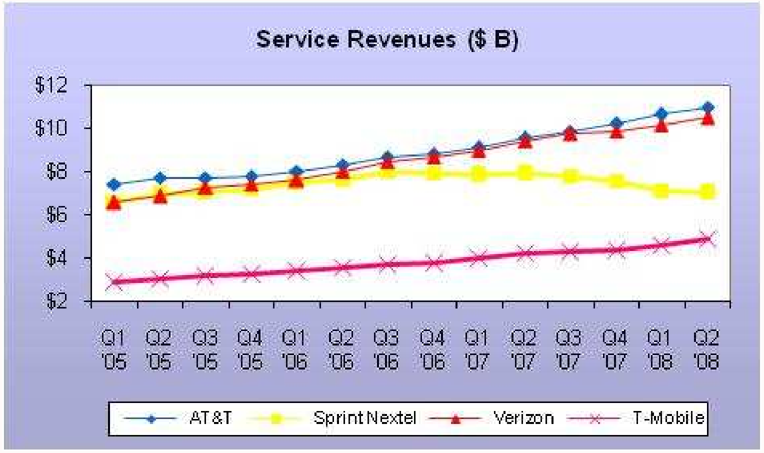


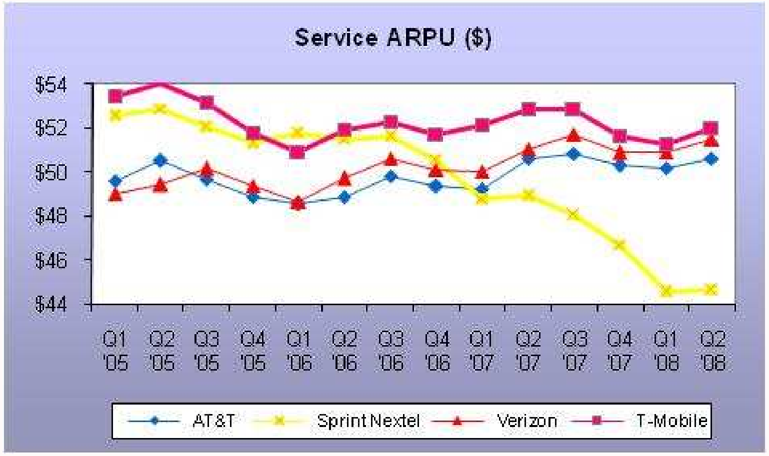


- Subscriber growth rates slowed to 7.3% for postpaid and 16.6% for prepaid.
- Postpaid subscriber base was about 82.7% of overall subscribers.
- About 82% of gross adds came from customers switching carriers.

[1] Top four carriers' subscriber base at end of Q2 2008 is 90.7% after accounting for Verizon's pending acquisition of Alltel.

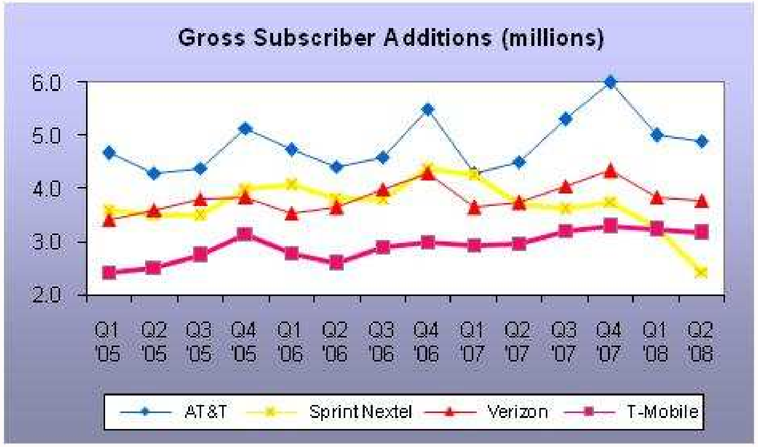
Total revenues grew to $145B/yr run rate

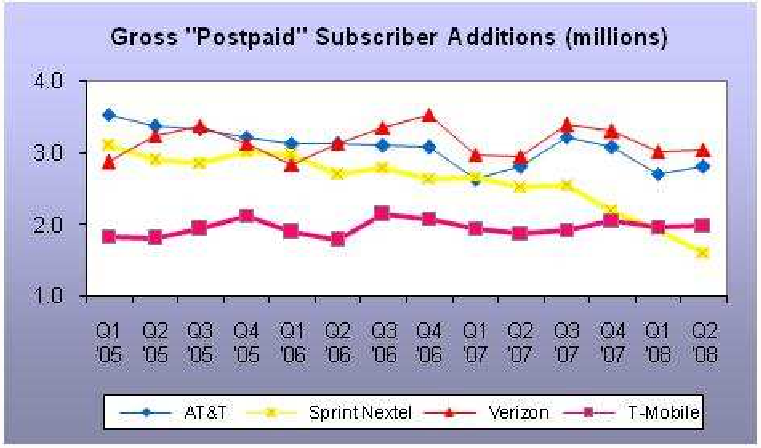




- Revenues grew slightly, and ARPU trends remained stable in Q2.
  - Blended service ARPU was around $51 for most carriers.
  - Postpaid ARPU was nearly $56 for both Sprint and T-Mobile, while prepaid ARPU was nearly $30 for Sprint, and $23 for T-Mobile
  - The unlimited, all inclusive pricing plans haven't made a significant impact on the ARPU trends.

How big is the iPhone impact to carriers?

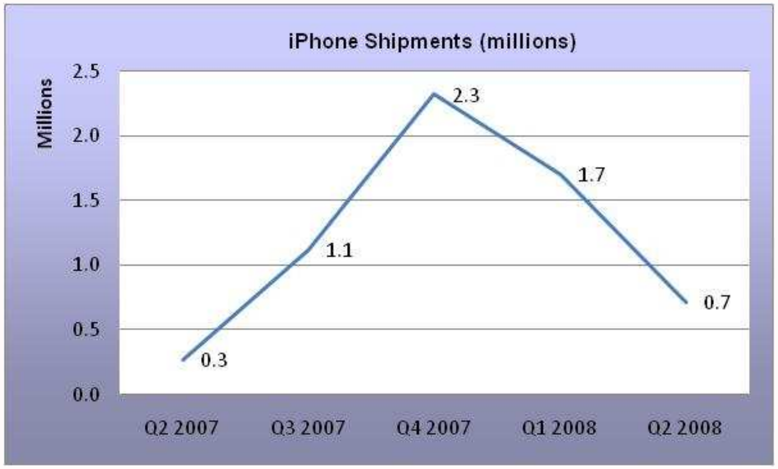


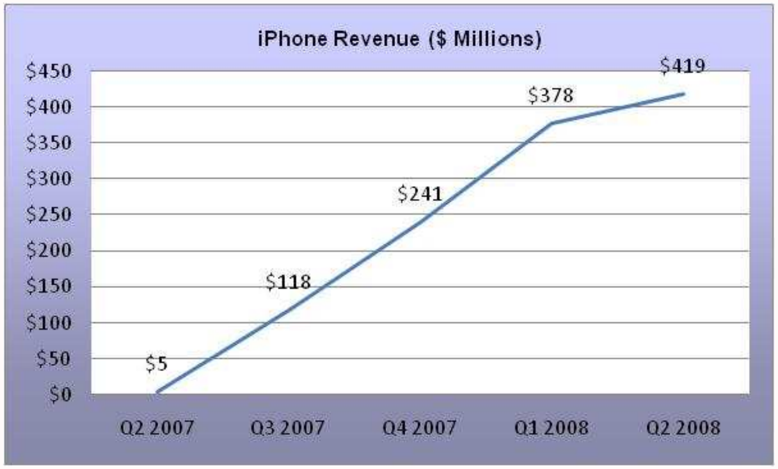


- While AT&T gained market share with the iPhone, Verizon maintained its lead in postpaid gross adds.
  - AT&T leads in the overall gross adds, however, its postpaid gross adds[2] remained lower than Verizon's during the first year of iPhone launch.
  - Competition from upcoming touch-screen devices such as Blackberry Storm, Samsung Instinct, Google G1, Motorola Krave, HTC's Touch and Diamond is expected to erode into the iPhone advantage.
  - Will the exclusive iPhone alliance pay-off for carriers giving up a significant part of their revenue stream?

[2] "Postpaid gross adds" represents total subscriber additions of new customers with a contract, before adjusting for churn.

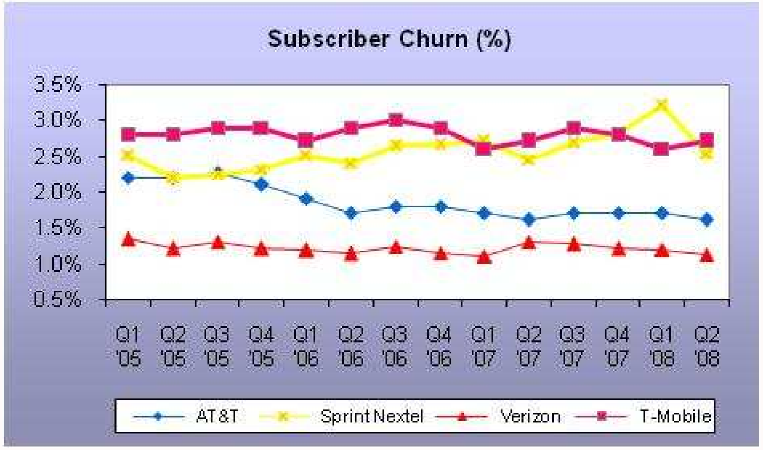
Will carrier revenue deals be a “home run” for Apple?

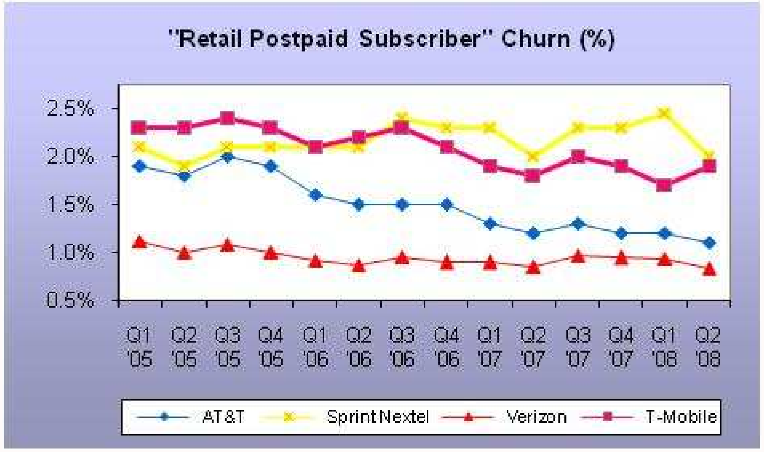




- Clearly, Apple has changed the mobile industry landscape, and has gained a compelling share of carrier revenue stream.
  - iPhone sales have been phenomenal in its first year, and are expected to rise substantially after the launch of its 3G version.
  - However, it remains to be seen if the single-carrier strategy will work to Apple’s advantage in the long run.
  - Will Apple miss a substantial growth opportunity by limiting iPhone’s availability to a portion of the subscriber base?

Did customers shift dramatically after the iPhone launch?

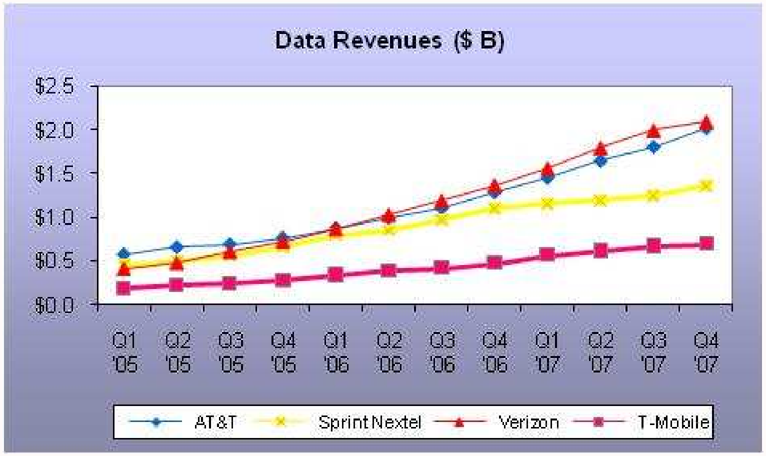


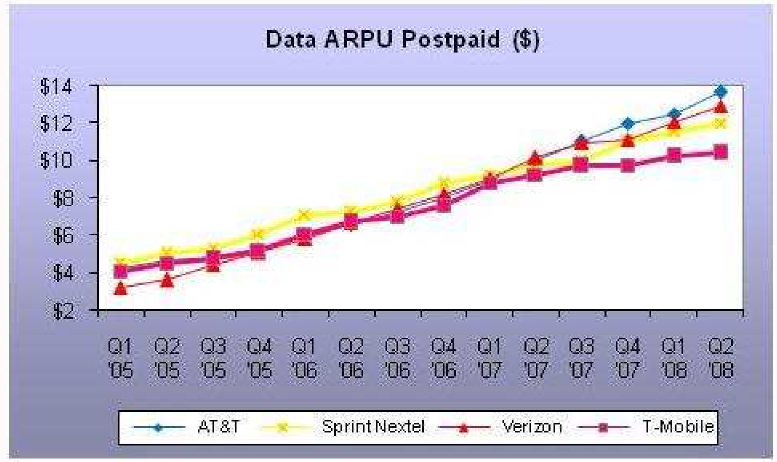


- While subscriber churn[3] trends moved slightly in AT&T's favor, there hasn't been a major shift in churn trends in the first year of iPhone launch.
  - Verizon continued to have the industry's lowest postpaid churn, and had a record low churn of 0.83% in Q2.
  - Sprint continued to lose net customers, primarily in their iDEN network, however, they had a noticeable improvement in churn trends in Q2.
  - Will Verizon maintain its lead in postpaid gross adds and churn trends after the launch of iPhone 3G?

[3] "Subscriber churn" is a key performance indicator of customer retention, and represents the percentage of customers on an average per month basis that terminated their service with the carrier during the quarter.

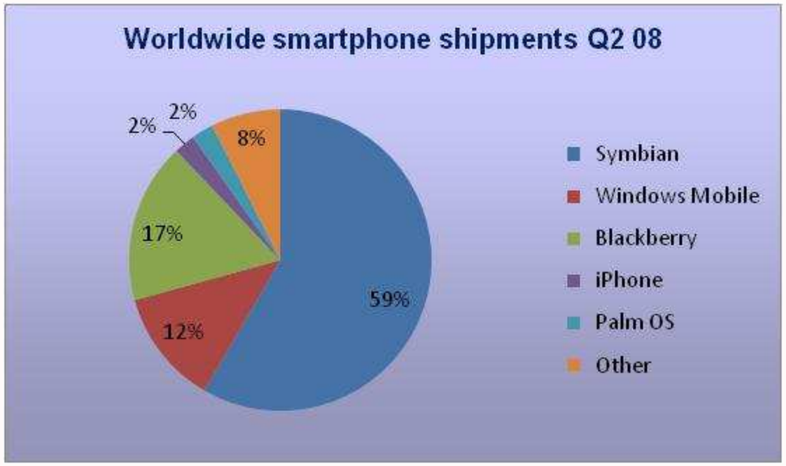
Annual data revenues grew past $30 billion run rate

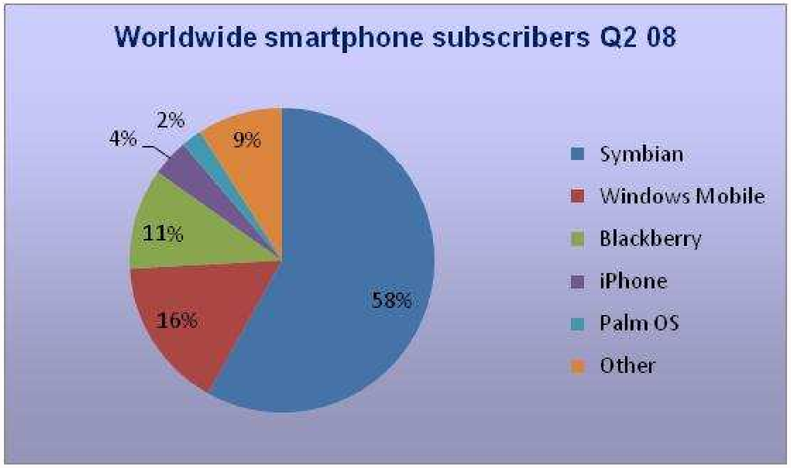




- AT&T continued to lead postpaid data ARPU growth, fueled by iPhone.
  - Verizon and AT&T both had about $2.5B from data revenues in Q2.
- Verizon led the charge in text and multimedia messages
  - Verizon had the most active data users, and is expected to reach one billion text messages a day by end of the year.
  - Verizon also had the most active multimedia message users, sending twice as many multimedia messages overall compared to AT&T users.

Smartphone devices drive the highest revenues



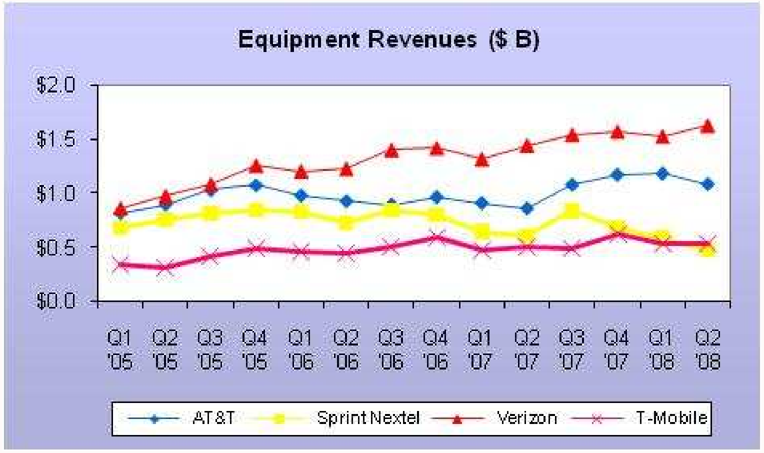


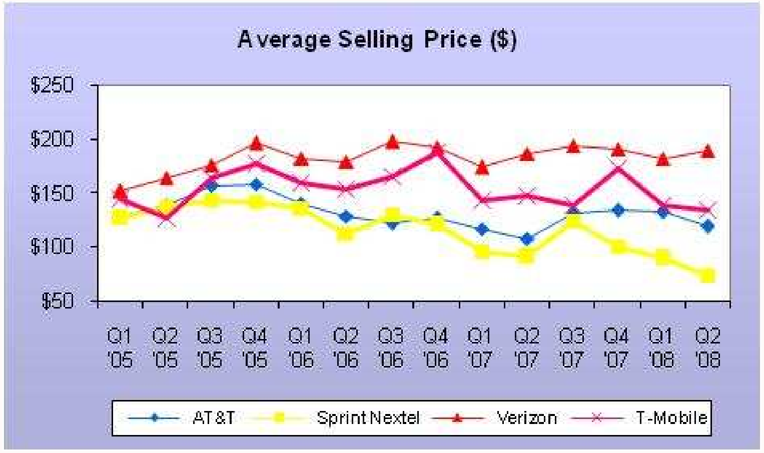
- Overall, about 35-40% of US subscribers have 3G capable devices.
  - 2/3rd of Verizon's subscribers had EV-DO capable devices
  - 1/4th of AT&T's subscribers had 3G devices.
  - About 15% have Smartphone[5] devices.

- AT&T and Verizon lead the 3G adoption and data trends.
  - ARPU from Smartphone device users is nearly double the average user.

[5] We define "Smartphones" as mobile devices of all form factors based on advanced operating systems that offer both mobile and PDA functionality.

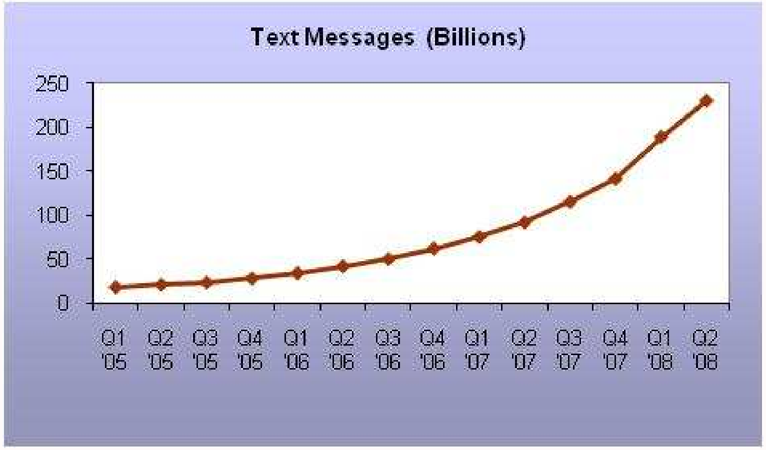
How effective are carriers' device subsidies?

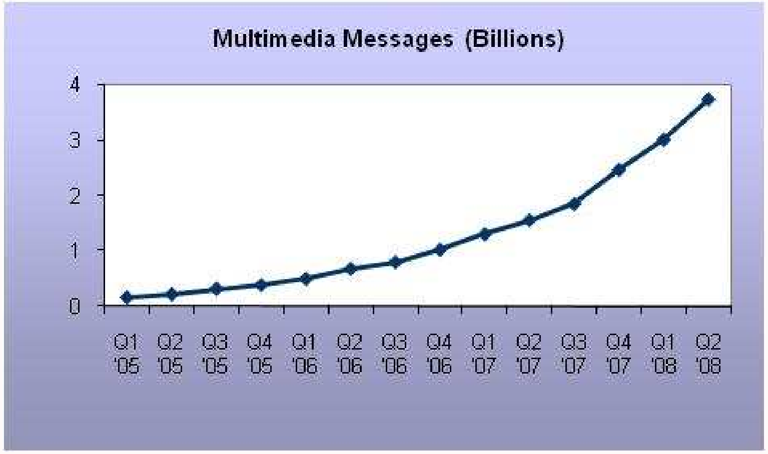




- Verizon leads the equipment revenue trends.
  - Verizon had the most expensive devices on average, and has maintained the highest postpaid customers, and lowest churn trends in the industry.
  - Sprint had the lowest average selling price per device, however continues to lose most customers.
  - Are device subsides helping carriers in their customer retention efforts?

Mobile messaging and web browsing grew substantially





- Text messaging in US expected to reach about 800 billion messages in 2008.
- Multimedia messaging expected to reach12 billion messages in 2008.
- Mobile web browsing grew over 150% in the last year, with iPhone garnering the lion's share of the mobile web browsing.
- However, mobile web browsing still remains a small fraction (< 1%) of overall web browsing.

About Us

About the author

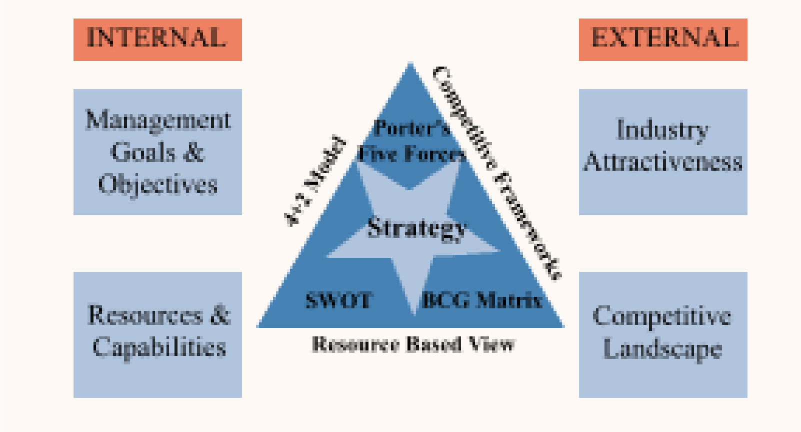
Neeraj Chawla has served as advisor and consultant to several companies in the technology industry. He is also founder of Mpanion, which is developing a patent-pending mobile location and presence application. Previously, he held marketing and product management positions at Expedia and Toshiba.

About Strategic Mirror Consulting

We offer market research and consulting services, including business and product development, market research and customer analytics, product management, launch and marketing activities.

We welcome opportunities to present and further market research on the mobile industry, and to work closely with leading companies in the industry to address their unique market research needs. For additional information, please contact us at marketing@strategicmirror.com

Strategic Frameworks



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