

Understanding MVNOs in the mobile value chain: structure, players, models

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Mobius Venture Capital**

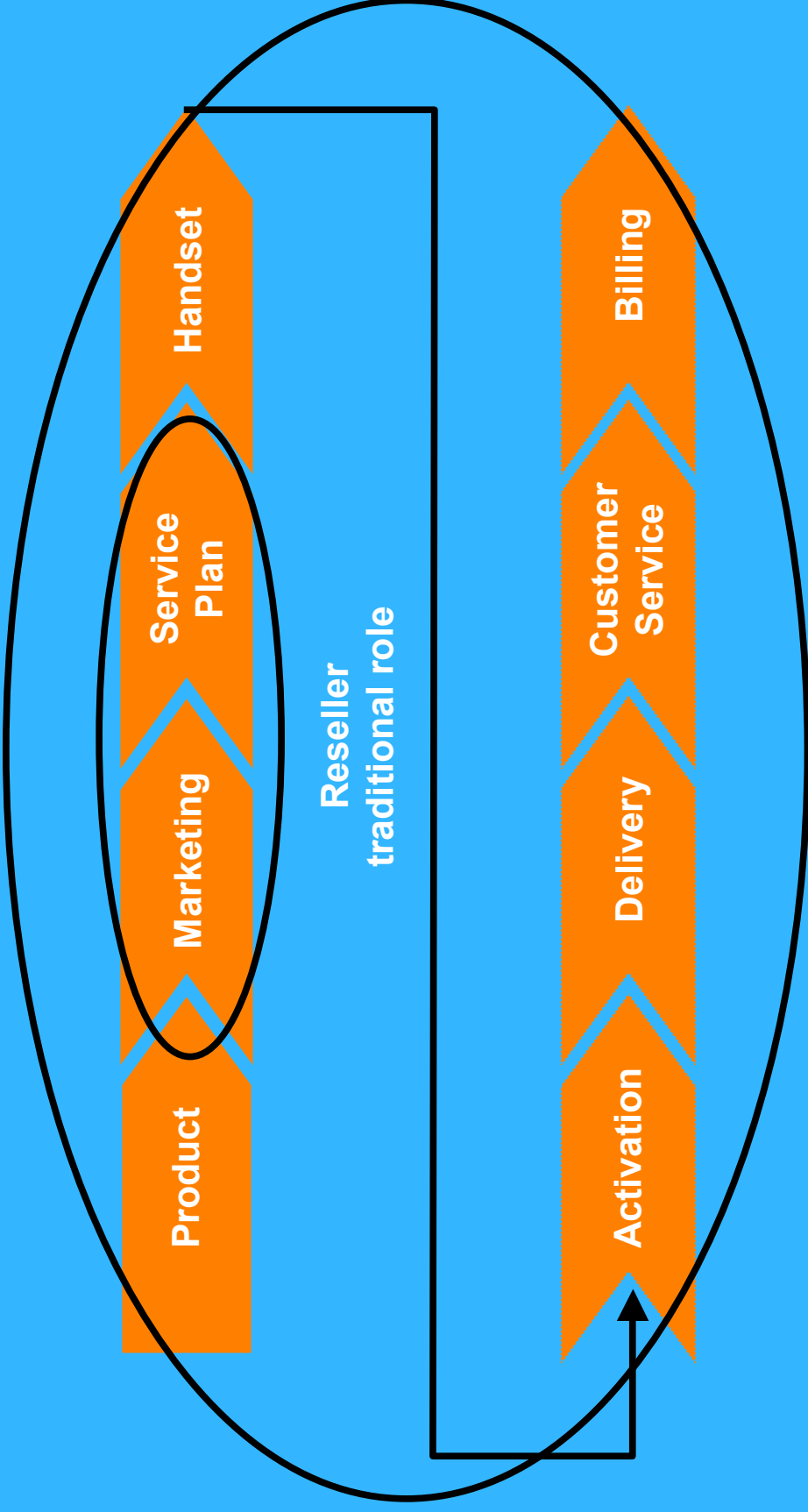
**MVNO Strategies and Markets
September 7th 2005**

Le Parker Meridien Hotel, New York

Exploding MVNO Myths

- 1. MVNO = Reseller**
- 2. MVNO is a fuzzy “marketing” concept**
- 3. MVNOs will have a marginal impact on the mobile market**
- 4. MNO consolidation will kill off MVNOs**
- 5. MVNO market is already played out**

MVNO Breaking New Ground: Controlling Every Customer Touch Point



Expanded MVNO role

MVNO Breaking New Ground: Dual growth engine – prepaid and national retailers

Kyocera K10 Royale
\$50



Nokia Shorty
\$60



Audiovox 8610
\$90



Audiovox V7
\$170



Nokia 6015i
\$50



Kyocera SE47
\$90



Motorola i215
\$60



Motorola i285
\$80



Motorola i730
\$180

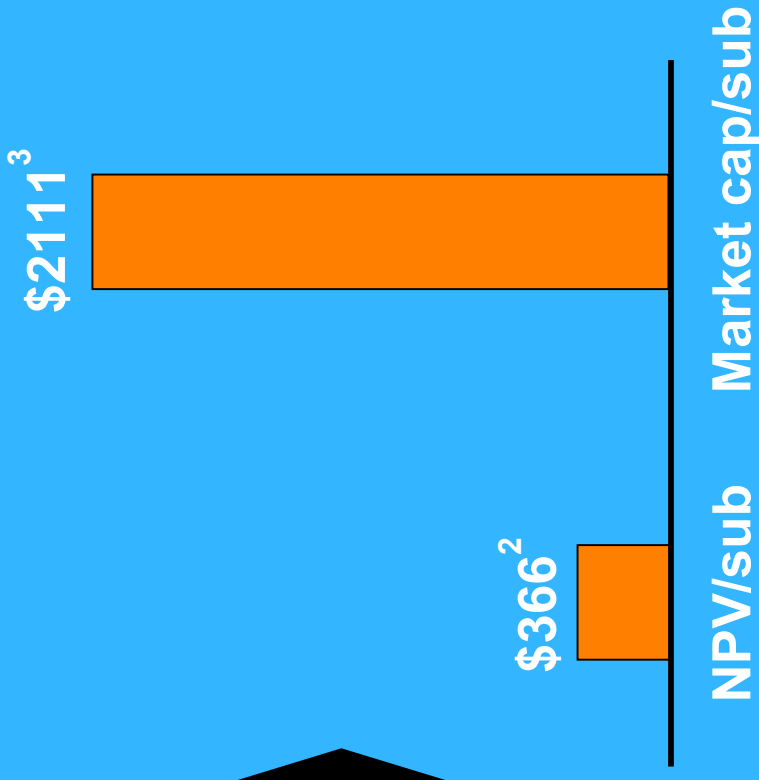


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Customer Economics Reality Bites

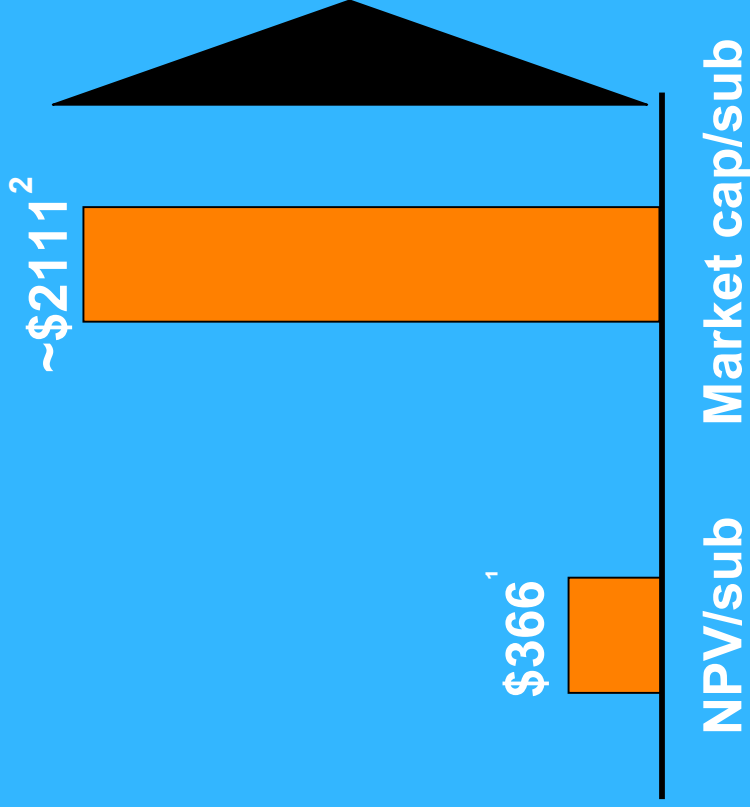
CPGA	\$348¹
- handset subsidy	\$100
- channel	\$180
- marketing	\$68
ARPU	\$57¹
Churn	2.4%¹



Notes

1. LeggMason Q2 2004 data
2. Assumes a 50% contribution margin and 12% cost of capital
3. Cingular acquiring 22 million AT&T wireless subscribers for \$41 billion; Nextel acquired by Sprint for \$35 billion market capitalization with 14 million subscribers

Customer Economics Reality Bites



Hypothesis for the 6X value gap?

1. The market has already priced in improvements in CPGA, ARPU and churn

ARPU: \$57 → \$196 ?
Churn: 2.4% → <0.1%?

2. The capital market is a “house of cards” ready for value rationalization that will allow new entrants to capitalize

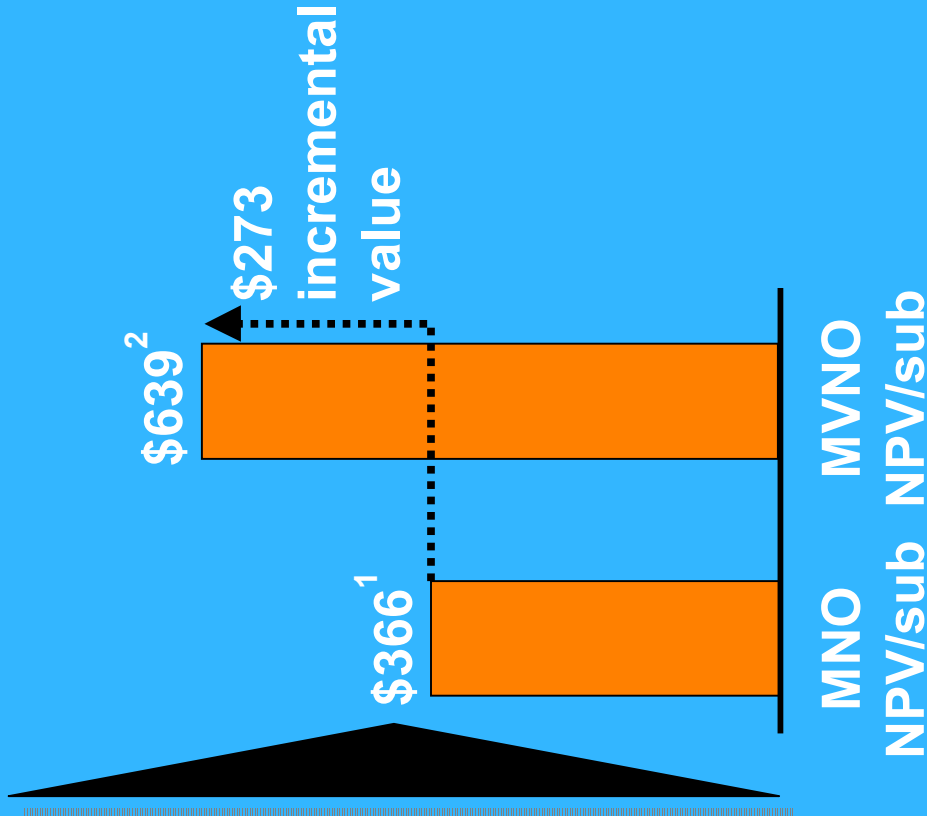
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MVNO Value Creation

Increasing the size of the pie

	MNO	MVNO
CPGA		
- handset subsidy	\$348	\$258
- channel	\$100	\$100
- marketing	\$180	\$90²
	\$68	\$68
ARPU	\$57	\$57
Churn	2.4%	1.8%³










Notes

1. Assumes a 50% contribution margin and 12% cost of capital
2. Assumes more efficient channel distribution such as national retail and online
3. *Robin B* Assumes an improvement from 29 to 39 months for average customer life through brand strength and relevance

MVNO Potential Entrants

Leveraging existing assets

	Retail	Media	Triple Play	New Brands
Examples	 	 	 	 
Rationale	<ul style="list-style-type: none"> • Proprietary distribution 	<ul style="list-style-type: none"> • Proprietary content 	<ul style="list-style-type: none"> • Bundle services 	<ul style="list-style-type: none"> • Underserved market?
Economic Lever	<ul style="list-style-type: none"> • Reducing CPGA 	<ul style="list-style-type: none"> • Reducing churn 	<ul style="list-style-type: none"> • Sharing CPGA 	<ul style="list-style-type: none"> • Increasing ARPU?
Issues	<ul style="list-style-type: none"> • Selling service not product 	<ul style="list-style-type: none"> • Lower gross margin? 	<ul style="list-style-type: none"> • Realizing benefits 	<ul style="list-style-type: none"> • Cost to build brand, acquire customers

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MVNO Capital Efficiency

Do the Math

MNO last 10 years

136 million x \$366 = \$50 billion vs \$115 billion¹

Number of MNO subsNPV per MNO = MNO value vs 10 years CAPEX for
since 1995 sub creation MNOs

MVNO next 10 years

25 million² x \$273 = \$7 billion vs <\$1 billion³

Number of MVNO x Incremental NPV = MVNO value vs 10 year CAPEX
subs in 10 years per MVNO sub creation for MVNOs

25 million² x \$366 = \$9 billion vs <\$1 billion³

Number of MVNO x Incremental NPV = MNO value vs 10 year CAPEX
subs in 10 years per MNO sub creation for MNOs

Notes

1. Prorates Cingular \$6.9BN 2005 capex for 51 millions subscribers; straight line average over 10 years
2. Assumes 50 million purchase decisions/ year x 10 years x 5% MVNO market share of new adds
3. Assumes 10 MVNOs each spend less than \$10M in CAPEX annually; carriers spend equivalent amount in

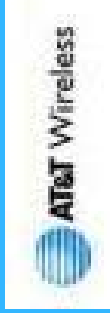
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MNO consolidation?

Look for the undercurrents

2002



Virgin Mobile launches

2004



WNP and WNL

Sprint announces MVNO support

Virgin Mobile 2m subs

2006



>50 million mobile decisions

All 3 carriers have MVNOs in market




Virgin Mobile 5m+ subs

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MVNO (R)evolution

You Ain't Seen Nothing Yet

	Version 1.0	Version 2.0	Version 3.0
Example			
Focus	<ul style="list-style-type: none"> • Repackaged voice • Fresh brand, smart marketing 	<ul style="list-style-type: none"> • Re-using content • Superior content or distribution 	<ul style="list-style-type: none"> • Bundle services • Customer segmentation
Basis of competition	<ul style="list-style-type: none"> • Pre-paid • Equity partner 	<ul style="list-style-type: none"> • Post-paid • Wholesale, long term 	<ul style="list-style-type: none"> • Single bill, membership • Wholesale, short term
Carrier	<ul style="list-style-type: none"> • Buy and integrate yourself 	<ul style="list-style-type: none"> • MVNE 	<ul style="list-style-type: none"> • MVNE multi-tenant, multi-carrier
Infrastructure			

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5. MVNO market is ~~already played out~~ **in its infancy**