Xplornet eyes Freedom, but experts skeptical deal will lead to greater competition

Xplornet's circling of Freedom isn't the first time the company's stepped in to pick up wireless assets being divested as part of a telecom merger

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A small rural internet provider, Xplornet Communications Inc., is one of the suitors circling around Shaw Communications Inc.'s Freedom Mobile. If it wins the bidding, it will bear the mantle of Ottawa's hopes for a strong competitor to Canada's big-three wireless providers.

Freedom, Canada's fourth-largest wireless carrier, is for sale because its owner, Shaw, is in the midst of being taken over by Rogers Communications Inc. The $26-billion Rogers-Shaw deal, which would combine two of the country's largest cable networks, is under review by the Competition Bureau and the Ministry of Innovation, Science and Economic Development.

Innovation, Science and Industry Minister François-Philippe Champagne has made it clear that he won't allow the merger to eliminate Freedom, which competes with Rogers and has been credited with driving down wireless prices. "The wholesale transfer of Shaw's wireless licences to Rogers is fundamentally incompatible with our government's policies for spectrum and mobile service competition, and I will simply not permit it," Mr. Champagne said in a statement earlier this month.

The Globe reported last week that Xplornet, which is based in Woodstock, N.B., is one of several companies in talks with Rogers to buy Freedom.

Stonepeak Infrastructure Partners, a New York-headquartered global private equity firm, acquired Xplornet in June, 2020, in a deal The Globe reported was worth about US$2-billion, including debt. At the time, both companies said the acquisition would allow Xplornet to increase and accelerate its investments in high-speed broadband for underserved markets. Xplornet pledged $500-million in spending over five years.

Xplornet has borrowed heavily to build out its network, but it still has strong growth potential owing to low penetration of high-speed internet in rural and remote areas, according to ratings agency Moody's.

"On average, Xplornet has recorded double digit revenue growth (including acquisitions) in the past five years, and for the next three years we expect a continuation, driven by growing subscribers and average revenue per user," Moody's analyst Peter Adu wrote in a September research note. The agency has given Xplornet a B3 rating, with a stable trend.
This isn't the first time Xplornet has stepped in to pick up wireless assets being divested as part of a telecom merger, though the company does not currently own a mobile wireless business.

In 2017, when BCE Inc. acquired Manitoba Telecom Services Inc. (MTS) for $3.9-billion, the Competition Bureau determined that the deal would likely substantially lessen competition in Manitoba's wireless market.

To appease regulators, BCE, which owns Bell Canada, agreed to transfer 24,700 wireless customers, 40 MHz of wireless spectrum licences and six retail stores to Xplornet, creating a new wireless player called Xplore Mobile. (Spectrum refers to airwaves used to transmit wireless signals.) BCE sold another chunk of wireless subscribers and retail stores to Telus for $300-million. This type of divestment plan is known as a merger remedy.

The remedy faced some resistance from the Competition Bureau, according to sources familiar with the discussions, but the regulator ultimately approved it. The Globe is not identifying the sources because they were not authorized to speak publicly about the matter. (Asked to comment on the MTS transaction, the Competition Bureau said it is required by law to conduct its work, including merger reviews and remedy negotiations, confidentially.)

Xplore Mobile was not part of Stonepeak's acquisition of the company. Xplornet's owners split their wireless and home internet divisions into two separate businesses. They tried to run a separate sale process for the wireless unit, then ended up not selling it, according to a person familiar with the negotiations. The Globe is not identifying the source because they were not authorized to discuss the talks publicly.

Consumer advocates and researchers say BCE's wireless divestitures did little to stimulate competition in Manitoba's mobile market.

"There's plenty of credible evidence to suggest that the Xplore Mobile remedy has not been effective," said Ben Klass, a telecom researcher and PhD candidate at Carleton University.

Wireless prices in Manitoba were once among the lowest in the country, but in recent years other provinces have been catching up, Mr. Klass said. And Xplore Mobile has shuttered some of the stores it had acquired from MTS. Its website currently lists just one physical retail location, in Brandon.

Representatives of Xplornet did not respond to requests for comment.

Stonepeak invests in communications infrastructure, renewable energy and transportation and logistics. Over the past decade, the firm has made significant investments in wireless towers, data centres, fibre-optic networks and residential broadband networks.

It typically holds on to its investments for at least five to seven years, spurring growth by upgrading networks before either taking the businesses public or selling them to other investors, such as pension funds.

Michael Geist, a law professor at the University of Ottawa, said he is skeptical that selling Shaw's wireless business to Xplornet would address competition concerns surrounding the Rogers-Shaw merger.

"To the best of my knowledge, [Xplornet] has never made lower-cost pricing a major differentiator," Mr. Geist said in an e-mail.

Xplornet is not the only bidder circling Freedom, a mobile carrier with around two million customers in Ontario, Alberta and British Columbia. While it's unclear how many potential buyers are in talks with Rogers, The Globe has previously reported that Freedom Mobile founder Anthony Lacavera, backed by a group of investors including Twin Point Capital and Baupost Group, has offered to pay $3.75-billion for the wireless carrier.

The Canadian Radio-television and Telecommunications Commission recently approved the transfer of Shaw's broadcasting distribution business to Rogers.

Quebecor Inc., which has publicly expressed its interest in Freedom, has not been involved in the talks, according to a person familiar with the matter. The Globe is not identifying the source because they were not authorized to discuss the matter publicly.

Last summer, Xplornet spent $244-million in a federal auction for 5G wireless airwaves, picking up 99 licences across the country. The company has been planning to use 5G to deliver home internet service through fixed wireless technology, although the spectrum could be used for mobile services as well.

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