Unit 4. Merger Antitrust Litigation: T-Mobile/Sprint Case Study

Merger Antitrust Law

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Sprint®

NB: The data in this deck has been drawn from a variety of sources, not all of which may be accurate.

Introduction to the Deal
(a proponent's perspective)

The deal

- T-Mobile US to acquire Sprint
  - All-stock deal with an enterprise value of $146 billion
    - Implicit valuation for Sprint: $59 billion
  - The new company will be call T-Mobile US and trade on the NASDAQ
  - Ownership of combined company:
    - 42% Deutsche Telekom (majority owner of T-Mobile)[1]
    - 27% Softbank (83% majority owner of Sprint)
    - 31% Public
  - T-Mobile CEO John Legere to run combined company

[1] But will hold 69% of the voting rights in the combined company and control nine of the fourteen seats on T-Mobile's board.

The parties

- T-Mobile
  - Third largest mobile network operator
    - Provides wireless services to 79.7 million postpaid, prepaid and wholesale customers
    - By revenue
      - 65% Branded postpaid customers
      - 30% Branded prepaid customers
      - 5% Wholesale customers and roaming and other services (including Mobile Virtual Network Operator ("MVNO") customers)
  - Brands
    - T-Mobile
    - Metro by T-Mobile (formerly MetroPCS)
  - Size
    - Market value: $55 billion (as of ____)
    - Employees: Approximately 52,000 full-time and part-time employees
    - Revenue: $43.3 billion
  - Growing rapidly since 2010—highly innovative and disruptive in the marketplace

The parties

- Sprint
  - Fourth largest mobile network operator
    - Postpaid
    - Prepaid
    - Wholesale
  - Also offers wireline service
  - Brands
    - Sprint
    - Boost Mobile
      - Primarily serves subscribers that are looking for value without data limits
    - Virgin Mobile
      - Primarily serves subscribers that are looking to optimize spend
      - Designated as a Lifeline-only Eligible Telecommunications Carrier (reimbursed by U.S. Government)
  - Size (as of March 31, 2019):
    - Market value: $26 billion
    - Employees: 28,500
    - Revenues: $22.6 billion
  - Positions itself as the lowest-cost wireless company among the top 4 carriers

Business rationale

- Little expected future growth in the total number of wireless customers
  - Almost everyone has a cell phone
  - Customers holding onto devices longer
- So increased profits in the future have to come from—
  1. Cannibalizing the customers of other MNOs,
  2. Reducing costs
  3. Inducing existing customers to spend more on the wireless services, or
  4. Expanding into new markets

Business rationale

1. Cannibalizing the customers of other MNOs
   - Markets are very competitive with existing technologies
   - Becoming much hard to shift share

Business rationale

2. Cost reductions from deal:
    - Projected $6 billion annually in run-rate synergies
        - Creates a net present value of $43 billion to shareholders (net of expected costs)
    - Some major components of cost savings
        - Close redundant retail stores
        - Close redundant cell towers
        - Eliminate duplicate overhead

Business rationale

3. Inducing customers to spend more
   - 5G is the key—offers gigabyte speeds over wireless
     - 78% of people surveyed expect to increase their video-streaming once 5G is available
   - Standard is set—the issue if the speed of deployment
     - Neither T-Mobile nor Sprint have the ability on their own to make the investments needed to keep pace with Verizon and AT&T
     - Together, the companies would have the ability and incentive to significantly increase investment in 5G and exceed the pace of deployment of Verizon and AT&T

Business rationale

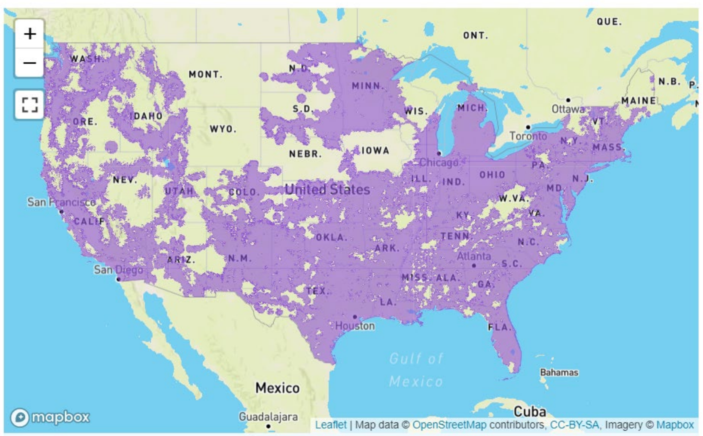
3. Inducing customers to spend more
   - Two problems: Spectrum and build-out costs
     - Verizon and AT&T, despite their size, have limited unused spectrum capacity for 5G nationwide deployment
     - Combined T-Mobile/Sprint spectrum assets allow combined company to deploy 5G nationwide much faster
       - T-Mobile: Uses mmWave (20-60 GHz) [also used by Verizon and AT&T]
         - High speeds but only short distances and easily blocked (e.g., by window glass)
         - Cannot be used in rural areas
       - Sprint: Uses 2.5 GHz (including considerable unused capacity)
         - Lower speeds by can travel further
         - Can be used in rural areas
     - Build-out costs: Cost estimates run into the hundreds of billions of dollars for the full transition

Business rationale

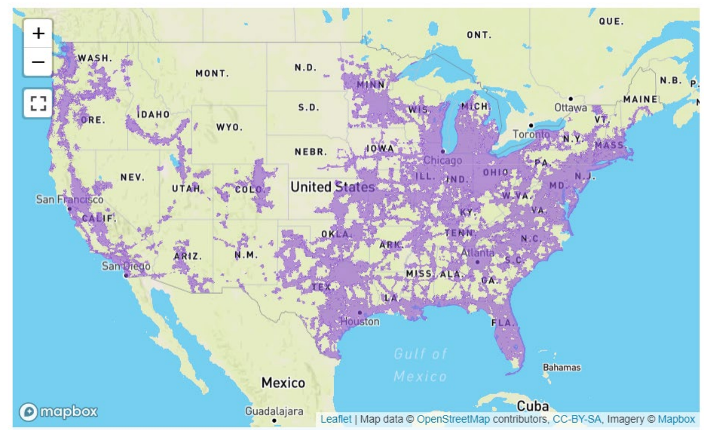
4. Expanding into new markets
   - With a nationwide 5G network, combined company can expand into video delivery and other products that require high capacity connections
   - May initiate the post-smartphone era, where many other devices are wireless enabled (e.g., self-driving cars)
   - More generally compete with cable companies for Internet customers

Customer benefits

1. Expand service area to Sprint customers
    - T-Mobile service area much broader than Sprint



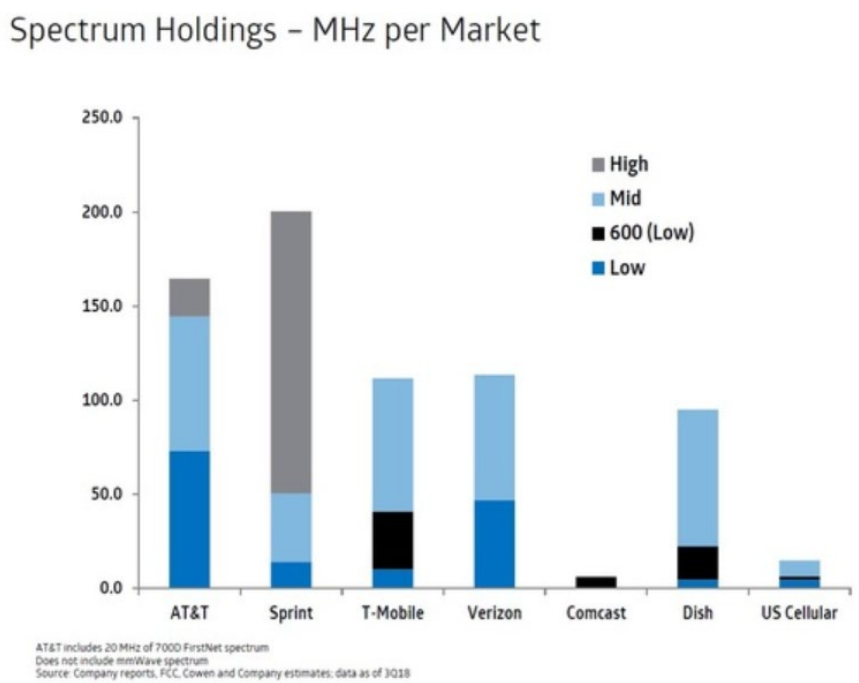
T-Mobile



Sprint

Customer benefits

- Combination will—
  2. Accelerate nationwide deployment of 5G
     - Brings consumers fiber optic speeds on their mobile devices
     - Also will allow the U.S. to retake the lead in 5G technology and maintain its worldwide competitiveness



Customer benefits

3. Lower consumer prices
   - Create much greater competition with Verizon and AT&T, resulting in lower prices to consumers
   - T-Mobile has been a significant disruptive force in the wireless industry in pricing, product offerings, and innovation, and this will continue in the combined company
4. Drive significant U.S. job growth
   - The New T-Mobile plans to invest up to $40 billion in its new network and business in the first three years alone (a 46% increase over what T-Mobile and Sprint spent combined in the past three years)
   - New investment will force competitors to increase their investment
   - All of this new investment will great a significant number of new jobs

Customer benefits

- FCC approval is required for this deal
- The merger will advances two major FCC goals—
  1. Advancing United States leadership in 5G
  2. Closing the digital divide in rural America

Overlaps

Business line	T-Mobile	Sprint
Wireline		X
Wireless	X	X

Wireless

All Wireless

	Share	
Verizon	34%	
AT&T	27%	
T-Mobile	17%	
Sprint	12%	
Others (5)	10%	(wholesalers)
	100%	
Combined	29%	

Any Questions?