The Sunday Brief: Clearly an Unclear Outcome
20 January 2013

Greetings from Dallas and Charlotte, where I had the opportunity and privilege to share my thoughts on the next 20 years of technology with the senior class of Davidson College (presentation available upon request). I also had the opportunity to catch up with several of you in Charlotte, and to take in two Davidson men's basketball games (including last night's win over College of Charleston).

There are many earnings results coming next week: Verizon and Google on Tuesday, Apple on Wednesday, and Microsoft and AT&T on Thursday. But before we dive too deeply into special charges, the network effects of Superstorm Sandy fiber upgrades, smartphone subsidies, connected device economics and their effects on ARPU/ ARPA, and pension mathematics (which investors generally seem to be ignoring), it's worth a semi-deep dive into the motives surrounding the current purchase offers for Clearwire.

Rather than consume a lot of space, we are attaching the links to the actual releases outlining their respective offers (or, in the case of Dish, a "preliminary indication of interest"). Sprint's announcement is here and Dish Network's announcement (via Clearwire) is here.

Several questions come to mind when analyzing this battle. First, **why would Dish Network**, who already owns 40 MHz of spectrum at the 2GHz band (and spent $2.9 billion to get it), as well as some 700MHz spectrum ($712 million cost for the licenses alone), **want to buy Clearwire**? Although Dish received approval in mid-December to operate the AWS-4 spectrum (2GHz band) without a satellite link requirement, that network is going to take considerable time to build. Dish said in a recent FCC filing that it could take 3-4 years to produce a commercially available service. One big reason why Clearwire is attractive is that it makes Dish a player today, not in 2016.

Clearwire is also attractive because their spectrum is clean and plentiful (a recent Yankee Group study showed that Clearwire had 150 MHz of spectrum in most of the major US markets). Due to Clearwire's work on TDD LTE with China Mobile, they have a pretty good idea of how to design and deploy this spectrum efficiently. And pairing this spectrum with either the 700MHz or the 2.0 GHz band would not be less challenging than the network transitions faced by each of the other major providers. Clearwire brings systems, processes, relationships and expertise to design and implement Dish's wireless network.

Finally, there's the issue of Clearwire's *retail* customer base, currently at 1.4 million subscribers and growing (albeit slowly). The data-focused retail business provides Dish with an $800 million revenue stream which could be made profitable with additional focus and care (contrast Clearwire's 5.1% churn with Dish Network's 1.8% monthly customer churn in 3Q 2012). Dish could even repurpose some of the Wi-Max equipment to provide lots of reliable cell site backhaul services.

Fixing Clearwire's retail woes will not happen overnight, however. There's a lot of local market integration and channel management that Dish will have to perform. However, the "fire in the belly" against cable is institutionalized at Dish, and the probability that the retail fixed wireless business would thrive and grow is far greater at Dish than at Sprint.

Why does Dish want Clearwire? Frankly, there are few other choices. Dish's long-term equity value depends on a terrestrial complement to their cash-generating satellite business. They have invested over $3.9 billion already in wireless spectrum, and now need an operation to help them generate a return. Clearwire not only brings that operation, they also bring truckloads of clean spectrum that will require billions of additional investment to monetize. The Dish bid for Clearwire is not some last-minute "let's throw some sand in the gears" move by Mr. Ergen and Mr. Clayton. It's an opportunity to create significant shareholder value, a "buy vs. build" decision with significant ramifications to Dish if it is not successful.

This leads us to the second question, which is **Why would Sprint want to keep Clearwire's retail business?** Sure, there are some synergies to achieve from store closings (I know one in the tony Kansas City Plaza shopping district that will be at the top of the list), but why should that be Sprint's problem?

I have discussed with many of you what the acquisition of the Clearwire retail base means to Sprint and the nightmares that will follow. Here is the current Clearwire map:

Abilene, Amarillo, Corpus Christi, Killeen, Lubbock, Midland/ Odessa, Waco, Wichita Falls. These are the more remote markets where Sprint would need to serve tens of thousands of retail Wi-Max customers, at least while the service was shuttered or repositioned. If Sprint's history of managing the transition from Alamosa (Sprint's largest affiliate network) to Sprint is any indication, it would be very difficult. The Alamosa transition did not cross brands and networks – this one will.

Sprint also would become a retail Internet Service Provider to hundreds of thousands of home-based connections. It hasn't been since the Sprint Internet Passport days (sold to Earthlink in 1998) that Sprint was a provider of connections to homes to this degree. It's not an impossible task, but it's going to be even more difficult to transition this service from Wi-Max to LTE (if Sprint decides to maintain the retail business in the current form).

It's pretty clear where this is leading. Sprint will likely curtail the retail operation whose expertise and systems Dish could use to forge a double/ triple play to compete against cable + Verizon. Sprint needs Clearwire's spectrum more than Dish, at least in the short run. Dish needs network expertise, and the number of possible providers to a scalable network alternative is dwindling with each merger announcement.

Dish and Sprint share common enemies – an expanding AT&T who will grow its LTE footprint to 300 million of the population and double their U-Verse coverage by the end of 2015, and a Verizon/ cable alliance that appears to be gaining traction. Sprint needs a "breadth" strategy that would make it less reliant on roaming costs. Dish has a lot of penetration outside of major metropolitan areas.

On the face of it, there's so much that makes sense for a wide-ranging partnership between the two companies. **Will egos get in the way of a landmark deal between the three companies?** Verizon, AT&T, and T-Mobile certainly hope so.

If you have friends who would like to be added to this email blog, please have them drop a quick note to sundaybrief@gmail.com and we'll add them to the following week's issue. Have a terrific week!

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