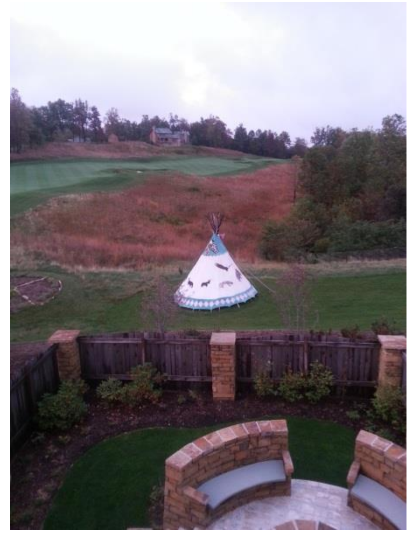
The Sunday Brief: Conversation Starters
7 October 2012



Greetings from Dallas and the Primland resort in southern Virginia (a beautiful spot from which to strategically plan anything). It's been a topsy-turvy week in telecom, with T-Mobile launching a bid for Metro PCS and throwing the best laid plans of their larger competitor (Sprint) into turmoil. No one imagines the story is over, and, while speculation has run rampant regarding a possible Sprint counteroffer, nothing has been made public as of 5 p.m. CT Sunday.

As we discussed in last week's column (and with many of you after the transaction was announced), the benefit of creating a separate currency for the T-Mobile USA entity is a large secondary benefit of the transaction. It's not as big as the increased distribution scale that T-Mobile and MetroPCS will achieve, but it's one less problem for T-Mobile's parent, Deutsche Telekom, to solve.

With that drama as a backdrop, this week features two fall conventions, the COMPTEL show in Dallas and CTIA MobileCON in San Diego. The fall shows generally focus on a particular venue (e.g., MobileCON has an agenda full of M2M and other enterprise-focused topics). They tend to be void of major announcements, but generally are well attended. The COMPTEL show is broader than MobileCON, with tracks on backhaul and infrastructure, cloud computing, and regulatory policy. Each expo serves different parts of the value chain, but both will extend the telecom conversation.

At each of these events, there are cocktail parties and dinners. Usually there is the chit-chat about possible election outcomes and the implications to the telecom industry, the business environment through the end of 2012 and 2013, and specific company-to-company business. Occasionally, however, there are those questions that transform a dinner. These questions usually take a different angle, and elicit broader and sometimes more personal views. In this light, should the conversation head down the same old path, try one of these two questions on for size.

First, a very interesting question would be **"How has AT&T managed to create more stock market value this year than Amazon, Google, or Microsoft?"** For years, AT&T and Verizon have been beaten up by the Wall Street analysts when it comes to shareholder value creation. Comments usually start with "I love their dividend, but…" Now, it starts with "Have you seen AT&T's stock price recently?"

We have tracked equity, debt, and pension liability levels for each of the carriers for over three years. Barring any sudden surge in sentiment for Amazon, Google, or Microsoft (which could happen with the upcoming launches of the Kindle HD, Windows 8, or many new Android devices), AT&T shareholders will have more to cheer about than their counterparts in Seattle and Mountain View (in addition to a $1.76 dividend payment over the past four quarters). It's an incredible comeback.

Total Shareholder Calculation						
Year-to-date 2012						
Stock Name	**Ticker**	**12/30/2011**	**10/5/2012**	**% gain**	**Shares (millions)**	**Inc/(Dec) in $billions**
Amazon	AMZN	$ 173.10	$ 258.51	49%	452	$ 38.61
Microsoft	MSFT	$ 25.96	$ 29.85	15%	8,380	$ 32.60
Google	GOOG	$ 645.90	$ 767.65	19%	327	$ 39.82
Apple	AAPL	$ 405.00	$ 652.59	61%	937	$ 232.09
Four Horsemen Total						**$ 343.12**
Stock Name	**Ticker**	**12/30/2011**	**10/5/2012**	**% gain**	**Shares (millions)**	**Inc/(Dec) in $billions**
Verizon	VZ	$ 40.12	$ 47.05	17%	2,850	$ 19.75
AT&T	T	$ 30.24	$ 37.86	25%	5,770	$ 43.97
Sprint	S	$ 2.34	$ 5.20	122%	3,000	$ 8.58
Metro PCS	PCS	$ 8.68	$ 12.65	46%	363	$ 1.44
Leap/ Cricket	LEAP	$ 9.29	$ 6.18	-33%	79	$ (0.25)
Clearwire	CLWR	$ 1.94	$ 1.35	-30%	452	$ (0.27)
CenturyLink	CTL	$ 37.20	$ 39.82	7%	620	$ 1.62
Windstream	WIN	$ 11.74	$ 10.17	-13%	586	$ (0.92)
Frontier	FTR	$ 5.15	$ 4.77	-7%	995	$ (0.38)
Comcast	CMCSA	$ 23.71	$ 36.54	54%	2,710	$ 34.77
Time Warner Cable	TWC	$ 63.57	$ 99.25	56%	314	$ 11.21
Cablevision	CVC	$ 14.22	$ 16.96	19%	274	$ 0.75
Charter	CHTR	$ 56.94	$ 76.53	34%	101	$ 1.97
Wireless/ Cable Total						**$ 122.25**
Dividend difference (est.)						$ 7.14
Return Advantage to Four Horsemen:						**$ 213.73**
Return multiple						2.65

AT&T was left for dead after the T-Mobile merger fell through. Many of the most astute analysts in the industry believed that they were "choice less" and needed an infusion of new thinking, perhaps more focused on global expansion. The Texas-sized telecom giant has not solved every problem this year, and without a doubt, many investors view VZ and AT&T as "safety plays" because of the lack of global exposure and healthy dividend yields (4.6% for AT&T and 4.4% for VZ). But the numbers speak for themselves – even with aggressive share buybacks, AT&T has managed to generate an additional $44 billion in equity market value thus far in 2012. That's about as much as Comcast and Time Warner combined.

Why AT&T has succeeded this year is a combination of business skill, balance sheet rebalancing (which we discussed over several Sunday Briefs this summer) and the previously described favorable investing environment. Their embedded base of iPhone4 ("You are holding the phone incorrectly") users largely forgave them and AT&T is estimated to have had over 68% of the US iPhone5 pre-sales, according to Comscore. They also have continued to pursue a broad balance of new smartphone launches, including this week's announcements of the Nokia Lumia 920 and the HTC One X+.

There are plenty of questions that remain to be answered, but AT&T is creating more earnings certainty with more smartphones (and metered billing plans), a larger LTE footprint, U-Verse growth, and continued operational improvement focus. **Why did AT&T win the market value prize?** They increased value because they executed on the fundamentals – a lesson for the entire industry.

Another question sure to spark conversation is "What should Google do next?" Many of you had reactions to a past Sunday Brief called "Can Motorola Save Google?" and we started to get some glimpses of this with Google's announcement last week that the costs to integrate Google's operations would be higher and take longer than previously anticipated. Motorola was purchased by Google for their patent portfolio, but right now they are the gift that keeps on giving. Managing carrier hardware relationships, whether for set-top boxes or for smartphones is a lot different than obtaining and managing exclusive wireless search agreements. Google is removing Motorola's make-up, and it's not pretty.

Google is getting deserved credit, however, for their maps prowess in light of the Apple Maps fiasco. No one denies that Google has faced challenges in creating world-class maps and navigation software, but there were few that dared to (or could) challenge or replace the product. Apple Maps has tried, and for

the most part created a very solid maps application. That is, unless you live in Japan (where iPhone5 users are quickly moving to the Navitime app), Brooklyn (see picture of the Brooklyn Bridge), or one of the other 61 countries representing 5 billion people who will take a step back in functionality because of the iOS6 changes. Former Apple Board member and current Google Chairman Eric Schmidt was a little more direct when he said "*We think it would have been better if they had kept ours. But what do I know? What were we going to do, force them not to change their mind? It's their call."* For a full transcript of Eric's interview several days ago, click here.

Google has expanded beyond search and display. Their stock hit an all-time high on Friday. They have over $45 billion in cash and marketable securities as of June 30. They are a key supplier to Verizon Wireless. They have extensive relationships and stand to benefit from either a T-Mobile/ Metro PCS or a Sprint/ Metro PCS partnership. They are completing a very powerful fiber network in Kansas City that will test loyalties to traditional cable and U-Verse products. They are global. And now they are an equipment producing company. Where should Google go next?

Unfortunately, there are no easy answers here. Should Google play defense and acquire another handset manufacturer like Nokia (who is more like Apple than Google)? Why has Google not focused more on the "white space" spectrum? Should Google focus more on acquiring enterprise customers, perhaps through an infrastructure play? Should they make additional wireless advertising investments? Should they stick with their current portfolio and invest in additional intellectual property?

These are some of the many questions facing Google, and definitely the subject of hours of dinner and post-dinner conversation.

Well, I'm off to the COMPTEL show. As always, welcome your comments and questions. 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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