Deal Logic
Sprint / T-Mobile

WHU Finance Society

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Abstract

The two major US mobile operators, T-Mobile US Inc (T-Mobile) and Sprint Corp (Sprint), announced the merger of both firms in April 2018. The merger was initiated by T-Mobile that recently ranked as the third largest player in the US mobile telecommunications market. The transaction supports T-Mobile’s aim to build the most extensive mobile network with the highest transmission capacity until 2024.

Deutsche Telekom AG and SoftBank will hold 42.0% and 27.0% of the new firm respectively. As a consequence of the deal, the new entity will challenge the top two market leaders Verizon and AT&T and reform the current telecommunications business landscape in the USA.

On 29.04.2018, T-Mobile announced that it would acquire Sprint in a stock swap transaction valued at USD 26.7bn. The merger is expected to be completed in the first half of 2019 and after then T-Mobile and Sprint, now the 3rd (19.0% market share) and 4th (12.0% market share) largest telecommunications companies in the US, will form a stable force to challenge the top two competitors Verizon and AT&T.

The two companies have sought ways to cooperate due to the high compatibility of their businesses for years. In 2014, Sprint already tried to acquire T-Mobile for which Sprint launched a USD 50bn bank loan but failed eventually because Federal Communications Commission and Federal Trade Commission rejected the proposal. The second attempt in 2017 was interrupted since the CEO of SoftBank, Masayoshi Son, had left the negotiations. This time, T-Mobile initiated the transaction.

Though there is an uncertainty regarding the approval by the US government, various benefits such as strategic planning in 5G and creating more jobs and competition in the telecom market are anticipated.

T-Mobile and Sprint are controlled respectively by Deutsche Telekom AG (69.0%) and SoftBank (83.0%). Deutsche Telekom AG will hold 42.0% and SoftBank 27.0% of the new firm. Moreover, Sprint’s enterprise values is estimated with USD 59bn and the newly merged company is worth USD 146bn. Assuming an estimated operational synergies of USD 6bn, the net present value of the potential synergies is beyond USD 43bn. As for the management moves, T-Mobile’s CEO John Legere will be the CEO of the new company and CEOs of SoftBank and Sprint will be in the board members.

The consolidation of two out of the four major US telecom companies would help to expand 5G application on a nationwide level. Furthermore, T-Mobile plans to promote 5G on the frequency of 600MHz while Sprint targets a frequency of 2.5GHz, which implies a challenge to other top telecom companies and cheaper fees for the consumers. Moreover, the merged firm will invest USD 40bn in expanding new network and business operations points for the first 3 years, creating thousands of jobs and narrowing the digital gap between rural and urban areas.

Authors’ Note

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Deal Logic – Sprint/T-Mobile
**Deal Summary**

All values in EURm, except Price, Initial (EUR) & Price, Paid (EUR)

### Summary

- **Target**: Sprint Corp
- **Acquirer**: T-Mobile US Inc
- **Date, Announ.**: 29.04.2018
- **Date, Effective**: Pending
- **Deal Attitude**: Friendly
- **Consideration**: Divestiture Stock Swap
- **%Held/%Acq.**: 0.0 / 100.0
- **Deal Value**: 48,390
- **Price, Initial**: 5.46
- **Price, Expected**: 6.62
- **Total Fees**: 110.3
- **Premium*, 1d**: 28.7
- **Premium*, 1w**: 33.4
- **Premium*, 4w**: 25.1

### Synopsis

- **T-Mobile**, a unit of Deutsche Telekom AG, agreed to merge with Sprint, an Overland Park-based wireless telecommunications carrier and a unit of SoftBank Group Corp, in a stock swap transaction valued at USD 26.7bn.
- **T-Mobile** offered 0.1 common shares per Sprint common share. Based on T-Mobile’s closing stock price of USD 64.52 on 27.04.2018, the last full trading day prior to the announcement, each Sprint share was valued at USD 6.62.

### Rationale

- **The purposes of the transaction for T-Mobile US and Sprint** were to create a combined company with lower costs, greater economies of scale, and the resources to provide U.S. consumers and businesses with lower prices, better quality, and greater market competition. As a result of the acquisition, synergies before taxes were expected to be USD 6bn.

### LTM Transaction Multiples

<table>
<thead>
<tr>
<th>Multiples</th>
<th>Target</th>
<th>Acquirer</th>
<th>Industry†</th>
</tr>
</thead>
<tbody>
<tr>
<td>EV/Sales</td>
<td>1.8x</td>
<td>2.0x</td>
<td>2.2x</td>
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<tr>
<td>EV/EBITDA</td>
<td>5.4x</td>
<td>7.2x</td>
<td>7.9x</td>
</tr>
<tr>
<td>EV/EBIT</td>
<td>25.1x</td>
<td>16.3x</td>
<td>23.3x</td>
</tr>
<tr>
<td>EV/FCFF</td>
<td>n/a*</td>
<td>25.6x</td>
<td>n/a*</td>
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<tr>
<td>P/E</td>
<td>88.9x</td>
<td>20.5x</td>
<td>3.2x</td>
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### Financial Advisors

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<td>The Raine Group</td>
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<tr>
<td>Centerview Partners</td>
<td>13.2</td>
<td></td>
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<tr>
<td>JP Morgan</td>
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<td></td>
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<tr>
<td>SMBC Nikko Securities</td>
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</tr>
<tr>
<td>Mizuho Securities</td>
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<tr>
<td>Goldman Sachs &amp; Co</td>
<td>18.6</td>
<td></td>
</tr>
<tr>
<td>PJT Partners Inc</td>
<td>16.5</td>
<td></td>
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<tr>
<td>Evercore Partners</td>
<td>8.2</td>
<td></td>
</tr>
<tr>
<td>Barclays</td>
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<td></td>
</tr>
<tr>
<td>Credit Suisse Group</td>
<td>1.6</td>
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</table>

* Pre-bid (%)

Sources: Thomson Reuters Eikon

* negative

† Telecommunications services, SIC: 481
**Recent News**

- **2019/01** Google demands that T-Mobile and Sprint do not sell Google Fi customers' location data.
- **2019/01** Sprint completes world's first 5G data call using 2.5 GHz and massive MIMO on commercial network.
- **2018/12** T-Mobile and Sprint get approval from the Committee on Foreign Investment (US) for the proposed merger.
- **2018/12** Analysts remain in favor of Sprint Corporation.
- **2018/11** Sprint beats revenue and profit forecasts, shares rise.
- **2018/06** Sprint appoints new CEO and CFO.

**Company Description**

- **Sprint Corporation** (NYSE: S) is an American telecommunications company headquartered in Overland Park, Kansas, United States. Sprint provides wireless and internet services and is the fourth-largest mobile network operator in the United States. The company served 50 million customers as of October 2018.
- The majority stakes of the company were owned by the Japanese telecommunications company SoftBank Group Corp.
- Sprint operates in two main segments: 
  - **Wireless services**: offered on a postpaid and prepaid payment basis to both retail and wholesale subscribers.
  - **Wireline services**: provides voice, data and Internet Protocol (IP) communication services to Sprint's Wireless segment.

**Key Management & Ownership Structure**

- **Michel Combes**
  - CEO
  - Since 2018

- **Andrew Davies**
  - CFO
  - Since 2018

**Key Financials**

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<tr>
<td>Sales</td>
<td>28.1</td>
<td>29.1</td>
<td>28.3</td>
<td>29.1</td>
<td>29.2</td>
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<tr>
<td>% growth</td>
<td>(6.8)</td>
<td>3.6</td>
<td>(2.8)</td>
<td>2.8</td>
<td>0.5</td>
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<tr>
<td>EBITDA</td>
<td>7.1</td>
<td>8.7</td>
<td>9.9</td>
<td>11.1</td>
<td>11.5</td>
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<tr>
<td>% margin</td>
<td>25.3</td>
<td>29.8</td>
<td>34.9</td>
<td>38.3</td>
<td>39.4</td>
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<tr>
<td>Net Inc.</td>
<td>(1.7)</td>
<td>(1.1)</td>
<td>6.4</td>
<td>0.2</td>
<td>0.2</td>
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<tr>
<td>% margin</td>
<td>(6.2)</td>
<td>(3.6)</td>
<td>22.8</td>
<td>0.8</td>
<td>0.6</td>
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<tr>
<td>EPS</td>
<td>(0.44)</td>
<td>(0.26)</td>
<td>1.58</td>
<td>0.05</td>
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**LTM Stock Price Performance**

* Prior To Deal
Sources: Sprint, Yahoo Finance, MSN Money, Thomson Reuters Eikon

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T-Mobile – At A Glance

Recent News*

- **2019/01** T-Mobile reported strong subscriber growth in 2018
- **2018/12** T-Mobile, Sprint win both U.S. security and Team Telecom approvals for merger with Sprint
- **2018/12** T-Mobile says Sprint deal may close as early as first-quarter next year
- **2018/11** Merger of Sprint and T-Mobile would lower wireless workers’ paychecks, researchers say
- **2018/08** T-Mobile runs behind-the-scenes PR push to support Sprint deal
- **2018/06** U.S. Senate panel to hold hearing on Sprint T-Mobile merger
- **2018/05** A merged T-Mobile and Sprint will still be smaller than AT&T or Verizon
- **2018/04** T-Mobile agrees to acquire Sprint

Company Description

- **T-Mobile US, Inc.** (NASDAQ: TMUS) is an United States-based wireless network operator headquartered in Bellevue, Washington, United States and whose majority stakeholder is the German telecommunications company Deutsche Telekom.
- **T-Mobile** provides wireless voice and data services in the United States, Puerto Rico and the U.S. Virgin Islands under the T-Mobile and Metro by T-Mobile brands. The company is the third largest wireless carrier in the United States with 77.2 million customers as of Q4 2018.
- **T-Mobile US** operates as a single operating segment and all of its revenues for the years ended December 31, 2018 were earned in the United States, including Puerto Rico and the U.S. Virgin Islands.

Key Management & Ownership Structure

John J. Legere
CEO
Since 2013

J. Braxton Carter
CFO
Since 2013

Key Financials

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<tr>
<td>Sales</td>
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<td>35.4</td>
<td>37.7</td>
<td>39.7</td>
<td>41.8</td>
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<tr>
<td>% growth</td>
<td>16.2</td>
<td>9.0</td>
<td>6.5</td>
<td>5.4</td>
<td>5.3</td>
</tr>
<tr>
<td>EBITDA</td>
<td>9.1</td>
<td>9.8</td>
<td>10.7</td>
<td>11.4</td>
<td>12.2</td>
</tr>
<tr>
<td>% margin</td>
<td>27.9</td>
<td>27.6</td>
<td>28.3</td>
<td>28.6</td>
<td>29.1</td>
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<tr>
<td>Net Inc.</td>
<td>1.2</td>
<td>2.0</td>
<td>2.5</td>
<td>3.0</td>
<td>3.6</td>
</tr>
<tr>
<td>% margin</td>
<td>3.8</td>
<td>5.8</td>
<td>6.5</td>
<td>7.5</td>
<td>8.9</td>
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<tr>
<td>EPS</td>
<td>1.47</td>
<td>2.36</td>
<td>2.89</td>
<td>3.50</td>
<td>4.38</td>
</tr>
</tbody>
</table>

LTM Stock Price Performance

Normalized

* Prior To Deal
 Sources: T-Mobile, Yahoo Finance, MSN Money, Thomson Reuters Eikon

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