

Is Ma Bell Back? AT&T Acquiring T-Mobile USA

By Tom Young, Partner & Managing Director — Infrastructure Services, TPI

On March 20, 2011 AT&T (NYSE: T) announced it had entered into a definitive agreement to acquire T-Mobile USA from Deutsche Telekom (FWB: DTE) in a \$39 billion cash-and-stock transaction.

According to AT&T, the strategic rationale for the deal included:

- Strengthening and expanding U.S. mobile broadband infrastructure
- Addressing the exhaustion of spectrum in key U.S. markets due to explosive demand for mobile broadband networks, devices, apps and content
- Providing access to 4G service to T-Mobile's 34 million subscribers, which will extend AT&T's deployment to 95 percent of the U.S. population
- Quickly and dramatically improving network capacity and quality of service for customers of both companies

If the deal is approved by regulators, it will create the largest wireless carrier in the U.S., with 130 million subscribers, enabling AT&T to surge ahead of Verizon Wireless, which had about 94 million wireless customers at the end of 2010. Sprint, which was rumored to have been considering buying T-Mobile itself, would remain a distant third, with 50 million subscribers.

For Deutsche Telekom, selling T-Mobile will solve what have been persistent execution challenges, leaving the hard work to AT&T. And T-Mobile customers will now have a reliable path to 4G LTE service and access to more phones, such as Apple's iPhone.

For AT&T, this acquisition is about improving its reliability and preparing for the 4G era of

wireless communication, giving it quicker access to GSM broadband spectrum and infrastructure.

Yet any deal that takes the U.S. from four nationwide wireless players to three is bound to face tough scrutiny. Regulators here and in Europe will look closely at its impact on competition, innovation and the goal of ubiquitous wireless service. FCC Chairman Julius Genachowski may use that as an opportunity to push through some big policy changes, such as requiring AT&T to increase its wireless footprint in rural areas. Regulators may also force AT&T to make some major concessions like selling off some of its business in a manner similar to Verizon when it acquired Alltel. And while Sprint has already warned that the acquisition would "dramatically alter" the market, it is likely in play now, too, with possible suitors in British Telecom or Comcast.

More importantly, this announcement underscores the fact that enterprise clients continue to play second fiddle to consumers in the U.S. mobility space. Granted, joining these two companies will enable some to get nationwide coverage without turning to multiple mobile carriers (due to AT&T's well-known service issues in markets such as New York), and that will result in higher-volume purchases, fewer contracts to manage, and simpler integration of mobility with the rest of their U.S.-based infrastructure.

AT&T will still need to address enterprise clients' desire to create a consistent global mobility strategy. While the T-Mobile acquisition improves coverage in the U.S. market, it is not a stepping stone to greater global coverage. Further, we may see slower innovation in the U.S. market as a result of the decrease in competition.

If the T-Mobile acquisition is approved, it will be interesting to see if Sprint is pursued by players looking to get into the U.S. market. We would not be surprised if BT or other large players in regions outside the U.S. look to buy Sprint in the coming months.

The continued consolidation of the industry is a signal to enterprise clients that they should be doing a top to bottom review of their telecom strategies, specifically in the mobile computing area. Enterprise clients need to continue to refine their mobility strategies, drive the security perimeter back to the data centers, enable greater flexibility in the use of mobile platforms globally and implement TEMS systems to begin to get their arms around the mobile spending.

AT&T is projecting it will take approximately 12 months to close the deal. As we have experienced, both in market consolidation and technology advancement, many changes will take place over the next year.

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Looking for a strategic partner? Contact **Tom Young**, Partner & Managing Director, Infrastructure Services, TPI, at **+1 908 334 1358** or thomas.young@tpi.net.

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