

CWA Presentation on Proposed Sprint/T-Mobile Merger

May 3, 2019

CWA

Introduction

1. **Competitive Impacts of Proposed Merger**
2. **Retail Job Loss Analysis**
3. **Labor Market Concentration**
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5. **Rural Service Comparable Whether or Not Merger Happens**
6. **Don't Need Merger for 5G**
7. **Sprint is not a Failing Firm**

1. Competitive Impacts of Proposed Merger

The proposed merger of T-Mobile and Sprint is “presumptively anticompetitive” under controlling antitrust case law and is “presumed likely to enhance market power” under the Horizontal Merger Guidelines

- Highly concentrated markets with high barriers to entry and expansion
- Merger significantly increases concentration
- Parties do not calculate HHIs, suggesting result is same regardless of how calculations are done
- HHIs are economically valid predictor of post-merger price increases, not just a “screen”

Defining Relevant Market

Mobile telephony/broadband services is a relevant market

- Same product market defined in a series of recent transactions, including T-Mobile/MetroPCS and AT&T/T-Mobile

Prepaid wireless retail services is a relevant market

- Differentiated products between prepaid and postpaid offerings
- Very high HHIs and impact on lower-income consumers
- Prepaid plans are marketed and sold differently from postpaid plans and do not constrain pricing of prepaid plans

Spectrum Concentration

Spectrum is an essential input for wireless carriers

- On a national basis, 92% of the population of the United States – or more than 284 million people – live in counties in which the spectrum screen would be exceeded post-merger
- On state-by-state basis, the percentage of the population living in counties in which the spectrum screen would be exceeded include:
 - California **99.2%**
 - Connecticut **100%**
 - Florida **94.0%**
 - Hawaii **80.0%**
 - Illinois **97.6%**
 - Massachusetts **96.3%**
 - New York **97.5%**
 - Tennessee **81.1%**
 - Virginia **91.7%**
 - Washington **98.6%**

Unilateral Effects

Unilateral anticompetitive effects are significant because products and services offered by T-Mobile and Sprint are very close substitutes for a large number of customers

- History of fierce head-to-head competition between T-Mobile and Sprint (examples are found in CWA Comments pp. 24-30)
- Porting data shows T-Mobile and Sprint are each other's closest competitors
- Brattle economists estimate that reduced competition would increase prices as much as 15.5% on the New T-Mobile's prepaid plans and as much as 9.1% for the postpaid plans.

2. Employment Impact of Merger is Part of Public Interest Analysis

- AT&T/T-Mobile Staff Report
 - “As part of the public interest analysis, the Commission historically has considered employment related issues such as job creation”
 - Lowering the number of representatives per customer and reducing service “are, of course” not a public benefit
- Puerto Rico/GTE Order
 - Finding that a no lay-off commitment serves the public interest
- AT&T/Bell South Order
 - Finding that repatriating offshore jobs serves the public interest

(See CWA Comments in this proceeding, pp. 3-4)

Summary of Estimated Job Losses from Proposed Merger

Type of Work	Net Job Loss
Retail-Postpaid (T-Mobile, Sprint)	13,700
Retail-Prepaid (Boost, MetroPCS)	11,800
Headquarters	4,500
Total	30,000

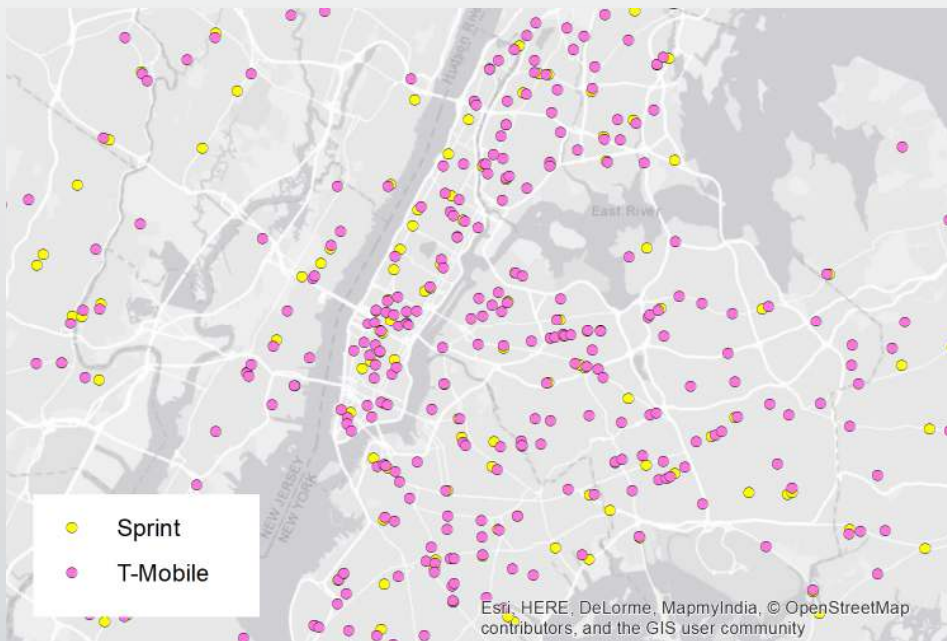
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**There will be a
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”
– John Legere
June 2018

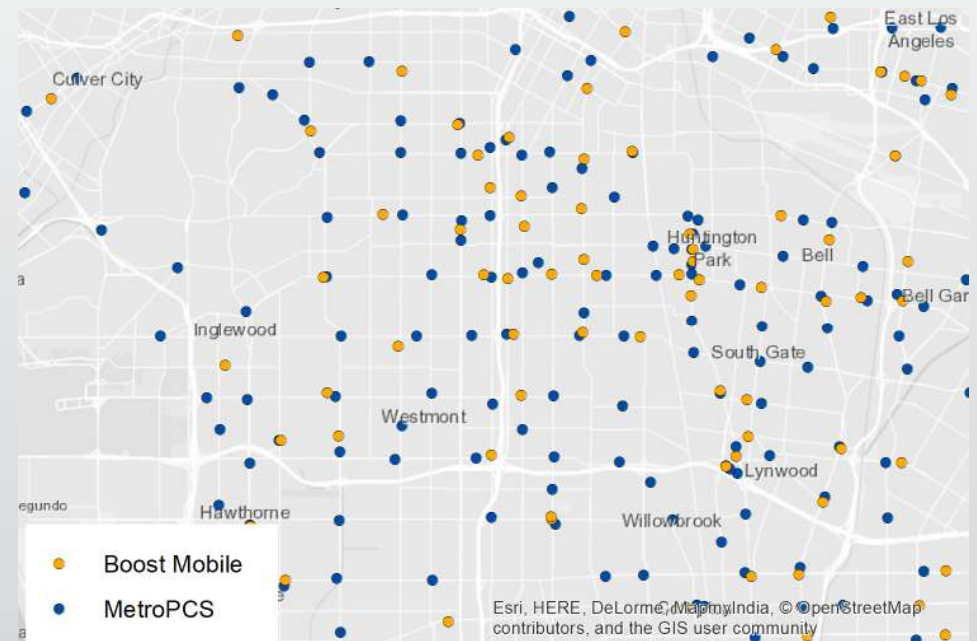
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Retail Footprint Has Significant Overlap

New York City

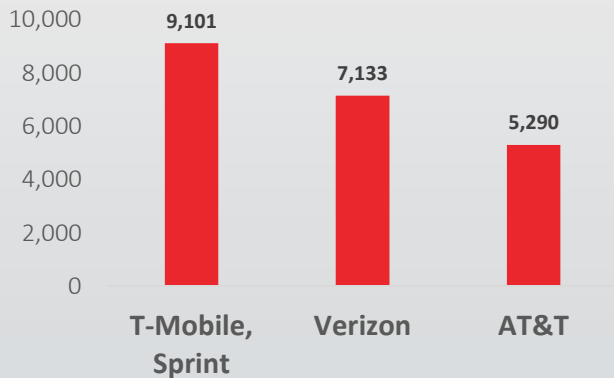


Los Angeles (South)



Post-Merger Retail Footprint Far Exceeds Competitors

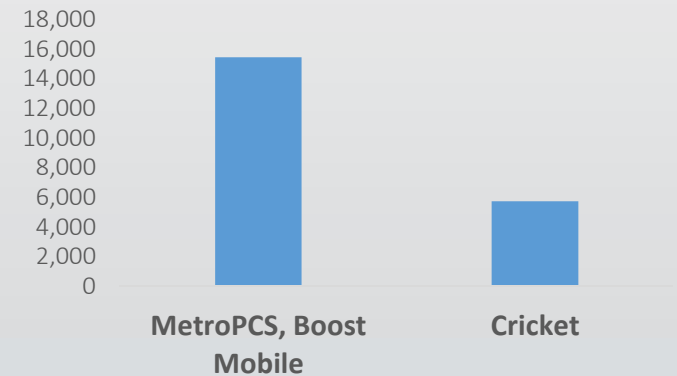
Number of stores,
postpaid brands



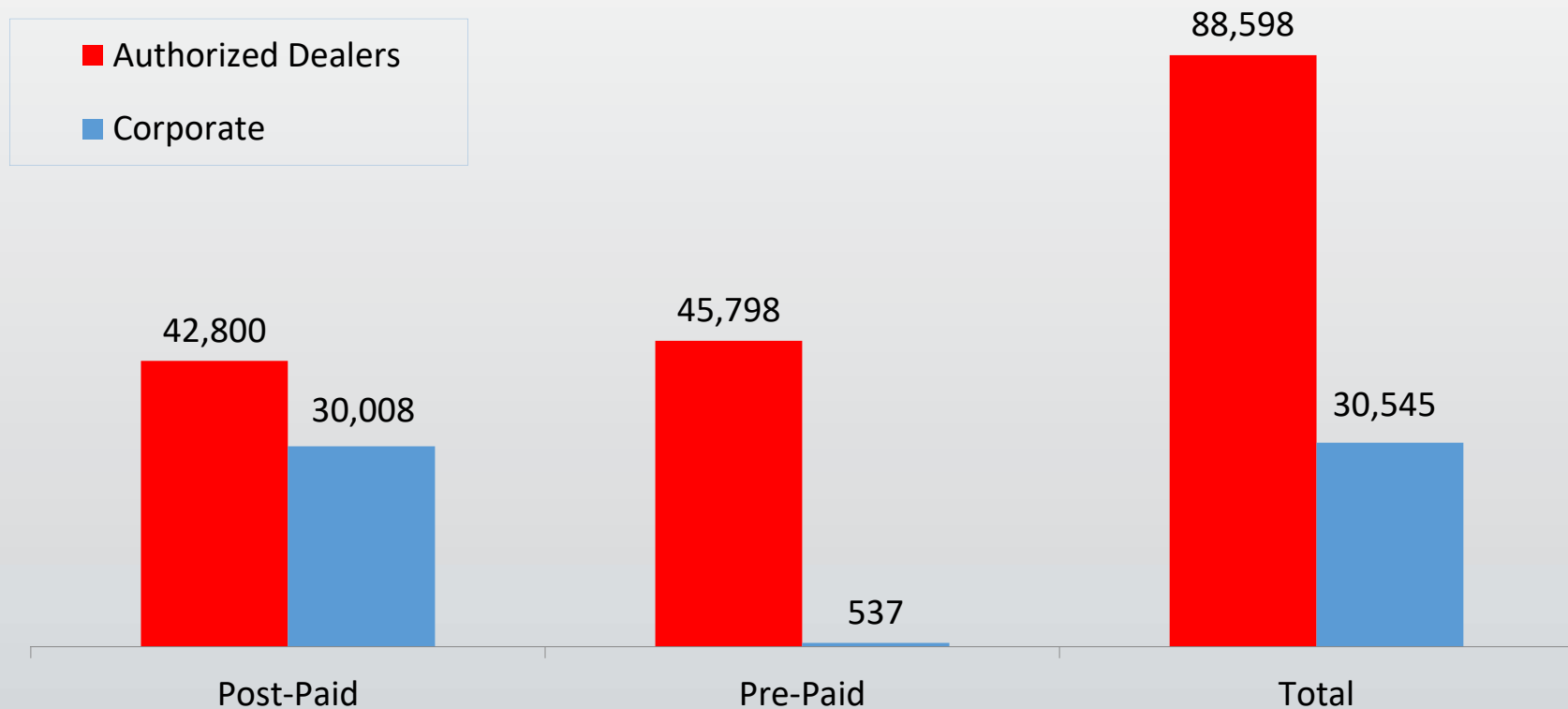
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Number of stores,
prepaid brands



88,000 people work for T-Mobile and Sprint authorized dealers, comprising 75 percent of T-Mobile and Sprint retail jobs



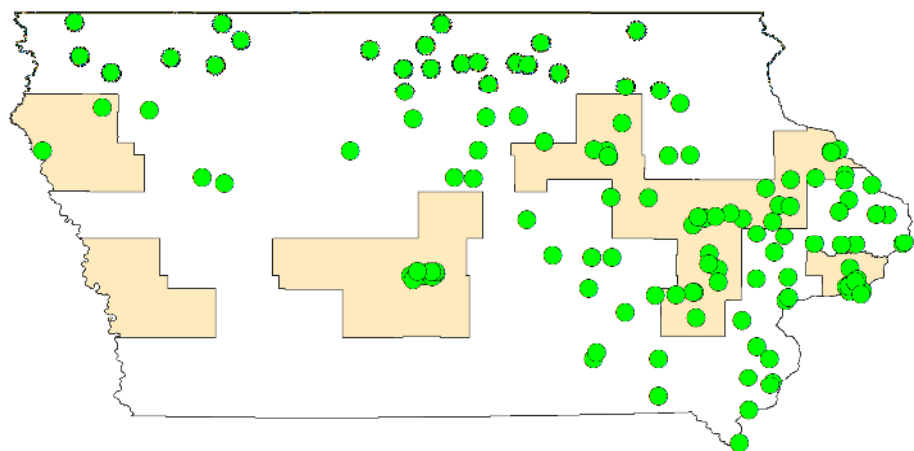
Sources: Company websites (accessed in 2018 for number of pre-paid and post-paid stores); Analyst reports, company websites, news reports, and T-Mobile/Sprint Public Interest Statement (for number of employees per store)

T-Mobile's record after it acquired Iowa Wireless (iWireless) in rural Iowa

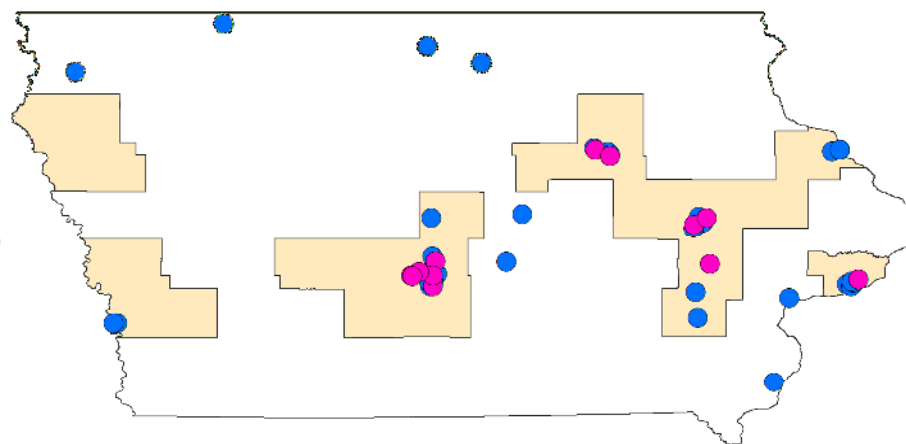
- T-Mobile closed **86%** of iWireless' 129 retail locations, including **75 out of 78** locations in rural areas.
- One year after the acquisition, there were **zero** T-Mobile-branded stores outside of Iowa's urban areas, and only **eight** Metro-branded prepaid stores in rural areas.

Comparison of Iowa retail footprints before and after acquisition



iWireless locations, October 2017






T-Mobile and Metro locations, January 2019



FCC Cellular Service Areas

-  Rural Service Areas
-  Metropolitan Statistical Areas

Retail Locations

-  iWireless
-  Metro
-  T-Mobile

3. Labor Market Impacts

THE
Nation.

Does Monopoly Power Explain Workers' Stagnant Wages?

As industries get more concentrated, workers have fewer employment options—and less leverage to get a raise.

By Bryce Covert 

FEBRUARY 15, 2018

The New York Times

Why Is Pay Lagging? Maybe Too Many Mergers in the Heartland

Consolidation is often seen as a consumer problem. But it may also reduce competition for workers, especially outside big cities, holding down wages.

Recent economic literature suggests:

- Labor markets in the U.S. are already highly concentrated.
- Workers are paid lower wages in more concentrated labor markets.
- Collective bargaining substantially reduces the negative effect of labor market concentration on wages.

Labor Market Concentration In Wireless Retail

- Highly concentrated labor market
- 4-3 merger increases wireless employers' power to set wages, absent collective bargaining
- Roosevelt Institute/Economic Policy Institute paper: T-Mobile/Sprint merger impact - \$3,276 (or \$520 under the smallest-magnitude specification) decrease in annual earnings.
- Decrease in earnings of U.S. wireless retail workers by \$543.6 million per year (or \$82.8 million under the smallest-magnitude specification).

4. T-Mobile History of Violating Workers' Rights

T-Mobile is One of the Worst Labor Law Violators in the Nation and Has Been Found Guilty of Violating Labor Law Multiples Times

- Maintaining rules forbidding workers from speaking to each other and others about wages and working conditions
- Creating, maintaining, dominating and assisting a company union
- Surveilling and interrogating employees about union activity and restricting discussions about working conditions
- Unlawfully prohibiting employees from talking about the union
- Requiring employees, including one who filed a sexual harrassment complaint, to sign an unlawful confidentiality notice, and threatening discipline, up to and including discharge, if they engaged in those discussion

5. Rural Service Comparable Whether or Not Merger Happens

1. T-Mobile already holds low-band spectrum best suited for long distances in rural America, but not at high speeds
2. Sprint contributes very limited rural infrastructure
3. Sprint's mid-band spectrum, while very useful in urban and suburban areas, has shorter range and is easily obstructed by foliage and terrain

Therefore, for most of rural America, merged T-Mobile/Sprint will be almost the same as T-Mobile

Spectrum 101:

Different spectrum for different uses

Higher frequency (Sprint)

- 2.5 GHz mid-band spectrum
- Signal resembles a light beam
- Wide channels and high speeds— hundreds of Mbps or Gbps
- However, easily blocked by foliage and terrain
- Range a few miles (2.5 GHz mid-band)

Requires many nearby antennas—good urban/suburban solution—but these do not and cannot exist in most rural areas

Spectrum 101:

Different spectrum for different uses

Low frequency (T-Mobile)

- 600 and 700 MHz
- Signal more like a wave
- Can penetrate foliage and terrain
- Narrower channels and lower speeds— tens of Mbps— one tenth to one-hundredth the speed of mid-band
- Range up to 18 miles
- Tradeoff between coverage and speed

Can work with fewer antennas— the rural reality

Post Merger:

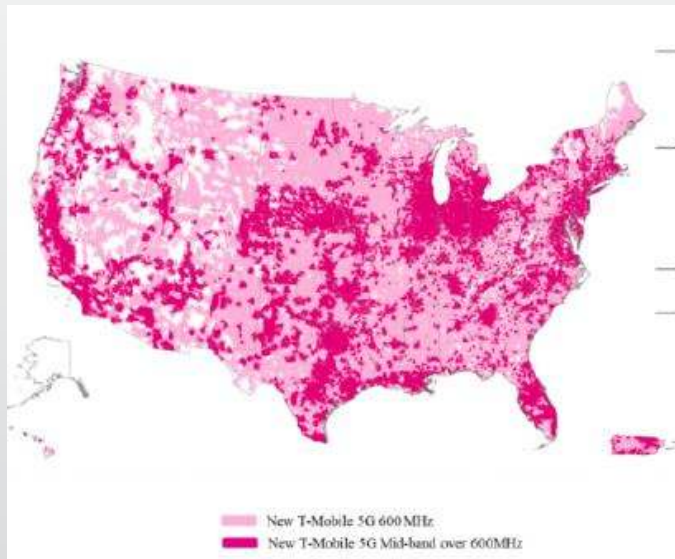
Most Rural Americans Only Have Low Band

		T-Mobile	Sprint	New T-Mobile	Conclusion
	Spectrum	Covered Pop (millions)	Covered Pop (millions)	Covered Pop (millions)	
2021	Mid-band (PCS & 2.5 GHz)	74.6 (77% uncovered)	174.7 (47% uncovered)	240.9 (26% uncovered)	84.6M no high capacity ALMOST ALL RURAL AREAS
	Low-band 600/700 MHz	317.9 (2.9% uncovered)	0	319.6 (2.4% uncovered)	Only 1.7 M additional coverage compared with old T-Mobile
2024	Mid-band (PCS & 2.5 GHz)	173.2 (47.2% uncovered)	194.0 (41% uncovered)	282.2 (14% uncovered)	45.9M no high capacity OVER HALF OF RURAL AREAS
	Low-band 600/700 MHz	323.0 (1.4% uncovered)	0	324.1 (1% uncovered)	Only 1M additional coverage compared with old T-Mobile

Source: T-Mobile/Sprint Public Interest Statement, Table 9, p. 47 (CWA added column labeled “conclusions”).

Post Merger:

Most Rural Americans Only Have Low Band



- New T-Mobile 2024 mid-band service purple
- 45.9 million rural Americans unserved by mid-band
 - 13.5 million of these will receive speeds below 10 Mbps, compared to 500 Mbps in metro areas

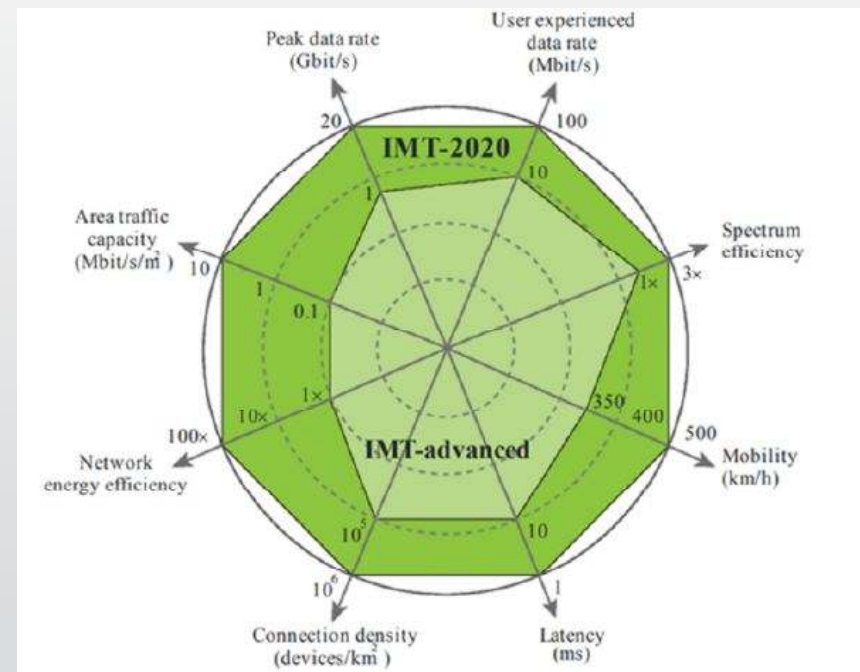
Source: T-Mobile/Sprint Public Interest Statement, Figure 10, p. 46

Performance decreases further from antennas

- **Weak signal = slower speeds**
- **Many rural users further from antennas**
- **Decreased service level at “cell edge”**
- **Decreased service indoors**

Claims for “5G” overstated

- Claims for 5G in Statement rely on millimeter-wave spectrum
 - *Sprint and T-Mobile have only 2 percent of this spectrum*
- 5G standard still in development and not yet mass-produced
- Costs and capabilities all estimates
- Performance not yet demonstrated in tests



Source: T-Mobile Declaration, Ray para 12.

5G especially overstated in rural areas

- In low-band, 5G expected to provide
 - *Only 19 percent increase in efficiency*
 - *Marginal improvements in latency*
- May pose challenge for 4K video, connected vehicles, unlimited data, interactive gaming, machine-to-machine, drone control and monitoring service described in statement

6. Don't Need Merger for 5G

- In February 25, 2019, Sprint announced it will turn on its 5G network in 9 cities (Chicago, Atlanta, Dallas, Kansas City, Houston, Los Angeles, New York City, Phoenix, and Washington) during the first half of 2019.
- October 31, 2018 T-Mobile press release: “T-Mobile is building out 5G in six of the Top 10 markets, including New York and Los Angeles, and hundreds of cities across the U.S. in 2018. The network will be ready for the introduction of the first 5G smartphones in 2019. We plan on the delivery of nationwide 5G network in 2020.”

USA Today, Sprint's 5G network will go live this May in Chicago, Atlanta, Dallas and Kansas City, February 25, 2019, <https://www.usatoday.com/story/tech/2019/02/25/sprint-5-g-network-goes-live-in-may-in-four-cities/2973150002>.

T-Mobile Press Release, “T-Mobile Delivers Its Best Financials Ever and Strong Customer Growth in Q3,” at 5 (Oct. 30, 2018); Transcript, Sprint Corp., Q2 2018 Earnings Call, S&P Global (October 31, 2018).

Summary

- **Merged T-Mobile and Sprint creates no sea change for rural America**
- **Service will mostly resemble T-Mobile without merger for most of rural America**
- **Benefits of Sprint's added spectrum mostly limited to built-up areas**

7. Sprint is Not a Failing Firm

Sprint does not qualify as a failing firm

- Sprint is nowhere near meeting the stringent requirements for a failing firm defense
- Sprint's statements to investors and SEC paint a vastly different picture from the doom-and-gloom in its FCC merger-related filings

Current Financial Results Continue the Positive Trend . . .

Sprint President and CEO Michel Combes [Transcript, Sprint October 31, 2018 earnings call]:

“[W]e reached a major milestone by delivering year-over-year growth in wireless service revenue for the first time in nearly 5 years, and earlier than our commitments, to reach this milestone by the end of the fiscal year. We generated the highest adjusted EBITDA for the second quarter in 12 years, as we continue to execute on our cost reduction initiatives. Meanwhile, we delivered net income for the fourth consecutive quarter and operating income for the 11th consecutive quarter. Furthermore, we delivered positive adjusted free cash flow for the sixth time in the last 7 quarters.”

Sprint President and CEO Michel Combes [Sprint January 31, 2019 news release]:

“We delivered solid financials, increased network investments as we prepare for our mobile 5G launch, and continued the digital transformation of the company.”

Sprint’s January 31, 2019 news release:

“The company also reported its 12th consecutive quarter of operating income and the highest fiscal third quarter adjusted EBITDA* in 12 years.”

Sprint’s January 31, 2019 earnings report:

Sprint “remains on track to launch its mobile 5G network in the coming months in nine of the largest cities in the country” as it has “completed thousands of tri-band upgrades and now has 3.5 GHz spectrum deployed on approximately 75 percent of its macro sites” and has “added thousands of new outdoor small cells.”

Current Financial Results Continue the Positive Trend . . .

Sprint January 2019 Earnings release

“Sprint recorded growth in wireless service, postpaid and prepaid service revenue,

Sprint President and CEO Michel Combes [Sprint January 31, 2019 news release]:

“We delivered solid financials, increased network investments as we prepare for our mobile 5G launch, and continued the digital transformation of the company.”

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Sprint Testimony in California PUC Hearing

Brandon Dow Draper, Sprint Chief Commercial Officer, February 6, 2019

- “[T]here’s nothing in my rebuttal testimony, again, that says Sprint is going out of business, that Sprint is not going to build a 5G network, that Sprint is not going to be a competitor in the future.”
- “[W]e are a stable company. Sprint is not going bankrupt. We are not a failing firm.”
- Question: “Just for the record: it’s your opinion that Sprint will survive on a standalone basis?”

Draper Answer: “Absolutely”

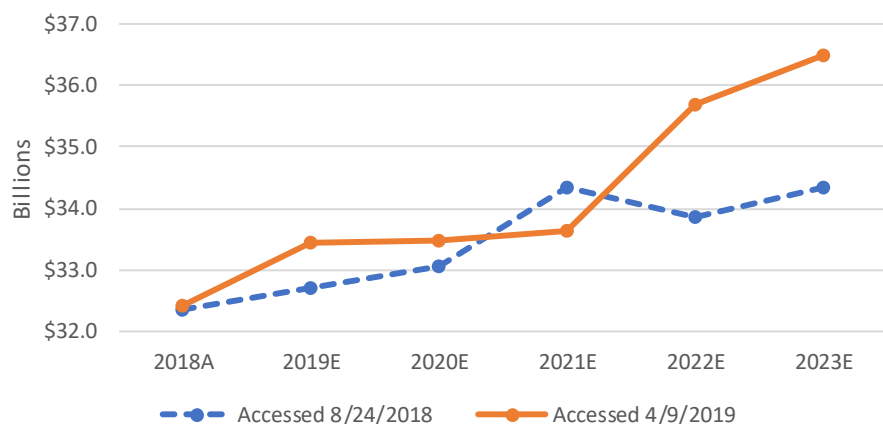
Over the Past Half Year, Analysts Have Raised their Sprint Revenue and EBITDA Estimates

Despite Sprint management's recent arguments that "[w]ithout the merger, the trajectory for Sprint will worsen and Sprint's prospects will be limited," analysts covering Sprint have actually increased their projections for Revenues and EBITDA since August 2018. This is hardly indicative of a firm which is failing or even "continuing to struggle."

- Quotations from April 2, 2019 Michael Combes letter to FCC Commissioner Gerald Starks.

Increasing Projections for Sprint Revenues

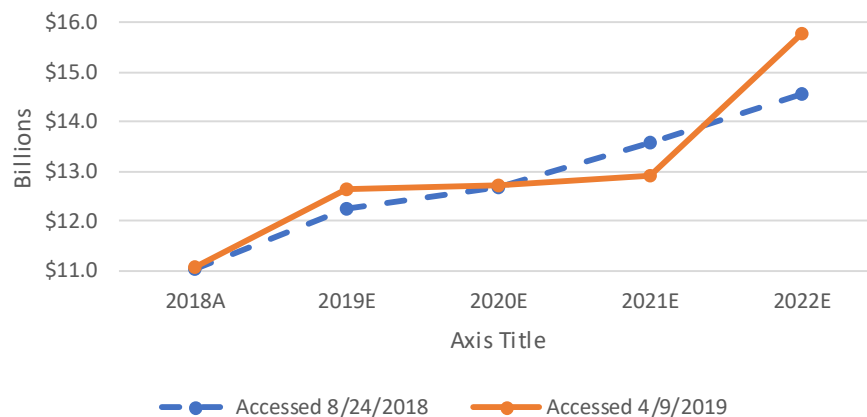
Median Analyst Revenue Estimates August 2018 vs April 2019



S&P Capital IQ Estimates Database; Accessed August 24, 2018 and April 9, 2019; 2018 Actuals and 2019-2023 Projections; Note: there were fewer analysts in the database from 2021 on.

Increasing Projections for Sprint EBITDA

Median Analyst EBITDA Estimates August 2018 vs April 2019



S&P Capital IQ Estimates Database; Accessed August 24, 2018 and April 9, 2019; 2018 Actuals and 2019-2023 Projections; Note: there were fewer analysts in the database from 2021 on.

Conclusions

- The proposed merger of T-Mobile and Sprint is anticompetitive
- The proposed merger is likely to result in retail job losses
- The proposed merger will result in a depression of retail wages
- Rural America would see few, if any, benefits from the proposed transaction
- The parties do not need to merge in order to provide 5G
- The parties' dim view of Sprint's prospects runs counter to Sprint's own current financial performance and its projected future performance under various metrics.