

Despite prepaid lift, Sprint Nextel loss widens

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FILE - In this Feb. 18, 2009 file photo, a Sprint Nextel employee works at a store in San Jose, Calif. Sprint Nextel Corp., the nation's third-largest wireless service provider, on Monday, May 4, 2009, reported a larger first-quarter loss on declining revenue and a charge for job cuts announced in January. (AP Photo/Paul Sakuma, File)

(AP) -- Despite a widening net loss, Sprint Nextel Corp. finally got some good news in its long recovery Monday, as a big surge in "prepaid" customers offset another nightmarish drop in valuable subscribers who sign annual contracts.

Investors responded by sending shares of the nation's third-largest wireless provider up sharply. Sprint shares gained 53 cents, or 11.4 percent, to \$5.20 in afternoon trading after reaching as high as \$5.48 earlier in the session.

The Overland Park, Kan.-based company lost \$594 million, or 21 cents

per share, during the three months ending March 31, versus a loss of \$505 million, or 18 cents per share, a year ago.

Not including one-time charges, Sprint said it would have earned 3 cents per share, compared with the 4-cent loss analysts surveyed by Thomson Reuters had predicted.

The company said it recorded a \$327 million charge for severance and other costs connected with its announcement in January that it planned to cut 8,000 more jobs - 14 percent of its work force. Sprint cut 4,000 jobs last year.

Revenue declined 12 percent to \$8.21 billion, below analysts' expectation of \$8.28 billion.

The Wall Street Journal, citing unnamed sources, reported Monday that Sprint was in final discussions to outsource management of its cellular network - and transfer between 5,000 and 7,000 U.S. jobs - to Telefon AB L.M. Ericsson. Stifel Nicolaus analyst Christopher King wrote in a research note that shifting the network management to another company could cut Sprint's annual expenses by \$1 billion.

In an interview Monday with The Associated Press, [Chief Executive Officer](#) Dan Hesse said Sprint was looking at several cost-cutting ideas, including "the possibility of outsourcing certain parts of the management of our network assets, but no decisions have been made and we don't comment on speculation."

Sprint said its number of subscribers fell 182,000, a marked improvement from the company's fourth quarter, when it lost 1.3 million. However, the company said it lost 1.25 million valuable "postpaid" customers who sign contracts, an increase from the loss of 1.1 million contract subscribers in the fourth quarter.

By comparison, AT&T Inc. posted a net increase of 1.2 million subscribers during the quarter while Verizon Wireless reported adding 1.3 million.

Making up most of the difference for Sprint were net gains of 764,000 [prepaid](#) customers on its iDEN network and 394,000 wholesale and affiliate subscribers.

Most of the iDEN increase came from Sprint's Boost Mobile prepaid subsidiary, which in the first quarter began offering unlimited calling, texting and data services for \$50 a month. Unlike postpaid customers, prepaid subscribers don't sign contracts and generally generate less revenue.

Hesse said he expected an increasing number of consumers will favor cheaper prepaid service over the rest of the year because of the economy. But the company said it still believed annual subscriber losses would be smaller in 2009 than the 4.6 million lost in 2008.

Total postpaid churn, which measures the percentage of customers dropping service, was 2.25 percent during the quarter, down from 2.45 percent a year ago but up from 2.16 percent in the fourth quarter. The company said most of the increase from the fourth quarter was due to deactivations among business customers, while the year-over-year improvement came from efforts to attract customers more capable of paying their bills.

Revenue from the company's remaining wireline operations, which largely are used for Internet connections, fell 10 percent to \$1.47 billion.

Analysts' opinions on the results were mixed. Most said that while the jump in prepaid customers was commendable, the continued hemorrhaging of postpaid customers showed Sprint's core business is

still vulnerable.

"We worry about the company becoming nothing more than a marketing company over time, in an increasingly mature industry," King wrote.

Barclays Capital analyst Thomas Seitz said he will be interested to see how many of the new Boost customers stick with the company. Without a contract, they can leave for a competitor any time. Sprint's iDEN network signal sometimes has trouble penetrating buildings, causing problems for the many prepaid customers who use their cell phones instead of landline home phones.

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