

Sprint posts deeper 4Q loss on iPhone costs

February 8 2012, By PETER SVENSSON , AP Technology Writer



In this Feb. 7, 2012 photo a woman shops for a Sprint smart phone at a Little Rock, Ark., Best Buy store. The iPhone helped Sprint gain customers in the latest quarter, but also forced the carrier to post its largest loss in three years because of the high cost of the phone a network upgrade. (AP Photo/Danny Johnston)

(AP) -- Sprint dug deep into its pockets in the latest quarter to put iPhones in the hands of its customers. The perennially money-losing company on Wednesday posted its largest loss in three years.

Sprint, once known for the worst customer service in the industry, has

made progress on turning its fortunes around in the last few years. But the No. 3 U.S. wireless carrier has still found it difficult to compete with larger rivals AT&T Inc. and Verizon Wireless, both of which sell the iPhone.

So Sprint jumped for the chance to sell the iPhone starting in October, giving Apple Inc. a \$15.5 billion commitment to buy phones over four years.

In the October to December period, Sprint activated 1.8 million iPhones in the quarter, compared to 7.6 million at AT&T Inc. and 4.3 million at Verizon Wireless.

Sprint said 40 percent of the iPhone users were new to the company, while AT&T usually reports a figure around 25 percent. That meant the phone helped Sprint post a rare increase in the number of subscribers on contract-based plans, which cost more than contract-free alternatives. It gained a net 161,000 such subscribers in the quarter.

But the cost was steep: Sprint estimated that the phone launch widened its quarterly loss by \$630 million, or \$350 per phone activated. It buys the phones from Apple for around \$600, then subsidizes them to sell them for \$99 or \$199.

Sprint is counting on making that money back over time through monthly service fees, but the example set by AT&T, which has sold the phone since 2007, indicates that the iPhone is no path to big profits for phone companies.

CEO Dan Hesse defended Sprint's commitment to the phone on Wednesday. The October release of the iPhone 4S helped the company gain subscribers. When Sprint didn't have the phone, every new iPhone launch would make subscribers defect to AT&T, and more recently, to

Verizon.

Hesse said the iPhone also spurs fewer calls to customer support, and uses less network capacity than smartphones running Google Inc.'s Android software.

Sprint's total loss for the quarter was \$1.3 billion, or 43 cents per share, in the October to December period. That compares with a loss of \$301 million, or 10 cents per share, a year earlier.

Excluding one-time charges, the loss was 35 cents per share. Analysts polled by FactSet were on average expecting a loss of 38 cents per share, excluding items.

Revenue rose 5 percent to \$8.7 billion, matching the analyst estimate.

Sprint shares fell 14 cents, or 5.7 percent, to \$2.31 in morning trading.

Analysts say the company faces big challenges in absorbing the cost of the iPhone and of upgrading to its new "4G" data network over the next few years, and the fourth-quarter results represent just the first step in the transition.

Nomura Securities analyst Mike McCormack noted that the company is asking investors to look as far ahead as 2017 for "normalized" financial results, with all the near-term challenges behind it. There's no real way to predict how the company will come out of its transition, he said in a research note.

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