

T-Mobile, MetroPCS unite to battle larger rivals (Update 2)

October 3 2012, by Barbara Ortutay



In this Wednesday, Sept. 12, 2012, file photo man using a cellphone passes a T-Mobile store, Wednesday, Sept. 12, 2012 in New York. Struggling cellphone companies T-Mobile USA and MetroPCS Communications are set to merge, in a deal that will create an operator with more than 40 million subscribers. In a joint statement, the two companies said Wednesday, Oct. 3, 2012, that Deutsche Telekom AG, the owner of T-Mobile USA, will hold 74 percent of the new business, while MetroPCS's shareholders will hold the remainder, as well as receiving a payment of about \$1.5 billion. (AP Photo/Mark Lennihan, File)

T-Mobile and MetroPCS have agreed to combine their struggling cellphone businesses in a deal aimed at letting them compete better with their three larger U.S. rivals.

The combined company will use the T-Mobile brand and have about 42.5 million subscribers. Although T-Mobile will stay No. 4 among U.S.

wireless companies, it will get access to more space on the airwaves, a critical factor as cellphone carriers try to expand their capacity for wireless broadband.

That could ultimately mean more choices and better services for customers, though Forrester Research analyst Charles Golvin doesn't believe the deal will make a "revolutionary difference" for U.S. cellphone customers. That said, MetroPCS customers will probably have to buy new phones at some point over the next three years as they are moved over to T-Mobile's network.

Both companies have faltered in the highly competitive U.S. cellphone market led by Verizon Wireless and AT&T Inc. T-Mobile has 33.2 million subscribers, well behind No. 3 Sprint Nextel Corp's 56 million. MetroPCS is even further back, ranking fifth with 9.3 million.

Last year, T-Mobile USA's German parent, Deutsche Telekom AG, tried to sell the U.S. cellphone business to AT&T for \$39 billion. Getting more access to airwaves was the main reason for AT&T wanted T-Mobile.

But regulators rejected that proposed purchase, worried that competition would suffer if the second-largest cellphone company were to gobble up the fourth.

Under the new deal, Deutsche Telekom will hold a 74 percent stake in the combined company, while MetroPCS Communications Inc.' shareholders will own the remainder. MetroPCS shareholders will also receive a payment of about \$1.5 billion.

The deal still has to be approved by shareholders of both companies and will require government approval. But the regulatory concerns this time appear to be much milder than they had been with AT&T. T-Mobile and

MetroPCS are both relatively small, and T-Mobile has been losing subscribers for the past two years.

"We are committed to creating a sustainable and financially viable national challenger in the U.S., and we believe this combination helps us deliver on that commitment," Deutsche Telekom CEO Rene Obermann said in a statement.

Deutsche Telekom said the combined T-Mobile-MetroPCS would have revenue of about \$24.8 billion based on analysts' estimates. The deal is also expected to lead to around \$6 billion to \$7 billion in combined savings.

The acquisition, scheduled to close in the first half of 2013, will likely affect MetroPCS subscribers the most. By the end of 2015, MetroPCS's wireless network is expected to be shut down, and customers will be moved over to the new company.

This means they will have to update their mobile devices at some point. But Golvin believes that is probably good in the long run, as customers will get more choices in picking out phones.

John Bergmayer, senior staff attorney for public-interest advocacy group Public Knowledge, said by combining networks, "the two companies together are only going to be able to offer better service than they do today."

U.S. Rep. Anna G. Eshoo, the ranking Democrat on the House subcommittee on communications and technology, said there's a big need for a "strong national competitor" in the wireless marketplace when two companies—Verizon Wireless and AT&T—dominate the space.

"The proposed merger of T-Mobile and MetroPCS has the right

ingredients to provide consumers with a viable alternative for wireless voice and data service," she said. "I hope the FCC and the Department of Justice will conduct a thorough, but swift review of the transaction's merits."

Even if not stalled by regulatory hurdles, a linkup would be nonetheless be complicated by the fact that MetroPCS and T-Mobile use different network technologies. That means MetroPCS phones would not work on T-Mobile USA's network, and vice versa. However, both companies are deploying the same fourth-generation, or 4G, technology, so they're on a path to harmonizing their networks.

Obermann said the new company will have the "resources to expand its geographic coverage, broaden choice among all types of customers and continue to innovate, especially around the next-generation LTE network."

Neither T-Mobile nor MetroPCS carry Apple Inc.'s iPhone, though it's possible to use an iPhone on T-Mobile's network at slower speeds. It's unclear whether the combined company will. AT&T, Verizon and Sprint all do.

As for cellphone bills? MetroPCS customers, who now get low-cost, contract-free plans, might be pressured to sign up for two-year service agreements, which are more lucrative for cellphone companies. But T-Mobile also offers contract-free plans already, so MetroPCS customers wanting to stick with such plans should have more options, Golvin said.

Bergmayer from Public Knowledge, meanwhile, said the new company "could offer a really compelling product" for low-income people looking for a better value." That said, he's concerned that MetroPCS customers may be forced to buy new phones.

"(And) we don't want to see them forced off their existing price plans. So I really hope that as they move forward on this transaction they find a way to make sure that there's minimal disruption to existing customers," he said.

Germany's stock market was closed Wednesday because of a national holiday. But the prospect of seeing Deutsche Telekom finding a solution for its struggling U.S. business sent the stock higher Tuesday after both companies had confirmed their talks.

Shares of Dallas-based MetroPCS fell \$1.33, or 9.8 percent, to close at \$12.24 Wednesday. It had shot up 17.8 percent on Tuesday to close at \$13.57.

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