

Informa analyst comments on T-Mobile / AT&T announcement

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LONDON, UK: Rene Obermann has pulled off one of the most spectacular bluffs in recent history by engineering the sale of Deutsche Telekom's US subsidiary to AT&T, a move predicted by few, but one that will dramatically alter the structure of the US mobile industry if approved.



The future of T-Mobile USA had been the focus of high-stakes negotiations within DTAG ever since Philipp Humm was catapulted in to head up the struggling business unit. Whilst a merger was always seen as a likely potential outcome, it was a partnership between T-Mobile USA and LightSquared or fellow struggler Sprint Nextel that had always been deemed of greater probability. The hand that Rene Obermann and his executive team played yesterday in scooping US\$39 billion (about R420 billion) for the ailing business has arguably trumped all others and has to be seen as pulling the ace from the pack.

T-Mobile USA's standing within the Deutsche Telekom business had veered dramatically in recent years from the star performer in its global portfolio to an isolated and increasingly problematic black sheep. The sale of the unit helps Deutsche Telekom to recoup the value sunk into the business, while retaining a strategic interest in the hugely important US market through its 8% equity holding in AT&T. The strong transatlantic ties that should now develop between AT&T and Deutsche Telekom will represent an interest counter-balance to the deepening partnership emerging between Vodafone and Verizon.

Full price

AT&T had paid a full price for its smaller rival, but the motivation for shelling out to that extent is pretty straightforward - it's about stocking up on its supply of the basic raw materials that drive a successful operator business, namely spectrum, sites, stores and customer scale. The combined business will enjoy massive scale in all aspects and can rightly boast that the bringing together of the two very complementary businesses will create a world-leading mobile broadband network platform.

Much commentary has focused on the potential negative impact for consumers of the inevitable decline in competition in the mobile space, but the reality is that there's going to be little change for consumers in the short-term. In fact, the deal's going to have most value for the lawyers and bankers that stand to benefit from the year-long struggle for regulatory approval that lies ahead. The concentration of close to 75% of the wireless market into the hands of just two players, AT&T and Verizon, will inevitably draw fire from the US authorities, including the FCC and the Department of Justice. If and when the deal is finally approved it will likely not be without significant concessions being imposed upon AT&T by the industry watchdog, such as divesting spectrum holdings, divesting customers or granting access rights to tower sites to smaller players where excessive market concentration is identified.

European perspective

T-Mobile USA has always been a challenging business for Deutsche Telekom but, at the same time, one that has offered growth potential to offset a stagnating western European business. Without T-Mobile USA, Deutsche Telekom becomes a pure European play. Whereas the other three European giants, Vodafone, Orange and Telefonica, all have significant assets in other regions, Deutsche Telekom is firmly anchored in Europe. However, Deutsche Telekom's central European

subsidiaries in Croatia, Hungary and Slovakia - and its indirect stakes in Greece, Poland, Romania, Macedonia and Montenegro - still hold rich potential.

We believe that Deutsche Telekom will invest heavily in these businesses and markets rather than embark on another foray outside of Europe. Building next-generation fixed and mobile broadband networks requires significant investment and we would expect Deutsche Telekom to emerge as the dominant player in many of these countries. Substantial opportunities in wholesale and enterprise market opportunities exist for those players who can offer extensive, high-capacity broadband coverage but only the leading operators will be able to commit to such investments.

ABOUT THE AUTHOR

Thomas Wehrreier is principal analyst at Informa Telecoms & Media comments on the T-Mobile / AT&T announcement.

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