

# Mobilcom's major shareholder



This has led them, their equipment vendors and key semiconductor solution providers to explore more-flexible paradigms in cellular network deployment and management. Items such as remote radio units, widespread fiber-based transport, processing server farms, tower-mounted power amplifiers and software-defined radio are all under investigation, as are efficiency-enhancing algorithms such as power amplifier linearization, adaptive antenna arrays and interference cancellation.

Among its holdings in western Europe (“ still largely a collection of national markets, [with] five mobile competitors in the Netherlands alone” 48) and the United States, CEO Ricke “ looks almost certain to achieve his aim of digesting, rather than dismantling, Mr. Sommer’s acquisitions.” T-Mobile was nonetheless expected-prior to the announcement of its alliance with the Spanish and Italian incumbents-to hold merger or sales talks in overheated Holland, 50 where the former Ben has a 13% market share and is still losing money. 51 T-Mobile Austria appears to be in a stronger position, 52 predicated on which it became last November the first Austrian telco to offer mobile access to the internet via Wireless LAN (Wi-Fi) at public hotspots operated by its partner Metronet.

In the United Kingdom, where the former “ One2One clearly wasn’t what the Germans thought they’d bought for i½8b54 [before] the markets dived around their ears,” 55 T-Mobile UK acquired some 2m subscribers last year, for a total 12. 4m users. T-Mobile has been working since 2001 with mm02 (the wireless spin-off of its bitter rival British Telecom) on rolling out 3G masts 56 in what has become a ruthless and competitive market57-thanks to

near-total penetration and new sources of revenue from data services still months, if not years, away. 58

Such highly competitive markets as Britain's are hard on so-called MVNOs<sup>59</sup> (virtual network operators) such as Virgin Mobile. Rather than build its own network, the operator of an MVNO acquires capacity from a mobile carrier, in this case T-Mobile, under some rather convoluted terms. Thanks to its standard "shock marketing tactics and leveraging its brand across its other business activities," Virgin had attracted more than 2m customers in the United Kingdom-prior to the London High Court's "moral condemnation" last month of T-Mobile UK's ham-handed attempts to rejigger the percentages; Virgin was expected to buy T-Mobile's 50% share<sup>60</sup>-looking to other operators, I assume, for mobile minutes to resell. Elsewhere, Deutsche Telekom-like mmO2 and AT&T Wireless-has stepped back from its Asian aspirations (e. g., some allegedly shady deals that backfired with a hostile take-over in Malaysia<sup>62</sup>) while retaining some of its stake in central and eastern Europe's "low-hanging fruit."

Back in Germany, where our story began, the mobile market-Europe's biggest and most crowded-seems especially hellacious. Last year, the Telefonica/Sonera consortium (d. b. a. Quam) was first to withdraw, to the tune of 8b64-thereby abandoning its network partner, KPN (the Dutch incumbent, d. b. a. E-Plus). <sup>65</sup> Meanwhile, "France Telecom will be wishing it had never set eyes on MobilCom," <sup>66</sup> a singularly successful long-distance arbitrageur which narrowly skirted insolvency last year when FT (MobilCom's major shareholder) pulled the plug on their 3G German adventure; the German government promptly held FT's feet to the fire, exacting 7. 3b for its

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divestiture of MobilCom68-at once compromising FT's own wireless unit (d. b. a. Orange69) and sending the French cabinet into emergency session.

MobilCom-which just pledged its long-distance network (Freenet) to the banks against a rescue credit of  $\text{€}138\text{m}$ <sup>71</sup>-would like to sell its partial UMTS network to KPN, #3 in the German market, with 13%<sup>72</sup>; but KPN (which was compensated by FT for terminating the national roaming contract between E-Plus and MobilCom<sup>73</sup>) would rather buy British mmO2's German unit, O2, for which it offered a mere  $\text{€}700\text{m}$  last week. A merger of the two similarly sized carriers could give T-Mobile and Vodafone (d. b. a. Mannesmann Mobilfunk) a run for their 80% of the German market, <sup>74</sup> but O2 is gaining ground while E-Plus appears static. Regardless, the Brits are under little pressure to sell, thanks to their aforementioned network agreement with T-Mobile in the UK and Germany.

A week and a half ago, however, mmO2-taking a page from T-Mobile's and KPN's book-warned that it too might write down its ( $\text{€}10\text{b}$ )<sup>75</sup> 3G licenses. It's noteworthy in this context that Ricke has not written down T-Mobile's German license although, in a belated response to the weak domestic economy, T-Mobile's local talent lost ground at the end of last year, <sup>76</sup> which could very well undermine Ricke's ambitious debt reduction program (with a target of at least  $\text{€}16.7\text{b}$  in 2003 EBITDA). <sup>77</sup> Forging ahead, T-Mobile Germany launched a pilot project with Lucent Technologies in January to provide high-speed data services to businesses in Nuremberg, with the promise of seamless roaming from UMTS to WLANs. <sup>78</sup>

T-Com, DT's antediluvian fixed-line group (with its " patchy service culture"), was recently praised for tackling broadband (yes, broadband!)<sup>79</sup>-one of the few growth areas in telecoms-amidst EU concern that the Community could lose its mobile edge if DSL fails to take flight. <sup>80</sup> Despite heavy lobbying by the incumbents, the EC has identified a market for wholesale broadband services, including bit-stream access whereby a connection is made at a single place in the centre of an existing network; competitors will not need to build separate high-speed networks or even install equipment at the incumbents' sites.

New broadband offerings will-with any luck-compensate for the double blow of declining market share and falling fixed-line revenues. T-Com-which controls 99% of the local connections and some 57 million access lines<sup>82</sup>-generates 90% of DT's free cash flow, viz. 2. 64b in earnings last year<sup>83</sup>; but the former government ministry is losing business, in part to mobile carriers (including its sibling, T-Mobile). Come July, T-Com faces even more competition from a new wave of EU liberalization (heretofore stalled by national regulators reluctant to give up their stake in the status quo). Bottom line: " Deutsche Telekom's cash comes from a stagnating business while 100% of its growth is coming from mobile, half of which is in the US," in the words of one analyst. <sup>84</sup>

Ah, yes. America... Still considered " Ron Sommer's biggest, most expensive, most fiercely criticized deal," <sup>85</sup> analysts now say Kai-Uwe Ricke pushed for the VoiceStream acquisition, too, back in 2001<sup>86</sup>-even as Deutsche Telekom's profits were sinking fast, along with falling prices for phone service in France and Germany. <sup>87</sup> Compared to penetration rates as high as

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70% in some European countries, only 40% of Americans used cellular phones at the time (up from 14% in 1997). “ It’s a market worth going after. ... They’ll set themselves apart,” The Yankee Group reckoned. “ We’ll be first in international roaming with GPRS. No one else will be able to do that,” Ron Sommer crowed to Investor’s Business Daily, 88 although less than 1% of mobile customers in the US and Europe crossed the Atlantic.

Two years-and \$12, 000/subscriber<sup>90</sup>-later, some 10% of T-Mobile USA’s 10 million users have subscribed to global roaming (including the US Army, which signed up six months ago<sup>91</sup>). Deutsche Telekom has nearly doubled the American carrier’s projected operating profits to  $\approx 1\frac{1}{2}$ b-i. e., the majority of the T-Mobile group’s EBITDA growth-in 2003. <sup>92</sup> The former start-up is now the United States’ fastest-growing wireless operator, adding 3. 4m customers, <sup>93</sup> or one-third (2. 92m) of all new subscribers, last year-“ far more than the overall industry increase worldwide of 10. 6%, to 141. 9 million” users-and more than #1 Verizon (a Vodafone affiliate), which attracted only 965, 000 newcomers.

With market share of 6. 6%, T-Mobile may well move into fifth place-in a field of six carriers which run nationwide, proprietary networks (on three different technologies). Each is tied to different handset selections, as if ABC and NBC required different televisions. It’s as close as it gets to the mid-19th-century railway madness, when rivals attempted to build separate railway networks in England and America ... Verizon and AT&T Wireless are expected to survive..., if only because they are the biggest. But maybe Cingular should just merge with T-Mobile? <sup>95</sup>

With the industry on the brink of a breakdown, “ fighting tooth and nail for a customer base with a declining growth rate, the government is imposing unfunded mandates ... causing more stress and strain,” according to Mike Senkowski, a lawyer practicing before the FCC. From number portability to emergency 911, “ they have a long list of grievances, with costs that have to be eaten, because you can't raise your rates in this competitive environment.”

T-Mobile USA ran afoul of the e-911 mandate last month, and may be fined \$125m for dragging its heels. At the same time, VoiceStream's founder, John Stanton, stepped aside as T-Mobile USA's president, Robert Dotson, became the new CEO-and set a more combative tone at America's most price-aggressive carrier. 98 The former startup is still losing money99-building brand and watching their backs100-and Merrill Lynch warns of execution risks and a lack of transparency in the reporting structure. 101 (Or, as INTUG's Ewan Sutherland says, “ A balance sheet can be read by an MBA, but cannot be truly interpreted by more than a handful of global experts.” 102)

“ They're all in a difficult capital market, regardless of their own track records,” Senkowski says. “ There's churn at very high rates they have to deal with,” particularly frontrunner Verizon. 103 AT&T Wireless and Cingular, T-Mobile USA's only eligible suitors, “ operate hybrid networks with a mix of wireless technology. That makes it costly to upgrade their networks” (versus some \$2b per annum for T-Mobile aloneFN).