

We Have Spectrum On Our Minds

December 1, 2018 by Jonathan Chaplin

We are thinking about spectrum again, as we head into the weekend. We thought about it last weekend because we were putting the finishing touches on a report on the C-Band in the US ([LINK](#)). It is the first in a series that will endeavor to quantify the threats and opportunities presented to Wireless, Cable and Satellite companies as this new band comes to market.

Our conclusion in the first installment is that we don't have enough information yet to have a conclusion. We know that unleashing the band could disrupt the mobile and fixed broadband markets, and it could deliver enormous windfalls to satellite companies that use the band today. We don't know who wins and who loses and to what degree, but we will soon.

The first new data will be delivered in two weeks with the closing of the final comment period. The key thing we will be looking for is a consensus between the large wireless companies and the satellite companies (collectively the CBA), on the quantum of spectrum to be cleared and sold. The quantum will have the biggest impact on competitive dynamics in the affected industries. More spectrum is good for wireless carriers, it is a mixed bag for cable companies and it is not so good for the CBA.

The next delivery of new data will come with the FCC order in which we will learn the license sizes and auction rules. These too will could have a dramatic impact on the cost of the spectrum to the buyers and the proceeds to the CBA. We show in the report that three auctions for similar spectrum in Europe generated wildly different values all because of license structure. Italy, with two prized blocks and four bidders, generated \$0.42 / MHz-POP. Spain, with 40 licenses of 5MHz, generated \$0.11 / MHz-POP. And Finland with three 100MHz blocks and three bidders generated just \$0.04 / MHz-POP.

The final installment of new data will come with the auction itself, which could come as early as the second half of next year. The spectrum won't be available to the carriers until it is cleared, two to three years after the FCC order, but there is nothing preventing the auction from happening much sooner.

Intelsat owners seem to agree with our view that the value of the C-Band is uncertain. BC Partners and Silver Lake, the two sponsors who collectively own 56% of the equity, are selling a portion of their stake in a secondary auction ([see press release](#)). They are keeping most of their stake, selling roughly 15% of the shares they own. The sales seem to acknowledge that, after a 400% run in the stock from recent lows, and with a good deal of uncertainty around what the CBA could receive, this is not a bad time to take some money off the table.

We have been watching the 28GHz auction with interest (see our brief note on 28 & 24GHz auctions [HERE](#)). The bidding is up to \$450MM. If it follows the trajectory of the AWS-3 auction, it might reach \$600MM. That would be just \$0.01 / MHz-POP. We don't think anything can be gleaned from this auction with respect to the value of other bands though. Verizon already owns most of the band. The pieces being auctioned have limited utility to anyone but Verizon. The 24GHz auction that kicks off next could be more interesting.

This week in Germany released its rules for their 3.5GHz auction and it illustrated how important the auction

rules can be for shaping winners and losers (see report [HERE](#)). They cut the reserve price by 90% and relaxed buildout requirements for new entrants. This sharply increases the likelihood that United / Drillisch acquires spectrum and becomes an MNO. This could be extremely negative for O2D, if they lost the high-margin MVNO revenue (see more detailed thoughts on European 3.5GHz auctions [HERE](#) and thoughts on the risk of 3.5GHz as a wireline replacement in the UK [HERE](#)).

Comments on spectrum were one of the more interesting things to come out of the AT&T analyst event (see informal notes [HERE](#)). AT&T reminded investors that by next year they will have deployed 50MHz of new spectrum across AWS, WCS and 700MHz bands. This will increase their deployed spectrum by 50% and give them close to a 50% capacity advantage over Verizon. It calls into question whether Verizon can really get by with millimeter wave spectrum, with its limited utility, until the C-Band is deployable sometime in 2022 (at the earliest). Their position will be particularly precarious if T-Mobile is allowed to acquire Sprint.

For the full weekly review and updated comp sheets, see [HERE](#).