

By NSR Team | July 27, 2020

What's new: Earlier this morning, when we said T-Mobile is "buying Shentel," we should have said T-Mobile is "buying Shentel's *wireless operations*," excluding Shentel's broadband business (which has 42% penetration in a coverage area spanning 220k homes). We didn't think they were buying a broadband business, but we should have clarified. We also have a bit more color on the status of the dispute, the likely timeline to close, and a rough estimate of value. As a result, we are marginally lowering what we think T-Mobile will spend on spectrum between the CBRS and C-Band auctions. No change to thesis. Remain Buy (LT Price Target: \$215).

T-Mobile will purchase Shentel's wireless operating business as a going concern, acquiring 1.1 million wireless customers, 30 corporate retail stores, and two mobile switching centers, while gaining the right to operate on Shentel's more than 2,000 cell sites (Shentel will not sell its 220 macro sites in the transaction), and continuing Shentel's various backhaul and distribution agreements.

We didn't get much additional color on the nature of the dispute, only that 90% of the issues are resolved, and that there are a handful of items in Shentel's affiliate agreement with Sprint related to the purchase option, whose interpretation Shentel and T-Mobile are now not in agreement about. Of these, one or two are major sticking points, with the companies having 60 days to resolve the disputes or else enter arbitration.

Assuming the disputes are resolved, the appraisal process takes about 90 days, and will involve three appraisers: one chosen by T-Mobile, one by Shentel, with the third being picked by the appraisers. At the end of the process, if all three valuations are within 10%, they are averaged; if only two are, only those two are averaged; if they all differ by more than 10%, the middle value is chosen.

Once the price is set, the companies have 20 days to close the transaction and settle any regulatory concerns (which should be minimal, as T-Mobile previewed the transaction to the FCC). If the current dispute is resolved quickly, the deal could close before the end of the year, but is more likely in 2021.

Because T-Mobile will have to pay for Shentel's wireless assets not long before it pays for the C-Band, we are lowering our estimate of T-Mobile's spend on the latter by the amount paid to Shentel. As Shentel does not own the brand (T-Mobile does), and because Shentel also does not own the spectrum licenses (Shentel

operates by using spectrum licensed to Sprint – now T-Mobile - covering 7.2MM pops, in the PCS, 800 MHz and 2.5 GHz bands), the agreement with Sprint/T-Mobile stipulates that, once the appraisal process determines the “Entire Business Value,” T-Mobile will pay 90% of this value.

In terms of estimating that value, Shentel produced \$217MM of wireless EBITDA in 2019 (after normalizing for a \$12MM disputed expense that was resolved in 2020). Shentel management pointed to the half-dozen affiliates purchased by Sprint in the first decade of the 2000s, which saw valuations between 9x and 13x, with the 13x going to the only affiliate to undergo a formal appraisal process (Nextel), and 9-10x being most common. If we simplistically assume 10x, Shentel’s wireless business is worth \$2.17BN, with T-Mobile paying 90% (\$1.95BN).

We had originally assumed T-Mobile would spend \$10.4BN at the CBRS and C-Band auctions; considering the transaction with Shentel, we are lowering that estimate to \$8.5BN in order to keep neutral the impact of the Shentel transaction on T-Mobile’s leverage.

For our comprehensive review of the T-Mobile thesis, including our updated forecast for synergies, and our updated view of managements medium and long-term guidance please see [this report](#). For a brief overview of the thesis, catalysts and risks see [this note](#). If all you have is three minutes and you hate to read, listen [here](#).

For our report on the value of CBRS and C-Band spectrum, and implications for the wireless industry, click [here](#). For a slidecast of the report, click [here](#). If you have three minutes or less, an audio summary can be found [here](#).

Full 12-month historical recommendation changes are available on request

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