Verizon bid for Sprint called unlikely

By Jeffry Bartash, CBS.MarketWatch.com
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WASHINGTON (CBS.MW) -- Despite rumors of Verizon's interest in acquiring Sprint, the big Northeastern phone company is unlikely to make a bid given high regulatory and financial hurdles, analysts say.

Reports of Verizon's interest have intensified amid apparent merger discussions between Sprint and Nextel Communications. The companies reportedly will announce the deal Wednesday morning.

Earlier Tuesday, Verizon was reported to have gained the support of U.K.-based partner Vodafone in a possible bid for Sprint. Yet the British company quickly issued a denial, telling CBS MarketWatch that it was "not in discussions" with Verizon about such a deal. Vodafone has repeatedly said it's not interested in obtaining more U.S. assets. The company owns about 45 percent of Verizon's wireless business.

Looks deceive
At first glance, a Verizon-Sprint union would seem to make more sense than a Nextel-Sprint merger. Verizon and Sprint both use the same CDMA standard to transmit wireless calls, whereas Nextel uses an incompatible technology known as Iden.

Yet Sprint and Verizon would almost certainly meet fierce regulatory and political resistance. If those two companies combined, they would control 65 million customers and dwarf most rivals. Only Cingular, with 47 million subscribers, would possess the heft to compete head-on in most markets nationwide.

"The regulators would really scrutinize that," said Jane Zweig, chief executive of the wireless research firm Shosteck Group. "You'd be left with two behemoths."
In that case, a Sprint-Verizon combination could take up to several years to approve and would require both companies to sell off large chunks of wireless airwaves in markets where they now dominate, analysts say.

"A deal involving Verizon and Cingular would be deemed as problematic," said regulatory expert Paul Glenchur of Stanford Washington Research Group. "It's not impossible, but it would be hard to do."

Verizon spokesman Bob Varettoni declined to comment.

Till debt do us part
Aside from the regulatory roadblocks, Verizon would be forced to pile on massive new debts to acquire a company with many of the same network assets. Verizon would have

to sell off or shut down parts of Sprint's wireless network and merge or close redundant sales and marketing operations.

At the end of the third quarter, Verizon had about $38 billion in debt and Sprint owed about $16 billion. That's over $50 billion in debt, excluding the cost of a merger.
Because of all huge costs and expected regulatory delays, "Verizon looked at this deal in early 2004 and passed on it," said Albert Lin of American Technology Research.
He suspects Verizon is encouraging talk of its intervention to push up the price that its rival Sprint pays for Nextel.

Longtime wireless analyst Ed Snyder of Charter Equity Research said Verizon can obtain new customers far more cheaply than by an acquisition of Sprint, which serves 23 million users.

"Verizon is absolutely kicking the heck out of Sprint. Why do it?" he asked. "You're buying customers. Couldn't you get them cheaper by winning them over?"

In a twist, some analysts say Verizon might be most interested in Sprint's long-distance network, a business that Wall Street puts little value on these days.

Even though cell phones are extremely popular, many calls travel part of the way on traditional wireline networks and add significantly to a wireless company's costs. Verizon does not own a long-haul network.

"The most attractive asset is the long-distance network," Lin said. "They carry one-third to one-half of all wireless traffic."

Shares of Sprint rose 66 cents Tuesday to $25.10. Nextel fell 8 cents to $29.91, Verizon fell 24 cents to $41.04 and Vodafone fell 32 cents to $27.35.

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