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Urge to Merge Could Hit Small Cellphone Companies

By KEN BELSON

Merger mania may be coming to a town near you.

With some of the nation's biggest cellular phone companies having announced mergers in recent months, investors are now turning their attention to the smaller cellphone companies that dot rural and suburban America.

The news that [Alltel](#), the largest of the regional wireless providers, is in negotiations to buy [Western Wireless](#) for about \$4 billion further fueled speculation that the next round of consolidations will involve smaller carriers.

Shares of Western Wireless surged as much as 19.4 percent in trading yesterday, before finishing up \$4.70 to close at \$35.70. Alltel's shares slipped \$2, or 3.4 percent, to \$56. Shares in other smaller carriers, including U.S. Cellular, [Rural Cellular](#) and Dobson Communications rose significantly.

News of the impending deal between Alltel and Western Wireless, which was first reported in [The New York Times](#) yesterday, came after several weeks of heavy trading in shares of regional carriers, a sign that investors have been betting that more deals are on the way. The new investor interest makes sense.

Growth in the country's \$100 billion wireless industry has slowed in recent years as the market moves closer to saturation. More than 61 percent of Americans now have cellphones, almost twice as many as in 2000. And the customers who have yet to get cellphones are costly to acquire in terms of marketing expenses and, worse, are likely to spend less on cellphone services.

Regional carriers, like the big national providers, are struggling with this problem. But they are also under other pressures. A main source of their revenue - roaming fees from the national carriers - is diminishing as the national companies pressure them to cut prices. At the same time, regional carriers must decide whether to invest what could amount to billions of dollars in third-generation cellular networks to remain compatible with the national carriers.

These forces will probably force smaller carriers like Western Wireless to seek deals. With 1.4 million subscribers, Western Wireless is too small, industry experts say, to weather on its own the forces buffeting the industry.

The regional wireless carriers are "between a rock and a hard place," said Mitch Mitchell, a consultant at A. T. Kearney. Western Wireless, he said, could be taking a "cost avoidance" strategy by selling itself rather than spending more money to upgrade its networks.

Mr. Mitchell and others expect the number of deals between regional carriers to increase. And judging by the reaction to the news of Alltel, investors do, too.

The spotlight on the regional carriers comes less than a month after [Sprint](#) and Nextel said they would merge. After that deal, some investors and analysts thought that [Verizon](#) Wireless, the nation's second largest carrier, might buy Alltel to help it regain the top spot in the mobile industry.

But big players like Verizon are more focused on metropolitan areas, where consumers spend about \$10 more per month on average than those in rural areas, and where their investments in equipment and advertising campaigns offer greater returns. Rather than build their own networks and chase new customers outside cities, Verizon, for example, appears content to rely on roaming agreements with regional carriers that let their subscribers piggyback cheaply on other companies' networks.

The other major players - Cingular, Sprint, Nextel and T-Mobile - are also unlikely to invest aggressively in the rural market. Cingular has its hands full absorbing AT&T Wireless, which it bought in October. Sprint and Nextel hope to begin merging their operations starting in the second half of this year. Given their different network technologies, their consolidation could run through 2007, if not longer.

"It might be cheaper to buy coverage than to build it in regional markets," said Edward Snyder, an industry analyst at Charter Equity Research in San Francisco. But, he said, "the big guys won't scoop up the small guys for another two years."

T-Mobile, meanwhile, appears more focused on courting and keeping young, urban customers and offering international services.

Regardless of what the national carriers do, many regional cellphone companies have been buoyed by the recovery in telecommunications stocks in the past two years. This has given potential buyers like Alltel the ability to go shopping and has encouraged companies like Western Wireless and its chairman and chief executive, John W. Stanton, to consider selling while share prices are high.

Even before the jump in its shares yesterday, Western Wireless's stock was trading at a three-year high.

Prices aside, one of the biggest hurdles in consolidations of rural wireless carriers is that many of them are closely held and, in some cases, majority-owned by families. Executives at these companies, including most notably U.S. Cellular, have strong attachments to their companies and often want to maintain control so they can pass them on to younger generations.