US Telecom and Pay TV
What if? A comprehensive look at sector M&A

Assessing the potential impact of the Trump Administration on our stocks
We believe the Trump Administration will impact telecommunications and cable stocks primarily through changes in 1) the M&A approval process, 2) tax policy and 3) industry regulation. In this note, we explore the ramifications of a more lenient DOJ and FCC on potential deals and provide an interactive model for various combinations.

New leadership at the FCC and DOJ will set the stage
The FCC under Obama rejected 4-to-3 consolidation in wireless twice, blocked the creation of a cable behemoth and put 17 pages of conditions on a large satellite TV transaction despite finding it in the public interest. Chairman Wheeler’s departure from the FCC has to be music to the industry’s ears, especially given 1) the appointment of Jeffrey Eisenach to oversee the FCC transition and 2) front-runner Commissioner Ajit Pai’s history of dissents against Commission overreach (incl. Title II reclassification). The new head of Antitrust at the DoJ will be a major focus given most possible combinations will entail consolidation of broadband providers in some form.

Convergence of cable and wireless services provides the backdrop
We have long believed that secular changes in technology and usage would lead to the convergence of the cable and wireless industries. The transformation of the internet into a mobile-first platform combined with the rapid migration of video from proprietary networks to digital and the rise in competitive pressure this entails increases the value of an integrated fixed and wireless service to cable providers. Densification of wireless networks required to meet the needs of video-centric subscribers increases synergies of cable-wireless combinations and provides the springboard for 5G-based services. A roll-back of Title II re-classification could further increase incentives for cable.

Conclusions: Sub-scale wireless stand to benefit; Cable dilution minimal
High multiples of the buyers, low interest rates and substantial synergies in fixed/mobile combinations are a recipe for accretive deals with the exception of DISH-TMo due to the loss of spectrum valuation support. Our main question is the willingness of sellers to part with assets at reasonable prices given the number of potential buyers. Our T-Mobile price target goes to $63 (old $51) and Sprint to $9 (old $7) in anticipation of these conversations and support from deal multiples.
T-Mobile US
Increasing the PT to $63 from $51

T-Mobile remains our top US wireless pick

T-Mobile has emerged as an aggressive share-taker and is starting to translate sub growth into FCF generation. We expect T-Mo will continue to drive sub momentum with expanded distribution, an improved network and the introduction of new consumer friendly offers. Meanwhile, margins continue to benefit from added scale & cost-cutting. As the internet and video go mobile, T-Mobile holds a strategic position, which along with its attractive growth trajectory, makes TMUS our top U.S. wireless pick.

Valuation: Maintain Buy

T-Mobile is currently trading at 7.2x 2018E cash EBITDA. We believe the company’s end-game is to participate in industry consolidation. We are increasing our price target to $63/sh, based on 8x our 2018 cash EBITDA estimate (including $8B in expected spending at the incentive auction) vs. our prior valuation at 7.0x. This is still consistent with the 7-8.5x seen in prior wireless M&A deals and we believe T-Mobile could garner a multiple at the high-end given significant synergy opportunities and expectations of a more friendly regulatory approval process, which should increase the number of potential buyers.

Highlights (US$m)

<table>
<thead>
<tr>
<th>12/13</th>
<th>12/14</th>
<th>12/15</th>
<th>12/16E</th>
<th>12/17E</th>
<th>12/18E</th>
<th>12/19E</th>
<th>12/20E</th>
</tr>
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<tbody>
<tr>
<td>Revenues</td>
<td>26,130</td>
<td>29,564</td>
<td>32,053</td>
<td>36,864</td>
<td>41,495</td>
<td>43,135</td>
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<td>EBIT (UBS)</td>
<td>1,263</td>
<td>1,406</td>
<td>2,065</td>
<td>3,160</td>
<td>4,619</td>
<td>5,683</td>
<td>6,396</td>
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<tr>
<td>Net earnings (UBS)</td>
<td>505</td>
<td>66</td>
<td>1,384</td>
<td>234</td>
<td>1,546</td>
<td>2,228</td>
<td>2,704</td>
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<td>EPS (UBS, diluted) (US$)</td>
<td>0.69</td>
<td>0.08</td>
<td>1.69</td>
<td>1.55</td>
<td>1.80</td>
<td>2.59</td>
<td>3.15</td>
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<td>DPS (US$)</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Net (debt) / cash</td>
<td>14,172</td>
<td>(16,664)</td>
<td>(18,656)</td>
<td>(28,465)</td>
<td>(25,547)</td>
<td>(21,762)</td>
<td>(17,403)</td>
</tr>
</tbody>
</table>
| Profitability/valuation

<table>
<thead>
<tr>
<th>12/13</th>
<th>12/14</th>
<th>12/15</th>
<th>12/16E</th>
<th>12/17E</th>
<th>12/18E</th>
<th>12/19E</th>
<th>12/20E</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBIT margin %</td>
<td>4.8</td>
<td>4.8</td>
<td>6.4</td>
<td>8.6</td>
<td>11.8</td>
<td>13.7</td>
<td>14.8</td>
</tr>
<tr>
<td>ROIC (EBIT) %</td>
<td>7.4</td>
<td>4.6</td>
<td>6.1</td>
<td>7.7</td>
<td>10.0</td>
<td>12.7</td>
<td>14.8</td>
</tr>
<tr>
<td>EV/EBITDA (core) x</td>
<td>5.4</td>
<td>7.0</td>
<td>7.2</td>
<td>7.8</td>
<td>6.6</td>
<td>6.0</td>
<td>5.3</td>
</tr>
<tr>
<td>P/E (UBS, diluted) x</td>
<td>34.0</td>
<td>NM</td>
<td>21.6</td>
<td>35.2</td>
<td>30.4</td>
<td>21.1</td>
<td>17.4</td>
</tr>
<tr>
<td>Equity FCF (UBS) yield %</td>
<td>(3.8)</td>
<td>(0.7)</td>
<td>2.3</td>
<td>2.9</td>
<td>6.7</td>
<td>8.5</td>
<td>9.8</td>
</tr>
<tr>
<td>Net dividend yield %</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Source: Company accounts, Thomson Reuters, UBS estimates. UBS adjusted EPS is stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts’ judgement. Valuations: based on an average share price that year, (US$: based on a share price of US$54.59 on 25 Nov 2016 19:37 EST).
Risk to the current share price is skewed (1.3:1) to the upside

**Base case (PT $63):** Assumes 8x 2018E EBITDA. In the base case scenario, subscriber growth remains strong but slows while ARPU stabilizes, driving low double-digit service revenue growth. With added scale and cost-cutting, margins continuing to expand, driving sustained FCF generation. We expect T-Mobile to spend up to ~$8B in the upcoming spectrum auction (pushing leverage up by roughly one turn), while cable’s initial steps into wireless highlight T-Mobile’s strategic value. We forecast 3-year CAGR of MSD in total revenues and HSD in EBITDA.

**Upside case (PT $73):** Assumes 8.5x 2018E EBITDA. In an upside scenario, T-Mobile sustains its recent pace of subscriber additions, begins to grow postpaid ARPU and reduces costs more than expected. This would cause revenue growth to accelerate as margins expand, driving better FCF generation. We forecast 3-year CAGR of HSD in total revenues and HSD in EBITDA.

**Downside case (PT $40):** Assumes 6x 2018E EBITDA. In a downside scenario, T-Mobile is unable to gain market share despite higher marketing spend, while ARPU declines worsen and bad expense and churn both rise. This would likely lead to a resumption of FCF losses and could deter potential suitors. We forecast 3-year CAGR of MSD in total revenues and MSD in EBITDA. This is also in line with the scenario analysis we show for a combination with DISH, given lack of growth of the combined company and lack of spectrum valuation support.

**Figure 1: TMUS – Upside / Downside Spectrum**

Source: UBS estimates
Sprint Corporation

All in on consolidation; Increasing PT to $9 from $7

**Sprint could participate in wireless consolidation**

With the confirmation of Jeffrey Eisenach to oversee the FCC transition, we believe consolidation could be back on the table with Sprint as a likely participant. Sprint has made progress on its most pressing issues - improving liquidity and returning to postpaid sub growth. Management's initial success in the turnaround increases our confidence the company can continue to take share and expand margins. In the meantime, we remain on the sidelines as we look for signs of stability in service revenues amid cost cutting while we expect capex to ramp in the near-term.

**Valuation: Maintain Neutral**

Sprint is currently trading at 5.9x our 2018 cash EBITDA estimate (calculated as service revenues less COS and SG&A and no contribution from equipment sales). We believe Sprint would likely be a participant in wireless consolidation and could see valuation support at recent deal multiples. We are increasing our price target to $9/sh, based on 7x our 2018 cash EBITDA estimate (vs. our prior DCF-based valuation incorporating an 8% WACC and a 1.5% perpetual growth). This is at the low-end of the 7-8.5x seen in prior wireless M&A deals.

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**Highlights (US$m)**

<table>
<thead>
<tr>
<th>Highlights (US$m)</th>
<th>03/14</th>
<th>03/15</th>
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<th>03/19E</th>
<th>03/20E</th>
<th>03/21E</th>
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</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>8,875</td>
<td>34,532</td>
<td>32,180</td>
<td>33,035</td>
<td>33,583</td>
<td>35,191</td>
<td>36,918</td>
<td>38,583</td>
</tr>
<tr>
<td>EBIT (UBS)</td>
<td>547</td>
<td>651</td>
<td>1,379</td>
<td>2,445</td>
<td>3,873</td>
<td>4,618</td>
<td>5,351</td>
<td>6,071</td>
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<tr>
<td>Net earnings (UBS)</td>
<td>(151)</td>
<td>(3,345)</td>
<td>(1,910)</td>
<td>(704)</td>
<td>(627)</td>
<td>1,121</td>
<td>1,571</td>
<td>2,762</td>
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<tr>
<td>EPS (UBS, diluted) (US$)</td>
<td>(0.04)</td>
<td>(0.84)</td>
<td>(0.48)</td>
<td>(0.18)</td>
<td>0.16</td>
<td>0.28</td>
<td>0.39</td>
<td>0.69</td>
</tr>
<tr>
<td>DPS (US$)</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
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**Profitability/valuation**

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<th>03/19E</th>
<th>03/20E</th>
<th>03/21E</th>
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<tbody>
<tr>
<td>EBIT margin %</td>
<td>6.2</td>
<td>1.9</td>
<td>4.3</td>
<td>7.4</td>
<td>11.5</td>
<td>13.1</td>
<td>14.5</td>
<td>15.7</td>
</tr>
<tr>
<td>ROIC (EBIT) %</td>
<td>1.1</td>
<td>1.3</td>
<td>2.7</td>
<td>4.9</td>
<td>7.8</td>
<td>9.4</td>
<td>11.2</td>
<td>13.2</td>
</tr>
<tr>
<td>EV/EBITDA (core) x</td>
<td>33.2</td>
<td>9.2</td>
<td>5.6</td>
<td>6.0</td>
<td>5.2</td>
<td>4.4</td>
<td>3.8</td>
<td>3.3</td>
</tr>
<tr>
<td>P/E (UBS, diluted) x</td>
<td>NM</td>
<td>(7.6)</td>
<td>(8.5)</td>
<td>(44.6)</td>
<td>50.1</td>
<td>28.0</td>
<td>20.0</td>
<td>11.4</td>
</tr>
<tr>
<td>Equity FCF (UBS) yield %</td>
<td>(2.8)</td>
<td>(14.1)</td>
<td>(19.0)</td>
<td>1.4</td>
<td>0.7</td>
<td>6.9</td>
<td>11.4</td>
<td>13.0</td>
</tr>
<tr>
<td>Net dividend yield %</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

**Source:** Company accounts, Thomson Reuters, UBS estimates. UBS adjusted EPS is stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement. Valuations: based on an average share price that year, (3): based on a share price of US$7.89 on 25 Nov 2016 19:37 EST.
Risk to the current share price is skewed (1.3:1) to the upside

Base case (PT $9): Assumes 7x 2018E EBITDA, supported by the low-end of M&A multiples seen in prior wireless deals. From a fundamental perspective, our base case scenario assumes handset adds remain positive and ARPU declines start to stabilize, driving a low single-digit decline in service revenues. Combined with $2B+ of run-rate cost savings by YE16, cash EBITDA grows MSD and the company generates positive FCF in F2016. With these trends and funding from various leasing structures, the company will be able to repay its upcoming debt maturities without tapping the markets.

Upside case (PT $11.50): Assumes 8x 2018E EBITDA; In an upside scenario, Sprint will over-deliver on targeted cost reductions while maintaining subscriber momentum, stabilizing ARPU and returning to service revenue growth/FCF generation more quickly than forecast and receive a multiple more in line with peers and high end of prior M&A deals.

Downside case (PT $4.5): Assumes 5x 2018E EBITDA; In a downside scenario, competitive intensity increases, driving worsening subscriber trends and ARPU pressure. This could drive sustained mid-single-digit service revenue declines and a drop in cash EBITDA.

Figure 2: Sprint – Upside / Downside Spectrum

Source: UBS estimates
Introducing the Interactive UBS Merger Model

- Trump Administration may take a more favorable regulatory approach to consolidation
- Hired Jeffrey Eisenach, who favors less regulation and has been a proponent of consolidation in wireless, to lead the FCC transition

Source: Company websites

[Diagram showing various mergers and acquisitions involving Sprint, T-Mobile, Verizon, Charter, and Comcast]
Merger Model

Key Assumptions

- Offer details
- Synergies (% of cash opex)
- Interest cost
- Use of NOL

Model Output

- Accretion to EPS & FCF/share
- Leverage
- Growth trajectory
- Dividend payout

Interactive models allow investors to change assumptions on key drivers and analyze results.

Tables within show a potential scenario for each combination and do not reflect analysts' expectations.
Prior Wireless M&A

- Average multiple in wireless deals at 7.6x forward EBITDA but includes small/distressed sales
- Synergies of 15-20% of opex in large scale deals; Higher in smaller deals

<table>
<thead>
<tr>
<th>Company</th>
<th>Acquisition</th>
<th>Announced</th>
<th>Closed</th>
<th>EV</th>
<th>EV/EBITDA</th>
<th>% of cash opex</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cingular</td>
<td>AT&amp;T Wireless</td>
<td>2/17/2004</td>
<td>10/26/2004</td>
<td>45,505</td>
<td>8.3</td>
<td>15%</td>
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<tr>
<td>Sprint</td>
<td>Nextel</td>
<td>12/15/2004</td>
<td>8/15/2005</td>
<td>37,435</td>
<td>5.7</td>
<td>18%</td>
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<tr>
<td>AT&amp;T</td>
<td>Dobson</td>
<td>6/29/2007</td>
<td>11/15/2007</td>
<td>5,100</td>
<td>8.3</td>
<td>32%</td>
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<tr>
<td>Verizon</td>
<td>Rural</td>
<td>7/29/2007</td>
<td>8/7/2008</td>
<td>2,670</td>
<td>9.5</td>
<td>30%</td>
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<td>Verizon</td>
<td>Altel</td>
<td>6/5/2008</td>
<td>1/9/2009</td>
<td>28,100</td>
<td>7.8</td>
<td>NA</td>
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<tr>
<td>AT&amp;T</td>
<td>Altel properties from VZ</td>
<td>1/9/2009</td>
<td>6/22/2010</td>
<td>2,350</td>
<td>5.9</td>
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<td>Sprint</td>
<td>Virgin Mobile</td>
<td>7/28/2009</td>
<td>11/24/2009</td>
<td>483</td>
<td>5.3</td>
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<td>Sprint</td>
<td>iPCS</td>
<td>10/19/2009</td>
<td>12/4/2009</td>
<td>831</td>
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<td>AT&amp;T</td>
<td>T-Mobile</td>
<td>3/20/2011</td>
<td>Not approved</td>
<td>39,000</td>
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<td>16%</td>
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<td>T-Mobile</td>
<td>MetroPCS</td>
<td>10/3/2012</td>
<td>4/13/2013</td>
<td>30,000</td>
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<td>Leap</td>
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<td>2/14/2014</td>
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<tr>
<td>Verizon</td>
<td>VOD's VZW stake</td>
<td>9/3/2013</td>
<td>2/23/2014</td>
<td>130,100</td>
<td>8.1</td>
<td>NA</td>
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<tr>
<td><strong>Average</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>7.6</strong></td>
</tr>
</tbody>
</table>

Source: UBS estimates, Company data
Spectrum: Average holdings in the Top 100 U.S. markets

AT&T
- 31 MHz
- 25 MHz
- 14 MHz
- 41 MHz
- 18 MHz
- 21 MHz

Verizon
- 22 MHz
- 24 MHz
- 36 MHz
- 22 MHz
- 11 MHz

Sprint
- 14 MHz
- 36 MHz
- 156 MHz

T-Mobile
- 10 MHz
- 41 MHz
- 31 MHz
- 3 MHz

DISH
- 10 MHz
- 40 MHz
- 23 MHz

Source: UBS estimates, Company data

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# UBS Merger Model

## Summary of Key Outputs

<table>
<thead>
<tr>
<th></th>
<th>Comcast</th>
<th>Charter</th>
<th>T-Mobile</th>
<th>Verizon</th>
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<tr>
<td>Accretive to:</td>
<td></td>
<td></td>
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<td>Revenue growth</td>
<td>~</td>
<td>~</td>
<td>~</td>
<td>X</td>
</tr>
<tr>
<td>Margins</td>
<td>~</td>
<td>~</td>
<td>~</td>
<td>~</td>
</tr>
<tr>
<td>EPS</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>na</td>
</tr>
<tr>
<td>FCF per share</td>
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<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Synergies</td>
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<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Dividend payout</td>
<td>✓</td>
<td>✓</td>
<td>na</td>
<td>na</td>
</tr>
</tbody>
</table>

Source: UBS estimates
Sprint & T-Mobile US

Positives

- Structural change in the industry going from 4 national players to 3
- Significant synergies
- Use of NOL

Negatives

- Higher capex to integrate the network
- Potential dislocation in the customer base (higher churn, lower gross adds)
- Difficult and uncertain regulatory process/significant conditions would be required

Industry Implications

- Positive for AT&T and Verizon given market repair and improved competitive intensity
- Weakens sentiment on towers, however, overlap exposure is just 4-6% of revenues with 5-6 years left on the contracts
- Complicates cable entry into wireless – potential delay, larger deal, multiple bids for the same asset
- Strategic options for DISH reduced
- Potential spectrum divestitures (at a discount) could benefit AT&T, VZ, cable

Source: UBS estimates

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**Comcast & T-Mobile**

**Positives**
- Synergies from integrating systems, backhaul, procurement etc.
- Integrated product for residential and business customers
- Improvement in churn
- Leverage spectrum position (expect nationwide spectrum purchase in the 600 MHz auction)

**Negatives**
- Increased competition
- Higher leverage
- Potentially lower cash returns

**Industry Implications**
- Improved competitive intensity for **AT&T and Verizon** as Comcast focuses on product differentiation
- Positive for **towers** as a better capitalized company invests in wireless
- Positive for **Sprint** as it likely finds M&A support
- Negative for **DISH** in the near-term as one less option to partner with but could eventually pressure Verizon to purchase its spectrum assets
- Potentially partner with **Charter** to operate T-Mobile
Comcast & Sprint

Positives

- Synergies from integrating systems, backhaul, procurement etc.
- Integrated product for residential and business customers
- Improvement in churn
- Leverage spectrum position (expect nationwide spectrum purchase in the 600 MHz auction)

Negatives

- Higher capital spending to upgrade Sprint’s network
- Increased competition
- Higher leverage
- Potentially lower cash returns

Industry Implications

- Improved competitive intensity for AT&T and Verizon as Comcast focuses on product differentiation
- Negative for T-Mobile in the near-term; Expect it to eventually get back on the M&A track
- Positive for towers as a better capitalized company invests in wireless
- Negative for DISH in the near-term as one less option to partner with but could eventually pressure Verizon to purchase its spectrum assets
- Potentially partner with Charter to operate Sprint

Source: UBS estimates
T-Mobile & DISH

Positives

- Strong spectrum position
- Integrated video product
- Bundling opportunity with Sling
- Some synergies

Negatives

- Structure of deal likely difficult for stock appreciation given loss of spectrum valuation support
- Acquisition of T-Mobile becomes harder
- Deal likely dilutive to financials and leverage

Industry Implications

- Maintains status quo in industry competition
- Positive for towers as spectrum held by DISH will be deployed
- Negative for Verizon as it eliminates a sources of spectrum
- Positive for Sprint as it becomes the only wireless take-out candidate for cable
- Negative for cable as it lowers options for entry into wireless in the medium-term

Source: UBS estimates
Charter & T-Mobile

Positives

- Synergies from integrating systems, backhaul, procurement etc.
- Integrated product for residential and business customers
- Improvement in churn

Negatives

- Increased competition
- Higher leverage
- Potentially lower cash returns

Industry Implications

- Improved competitive intensity for AT&T and Verizon
- Positive for towers as a better capitalized company invests in wireless
- Positive for Sprint as it likely finds M&A support
- Negative for DISH in the near-term as one less option to partner with but could eventually pressure Verizon to purchase its spectrum assets
- Potentially partner with Comcast to operate T-Mobile

Source: UBS estimates
Charter & Sprint

Positives

- Synergies from integrating systems, backhaul expense, procurement etc.
- Integrated product for residential and business customers
- Improvement in churn
- Potentially partner with Comcast to operate Sprint

Negatives

- Higher capital spending to upgrade Sprint’s network
- Increased competition
- Higher leverage
- Potentially lower cash returns

Industry Implications

- Improved competitive intensity for AT&T and Verizon
- Negative for T-Mobile in the near-term; Expect it to eventually get back on the M&A track
- Positive for towers as a better capitalized company invests in wireless
- Negative for DISH in the near-term as one less option to partner with but could eventually pressure Verizon to purchase its spectrum assets
- Potentially partner with Comcast to operate Sprint

Source: UBS estimates
Verizon & DISH

Positives

- Strong spectrum position
- Integrated video product
- Bundling opportunities with Sling
- Meaningful synergies
- Straight-forward regulatory review

Negatives

- Deal likely dilutive to financials and leverage
- Potential spectrum divestitures required

Industry Implications

- Maintains status quo with industry competition
- Positive for towers as spectrum held by DISH will be deployed
- May lead the way to DBS consolidation

Source: UBS estimates
Verizon & Sprint

Positives

- Structural change in the industry going from 4 to 3 national players
- Strong spectrum position
- Significant synergies
- Use of NOL

Negatives

- Potential dislocation in the customer base during integration (higher churn, lower gross adds)
- Difficult and uncertain regulatory process/significant conditions would be required

Industry Implications

- Positive for the AT&T given improved competitive intensity
- Positive for T-Mobile as it becomes the sole wireless M&A target for cable
- Negative for towers given exposure to overlapping sites
- Negative for DISH as Verizon no longer needs its spectrum assets

Source: UBS estimates

john.hedvik@ubs.com | +1-212-713-4226
Verizon & Comcast

Positives

- Significant synergies
- Integrated product
- Accretive to revenue and EBITDA growth

Negatives

- Significant regulatory conditions
- Divestiture of wireline assets may be difficult due to pension/OPEB liabilities

Industry Implications

- Positive for T-Mobile or Sprint if Comcast acts alone as one of them would be the next likely M&A target for U.S. cable MSOs
- Neutral for towers
- Negative for DISH as a deal with Verizon less likely
- Negative for AT&T as it would compete with a strong quad-play service

Source: UBS estimates
Verizon & Charter

**Positives**
- Significant synergies
- Integrated product
- Accretive to revenue and EBITDA growth
- Use of NOL

**Negatives**
- Significant regulatory conditions
- Dilutive to leverage
- Divestiture of wireline assets may be difficult due to pension/OPEB liabilities

**Industry Implications**
- Positive for T-Mobile or Sprint if Charter acts alone as one of them would be the next likely M&A target for U.S. cable MSOs
- Neutral to towers
- Negative for DISH as a deal with Verizon would be less likely
- Negative for AT&T as it would compete with a strong quad-play service

Source: UBS estimates
**T-Mobile US Investment case**

T-Mobile has emerged as an aggressive share-taker and is starting to translate sub growth into FCF generation. We expect T-Mo will continue to drive sub momentum with expanded distribution, an improved network and the introduction of new consumer friendly offers. Meanwhile, margins continue to benefit from added scale & cost-cutting. As the internet and video go mobile, T-Mo holds a strategic position, which along with its attractive growth trajectory, makes TMUS our top U.S. wireless pick.

**Sprint Corporation Investment case**

Sprint has made progress on its most pressing issues: Improving liquidity and returning to postpaid sub growth. Management’s initial success in the turnaround increases our confidence the company can continue to take share and expand margins. We continue to look for signs of stability in service revenues. In the meantime, we remain on the sidelines.

**Valuation Method and Risk Statement**

Risks related to the cable and pay-TV sector include: operational and financial leverage, potentially adverse regulatory rulings, changes in technology, increasing competition, reliance upon increased penetration of new services for cash flow growth, and exposure to economic cycles.

Risks for telecommunications stocks include operational and financial leverage, potentially adverse regulatory rulings, changes in technology, increasing competition, and exposure to economic cycles.
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<table>
<thead>
<tr>
<th>12-Month Rating</th>
<th>Definition</th>
<th>Coverage 1</th>
<th>IB Services 2</th>
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<tbody>
<tr>
<td>Buy</td>
<td>FSR is &gt; 6% above the MRA.</td>
<td>45%</td>
<td>28%</td>
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<tr>
<td>Neutral</td>
<td>FSR is between -6% and 6% of the MRA.</td>
<td>39%</td>
<td>25%</td>
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<tr>
<td>Sell</td>
<td>FSR is &gt; 6% below the MRA.</td>
<td>15%</td>
<td>17%</td>
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<table>
<thead>
<tr>
<th>Short-Term Rating</th>
<th>Definition</th>
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<th>IB Services 2</th>
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<tbody>
<tr>
<td>Buy</td>
<td>Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.</td>
<td>&lt;1%</td>
<td>&lt;1%</td>
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<tr>
<td>Sell</td>
<td>Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.</td>
<td>&lt;1%</td>
<td>&lt;1%</td>
</tr>
</tbody>
</table>

Source: UBS. Rating allocations are as of 30 September 2016.
1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

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**UBS Securities LLC:** John C. Hodulik, CFA; Batya Levi; Lisa L. Friedman; Christopher Schoell, CPA.

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<table>
<thead>
<tr>
<th>Company Name</th>
<th>Reuters</th>
<th>12-month rating</th>
<th>Short-term rating</th>
<th>Price</th>
<th>Price date</th>
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<td>American Tower Corporation\textsuperscript{16}</td>
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<td>Buy</td>
<td>N/A</td>
<td>US$107.30</td>
<td>25 Nov 2016</td>
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<td>AT&amp;T Inc.\textsuperscript{1, 5, 6a, 7, 16}</td>
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<td>Neutral</td>
<td>N/A</td>
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<td>25 Nov 2016</td>
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<td>Charter Communications Inc.\textsuperscript{2, 4, 6a, 6b, 7, 16}</td>
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<td>Buy</td>
<td>N/A</td>
<td>US$275.50</td>
<td>25 Nov 2016</td>
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<td>Comcast Corporation\textsuperscript{2, 4, 6a, 6b, 6c, 7, 16, 18a}</td>
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<td>Buy</td>
<td>N/A</td>
<td>US$69.16</td>
<td>25 Nov 2016</td>
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<td>Crown Castle International Corp.\textsuperscript{1, 16}</td>
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<td>Buy</td>
<td>N/A</td>
<td>US$84.77</td>
<td>25 Nov 2016</td>
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<td>DISH Network Corp.\textsuperscript{16}</td>
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<td>N/A</td>
<td>US$55.93</td>
<td>25 Nov 2016</td>
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<td>Sprint Corporation\textsuperscript{16, 20}</td>
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<td>Neutral (CBE)</td>
<td>N/A</td>
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<td>T-Mobile US\textsuperscript{16, 18b}</td>
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<td>N/A</td>
<td>US$54.59</td>
<td>25 Nov 2016</td>
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<td>Verizon Communications\textsuperscript{2, 4, 5, 7, 16}</td>
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<td>Neutral</td>
<td>N/A</td>
<td>US$50.67</td>
<td>25 Nov 2016</td>
</tr>
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Source: UBS. All prices as of local market close.

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