

**RBC Capital Markets, LLC**

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Companies mentioned

Deutsche Telekom AG (DTE €9.74; SP/AA)

Leap Wireless International Inc. (LEAP \$7.59;
SP/Spec)

MetroPCS Communications Inc. (PCS \$13.57;
SP/AA)

Sprint Nextel Corp. (S \$4.90; SP/Spec)

INDUSTRY | COMMENT

OCTOBER 3, 2012

Hello, Hello, Hallo - Thoughts on Potential DT/PCS Tie-Up**Summary**

Our initial take is that a potential business combination between T-Mobile and MetroPCS is of dubious merit for Deutsche Telekom under business conditions and public-market valuations. We expect few regulatory barriers to such a deal, and believe Sprint could benefit competitively.

Details

- A T-Mobile/MetroPCS combination would drive no discernible operating synergies, in our view, given the technology mismatch between the two platforms and the likely need to maintain separate networks, billing, and other IT and customer support systems until the migration of the PCS customer base onto the larger T-Mobile platform. Therefore, we assume the PCS's appeal to DT lies solely in its spectrum position (3.1B MHz-POPs, mostly in top-20 markets).
- At current public-market valuations, we calculate that a T-Mobile USA/MetroPCS combination prices in aggressive assumptions about the value of PCS's spectrum. Based on our MetroPCS M&A valuation grid, yesterday's closing price of \$14.16 implies a spectrum value of ~\$0.90 per MHz-POP, which is toward the high end of valuations during the last several auctions, and above the high end of recent private-market transactions. Underlying our assumption is a calculated \$300 per-subscriber valuation for MetroPCS (based on 2012E ARPU and churn), contributing \$2.8B toward PCS's enterprise value.
- We believe Sprint, rather than Deutsche Telekom, could derive greater value from acquiring MetroPCS given its common technology platform and ability to realize network and IT synergies. We find a competing Sprint bid plausible, with Deutsche Telekom having the upper hand on balance sheet considerations, and Sprint having the upper hand on justifiable synergies.
- Should a DT/PCS combination be consummated, we believe Sprint (and to a degree, Leap) would benefit competitively due to the significant potential for operational distractions. To address longer-term spectrum requirements, a Sprint/DISH business arrangement strikes us as plausible.

The attached tables contain our MetroPCS valuation grid (driven by per-subscriber and per-MHz-POP parameters) and historical spectrum valuations in recent auctions and private-market transactions.

Priced as of prior trading day's market close, EST (unless otherwise noted).
All values in USD unless otherwise noted.

For Required Conflicts Disclosures, see Page 4.

Metro PCS Subscriber and Spectrum Valuation Scenarios

MetroPCS

Licensed POPs (mil)	142						
Avg. Spectrum Depth	22						
MHz-POP (mil)	3,124						
\$/MHz/POP	\$0.40	\$0.50	\$0.60	\$0.70	\$0.80	\$0.90	\$1.00
Spectrum Valuation (mil)	\$1,250	\$1,562	\$1,874	\$2,187	\$2,499	\$2,812	\$3,124

Exhibit 4: Subscriber Value

	PCS
ARPU	\$40.73
CCPU	\$20.42
Churn	3.4%
Lifetime Value	\$601
Remaining Lifetime Value	\$300

MetroPCS

Subscribers (000's)	9,292					
Per-Sub Value	\$100	\$150	\$200	\$250	\$300	\$350.0
Subscriber Valuation (mil)	\$929	\$1,394	\$1,858	\$2,323	\$2,788	\$3,252

Source: RBC Capital Markets estimates and company reports.

MetroPCS Equity Valuation/Share

	per-sub value					
per MHz-POP value	\$100	\$150	\$200	\$250	\$300	\$350
\$0.40	(\$0.67)	\$0.61	\$1.89	\$3.17	\$4.45	\$5.73
\$0.50	\$0.19	\$1.47	\$2.75	\$4.03	\$5.31	\$6.59
\$0.60	\$1.05	\$2.33	\$3.61	\$4.89	\$6.17	\$7.45
\$0.70	\$1.91	\$3.19	\$4.47	\$5.75	\$7.03	\$8.30
\$0.80	\$2.77	\$4.05	\$5.33	\$6.61	\$7.89	\$9.16
\$0.90	\$3.63	\$4.91	\$6.19	\$7.47	\$8.75	\$10.02
\$1.00	\$4.49	\$5.77	\$7.05	\$8.33	\$9.61	\$10.88

MetroPCS Equity Valuation/Share (including PPE)

	per-sub value					
per MHz-POP value	\$100	\$150	\$200	\$250	\$300	\$350
\$0.40	\$4.93	\$6.21	\$7.49	\$8.77	\$10.05	\$11.32
\$0.50	\$5.79	\$7.07	\$8.35	\$9.63	\$10.91	\$12.18
\$0.60	\$6.65	\$7.93	\$9.21	\$10.49	\$11.77	\$13.04
\$0.70	\$7.51	\$8.79	\$10.07	\$11.35	\$12.63	\$13.90
\$0.80	\$8.37	\$9.65	\$10.93	\$12.21	\$13.48	\$14.76
\$0.90	\$9.23	\$10.51	\$11.79	\$13.07	\$14.34	\$15.62
\$1.00	\$10.09	\$11.37	\$12.65	\$13.93	\$15.20	\$16.48

PCS, AWS Spectrum Transactions

<u>Date</u>	<u>Acquirer</u>	<u>Seller</u>	<u>Frequency</u>	<u>Price (\$000s)</u>	<u>MHz</u>	<u>POPs (000s)</u>	<u>\$/MHz/POP</u>
1/26/2001	various bidders	FCC	1.9GHz	\$17,597,015	30	168,230	\$3.49
6/25/2001	Midwest Wireless	McLeod USA	1.9GHz	\$22,400	10	1,400	\$1.60
6/28/2001	US Cellular	McLeod USA	1.9GHz	\$74,000	10	4,700	\$1.57
11/30/2001	Airgate PCS	iPCS	1.9GHz	\$805,650	10	7,400	\$10.89
8/18/2003	Cingular Wireless	Sunshine PCS	1.9GHz	\$13,750	15	785	\$1.17
9/8/2003	Verizon Wireless	Devon Mobile Communications	1.9GHz	\$437	30	182	\$0.08
9/8/2003	Verizon Wireless	Devon Mobile Communications	1.9GHz	\$9,850	30	2,500	\$0.13
3/16/2004	Verizon Wireless	American Wireless License Group	1.9GHz	\$7,750	10	1,100	\$0.70
4/13/2004	Cingular Wireless	Nextwave PCS	1.9GHz	\$1,400,000	10	83,000	\$1.69
8/16/2004	Leap Wireless	Alpine-Fresno C	1.9GHz	\$27,100	30	950	\$0.95
8/16/2004	Cingular Wireless	Leap Wireless	1.9GHz	\$2,000	15	N/A	N/A
11/5/2004	Verizon Wireless	Nextwave PCS	1.9GHz	\$3,000,000	14	73,000	\$2.85
11/23/2004	Verizon Wireless	NTELOS	1.9GHz	\$15,500	10	2,100	\$0.74
11/29/2004	Metro PCS	Cingular Wireless	1.9GHz	\$230,000	10	19,690	\$1.17
2/15/2005	various bidders	FCC	1.9GHz	\$2,043,230	10	206,607	\$0.95
3/3/2005	Verizon Wireless	Metro PCS	1.9GHz	\$230,000	10	7,237	\$3.18
3/4/2005	Verizon Wireless	Qwest Wireless	1.9GHz	\$418,000	10	30,800	\$1.36
7/14/2005	Verizon Wireless	Urban-Comm North	1.9GHz	\$68,500	21	3,900	\$0.84
8/3/2005	Verizon Wireless	Leap Wireless	1.9GHz	\$102,500	11	8,000	\$1.17
9/12/2005	Dobson Communications	Leap Wireless	1.9GHz	\$10,000		N/A	N/A
12/22/2005	Verizon Wireless	Highland Cellular Holdings	1.9GHz	N/A	14	1,038	N/A
5/15/2006	Leap Wireless	Jump Mobile	1.9GHz	exchange	10	1,100	N/A
7/10/2006	Cleveland Unlimited	Leap Wireless	1.9GHz	\$28,500	15	597	\$3.18
12/14/2006	Leap Wireless	Urban-Comm North	1.9GHz	\$31,800	10	4,900	\$0.65
1/17/2007	Verizon Wireless	Alpine-Monterey F	1.9GHz	\$4,500	30	426	\$0.35
2/20/2007	Clearwire	AT&T	2.5GHz	\$300,000	170	18,000	\$0.10
1/9/2008	Metro PCS	PTA Comms; Cleartalk PCS	1.9GHz	N/A	10	1,500	N/A
7/24/2008	Multiple buyers	Nextwave PCS	AWS	\$150,100	NA	NA	\$0.25
12/1/2012	Verizon Wireless	SpectrumCo	AWS	\$3,600,000	20	259,000	\$0.69
12/16/2021	Verizon Wireless	Cox Communications	AWS	\$315,000	20	28,000	\$0.56

Source: Company data, RBC Capital Markets

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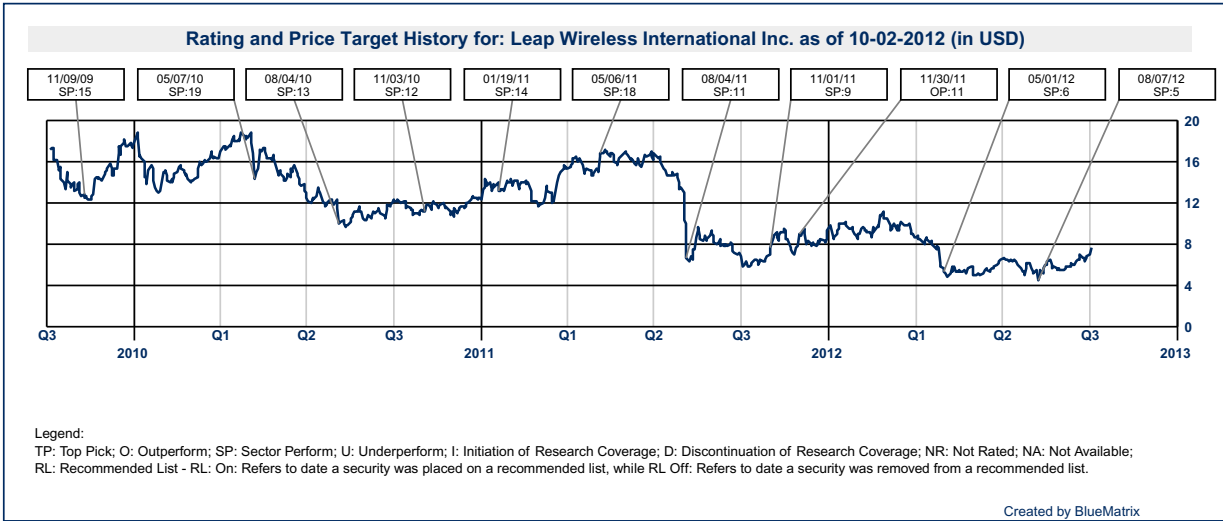
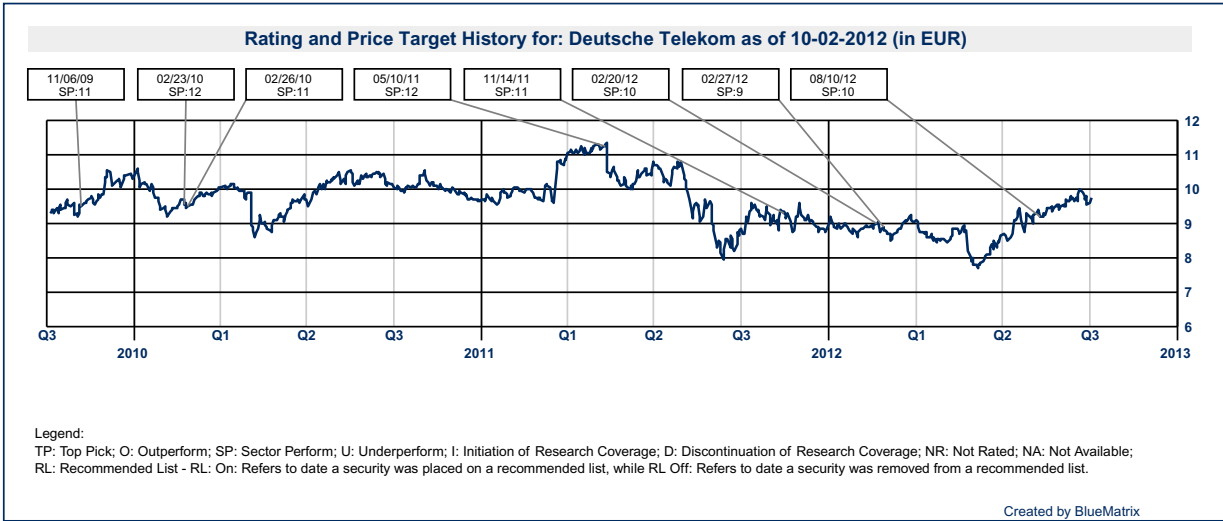
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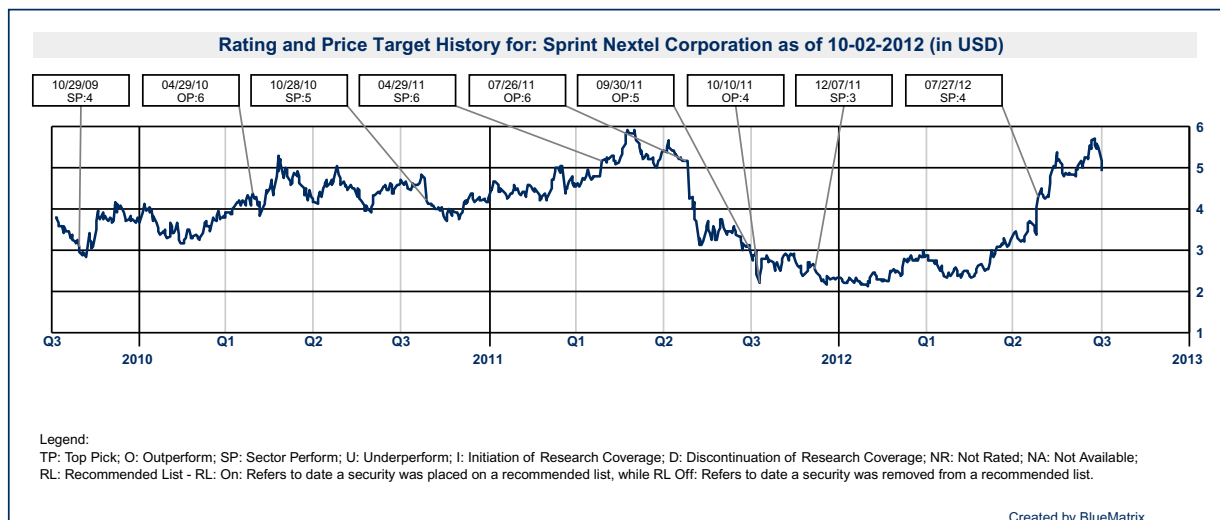
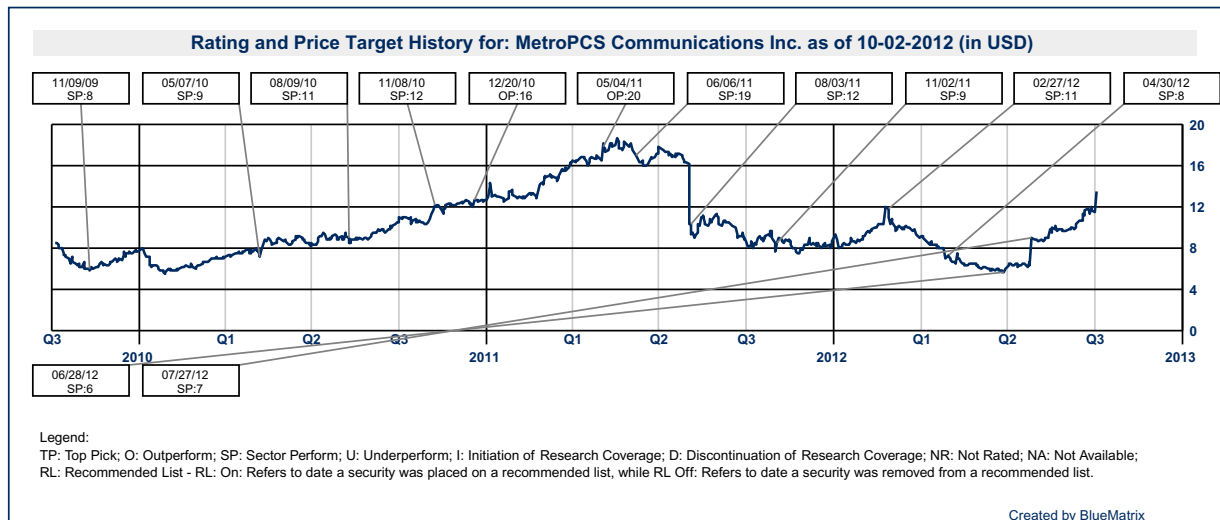
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