


Matthew Goldstein

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UPDATE 3-Ericsson to manage Sprint network in \$4.5-\$5bln deal

Thu Jul 9, 2009 4:57pm EDT

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* Sprint, Ericsson in 7-year \$4.5bln-\$5bln network deal

* 6,000 Sprint workers to move to Ericsson in Q3

* Ericsson sees initial margin impact

 * Sprint shares up 4 pct, Ericsson up 0.2 pct
 (Adds analyst comment, executive comment, share price, byline)

By Sinead Carew

NEW YORK, July 9 (Reuters) - Sprint Nextel Corp (S.N) said it would pay Ericsson (ERICB.ST) \$4.5 billion to \$5 billion to manage its network under a 7-year deal in which 6,000 Sprint workers will move to Ericsson. Sprint shares rose 4 percent.

Sprint said it would keep full control of its network after the deal, which is the first of its kind for a major U.S. operator. Sweden's Ericsson said the deal would initially hurt margins but provide "satisfactory" profits over seven years.

The No. 3 U.S. mobile service provider said Ericsson would help improve its network performance more efficiently than it could on its own. It also plans to plow any savings from the agreement into improving its network coverage.

"This is about improving our customer experience," Steve Elfman, Sprint's network operations head, said on a call with reporters on Thursday. "While we get the benefit of Ericsson's expertise ... we can focus our attention on bringing great devices, great services, great applications to them."

Investors will closely watch for any impact on Sprint's network performance as the service provider has been struggling to stem customer losses partly related to a poor reputation for network quality that it has been working to shake off.

However, analysts said they did not expect the quality of Sprint's wired or wireless network to suffer from the management handover.

"If anything, I think the reverse is true," said Soleil analyst Michael Nelson. "It actually appears that by making this move they're attempting to strengthen the quality of the network. There's always the potential for increased risk when you have a deal of this magnitude but I think its minimal."

SAVINGS TO BOOST NETWORK

Pacific Crest analyst analyst Steve Clement agreed that the move would not affect Sprint customers but said it was too early for shareholders to celebrate. "For investors, it will depend on the savings they get from the deal," he said.

Elfman declined to estimate savings except to say they would come from the use of Ericsson's technology and its massive scale as a network services company rather than the transfer of Sprint workers to Ericsson.

Piper Jaffray analyst Chris Larsen estimated that the deal could create savings of 10 percent to 20 percent or \$100 million a year based on the mid-point of that range.

But the fact that this is Ericsson's first U.S. network management deal, may mean less savings for Sprint than some investors would have hoped, Clement said.

"I don't think this type of deal will even approach (20 percent)." he said.



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