

### ***“Clear” skies ahead?***

On December 1<sup>st</sup>, while the rest of the market was heading south, the folks at the new Clearwire were crowing over their completed merger/financing transaction. The transaction creates a new company, also to be named Clearwire. The new service will be branded as “Clear”, and will expand beyond the current fixed broadband with VOIP (i.e. “double play”) offering to include mobile WiMax services for both voice and broadband – putting them in direct competition with the incumbent wireless providers. While this is a daunting challenge, Clearwire touts its superior spectrum holdings (which allow greater throughput) and green field network rollout (which eliminates legacy network issues) as compensating factors.

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Under the terms of the transaction, Clearwire and Sprint contributed their WiMax assets to the new firm, receiving ~50% and 30% shares while a host of strategic investors contributed \$3.2 billion in fresh cash at \$20 per share (subject to adjustment within a collared range of \$17-\$23 per share). These were the same terms agreed to at the time of the deal’s announcement last spring, and given the stock’s current trading level near \$7, represents a strong vote of confidence on the part of the new investors.

Of course, it’s not all confidence – it’s also a reflection of the strategic value of the deal to these investors. Intel has been a big backer of the entire WiMax ecosystem, from box builders to software companies, and was an earlier backer of the “old” ClearWire – which is going to provide the network to use all those WiMax chipsets. Cable operators like Brighthouse, Time Warner and Comcast have been active bidders in many of the recent FCC auctions, seeking to add a mobile component to their fixed business and resident offerings – what better way to buy spectrum than a large stake in arguably one of the largest spectrum plays out there? (Following the transaction, ClearWire can boast over 42 billion MHz-POPs of spectrum – more than anyone). And Google, forever seeking to democratize the Internet (and thus reach more users) helps fund a new broadband provider, one not coincidentally committed to an “open” network free of the “walled gardens” that herd users to certain websites on competing networks.

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Fortunately for Clearwire, synergy can be a two way street. Intel, with its strong relationships to the laptop and other device supply chains, is in a unique position to push the meaning of "Intel Inside" to include a WiMax chip set. Likewise, the cable firms plan to extend their triple plays by reselling Clearwire – which unlike Verizon and AT&T, has the virtue of not being in the video business! While the commitment level of the cable companies is probably weaker than Intel's (as is their level of investment), it is nevertheless substantial.

While these strategic drivers have been present since the deal was announced, what has been more interesting to observe is their durability even in the face of unprecedented strain in the financial markets. Going forward, with this strain likely to remain elevated for some time, Clearwire is likely to find its access to the capital markets similarly constrained. While \$3.2 billion is a lot of cash by any standards, it is a fraction of what Clearwire is ultimately going to need to roll out a nearly nationwide 2.5 GHz network.

As a consequence, we would not be at all surprised to see Clearwire's investors need to make future investments – potentially diluting existing investors that don't tag along. In addition to financial market conditions, the terms of these investments will be driven by the company's ability to drive subscriber growth, and extract as much in subscription fees as possible from each of those subscribers. Given the strong position of the incumbent wireless providers, Clearwire's strategic partnerships and developing consumer demand for greater mobile bandwidth will be the chief factors that determine their finances going forward.

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