

Verizon Wireless, member FDIC

While you haven't seen this just yet, this tongue in cheek title for my article this month helps illustrate what we view to be a often overlooked component of valuation for the mobile wireless firms. While analysts pore over ARPU, churn, maintenance Capex and the other metrics common to communications carriers when dissecting these firms, this overlooks an emerging source of value for these firms: financial services.

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While venture capitalists have focused a lot of attention on mobile payments firms, funding upstarts such as Obopay and more recently Bling Nation, and giants such as MasterCard, Visa and Paypal launched their own initiatives, none of these starts out with the advantage the wireless operators already have: millions of prepaid customers. While often derided by analysts as being less profitable, we believe this viewpoint is short sighted.

While prepaid customers typically have lower incomes and higher churn than postpaid (i.e. contract based) customers, they also are much more likely to be "unbanked" – that is they have limited or no banking relationships at all. In many cases, their financial relationship with their cellular provider through stored value in their accounts is their strongest or only accounting relationship.

However, rather than deriding it, we believe this relationship is a valuable foothold in becoming THE source of financial services to these customers. Just as Paypal leveraged its accounts to begin to offer additional financial services such as interest bearing accounts, and as Telmex levered its fixed subscriber relationships into providing financing and payment solutions to its customers, so we expect continued expansion of the financial relationships between cellular carriers and their customers – providing a whole new bundle beyond the quad play (i.e. voice, video, data and wireless) we are so used to hearing about.

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This potential upside is not, in our view, reflected in the valuation of the wireless carriers. But, we think it is beginning to drive strategic action – most notably with the recent acquisition of prepaid virtual carrier Virgin Mobile by its affiliate Sprint, which also owns Boost Mobile – another prepaid leader. This could also lead to renewed interest in Leap Wireless and MetroPCS, both of which have



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substantial contract-free and prepaid exposure (and strong organic growth rates as well).

With accelerated growth from acquisitions and an expanded portfolio of services that capitalizes on the ubiquity of cellular data coverage and expanding financial relationships with millions of unbanked and underbanked customers, we think the cellular carriers have a lot more value than meets the eye. In time, we expect investors to concur.

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