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## Telecom investing ideas along the spectrum

Find out how to capitalize on wireless spectrum, an increasingly coveted resource.

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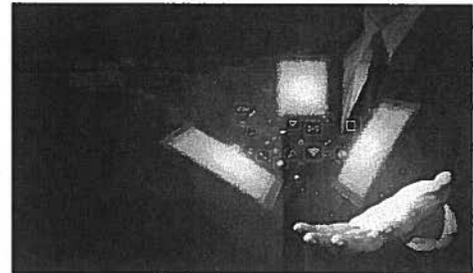


If the current trend in mobile broadband consumption grows as I expect, wireless carriers will need more spectrum—licensed radio frequencies that carry wireless data and voice transmissions—to handle the volume.

As the market-share battle shifts from exclusive handsets to network performance, carriers with advantageous spectrum ownership may be the market leaders of tomorrow.

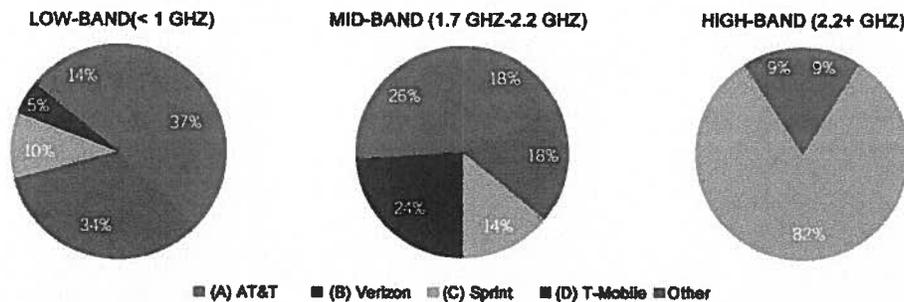
### Shifting landscape

The Federal Communications Commission (FCC) grants licenses for exclusive use of specified frequency bands. Most of the available spectrum already has been allocated to wireless carriers, satellite companies, TV broadcasters, or government agencies. Wireless data is filling available spectrum at a growth rate of at least 50% per year, and while upgrading from third-generation (3G) to 4G networks improves capacity, it does so only by a one-time 30% rate when the new network gear is deployed.<sup>1</sup>



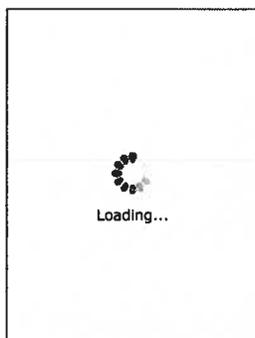
Broadly speaking, spectrum can be divided into three buckets: low-band, mid-band, and high-band frequencies. Low band is best for serving wide areas with voice services, due to superior propagation and in-building penetration. Mid-band spectrum has balanced attributes of good propagation and wider channels, making it increasingly valuable given the rise of wireless data usage, as it is well suited to handling mobile data demands. High-band spectrum doesn't propagate well, but can be useful in targeting "hot spots" of dense and heavy usage, such as commuter train stations in urban areas. In my view, the best-positioned wireless carriers typically have a robust portfolio of low- and mid-band spectrum.

### Spectrum ownership by the top four wireless carriers.



Source: FCC, Fidelity Investments, as of Mar. 31, 2014.

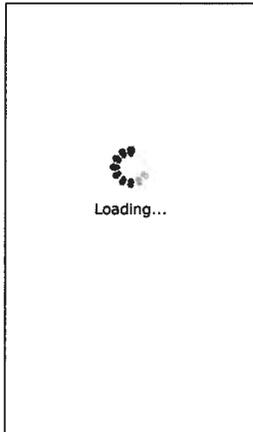
Among potential sources of new spectrum is the U.S. government, which under the National Broadband Plan has set an aspirational goal of freeing up 500 MHz of spectrum, a relatively large amount, by 2020. In March, the FCC auctioned 10 MHz of spectrum in its PCS H-Block wireless frequencies—the winning bidder was Dish Network (DISH)





)—and is expected to auction another 65 MHz of AWS-3 spectrum later this year. The government also is encouraging broadcasters to sell back their unused or underused spectrum, which would be repackaged and auctioned to wireless carriers; however, it remains unclear how many broadcasters will voluntarily relinquish it, and it could take years before that spectrum is commercially available.

Another source is to buy spectrum—or to acquire, merge with, or partner with other companies that already own it. Earlier this year, AT&T (T

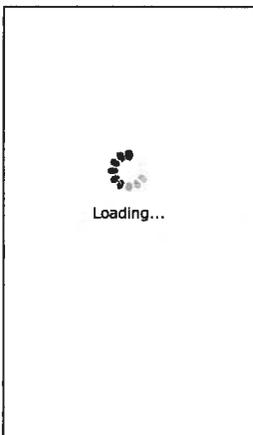


) completed its purchase of the former fifth-largest wireless carrier, Leap Wireless, for exactly this purpose, paying a big premium to how the market viewed standalone operating prospects. AT&T also recently proposed a \$49 billion takeover bid for **DIRECTV** (DTV), which could be viewed as a way of freeing up airwave capacity by moving linear video delivery from wired and wireless broadband to satellite. Meanwhile, Dish is holding 56 MHz of spectrum, amassed over the course of years—some of it acquired cheaply from struggling companies—that is increasingly valuable. There is likely to be additional consolidation within the wireless space, with spectrum capacity being a primary driver.

### Investment implications

The battle for spectrum favors the bigger wireless carrier companies, who are in a better position to pay for it than smaller ones, and perhaps only government regulation can ensure that smaller competitors get their fair share.

Cell tower operators are also likely to benefit from the deployment of new spectrum. The only way to increase capacity is to upgrade networks, deploy more spectrum, or increase network density. Tower companies, the largest of which include **American Tower** (AMT



), **SBA** (SBAC), and **Crown Castle** (CCI), generate revenues at high incremental margins from new leases.

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The telecom services industries are subject to government regulation of rates of return and services that may be offered and can be significantly affected by intense competition.

<sup>1</sup> Source: Fidelity Investments estimate, based on company data.

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