

Sprint Corporation (S)

\$4.62 (As of 02/05/20)

Price Target (6-12 Months): **\$5.25**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 02/04/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: A

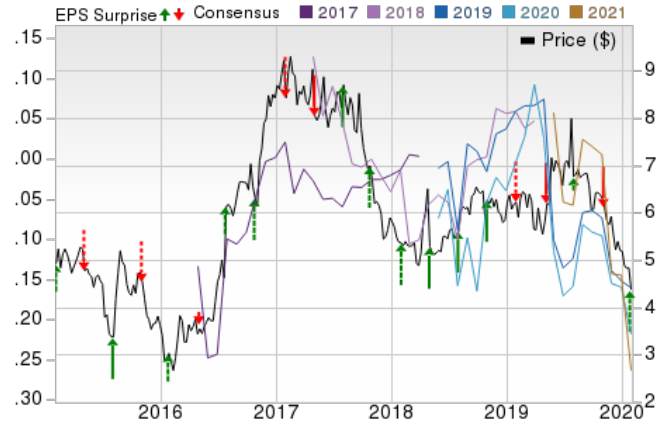
Growth: B

Momentum: F

Summary

Sprint Corporation (S) reported lackluster third-quarter fiscal 2019 results, wherein the top line decreased year over year. Promotional plans and lucrative discounts to lure customers from rival carriers have led to a high cash burn rate. Incremental costs associated with network coverage and capacity improvement are also limiting growth. Sprint is witnessing lackluster performance at its wireline unit due to fewer IP-based data services customers as it continues to migrate them to Ethernet-based data services. However, the company is focused on growing revenue per customer account through value-added services, as it gears up for the merger with T-Mobile. The company plans to launch commercial 5G smartphones by Samsung. Sprint's multi-year plan to improve cost structure and its "Unlimited for All" plan offer bode well.

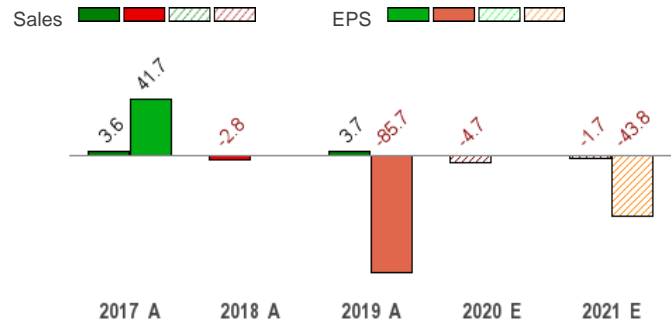
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$8.06 - \$4.26
20 Day Average Volume (sh)	15,469,024
Market Cap	\$19.0 B
YTD Price Change	-11.3%
Beta	0.26
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Wireless National
Zacks Industry Rank	Bottom 35% (167 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	40.0%
Last Sales Surprise	-1.4%
EPS F1 Est- 4 week change	-4.5%
Expected Report Date	05/05/2020
Earnings ESP	-42.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	7,789 E	7,820 E	8,114 E	7,867 E	31,481 E
2020	8,142 A	7,795 A	8,080 A	7,967 E	32,036 E
2019	8,125 A	8,433 A	8,601 A	8,441 A	33,600 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.03 E	-\$0.05 E	-\$0.07 E	-\$0.05 E	-\$0.23 E
2020	-\$0.03 A	-\$0.07 A	-\$0.03 A	-\$0.04 E	-\$0.16 E
2019	\$0.04 A	\$0.05 A	-\$0.03 A	-\$0.04 A	\$0.01 A

*Quarterly figures may not add up to annual.

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.6

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/05/2020. The reports text is as of 02/06/2020.

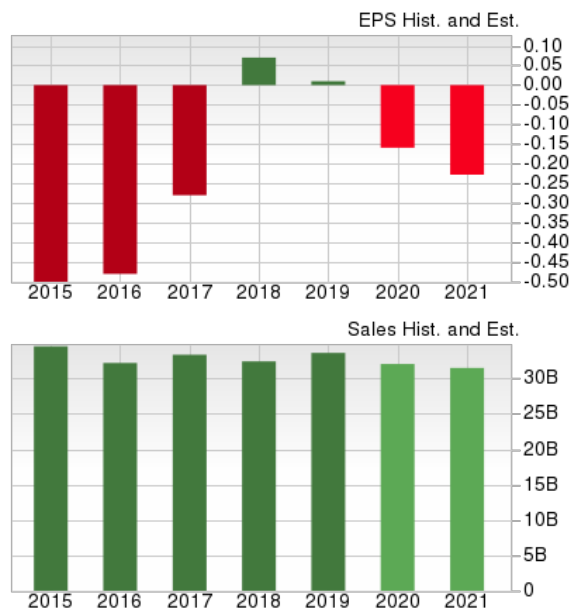
Overview

Based in Overland Park, KS, Sprint Corporation is the fourth-largest wireless communications company in the United States based on the number of wireless subscribers, one of the largest providers of wireline long-distance services and also the largest carrier in terms of Internet traffic in the nation. The company offers a comprehensive range of wireless and wireline communications products and services for individual consumers, businesses, government subscribers and resellers.

Sprint offers wireless and wireline voice and data transmission services to subscribers in all 50 states, Puerto Rico and the U.S. Virgin Islands under Sprint, Boost Mobile, Virgin Mobile, Assurance Wireless and Common Cents. Sprint operates through two principal business segments: Wireless and Wireline.

Wireless (97.3% of net operating revenues in third-quarter fiscal 2019): Sprint's Wireless segment has licenses to provide wireless service in the U.S., Puerto Rico and the U.S. Virgin Islands. The division provides wireless voice and data services using CDMA and iDEN technology-based networks as well as offers 4G wireless services. In addition to its direct customer base, the wireless unit provides wireless service through its wholesale partners and affiliates.

Wireline (2.7%): The Wireline segment provides wireline voice and data communications services, including domestic and international data communications using various protocols such as Internet protocol (IP) and Voice-over-IP (VoIP).



Reasons To Buy:

- ▲ Sprint is focused on growing revenue per customer account by selling additional devices and value-added services, including promotion of its feature-rich Unlimited Plus and Unlimited Premium rate plans. The company continues to leverage digital capabilities to transform the way it engages with customers. It entered into a merger with T-Mobile in all-stock transaction. The deal has also been cleared by the U.S. Department of Justice and Federal Communications Commission. It would help to accelerate development of faster 5G wireless networks and ensure that the United States does not cede leadership on the technology to China. The companies expect the transaction to close in the near future and result in around \$6 billion in annual cost savings. The combined company, New T-Mobile, will have about 127 million customers. It will have a strong closing balance sheet and a fully funded business plan with a strong foundation of secured investment grade debt at close. It will be a force for positive change in the U.S. wireless, video and broadband industries. The new company will have the capacity to rapidly create a nationwide 5G network with the breadth and depth needed to enable U.S. firms and entrepreneurs to continue leading in the 5G era.
- ▲ Sprint's strategy of balancing growth and profitability while increasing network investments and adding digital capabilities will likely drive its financial performance in the coming quarters. Also, the company's multi-year plan to improve cost structure and its "Unlimited for All" plan offer for customers bode well. Sprint is coming up with new ideas and solutions to help business enterprises improve their relation with employees and better serve their customers. The Sprint MultiLine, an enterprise-grade solution within Bring Your Own Device (BYOD) portfolio, delivers a solution that allows businesses to add a company-owned number to their employees' personal phones for calling and texting on any mobile device and on any underlying carrier. This will aid large enterprises as well as small and medium size businesses to overcome challenges in the ever-growing BYOD environment. The company expects demand for BYOD to grow heavily in the coming years.
- ▲ Sprint remains on track to launch its mobile 5G network in the near future in the largest cities across the country. The company has announced plans to launch commercial 5G smartphones in the market in collaboration with electronics firm Samsung. This is reportedly the third device unveiled by Sprint for its 5G network, and follows similar such announcements made by rivals. The Samsung smartphone offers dual-mode connectivity to both its LTE and 5G network supporting 2.5 GHz spectrum. For roaming facilities, the handset supports Sprint's 1.9 GHz spectrum (band 25), 800 MHz spectrum (band 26) and other LTE spectrum bands.

Sprint continues to fortify its position in the wireless industry with network modernization efforts. Its multi-year effort to improve cost structure and "Unlimited for All" plan bode well.

Reasons To Sell:

- ▼ As the United States boasts a high rate of wireless penetration, competition in this space has become intense. This, in turn, is likely to pressure the top- and bottom-line numbers of carriers vying for market share. For third-quarter fiscal 2019, Sprint's net loss was \$120 million or loss of 3 cents per share due to fall in net wireless connections and service revenues. Incremental costs associated with network coverage and capacity improvements, along with other customer experience initiatives are limiting growth, in an intensely competitive and saturated market.
- ▼ Sprint has been continually making efforts to lure customers from rival carriers by offering attractive promotional plans and lucrative discounts. This has led to a high cash burn rate and heavy losses. Notably, with the increasing smartphone launches, we expect aggressive promotional offers by the company to impede margins in the coming quarters. Also, it has been witnessing lower-than-expected performance in its wireline business. In second-quarter fiscal 2019, net operating revenues declined to \$8,080 million from \$8,601 million in the year-ago quarter, mainly due to lower service revenues and equipment sales.
- ▼ Furthermore, Sprint has a debt-laden balance sheet, putting pressure on margins. Its long-term debt and finance lease obligations as of Dec 31, 2019 were \$33,507 million. Such high debt levels and liquidity pressure may adversely affect the company's cost of capital while trying to raise new funds for network expansion.

Sprint has a debt-laden balance sheet and high churn rate that strain its coffers. Lower-than-expected performance in wireline business acts as a deterrent, particularly in a saturated market.

Last Earnings Report

Sprint Q3 Loss Narrower Than Expected, Revenues Fall Y/Y

Sprint reported lackluster third-quarter fiscal 2019 results, wherein the top line decreased year over year amid stiff price wars to fend off competition. Consequently, the stock declined 4.1% post the earnings release to close at \$4.63, as investors probably expected a healthy top-line growth. However, continued focus on cost optimization and digital transformation with network improvement initiatives, despite incremental costs associated with network coverage and capacity improvements, helped it in improving overall customer experience during the quarter.

Quarter Ending **12/2019**

Report Date	Jan 27, 2020
Sales Surprise	-1.35%
EPS Surprise	40.00%
Quarterly EPS	-0.03
Annual EPS (TTM)	-0.17

Net Loss

For the December quarter, net loss was \$120 million or loss of 3 cents per share compared with net loss of \$141 million or 3 cents per share in the year-ago quarter. The improvement was mainly driven by a non-cash tax benefit of nearly \$300 million to reduce the valuation allowance related to certain historic net operating loss carryforwards. The bottom line was narrower than the Zacks Consensus Estimate of a loss of 5 cents.

Revenues

Quarterly total net operating revenues declined to \$8,080 million from \$8,601 million in the year-ago quarter. The decline was primarily due to lower wireless service revenues and equipment sales. The top line missed the consensus estimate of \$8,191 million.

Overall service revenues were \$5,416 million, down from \$5,699 million in the year-ago quarter. Equipment sales totaled \$1,372 million, a decline of 13.7% from \$1,589 million, which was primarily due to lower average selling price per postpaid device sold. Equipment rentals declined to \$1,292 million from \$1,313 million. The year-over-year decline was due to a reduction in the average number of leased devices.

Segment Results

Total net **wireless** operating revenues were \$7,859 million compared with \$8,351 million in the year-ago quarter, primarily due to lower service revenues, equipment sales and equipment rentals. Total service revenues declined to \$5,195 million from \$5,449 million. The fall was primarily on account of lower Lifeline program revenues and continued amortization of prepaid contract balances as a result of the adoption of revenue standard — ASC 606.

Postpaid revenues totaled \$4,229 million compared with \$4,236 million a year ago. Prepaid revenues were \$740 million, down from \$924 million. Wholesale, affiliate and other revenues were \$226 million, down from \$289 million. The segment's operating loss was \$83 million against net income of \$609 million in the year-ago quarter. Adjusted EBITDA was \$2,535 million compared with \$3,111 million in the prior-year quarter for respective margins of 48.8% and 57.1%.

Net operating **wireline** revenues were \$296 million compared with \$316 million a year ago. This decline was primarily due to fewer IP-based data services customers as the company continues to migrate customers from TDM to Ethernet-based data services. Operating income for the segment was \$226 million against operating loss of \$67 million in the year-ago quarter.

Other Details

Total net operating expenses decreased to \$8,014 million from \$8,122 million. Operating income for the reported quarter was \$66 million compared with \$479 million a year ago. The sharp decline was mainly attributable to accelerated amortization expenses related to the discontinuation of Virgin Mobile brand.

Overall adjusted EBITDA was \$2,548 million, down from \$3,101 million, for respective margins of 47% and 54.4%.

Cash Flow & Liquidity

For the first nine months of fiscal 2019, Sprint generated \$6,765 million of net cash from operating activities compared with \$7,582 million in the year-ago period. As of Dec 31, 2019, the wireless carrier had \$3,179 million in cash and equivalents with \$33,507 million of long-term debt and finance lease obligations.

Merger Update

Sprint is poised to gain from potential growth opportunities of resilient 5G network rollout from its impending merger with T-Mobile. Management informed that both the companies have received approval from the Committee on Foreign Investment in the United States and Team Telecom, with favorable results from 18 of the 19 required state utility commissions, excluding California Public Utilities Commission.

T-Mobile has already divested Sprint's prepaid assets to DISH Network in accordance to the closing conditions by the Federal Communications Commission and Department of Justice for the creation of a fourth-largest wireless carrier to curb monopolistic practices. As of now, the companies are waiting for a decision from the court with regard to a recently concluded trial related to a lawsuit filed by a group of State Attorneys General.

Going Forward

Sprint is undergoing digital transformation to increase digital sales and accelerate digital care initiatives while continuing to adopt AI across different parts of the business. The company's Next-Gen Network deployment continues to upgrade existing macro sites with the deployment of Massive MIMO, thereby enhancing LTE performance, coverage, capacity and time to improve customer experience in specific locations.

Highlighting the LTE improvements, the coverage of the company's True Mobile 5G, launched in the previous quarter, was expanded to 20

million users in nine select metropolitan areas in the United States. Markedly, 5G subscribers residing in these areas are experiencing dramatically faster speeds with Sprint's average 5G download speed of 215 Mbps, more than 5X faster than Sprint LTE. The latest addition creates a promising experience for wireless customers, including gaming and entertainment services, IoT and business applications.

Recent News

On Jan 8, 2020, Sprint announced a new relationship with Wirecard, at CES 2020. Based in Aschheim, district of Munich, Wirecard is one of the world's fastest growing digital platforms in commerce. The collaboration, facilitated in strategic alignment with SoftBank Investment Advisers, will see the integration of Wirecard's solutions into Sprint's Curiosity IoT platform to deliver the Internet of Payments. The two companies are joining forces to embed payment capabilities in IoT deployments, bringing added value to enterprise clients on a global scale. Sprint and Wirecard will initially focus on the retail segment, in which they are working to define the future of retail experience across all channels, with plans to expand to other industries and services.

On Nov 21, 2019, Sprint unveiled a cloud-based commercial phone service dubbed Omni to primarily cater to medium and small-sized businesses (SMBs). Loaded with all the functionalities of a landline phone, Omni brings mobility to SMBs, offering affordable access to modern, feature-rich, cloud-based phone services that are otherwise available to big-businesses and corporations. Omni leverages the VoIP technology of Ooma — one of the premier VoIP service providers of the country. This is likely to enable Sprint to either bundle Omni with other compatible products and services or offer it as a standalone service.

On Nov 14, 2019, Sprint and T-Mobile announced the establishment of a new Customer Experience Center (CEC), post their proposed merger, thereby enhancing customer support. The facility to be built in New York's Nassau County is expected to create up to 1,000 local direct jobs with several benefits such as healthcare, stock grants, college tuition assistance, childcare subsidy, and paid parental leave. In order to deliver high-quality services, the newly announced CEC will also provide personalized support to customers with its innovative approach of Team of Experts to maintain healthy and better customer relationships.

On Nov 13, 2019, Sprint unveiled a Telecom Infra Project (TIP) Community Lab in a bid to further develop OpenRAN 5G New Radio (NR) solutions. Located at the company's headquarters, the lab is one of 12 TIP Community Labs worldwide, which will host the trial and test activities of the TIP OpenRAN 5G NR Project Group. The lab will be used to test open 5G RAN prototype in early 2020 to develop modeling techniques and a test framework for specific applications. Sprint, being the first U.S. wireless operator to become a member of the initiative, mainly focuses on developing sub-6 GHz 5G NR small and macro cells for outdoor and indoor use cases, followed by millimeter wave 5G NR solutions.

Valuation

Sprint shares are down 21.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer and Technology sector are up 15.9% and 29.2% over the past year, respectively.

The S&P 500 Index is up 22.1% in the past year.

The stock is currently trading at 4.79X trailing 12-month EV/EBITDA, which compares to 6.27X for the Zacks sub-industry, 12.29X for the Zacks sector and 11.95X for the S&P 500 Index.

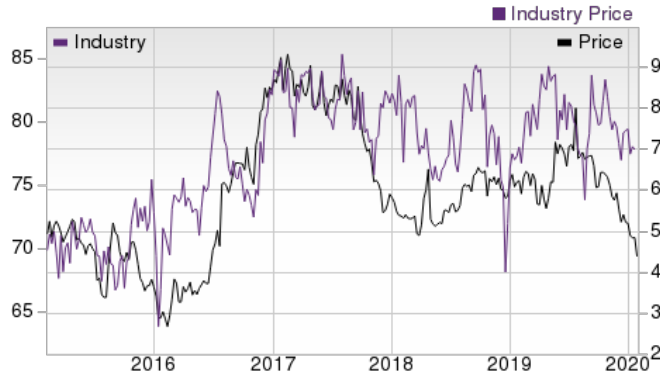
Over the past five years, the stock has traded as high as 32.6X and as low as 4.1X, with a 5-year median of 7X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$5.25 price target reflects 7.09X trailing 12-month book value.

The table below shows summary valuation data for S

Valuation Multiples - S					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	4.79	6.27	12.29	11.95
	5-Year High	32.59	11.62	12.59	12.85
	5-Year Low	4.06	5.99	7.68	8.49
	5-Year Median	7.03	6.64	10.53	10.66
P/B TTM	Current	0.74	1.7	5.6	4.54
	5-Year High	1.98	3.11	5.61	4.54
	5-Year Low	0.48	1.36	3.13	2.85
	5-Year Median	0.91	2.26	4.23	3.62
P/S F12M	Current	0.6	1.5	3.7	3.54
	5-Year High	1.13	1.54	3.7	3.54
	5-Year Low	0.29	1.12	2.3	2.54
	5-Year Median	0.73	1.34	3.02	3

As of 02/05/2020

Industry Analysis Zacks Industry Rank: Bottom 35% (167 out of 255)



Top Peers

Gogo Inc. (GOGO)	Outperform
ATN International, Inc. (ATNI)	Neutral
CenturyLink, Inc. (CTL)	Neutral
GCI Liberty, Inc. (GLIBA)	Neutral
AT&T Inc. (T)	Neutral
T-Mobile US, Inc. (TMUS)	Neutral
United States Cellular Corporation (USM)	Neutral
Verizon Communications Inc. (VZ)	Neutral

Industry Comparison Industry: Wireless National				Industry Peers		
	S Neutral	X Industry	S&P 500	CTL Neutral	T Neutral	VZ Neutral
VGM Score	B	-	-	A	B	B
Market Cap	18.99 B	443.43 M	24.26 B	15.71 B	276.20 B	244.55 B
# of Analysts	13	6	13	5	20	18
Dividend Yield	0.00%	0.00%	1.75%	6.94%	5.50%	4.16%
Value Score	A	-	-	A	B	B
Cash/Price	0.18	0.13	0.04	0.09	0.04	0.01
EV/EBITDA	4.61	5.55	14.19	8.53	6.43	8.18
PEG Ratio	NA	2.89	2.04	1.35	2.22	3.56
Price/Book (P/B)	0.74	1.37	3.31	1.15	1.37	3.89
Price/Cash Flow (P/CF)	1.66	6.68	13.70	2.43	4.31	6.68
P/E (F1)	NA	14.44	19.17	10.01	10.50	11.94
Price/Sales (P/S)	0.59	0.90	2.67	0.69	1.52	1.85
Earnings Yield	-3.46%	1.34%	5.22%	9.99%	9.52%	8.37%
Debt/Equity	1.51	0.59	0.71	2.54	0.75	1.90
Cash Flow (\$/share)	2.78	2.78	6.92	5.92	8.77	8.85
Growth Score	B	-	-	A	B	B
Hist. EPS Growth (3-5 yrs)	NA%	6.10%	10.80%	-19.36%	8.63%	6.07%
Proj. EPS Growth (F1/F0)	-1,692.30%	24.53%	7.35%	9.59%	0.88%	2.96%
Curr. Cash Flow Growth	30.13%	-0.75%	10.12%	31.43%	14.11%	-0.75%
Hist. Cash Flow Growth (3-5 yrs)	36.43%	5.80%	8.55%	0.77%	15.33%	4.16%
Current Ratio	0.76	0.91	1.20	0.70	0.80	0.84
Debt/Capital	60.18%	50.73%	42.91%	71.75%	42.90%	65.46%
Net Margin	-8.25%	-0.32%	11.79%	-34.96%	7.67%	14.61%
Return on Equity	-2.61%	0.02%	17.21%	9.56%	13.37%	33.39%
Sales/Assets	0.37	0.50	0.54	0.34	0.33	0.46
Proj. Sales Growth (F1/F0)	-4.66%	5.26%	4.15%	-2.50%	0.44%	1.70%
Momentum Score	F	-	-	D	F	D
Daily Price Chg	1.76%	0.00%	1.40%	3.22%	0.48%	1.44%
1 Week Price Chg	-9.52%	-2.93%	-2.60%	-7.14%	-2.29%	-1.39%
4 Week Price Chg	-10.29%	-0.46%	1.96%	11.02%	-3.96%	-0.97%
12 Week Price Chg	-23.76%	-3.12%	6.04%	-3.22%	-3.45%	-0.47%
52 Week Price Chg	-20.89%	-6.65%	16.68%	0.42%	27.91%	9.93%
20 Day Average Volume	15,469,024	187,077	1,966,046	10,845,716	33,620,188	12,471,160
(F1) EPS Est 1 week change	0.48%	0.00%	0.00%	0.00%	-0.13%	-0.04%
(F1) EPS Est 4 week change	-4.55%	0.00%	0.00%	0.00%	0.55%	0.04%
(F1) EPS Est 12 week change	-15.50%	-0.69%	-0.08%	0.10%	-0.08%	0.21%
(Q1) EPS Est Mthly Chg	-141.67%	0.00%	0.00%	0.00%	-0.28%	0.22%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	B
Momentum Score	F
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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