

Sprint Corporation (S)

\$8.61 (As of 03/26/20)

Price Target (6-12 Months): **\$9.25**

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:A

Value: B

Growth: B

Momentum: A

Summary

Sprint has received green signal for its merger with T-Mobile in Federal Court. The company is coming up with new ideas and solutions to better serve its customers and help business enterprises improve their relationship with employees. Fortifying its position in the wireless industry with network modernization efforts, it is likely to gain from strategy of balancing growth and profitability, while adding digital capabilities. However, Sprint's lower-than-expected performance in wireline business acts as a deterrent. The company has been making efforts to lure customers from rival carriers by offering attractive promotional plans and discounts, which are resulting in high cash burn rate. Also, high-debt laden balance sheet and liquidity pressure adversely affect the company's cost of capital and dents its margins.

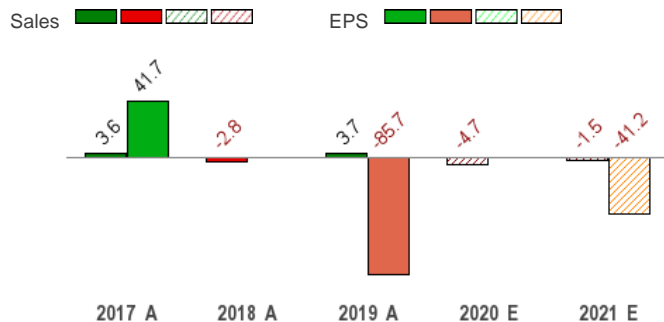
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$10.16 - \$4.26
20 Day Average Volume (sh)	30,768,668
Market Cap	\$35.4 B
YTD Price Change	65.3%
Beta	-1.20
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Wireless National
Zacks Industry Rank	Top 17% (43 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	40.0%
Last Sales Surprise	-1.4%
EPS F1 Est- 4 week change	0.4%
Expected Report Date	05/05/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	7,796 E	7,844 E	8,064 E	7,853 E	31,524 E
2020	8,142 A	7,795 A	8,080 A	7,964 E	32,016 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	-\$0.02 E	-\$0.05 E	-\$0.09 E	-\$0.07 E	-\$0.24 E
2020	-\$0.03 A	-\$0.07 A	-\$0.03 A	-\$0.06 E	-\$0.17 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	1.1

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/26/2020. The reports text is as of 03/27/2020.

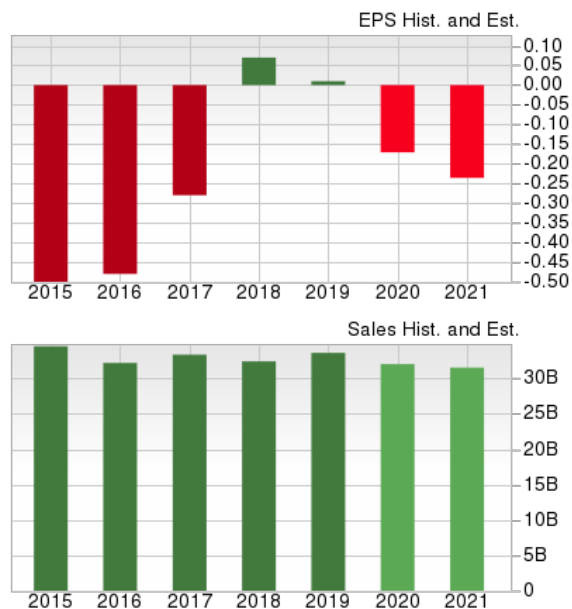
Overview

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 has received a green signal for its long-pending \$40 billion merger with T-Mobile in Federal Court. Repudiating a lawsuit by a group of states to block the combination, the ruling clears the path to create a strong rival in 5G wireless services to Verizon Communications and AT&T. While Judge Victor Marrero approved the deal without stipulations, the Department of Justice and Federal Communications Commission earlier approved it when the carriers agreed to sell some assets to Dish Network. Sprint and T-Mobile advocated the idea that the merger would better prepare the new company, New T-Mobile, to compete with arch-rivals and lead to lower prices and faster Internet speeds. The companies further said that the consolidation could speed up the rollout of a national 5G network, as the deal would combine their spectrum holdings. The merger, which is expected to be closed as early as Apr 1, remains subject to certain closing conditions, including probable additional court proceedings, and satisfactory resolution of outstanding business issues among the parties.
- ▲ The wireless carrier 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. New T-Mobile will compete for consumers at all price points and all customers, including prepaid and Lifeline, will have access to the same 5G network and services. With speeds up to five times faster than current LTE in just a few years and reaching as much as 15 times faster by 2024, New T-Mobile's 5G network will likely change the way consumers use the Internet. New T-Mobile's plans to deploy a higher quality and more robust network for rural America and to prioritize more vulnerable urban populations will ensure that all Americans have a meaningful chance to thrive in the 5G economy. It will deliver 100-plus Mbps speeds for wireless broadband to 90% of the population and in-home service to more than half the country's households by 2024. In the first year, New T-Mobile is expected to have more than 3,500 additional full-time U.S. employees than the standalone companies would have had, and 11,000 more people by 2024. Moreover, plans to build more than 600 new retail locations and five new customer experience centers will create about 12,000 more jobs.
- ▲ 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.
- ▲ The company is 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 third-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. 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 Mar 24, 2020, Sprint announced that it has collaborated with Nokia for the deployment of 5G network through a software upgrade on the latter's much-acclaimed AirScale solution. The partnership is likely to aid businesses and customers with reliable network connectivity, especially at a time when majority of communication service providers migrate toward experience-driven and automated 5G network operations.

On Feb 27, 2020, Sprint announced that it has teamed up with Swisscom and Telia Company in a bid to expand its Curiosity IoT platform to Europe. The Overland Park, KS-based company's solution has been designed to optimize the burgeoning global IoT environment by bringing network to the data. Sprint's Curiosity simplifies business operations through centralized management of IoT devices. The communications service provider's platform gives customers complete control over device profiles and configurations with a single point of contact. With in-country access using a local profile currently available in eight countries, Sprint is helping customers to transform the way they connect and manage IoT applications worldwide.

On Feb 21, 2020, Sprint and T-Mobile announced that they have amended terms in their definitive merger agreement. Per the amended agreement, the parent company of Sprint — SoftBank Group — has agreed to surrender nearly 48.8 million shares of T-Mobile, following the closure of the transaction, making SoftBank's exchange ratio to 11 Sprint shares per T-Mobile share, higher than originally agreed 9.75. As a result, SoftBank and T-Mobile's parent, Deutsche Telekom, will hold about 24% and 43% of the combined entity, respectively.

On Feb 11, 2020, Sprint announced that it has received the green signal for its long-pending \$40 billion merger with T-Mobile in Federal Court. Repudiating a lawsuit by a group of states to block the combination, the ruling clears the path to create a strong rival in 5G wireless services to Verizon Communications and AT&T. While Judge Victor Marrero approved the deal without stipulations, the Department of Justice and Federal Communications Commission earlier approved it when the carriers agreed to sell some assets to Dish Network. The integration is undeniably going to disrupt the competitive landscape of the U.S. telecom market.

On Jan 8, 2020, Sprint announced that it has inked an agreement with Telstra to deploy its IoT platform, Curiosity, to Australian customers. Designed specifically for latency sensitive applications, Curiosity is the first fully virtualized and distributed core network dedicated solely to IoT intelligence with on-demand scalability, enhanced network coverage and cost effectiveness. The partnership is likely to boost Sprint's international footprint and virtualization technology with a diversified portfolio of innovative products and solutions to serve specific enterprise requirements across the country.

Valuation

Sprint shares are up 52.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer and Technology sector are down 8.4% and 5.1% over the past year, respectively.

The S&P 500 Index is down 12.9% in the past year.

The stock is currently trading at 6.19X trailing 12-month EV/EBITDA, which compares to 5.43X for the Zacks sub-industry, 9.89X for the Zacks sector and 9.16X for the S&P 500 Index.

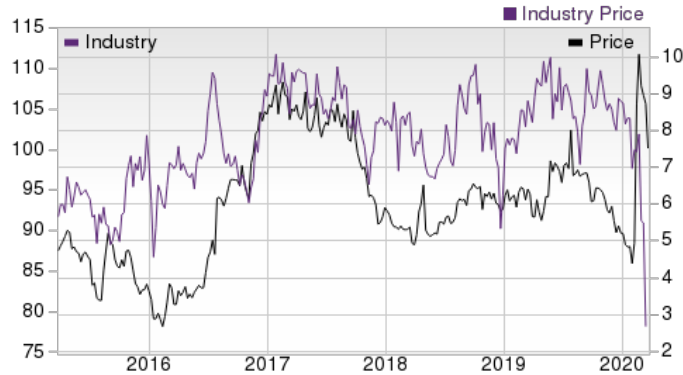
Over the past five years, the stock has traded as high as 31.3X and as low as 4X, with a 5-year median of 6.9X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$9.25 price target reflects 6.75X trailing 12-month book value.

The table below shows summary valuation data for S

Valuation Multiples - S					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	6.19	5.43	9.89	9.16
	5-Year High	31.34	11.63	12.92	12.88
	5-Year Low	4.04	5.34	7.59	8.27
	5-Year Median	6.87	6.64	10.61	10.79
P/B TTM	Current	1.37	1.38	4.3	3.33
	5-Year High	1.98	3.12	5.7	4.56
	5-Year Low	0.48	1.33	3.13	2.85
	5-Year Median	0.91	2.24	4.27	3.63
P/S F12M	Current	1.12	1.24	2.9	2.68
	5-Year High	1.31	1.55	3.58	3.43
	5-Year Low	0.29	1.12	2.3	2.54
	5-Year Median	0.74	1.35	3.02	3

As of 03/26/2020

Industry Analysis Zacks Industry Rank: Top 17% (43 out of 253)



Top Peers

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

Industry Comparison Industry: Wireless National				Industry Peers		
	S Neutral	X Industry	S&P 500	CTL Neutral	T Neutral	VZ Neutral
VGM Score	A	-	-	A	A	B
Market Cap	35.40 B	227.28 M	18.50 B	10.12 B	219.80 B	221.43 B
# of Analysts	12	6	13	7	19	19
Dividend Yield	0.00%	0.00%	2.35%	10.76%	6.80%	4.59%
Value Score	B	-	-	A	B	B
Cash/Price	0.11	0.12	0.07	0.17	0.06	0.01
EV/EBITDA	5.99	5.99	11.16	20.23	5.55	7.66
PEG Ratio	NA	1.55	1.74	0.92	1.55	3.15
Price/Book (P/B)	1.37	1.12	2.44	0.75	1.11	3.52
Price/Cash Flow (P/CF)	3.10	5.26	9.87	1.62	3.49	6.05
P/E (F1)	NA	18.58	15.29	6.36	8.54	10.83
Price/Sales (P/S)	1.09	1.01	1.93	0.45	1.21	1.68
Earnings Yield	-1.97%	4.24%	6.47%	15.72%	11.70%	9.23%
Debt/Equity	1.51	0.66	0.70	2.50	0.75	1.90
Cash Flow (\$/share)	2.78	2.63	7.01	5.72	8.77	8.85
Growth Score	B	-	-	A	B	B
Hist. EPS Growth (3-5 yrs)	NA%	6.07%	10.85%	-19.37%	8.63%	6.07%
Proj. EPS Growth (F1/F0)	-1,808.30%	18.52%	2.89%	10.61%	0.41%	2.75%
Curr. Cash Flow Growth	30.13%	3.99%	5.93%	-2.30%	14.11%	-0.75%
Hist. Cash Flow Growth (3-5 yrs)	36.43%	7.03%	8.55%	1.14%	15.33%	4.16%
Current Ratio	0.76	1.44	1.23	0.66	0.79	0.84
Debt/Capital	60.18%	50.20%	42.57%	71.46%	42.83%	65.46%
Net Margin	-8.25%	-4.59%	11.64%	-23.52%	7.67%	14.61%
Return on Equity	-2.61%	-0.25%	16.74%	10.36%	13.37%	33.39%
Sales/Assets	0.37	0.49	0.54	0.35	0.33	0.46
Proj. Sales Growth (F1/F0)	-4.71%	0.14%	2.37%	-2.69%	0.14%	1.91%
Momentum Score	A	-	-	A	B	B
Daily Price Chg	7.76%	6.58%	6.21%	2.65%	7.75%	7.21%
1 Week Price Chg	-13.89%	-2.19%	-16.96%	-10.08%	-17.46%	-4.38%
4 Week Price Chg	-7.42%	-10.89%	-15.70%	-23.10%	-14.36%	-2.76%
12 Week Price Chg	64.94%	-19.95%	-23.67%	-28.10%	-21.26%	-12.30%
52 Week Price Chg	52.12%	-21.29%	-13.99%	-22.91%	-1.32%	-9.38%
20 Day Average Volume	30,768,668	441,589	4,286,768	16,596,362	69,287,856	34,179,632
(F1) EPS Est 1 week change	0.49%	0.00%	-0.15%	0.00%	-0.47%	0.00%
(F1) EPS Est 4 week change	0.41%	0.00%	-2.28%	-1.06%	-0.65%	-0.04%
(F1) EPS Est 12 week change	-12.16%	-0.42%	-3.22%	1.29%	-0.42%	-0.10%
(Q1) EPS Est Mthly Chg	-5.15%	0.00%	-1.60%	-1.38%	-0.43%	-0.10%

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	B
Growth Score	B
Momentum Score	A
VGM Score	A

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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.