

Bids in Groundbreaking Wireless Spectrum Auction Top \$18 Billion

■ AT&T, Comcast, Verizon, T-Mobile and Comcast are among the potential pool of qualified buyers that collectively satisfied the FCC's rules for the auction to be completed.

Chris Nolter Jan 19, 2017 12:38 PM EST

 **TheStreet Video**

Updated from Jan. 18 with additional details.

A groundbreaking government auction of wireless spectrum licenses has at last entered its final stage.

The Federal Communications Commissions has not disclosed bidding by specific companies. However, the FCC's web site indicates that a group potentially including AT&T (**T**) , Verizon (**VZ**) , T-Mobile USA (**TMUS**) , Comcast (**CMCSA**) , Dish Network (**DISH**) and others collectively bid \$18.2 billion for licenses used to carry television broadcasts in the second round of the auction's fourth stage.

Federal Communications Commissions Chairman Bill Wheeler said Wednesday that the auction had met the requirements of covering payments to broadcasters and other costs, and averaging \$1.25 per Megahertz per person covered by the licenses in top markets. The next round of the fourth and final stage began on Thursday at 10 a.m. ET, with bidding to continue until there's no more demand.

Walt Piecyk of BTIG projects that the auction could close by the end of February. By mid-March, the FCC could lift the prohibition on strategic talks between bidders that is meant to prevent collusion. AT&T, Comcast, Dish, T-Mobile USA and Verizon would then be able to plot the next wave of telecom and media consolidation under a Trump administration.

The auction, which is the first of its kind, allows TV station owners to sell their spectrum licenses to wireless carriers with the Federal Communications Commission acting as a middle man. Station owners drastically lowered their asking price on Friday, from \$40 billion in the prior stage to just \$10.05 billion, with analysts divided on the reasons for the large reduction.

"That is not welcome news for broadcasters hoping to monetize spectrum, but it's good news for the wireless operators that are bidding," BTIG analyst Walt Piecyk wrote in a report.

The end of the auction could signal a return to M&A in communications. Over the last eight months, the telecoms, pay-TV providers and TV station owners participating in the auction have been limited by anti-collusion rules that blocked strategic discussions among them while the auction goes on.

Here's a list of frequently-asked questions and answers about the auction.

What exactly is for sale?

The government is auctioning licenses to 600 Megahertz wireless spectrum. Telecoms need spectrum licenses to provide service. Adding spectrum boosts a carrier's capacity, though telecoms can also improve their bandwidth by adding gear to their networks.

How does the auction work?

Each stage of the auction is made up of two parts.

The FCC first offers to buy spectrum from TV station owners through a reverse action, in which the government lowers its bids through successive rounds, with the goal being to entice enough station owners to sell while limiting the payments. Then the FCC fields offers from the wireless carriers in a traditional auction, with ascending bids.

If the buyers don't cover the broadcasters' ask and other costs, among other requirements, the FCC starts a new stage and reduces the amount of spectrum it will buy from the station owners.

Who are the potential sellers?

Publicly-traded broadcasters such as **CBS (CBS)** , **Fox (FOX)** , Comcast subsidiary NBCUniversal, Sinclair (**SBGI**) , **Tribune Media (TRCO)** and **Media General (MEG)** could sell. Univision Communications and ION Media Networks also have stations in attractive markets.

Private investors **Blackstone Group (BX)** , Michael Dell's MSD Capital and **Fortress Investment Group (FIG)** sponsored vehicles that acquired stations in large markets with an eye to selling in the auction.

*Comcast is a holding in Jim Cramer's Action Alerts PLUS Charitable Trust Portfolio. Want to be alerted before Cramer buys or sells **CMCSA**? Learn more now.*

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Who are the potential buyers?

Traditional wireless telecoms such as AT&T, T-Mobile and Verizon are the most obvious bidders. **Sprint (S)** is sitting out the auction, explaining that it already has enough.

Comcast and Dish Network are also possible buyers. Comcast is launching a mobile joint venture with Verizon this year, and could fold spectrum into the new service. Meanwhile, Charlie Ergen's Dish Network has been aggressively buying spectrum, and registered for the auction under the name ParkerB.com Wireless.

One question is whether AT&T's purchase of **Time Warner (TWX)** reduces the amount it has to spend on the auction. "We continue to expect T-Mobile, AT&T and Comcast to be the largest bidders but now believe the carriers could pay less, given the dramatic decline in the broadcaster ask," UBS analyst John Hodulik suggested in a note.

Why did station owners lower their asking price so significantly?

Station owners drastically lowered their asking price on Friday, from \$40 billion at the end of the third stage to \$10 billion at the end of the fourth stage, with differing views on why the value fell.

"Broadcaster confidence has crumbled, replaced with a desperate rush to at least get something out of an auction that once promised riches," Craig Moffett of MoffettNathanson suggested in a report.

But Marci Ryvicker of Wells Fargo Securities noted that the potential for a favorable regulatory environment could entice station owners to hold onto their spectrum. "Perhaps Trump's win may have raised the 'walkaway' price (given potential deregulation) for a lot of the station groups (leading them to exit the auction)," she wrote.

What happens next?

The telecoms and other bidders start the third round of the fourth stage of bidding Thursday morning at 10am. The last two forward auctions lasted just one round each.

As noted, the reverse auction has met the conditions of raising at least \$12.5 billion to cover the payments to the TV station owners and other costs, as well as valuing the top markets at \$1.25 per Megahertz per person covered. Station owners that sell can subsequently share spectrum with another station, move to different frequencies or go off the air.

When the anti-collusion rules end, the parties can resume deal talks. While under the auction restrictions, for instance, pay-TV and telecoms have not been able to pursue countermeasures to AT&T's planned purchase of Time Warner.

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