

AT&T Agrees to \$4.85 Billion Tower Deal With Crown Castle

AT&T Inc. (T), the largest U.S. phone company, agreed to sell or lease 9,700 wireless towers to Crown Castle International Corp. (CCI) for \$4.85 billion, giving it extra cash as it considers a European expansion.

The deal, announced yesterday, makes AT&T the latest carrier to offload towers to independent operators, a transaction that lets the company focus on growth areas or more profitable parts of the business.

The money will bolster AT&T's balance sheet as it undertakes a \$14 billion network upgrade, plans a stock buyback that may top \$11 billion and contemplates acquisitions in Europe. AT&T Chief Executive Officer Randall Stephenson spoke at a carrier industry event in Brussels this month, outlining a wish list of wireless policy changes that could make the region a more attractive market.

"This gives them cash and financial flexibility," said Roger Entner, a wireless-industry strategist with Recon Analytics in Dedham, Massachusetts. "It also gets them out of owning towers, which isn't core to being a service provider. You don't need to own the supermarket building to be in the supermarket business."

Crown Castle will buy 600 AT&T towers and get the exclusive right to lease and operate about 9,100 others for an average of 28 years, the companies said yesterday. Crown Castle said it will have the option to buy the leased towers for \$4.2 billion beginning in 2032.

Bigger Role

Crown Castle and top competitor American Tower Corp. (AMT) have been increasing their role in the wireless industry, with many carriers selling their cell sites to the companies and leasing space back.

"We are very pleased with our agreement with AT&T, which strengthens our position as the largest provider of shared wireless infrastructure in the U.S.," Ben Moreland, president and CEO of Houston-based Crown Castle, said in its statement.

The industry shift is similar to the move by corporations to sell office buildings and lease them back from real-estate companies. Tower operators can lease space on their sites to multiple carriers to squeeze more profit out of the assets.

Crown Castle today reported a 9 percent increase in third-quarter net income to \$45.8 million, as sales rose 21 percent to \$749 million. The Company plans to initiate a quarterly dividend of 35 cents a share at the start of next year.

TAP Advisors

AT&T, based in Dallas, will lease capacity on the towers from Crown Castle for a minimum of 10 years for \$1,900 a month per site, with a 2 percent annual rent increase. AT&T has the option to renew for a total of 50 years, according to a statement. The company also said it will have access to additional reserve capacity on the towers for future use to meet growing network traffic needs.

AT&T was advised on the sale by bankers at TAP Advisors LLC and JPMorgan Chase & Co., said Brad Burns, a spokesman for the carrier. Sullivan & Cromwell and Bryan Cave LLP were legal advisers.

AT&T shares have risen 2.7 percent this year to \$34.61, while Crown Castle's stock has gained 5.3 percent to \$75.96.

U.S. tower owners have been consolidating, with fewer companies controlling the infrastructure needed to transmit wireless signals. American Tower agreed last month to buy the parent company of Global Tower Partners for \$4.8 billion, including debt.

American Tower also made a deal in August to buy almost 4,500 wireless sites from NII Holdings Inc. (NIHD) in Brazil and Mexico for a total of \$811 million. A year ago, Deutsche Telekom AG (DTE)'s T-Mobile USA agreed to sell the rights to operate 7,200 cellular towers to Crown Castle for \$2.4 billion.

Vodafone Deal

AT&T, meanwhile, is exploring possible acquisitions in Europe. The company plans to look at buying Vodafone Group Plc (VOD)'s assets after the U.K. company sells its stake in a wireless joint venture to Verizon Communications Inc. (VZ), people with knowledge of the matter have said.

Even as it unloads its towers, AT&T is spending billions to upgrade its network. Last November, the company said it would invest \$14 billion over three years to improve the system, which delivers wireless communications, high-speed internet access and television services.

AT&T has about 10,000 towers, which generate roughly \$326 million in annual revenue as other companies pay to lease space on the sites, according to JPMorgan research analyst Phil Cusick. The towers may contribute cash flow of about \$216 million a year, he said in a note in August.

Turning the towers into a multibillion-dollar payday gives AT&T some more firepower as it goes hunting for deals, Entner said. "This is \$5 billion more they can play with, and it's that much less money they need to get from the financial markets," he said.