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## Press Release

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### PHOENIX CENTER FINDS STOCK MARKET REACTION TO SPRINT-T-MOBILE MERGER REVEALS POSSIBLE ANTICOMPETITIVE CONSEQUENCES OF TIE-UP

*While the event study methodology leans against approval on market power grounds, a reasonable person may conclude the event study evidence is inconclusive*

WASHINGTON, D.C. – On April 29, 2018, the lingering prospect of a merger between Sprint and T-Mobile, the third- and fourth-largest mobile wireless providers in the United States, was formally realized. T-Mobile will acquire a persistently struggling Sprint for \$26.5 billion in an all stock deal. Craig Moffett, a respected industry analyst, suggests that absent the deal, “Sprint can’t survive,” a position bluntly implied by the company’s poor financial condition.

In a new economic analysis released today entitled *Stock Market Reactions to the Sprint-TMO Merger*, Phoenix Center Chief Economist Dr. George S. Ford conducts a financial event study of the merger, a common tool for analyzing the possible effects of a merger. Dr. Ford finds that on credible news of the merger on April 10, Sprint’s stock price rose 16% (market adjusted), and then rose another 8.5% on April 27 when the media reported that the official announcement would come two-days later on a Sunday. T-Mobile’s stock price likewise jumped 4.3% on the April 10 news, but was unaffected on the April 27 news. Verizon’s stock returns exhibited the same pattern, rising sharply on April 10 and again on April 27. This evidence is compatible with a “market power” rather than “efficiency” assessment of the consequences of the merger.

However, Dr. Ford also finds that on the Monday, Tuesday, and Wednesday following the official statement (of Sunday, April 29), the market seemed to have second thoughts. On April 30, Sprint’s stock price fell 13% (much of that in after-hours trading on the 27<sup>th</sup>), losing an additional 3.4% on Tuesday, and another 3.9% on Wednesday. Thus, the price appreciation was all given back by Wednesday. T-Mobile’s price plummeted 5.5% on Monday, 2% on Tuesday, and 3.5% on Wednesday. Verizon’s returns followed suit. Investors, it appeared, did not like the terms of the deal, or else quickly grasped the difficulties the merger would face obtaining approval. Nonetheless, Verizon’s stock price movements paralleled the price changes for the merging parties is noteworthy.

Dr. Ford also points to reasons why the merger may lead to better performance in the mobile wireless business. Empirical evidence, for instance, shows that three large rivals is as or even more competitive than many small competitors. Also, if the merging firms are short on spectrum resources, then the merger may lead to increased efficiency, lower prices, and better services.

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“Given the change in industry concentration, the presumption by the antitrust authorities will be that the merger is anticompetitive,” says study author and Phoenix Center Chief Economist Dr. George S. Ford. “Stock price reactions to the proposed merger support that presumption to some extent, though there are certainly additional and more relevant factors to consider that cautiously point to a consumer-friendly merger. In any case, approval of the merger faces significant challenges, but the decision to approve or deny should be based on careful analysis rather than emotional reaction.”

A full copy of PHOENIX CENTER POLICY PERSPECTIVE NO. 18-04, *Stock Market Reactions to the Sprint-TMO Merger*, may be downloaded free from the Phoenix Center’s web page at: <http://www.phoenix-center.org/perspectives/Perspective18-04Final.pdf>.

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