



AT&T Year End FY2009 Earnings: \$2 billion More in 2010 Wireless Capex

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To answer critics of its network performance, AT&T announced a startling [\\$2 billion boost in 2010 wireless capital spending at its fourth quarter and year end earnings call on January 28](#). This is an important and very substantial spending increase. However, AT&T does not break out its capital spending between fixed and wireless, so making a before-after comparison is not easy.

Meanwhile, AT&T's problem that makes it a target of critics with smartphones also makes it the envy of any mobile operator in the world.

First some statistics. In 2009, AT&T mobile data traffic increased 200%, and it has been on this growth trend or greater for 3 years. At the end of 2009, AT&T supported 30.2 million customers with integrated voice-data devices connected to the 3G HSPA network. Based on data reported since July 2008, AT&T has activated 14.3 million iPhones on its network. In Q4 2009, AT&T carried 135 billion text messages and 2 billion multimedia messages. That's a 70% increase in SMS traffic and 100% increase in MMS volume.

To support this growth, John Stankey, AT&T operations president, announced on January 28 that AT&T is increasing its capital spend for wireless by \$2 billion in 2010. AT&T's total capital expenses in 2010 are expected to be \$18 billion–\$19 billion. This is 5–10% increase from \$17.3 billion spent in 2009. Clearly a lot of capital horsepower is shifting from wireline to wireless at AT&T.

Unlike AT&T, Verizon does break out wireless and wireline capex. Verizon Wireless spends 42%, or \$7.1 billion, of total Verizon \$17 billion capex. Using this as a straight proxy, it suggests AT&T's wireless capex is in the range of \$7 billion. Further details suggest a straight analogy is inappropriate. The VZ revenue mix is skewed toward wireless at 50%, compared to 40% wireless revenue contribution at AT&T. Similarly, VZ's customer mix is wireless heavy — 74% compared to 64% at AT&T. In fact, a 10% gap exists in all key wireless metrics between AT&T and VZ, except for the ratio of wireless data revenue to total wireless services revenue, where they are just about equal at 30%. Based on this wireless weight perspective, it is logical to estimate AT&T wireless capex at 30% of total capex, or just about \$5 billion.

Going back to Stankey's January 28 comments, this implies that AT&T capex spend will climb to \$7 billion in 2010. In other words, AT&T wireless will achieve parity with Verizon Wireless capex spending.

What will AT&T do with the \$2 billion top-up? It is adding 2,000 new cell sites (on top of the 1,900 new sites added in 2009). The radio network controllers and carriers installed for the new cell sites, as well as expansion of radio infrastructure existing cell sites, will result in AT&T adding twice as much additional wireless capacity in 2010 as it did in 2009. The company has launched an aggressive program to build out fiber-based ethernet backhaul to cell site. This was launched first in 6 markets (Chicago, Charlotte, Dallas, Houston, Los Angeles, Miami) in October 2009. Not only does this make today's mobile data performance better, it is required for the high speeds of AT&T's next technology step to HSPA 7.2.

What does this mean for the performance issue? Any carrier in the world would love to have the problem that AT&T has due to iPhone exclusivity success. Beyond AT&T, many other operators are experiencing noticeable amounts of network challenge and margin impact due to iPhone and other smartphones.

Moreover, would the iPhone have nearly the success it has had if the network didn't meet a critical standard of performance? Apple design genius is not the only reason for iPhone success. If the AT&T network was so bad, would the iPhone have crossed the 3 billion download this soon?

AT&T's challenge is about managing a balance between growth and investment. The company is following a cautious playbook. There is no reason to think they will change the game plan. Meanwhile, mobile data usage and spending are growing a lot faster than service complaints.

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