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MetroPCS' Growth Exceeds Expectations

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MetroPCS Communications Inc. (PCS) preannounced its first-quarter subscriber numbers Tuesday, exceeding Wall Street's expectations and highlighting a trend of consumers gravitating to cheaper prepaid offerings.

The Dallas carrier, which specializes in flat-rate, no-contract service, added nearly 684,000 net new subscribers, its biggest gain in company history. To give some perspective, in the fourth quarter, Verizon Wireless added 1.2 million net new subscribers, but it has more than 10 times as many total subscribers.

"These guys have all the dials aligned really nicely," telecom-industry consultant Rory Altman said of MetroPCS.

More than one-third of MetroPCS' growth occurred in New York, Boston and Philadelphia, an area that MetroPCS - it, like Leap Wireless International Inc. (LEAP), is a regional carrier - has targeted in recent quarters. It began offering coverage in Philadelphia over the summer and launched in New York and Boston in February.

If you live in one of these regions, chances are you've become familiar with the company's omnipresent purple advertising. "In a city like New York, starting a brand in a city that big, it's an enormous challenge," Tom Keys, MetroPCS' operating chief, said in an interview shortly after the launch.

Todd Rethemeier, an analyst at Hudson Square Research, called them "blowout subscriber numbers," adding, "In the current economic environment, we believe that Metro is actually benefiting, as customers are looking for ways to save money" in a research note.

Prepaid carriers have traditionally targeted lower-income consumers, but their appeal has grown during the recession as cellphone users shop around for cheaper wireless plans. As Keys put it, "My target audience is really, really simple: It is any person who pays their own bill."

He pointed to several metrics indicating that MetroPCS customers are not only dropping other cellphones but also their home phones. A relatively high percentage of them use their handset as their primary phone, he said, and the average subscriber uses about 2,000 minutes a month, with usage peaking from 8 p.m. to 11 p.m.