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AT&T to Acquire Nextel Mexico Through Bankruptcy Proceedings

By Richard Johnson, J.D. Candidate 2017 | February 3, 2015

AT&T's goal of creating an all-encompassing North American Mobile Service just took another large step forward. The second-largest mobile-phone carrier in the United States recently agreed to buy Nextel Mexico for $1.875bn, less any outstanding debt of the business, in a transaction under Section 363 of the U.S. Bankruptcy Code.

Nextel Mexico's parent company NII Holdings Inc., which is based in Reston, Virginia, filed for bankruptcy protection in the United States last year after struggling with almost $6bn in debt. The deal will give AT&T all companies that operate under the name Nextel Mexico and all of NII Holdings' wireless properties in Mexico, including retail stores, spectrum licenses, network assets, and roughly 3 million subscribers. Many anticipate that NII Holdings will use the money gained to fund its much larger operations in Brazil.

Pursuant to Section 363 AT&T's offer still needs to go through a bankruptcy auction and approval process by the U.S. Bankruptcy Court for the Southern District of New York, which is overseeing NII Holdings' restructure. AT&T's offer is considered a "stalking horse" bid, which means that in exchange for submitting an initial bid AT&T receives some benefits, which may include break-up fees, favorable bidding procedures, or expense reimbursement. The details of the arrangement are unknown at this time, but AT&T's status makes it unlikely that another company will outbid the telecommunications giant and AT&T expects the transaction will close in mid-2015.

This information comes exactly 10 days after the closing of AT&T's $2.5bn purchase of Mexico's third largest mobile group - Grupo Iusacell SA - and less than a week after AT&T introduced unlimited calling from the United States to any number in Mexico for no additional charges.

AT&T's efforts to expand in the Mexican wireless market come during a time of drastic reform. Last year Mexican lawmakers passed sweeping regulations to open up a telecommunications sector that has been dominated by América Móvil. The company, owned by billionaire Carlos Slim, maintains over 70 percent of the country's market share, and part of the new regulations requires that América Móvil reduce its presence to below 50 percent or face stiff penalties. AT&T CEO Randall Stephenson has said these new rules "make it very, very attractive for companies to come in and invest."

Interestingly this will not be the first time these companies have interacted. The history between AT&T and Carlos Slim stretches back 25 years, and as recently as last year AT&T maintained an 8.3 percent stake in América Móvil. The relationship dissolved last year when AT&T proposed a $48.5bn takeover of DirecTV. Because DirecTV has a 41 percent ownership in Sky Mexico, which is a direct competitor of América Móvil in the Latin American pay-TV market, the AT&T-DirecTV deal would have resulted in a potential conflict of interest. To avoid this issue,

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and thus obtain regulatory approval, AT&T sold its stake to a company controlled by Carlos Slim for $5.6bn.

To comply with current regulations and avoid penalties América Móvil has tried to sell some of its wireless assets, including network infrastructure, and AT&T was actually rumored to be among potential buyers even before the Iusacell acquisition. AT&T has maintained it is not seeking to purchase América Móvil's offloaded assets, but it would be unsurprising given the company's recent capital expenditure. As one Mexican equity research analyst explained, the Iusacell and Nextel Mexico purchases are "a signal that they have come to compete . . . they haven't spent nearly $4bn in Mexico just to keep a small market share."