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Sprint CEO Under Fire as 'Ugly' Analyst Day Adds to Stock Plunge

By Scott Moritz - Oct 11, 2011

Sprint Nextel Corp. (S)'s stock plunge may be starting to endanger Chief Executive Officer Dan Hesse's position at the helm of the company as analysts weigh in.

The third-largest U.S. wireless operator fell two trading days in a row after an investor meeting in New York on Oct. 7, sliding 26 percent to the lowest level since February 2009. The gathering grew "ugly," according to Walter Piecyk, an analyst with BTIG LLC, as Sprint said it needs to raise more capital and Hesse refused to provide detailed financial forecasts in response to repeated questions.

Sprint has tumbled 83 percent since Hesse took over in December 2007, compared with an 18 percent drop in the Standard & Poor's 500 index. While the CEO has made progress in areas such as customer service, he has failed to stem subscriber defections or report a single quarterly profit.

"Hesse is on thin ice now," said Ed Snyder, an analyst with Charter Equity Research, who is based in San Francisco. "One, perhaps two, more big mistakes and he's probably gone."

At least seven analysts cut their ratings on the stock after the carrier's investor meeting, citing concerns that rising spending will hurt liquidity. Sprint, based in Overland Park, Kansas, said it will raise money to transition to long- term evolution, or LTE, wireless technology, the standard used by AT&T Inc. (T) and Verizon Wireless.

The latest upgrade strategy represents one of several strategic shifts that are getting expensive for shareholders, said Ben Abramowitz, an analyst with Kaufman Bros.

"Management credibility is lost with investors," Abramowitz wrote about Sprint, as he downgraded the stock to "hold" from "buy."

'Significant Progress'

Sprint's directors support Hesse and his strategy, said James Hance, the company's chairman.

"The board is very comfortable with management," said Hance in an interview. "Dan and his team have done a very good job of stabilizing the company."

Sprint said that under Hesse's leadership, it's showing improvement.

"The evidence is clear that the long-term turnaround plan that Dan put in place is making significant progress," said Scott Sloat, Sprint spokesman. "We aren't there yet but clearly we have made significant strides."

Sprint rose 7.2 percent to close at $2.38 in New York and has fallen 44 percent this year.

Sprint has been struggling to compete with AT&T and Verizon, the country's largest wireless operators. Sprint has lost money for 15 consecutive quarters and in July missed second-quarter estimates by enough that its stock dropped 16 percent, at the time the largest decline since 2008.

Network Vision

Last week, Sprint gathered analysts and investors for the strategy summit it called Network Vision. Hesse and his lieutenants explained how the company would upgrade its wireless network for the higher-speed LTE technology and how rapidly it would make the switch.

Still, Hesse and Chief Financial Officer Joseph Euteneuer didn't provide forecasts for profit or revenue, and they said all the financial information provided excluded the impact of Apple Inc. (AAPL)'s iPhone, which Sprint is starting to sell this month for the first time.

After Sprint's presentation, the floor was opened to questions. The first analyst said he couldn't grasp what the previous two hours were designed to accomplish.

"I'd be lying to you if I said I understood what I saw with those slides," said Dave Barden, an analyst with Bank of America Merrill Lynch.

Frustration

He then asked for some details on the impact of the iPhone, which costs Sprint money upfront because the carrier subsidizes the cost of the phone to consumers in exchange for service revenue over two years. Euteneuer declined to provide specifics.

After, analysts and investors expressed frustration over the lack of clarity about iPhone costs, financing needs and the future relationship with partner Clearwire Corp. (CLWR) Though Sprint now uses Clearwire's network to provide high-speed, fourth- generation wireless services, Hesse said it would only commit to using Clearwire's network through 2012 and may not continue after that. Clearwire plunged 32 percent that day.

When Craig Moffett, an analyst with Sanford C. Bernstein & Co., asked whether Clearwire will be able to survive on its own, Hesse said analysts would have to ask Clearwire about its financial position.

One attendee then questioned Hesse's assertion, since Sprint owns about half of Clearwire.

"I don't think it does you a service to suggest you're not aware of their financial condition," said the person, who wasn't identified in a transcript of the meeting.

'Got Ugly'

Clearwire CEO Erik Prusch gave an interview to answer questions about the company's future, saying he's confident the company can raise the capital needed.

BTIG's Piecyk said the investor meeting hurt Sprint because the company had set high expectations for the event and then failed to deliver.

"The Q&A session got ugly as the management team continued to avoid providing any detailed answers," he wrote in a research note. "Sprint is un-investable until they can provide better clarity."

The company's board members should understand how poorly the presentation was received, Piecyk said.

"We also hope the board listens to the replay of the Q&A to hear what investors thought of the plan they approved," he said. "How do you not know the iPhone impact?"

Hesse arrived at Sprint during a difficult time, as the company struggled to integrate Nextel Communications Inc. His experience as a telecommunications veteran won him credibility with investors, said Abramowitz. Still, their patience is wearing thin, he said.

"He stepped into a bad situation," said Abramowitz. "The question is, 'Did he do enough to improve the situation?' The valuation of the stock talks for itself."

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