



Could Verizon Really be that Interested in the Canadian Wireless Market?

Description

A story in yesterday's Globe indicating that U.S. giant **Verizon** ([NYSE:VZ](#)) may be poking around on one of this country's tiny mobile companies has caused a bit of a stir. Wind Mobile is apparently the target, but given the stock performance of Canada's big 3 wireless incumbents since the story broke, the market isn't taking this potential threat very seriously.

Because of foreign ownership restrictions, acquiring one of **BCE** ([TSX:BCE](#)), **Rogers** ([TSX:RCI.B](#)), or **Telus** ([TSX:T](#)) is not an option for Verizon. Therefore, if it wants into the Canadian market, buying one of the small players that have done nothing but seemingly hemorrhage money since they were born is the only option. An acquisition would provide Verizon with a seat at the upcoming spectrum auction. Deposits for this auction are due in the next 3 months.

More trouble than it's worth

While this scenario is sure to have executives at Canada's incumbents feeling a bit tepid as a deep-pocketed competitor is not something they'd welcome, does expanding into Canada really make any sense for Verizon?

Canaccord's analyst estimates that more than \$2 billion would be required to turn any of the current bit-players into a real force. Plus, one has to consider the logistics involved in setting up a Canadian operation for Verizon. This would only add to this \$2 billion.

For a company that garnered wireless revenues of \$20 billion in this year's first *quarter* alone, these costs don't appear daunting. However, these revenues are part of the bigger issue.

Sure Verizon Wireless could invest in Canada. But, given that the combined *annual* wireless revenues of Canada's big 3 carriers were just \$18.7 billion in 2012, even if they were to gain a 25% share or say \$4.5 billion of this pot on an annual basis (eventually and at what margin?), it's rather insignificant to an \$80 billion company.

Foolish Takeaway

Canada is a natural extension for many of the best companies in the U.S. (case in point right here at Fool.ca!) but this issue of relative scale has typically not made it worth their while. We're likely to get an idea over the next 3 months when the spectrum auction is set to occur, whether or not Verizon is willing to go through a potentially tedious process to barely move the needle on the company's financial results.

To learn about 3 U.S. companies that already have a dominating presence not just in Canada, but throughout the world, [click here now](#) to download our special **FREE** report "**3 U.S. Companies That Every Canadian Should Own**".

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Fool contributor Iain Butler does not own shares in any of the companies mentioned in this report at this time. The Motley Fool has no positions in the stocks mentioned above.

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1. Investing

TICKERS GLOBAL

1. NYSE:VZ (Verizon Communications Inc.)
2. TSX:BCE (BCE Inc.)
3. TSX:RCI.B (Rogers Communications Inc.)
4. TSX:T (TELUS)

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