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Nextel Communications

29-APR-04

NASDAQ: **NXTL**

GICS Sector: Telecommunication Services
Sub-Industry: Wireless Telecommunication Services

Business Summary: Nextel Communications, Inc. is one of the industry leaders in providing mobile radio communication services and technology.

Company Report

Rating:

BUY

Price:

25.50

52 Week High:

29.37

52 Week Low:

11.83

Avg. Vol. (3M):

12,887,954

Market Cap.:

\$28.24B

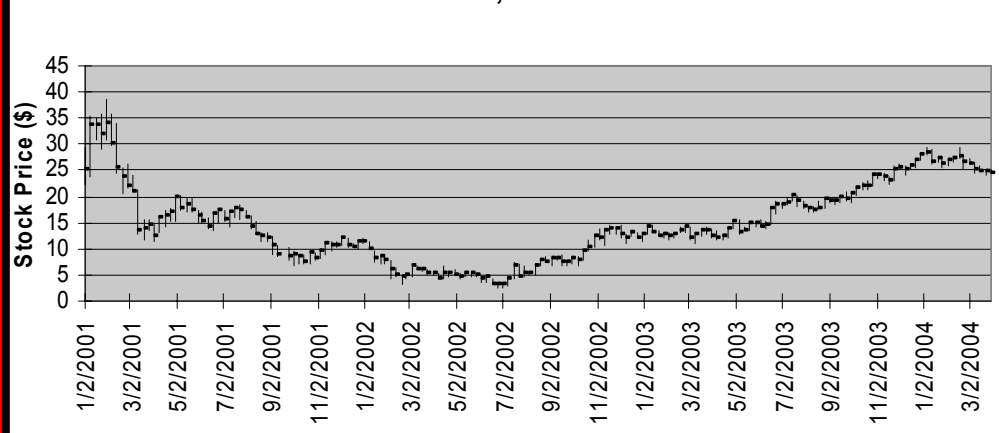
Shares Out.:

1.10B

Dividend:

NONE

Nextel Communications, Inc. - Stock Performance



Nextel Communications, Inc. Earnings Per Share (EPS)

Year	2005(E)	2004(E)	2003	2002	2001	2000	1999	1998
1Q	N/A	0.51	0.20	-0.82	-0.56	-0.45	-0.83	-0.77
2Q	N/A	N/A	0.27	0.37	-0.56	-0.38	-0.53	-0.73
3Q	N/A	N/A	0.32	0.55	0.87	-0.31	-0.55	-0.78
4Q	N/A	N/A	0.56	1.38	-2.25	-0.08	-0.43	-0.72
Total	2.06	1.93	1.36	1.78	-4.27	-1.21	-2.29	-2.99

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Highlights

- Shares of NXTL are currently undervalued at \$25.50. Our 2005 target price for Nextel Communications is 31.46.
- Nextel Communications, Inc. is the fifth largest wireless service provider in the U.S. with more than 12.3 million subscribers at the end of 2003; a growth of more than 2.3 million subscribers from the level a year earlier.
- NXTL has completed the full deployment of Nationwide Direct Connect, and is introducing an innovative voice coding technology that it expects to double its cellular capacity and enhance voice quality.
- The company realized more than 20% service revenues growth in 2003.
- Industry leader in average revenue per user and churn rates.

Executive Summary

We are recommending the purchase of 500 shares of Nextel Communications, Inc. at market order (for an approximate holding of \$12,750 based on 04/23/04 closing price of \$25.50) for the following reasons:

- We have set a 2005 target price for Nextel at \$31.46 based on a P/E of 15.27x our expected 2005 EPS of 2.06.
- The company has one of the lowest P/E's in the industry at a mere 15.27 compared to the industry P/E average of 17.58.
- Nextel continues to dominate the Push-To-Talk sector of the Wireless Telecommunication Industry.
- The company operates with one of the industry's lowest churn (customer turnover) rate and the highest Average Revenue per User (ARPU) rate.

Company Overview

Nextel Communications, Inc. (NXTL: NASDAQ), was started in 1987 by Morgan O'Brien as Fleet Call, which utilized SMR networks to compete with the growing cellular phone market. In 1992, the company launched its IPO and changed its name to Nextel Communications the following year.

After struggling for the first few years, Nextel Communications gained a key partner in 1995 when it teamed up with Motorola, and gained exclusive licenses to Motorola's 800-MHz SMR technology, followed by a \$1.1 billion investment by cell phone tycoon, Craig McCaw, who helped revitalize the company. In 1996, Nextel made its big mark when it rolled out "Motorola's integrated digital enhanced network (iDEN) technology which combined digital cellular phone service and two-way radio transmission in a single handset," nationwide.

The company further distinguished itself when it "set out to distinguish the company from mobile phone rivals by offering one-second rounding (rounding bills to the second rather than the minute) and by eliminating roaming fees on out-of-area Nextel networks."

Now, after more than 15 years in the Wireless Telecommunication Services Industry, the company has emerged as a leader. Employing more than 17,000 workers and generating over 10 billion dollars in revenue from their more than 12.3 million subscribers, the company now has "wireless holdings in Canada, Latin America, and the Asia/Pacific region."¹

Executive Officers

Timothy M. Donahue. Mr. Donahue is 55 years old and has served as our Chief Executive Officer since July 1999. Mr. Donahue also has served as President since joining us in February 1996 and also served as Chief Operating Officer from February 1996 until July 1999. Mr. Donahue has served as one of our directors since June 1996. From 1986 to January 1996, Mr. Donahue held various senior management positions with AT&T Wireless Services, Inc., including Regional President for the Northeast. Mr. Donahue serves as a director of Nextel Partners and Eastman Kodak Company.

Paul N. Saleh. Mr. Saleh is 47 years old and has served as Executive Vice President and Chief Financial Officer since September 2001. From June 1999 to August 2001, Mr. Saleh served as Senior Vice President and Chief Financial Officer of Disney International, a subsidiary of The Walt Disney Company. From April 1997 to June 1999, Mr. Saleh served as Senior Vice President and Treasurer of The Walt Disney Company. Prior to joining The Walt Disney Company, Mr. Saleh worked for twelve years with Honeywell Inc., where he was most recently Vice President and Treasurer.

Thomas N. Kelly, Jr. Mr. Kelly is 56 years old, joined us in April 1996 and has served as Executive Vice President and Chief Operating Officer since February 2003. From 1996 to February 2003, Mr. Kelly served as our Executive Vice President and Chief Marketing Officer. Between 1993 and 1996, Mr. Kelly was Regional Vice President of Marketing for AT&T Wireless. Prior to joining AT&T Wireless, Mr. Kelly worked for twelve years with the marketing consulting firm of Howard Bedford Nolan, where he was most recently an Executive Vice President.

¹ www.hoovers.com

Barry J. West. Mr. West is 58 years old, joined us in March 1996 and serves as Executive Vice President and Chief Technology Officer. Previously, Mr. West served in various senior positions with British Telecom plc for more than five years, most recently as Director of Value-Added Services and Corporate Marketing at Cellnet, which was a cellular communications subsidiary of British Telecom.

Leonard J. Kennedy. Mr. Kennedy is 52 years old and since January 2001 has served as Senior Vice President and General Counsel. From 1995 until January 2001, Mr. Kennedy was a member of the law firm Dow, Lohnes & Albertson, specializing in telecommunications law and regulatory policy.

William G. Arendt. Mr. Arendt is 46 years old and has served as our Senior Vice President since February 2004 and as our Controller since May 1997. From May 1997 to February 2004, he also served as our Vice President. From June 1996 until May 1997, Mr. Arendt was Vice President and Controller for Pocket Communications, Inc., a PCS company. From September 1992 until June 1996, he was Controller for American Mobile Satellite Corporation. Previously, Mr. Arendt worked for thirteen years at Ernst & Young LLP.

Richard S. Lindahl. Mr. Lindahl is 40 years old and has served as our Vice President and Treasurer since May 2002. From August 1997 to May 2002, Mr. Lindahl served us in various capacities, including Assistant Treasurer and Director, Financial Planning & Analysis. Prior to joining us in August 1997, Mr. Lindahl held the position of Vice President, Financial Planning with Pocket Communications.²

Recent News

This section will discuss and review recent news that may potentially have an impact on Nextel Communications, Inc. and/or the industry which the company operates in. These events may be viewed as possible drivers or risk which can affect the future growth and profitability of Nextel and its competitors:

On Thursday April 22nd, Nextel Communications reported that first quarter profits for 2004 more than doubled those of the prior year. This growth was due to the expansion of their walkie-talkie service and a increase in subscribers. First-quarter profit rose to \$591 million, or 51 cents a diluted share, from \$208 million, or 20 cents a share, a year earlier. Revenue rose to \$3.1 billion from \$2.4 billion. We believe that Nextel's success with their direct connect service, their continued expansion of their Boost Mobile network, and introduction of broadband service will help the company continue its drive to further their market share.³

With the help of Digital Orchid Inc. and Nascar.com, Nextel Communications, Inc. announced the release of a suite of real-time wireless NASCAR.COM content applications and services that will be available to consumers on mobile devices offered on the Nextel network. These applications include real-time updates on NASCAR races, as well as specific driver performance. In addition, a selection of NASCAR themed phones are being released, where users can choose their favorite drivers numbers for their face plates. This service which has a subscription fee of \$9.99 will generate a substantial amount of revenue for Nextel and its partners, as a result of the growing interest and fan base of NASCAR racing and the important role Nextel plays in NASCAR events.⁴

On March 30th, 2004, wireless technology company Qualcomm, Inc. announced that LG Electronics Ltd., will begin to develop a series of wireless phones to support Qualcomm's new "push-to-talk" technology. These new devices will utilize Qualcomm's "BREWChat", which will be upgradeable to the next generation of walkie-talkie technology. Qualcomm's development of new "push-to-talk" phones, poses a threat to Nextel, who has been the industry leader in such technologies and services. If successful, competitors using Qualcomm's new technology will take away from Nextel's competitive advantage and cause them to lose market share.⁵

At this year's Cellular Telecommunications & Internet Association show held in March, U.S. wireless companies are remaining cautious in "pouring millions of dollars into faster networks to accommodate high-speed-date." They believe that growth is inevitable in such technologies; however it would be a period of time before such technology

² Nextel Communications, Inc. – 10-K – Executive Officers of the Registrant

³ TdWaterhouse – April 22nd, 2004 1:41pm ET (Reuters)

⁴ TdWaterhouse – April 5th, 2004 2:36pm ET (BusinessWire)

⁵ TdWaterhouse – March 30th, 2004 12:56pm ET (Reuters)

would be adopted by consumers. Wary of the telecom spending boom and bust in the last few years, wireless companies are approaching the new technologies with more prudence. However, if such technology becomes standard among consumers, it can and will be a potential market for wireless companies such as Nextel, who can reap tremendous growth and revenue from such technologies if the correct strategies are implemented.⁶

On March 24th, 2004, Moody's Investors Service assigned a B2 rating to the recently issued \$500 million of 5.95% Senior Notes due 2014 issued by Nextel Communications, Inc. Moody's also confirmed the existing ratings on Nextel Communications, Inc. and its subsidiary, Nextel Finance Company, with a positive rating outlook. Since Moody's improved the rating outlook for Nextel Communications' ratings in November of last year, the company has continued to outperform its peers in the wireless industry with industry leading ARPU and churn metrics. Nextel has also continued to attract its proportionate share of industry gross new subscriber additions without price discounting, despite increased levels of competition, thereby gaining additional market share in 4Q03. All of which bodes well for positive rating action later in 2004. However, there is concern over the increased competition exhibited by the industry, due in part to FCC's decision to allow number portability. In order for Nextel to continue its strong growth and improvement of its balance sheet, the company needs to maintain their industry low churn rates and industry leading ARPU rates.⁷

On March 23rd, 2004, Nextel Communications, Inc. introduced their new Mobile Locator™ Service, which utilizes software by Openwave Systems Inc. The service provides a Web-based solution available through Nextel.com for locating handsets used by field employees for day-to-day business activities and services. Mobile Locator is one of the first fleet and mobile workforce management services in North America and is currently available for use on all Nextel handsets. It will allow small sized businesses to view their employee's location on real-time online maps, view employee's location histories based on previous inquiries, and extend communication capabilities by being able to dispatch any employee depending on proximity to a location or a customer's needs. This new service will help differentiate Nextel from its competitors as it continues to be the leading service provider of mobile radio communication services and technology.⁸

Standard & Poor's upgraded the debt ratings for Nextel Communications, Inc. to one step below investment grade on account of its strong subscriber base. S&P upgraded Nextel two notches to "BB-plus," the highest junk rating, from "BB-minus." The outlook for these ratings is "positive," S&P said. An upgrade to investment-grade status for Nextel could dramatically lower the companies borrowing cost. This news is beneficial to the company as it continues to fend off new entrants into the "walkie-talkie" services industry, which it currently dominates.⁹

Industry Analysis

Industry Overview

Nextel Communications is a part of the wireless telecommunication services industry. The wireless telecommunication industry is an industry currently in the growth stage of its industry life cycle. The growth stage is characterized by a mass market development of the product or service. One feature of being involved in a mass market is the growth in numbers of customers in the market. The number of subscribers of wireless services has continued to increase every year. According to the S&P, the number of new subscribers at year-end 2003 was 155 million. This number was a 10% increase from year-end 2002 of 140.8 million.¹⁰

Other features enjoyed by an industry in the growth stage are its ongoing technological progress, development of complementary products, and lower costs with higher demand. The top five competitors all enjoy economies of scale as well. This serves as an entry barrier to the industry for outsiders. The level of competition has remained high among these competitors, forcing smaller companies to either leave the industry or be acquired.

The fact that the industry is in a growth stage has a positive impact on its future sales and profits. This is due to the high demand for the new products that are being injected into the market and the complementary ones as well.

⁶ TdWaterhouse – March 24th, 2004 2:00pm ET (Reuters)

⁷ TdWaterhouse – March 24th, 2004 10:18am ET (Reuters)

⁸ TdWaterhouse – March 23rd, 2004 9:00am ET (PR Newswire)

⁹ TdWaterhouse – March 22nd, 2004 5:52pm ET (Reuters)

¹⁰ www.standardandpoors.com

Customers are interested in the new features available on the phones, such as internet access and picture taking. Complementary products, such as power chargers, hands-free headsets, and belt clips, have become popular as well.

Trends

The major trends of the industry have been favorable to its growth. The number of U.S. subscribers, in the period of 1996 through 2001, has tripled from 44 million to 128 million.¹¹ The industry is currently offering a variety of new features on services that cost less, with better availability. In fact, availability has greatly improved in the U.S. According to the FCC 95% of the population live in counties offering service from at least three carriers.

The total revenue growth of the industry has continued to increase. According to Standard and Poor's, revenue growth has more than quadrupled since 1995, from \$19.1 billion in 1995 to an estimated \$85.0 billion of 2003. This revenue growth trend can be attributed to a few different reasons. One such reason was the growth in availability of service. As noted above, nearly the entire population has access to a number of carriers. Another reason would be that more service towers are being built. This greatly improves the reliability of the service.

Factors

Many factors have had and will continue to have an affect on the performance of the wireless telecommunication industry. Among these factors are innovation, service bundling, number portability, and customer service.

Innovation plays an important role in the future of the industry. One such service, pre-paid plans, is a good example in the early stage of its use. It provides a "pay as you go" service where customers pay for the amount of minutes they want. By providing such plans, the industry has found a way to effectively reach two particular types of customers. The first type would be those too young to have the proper credit to obtain a regular plan. The second would be the older customers with a poor credit history. Another innovation pushing growth is the use of short message services (SMS), also known as text messaging. SMS is the fastest growing service the industry is currently offering. Other features, such as ring tones and games, have proven to push growth as well.

Another factor having an effect on the performance of the industry is the introduction of service bundling. The idea of bundling services is combining local, long-distance, high-speed internet access, and wireless service under a single bill at a discounted price. This is significant to the industry because of the convenience it can provide customers. This factor serves as a driver of growth for the industry by increasing total revenue and revenue per user.

Number portability was a decision made by the FCC in November of 2003. This allows customers to retain their phone numbers when changing providers. The FCC feels that the full effect of number portability will not be seen until half way through 2004. The effect should be a positive one for the industry. This can drive competition among the top firms. One of the largest inconveniences of switching service providers has been switching numbers. With this no longer being an issue, competitors will be able to more easily attract new customers through offerings and deals.

Customer service has and will continue to have an impact on the industry. Providers found that it is more costly to sign up new customers than to retain current ones. Because of this, firms have made it a priority to keep their churn rate as low as possible. The churn rate is the percentage of subscribers that terminate their service in a given month divided by the total number of subscribers in that month. The top competitors are associated with organizations that provide representative customer care. Nextel has provided its customers with customer service through IBM and TeleTech Holdings Inc.

Forecast

The wireless telecommunications industry does have a promising future. This is due to a variety of reasons. One such reason will be the use of 3rd Generation networks. 3G allows more traffic at a faster speed. This will drive growth in revenue in the industry because more customers will have access to service with greater reliability. It will also allow faster Internet access to those phones with the online capabilities.

Competition among the firms will lead to a continuation in the trend of growing revenues. This competition will grow with number portability taking full affect from the second half of 2004 on. Portability will also affect the firms

¹¹ www.standardandpoors.com

by potentially causing an increase in churn rates. Firms will strive to continue their focus on customer service and innovations to reduce these churn rates. Customers can expect to see a number of actions with the intention of lowering churn rates. These include shorter contracts required for new customers, more variety of phones, an increase in weekly minutes, and more providers offering rollover minutes.

Performance of the industrial index should have continued success as well. As illustrated in the chart below, the DJ Wireless Communication Index has performed well compared to the S&P 500 over the past year. The index has enjoyed a growing gap with the S&P and it appears that it may continue into the future. This is a good indicator of the success of the industry and illustrates a trend into the future.



Source: www.bigcharts.com

Analysis of Competitive Forces

Rivalry

Mobile communications technology has experienced rapid growth since its inception. Nextel mainly competes with four other national wireless carriers: Cingular Wireless (now with the addition of AT&T Wireless), Verizon Wireless, Deutsche Telecom/T-Mobile and Sprint PCS. Nextel is unique in that it has a competitive advantage in the differentiated service it offers. Its Direct Connect distinguishes itself from the other four nationwide carriers and is able to capture markets like corporations and government entities that utilize the push-to-talk and dispatch features.

Threat of New Entrants

Entry into the wireless telecommunications market is difficult considering a few obstacles. Large amounts of capital are needed to supply the necessary network on which services can be provided. Extensive FCC regulations and licensing requirements also pose a significant barrier to entry. Within the competition among Nextel's rivals, there is a threat of new entrants into the Direct Connect market. No other competitor has been able to achieve the technology to successfully enter the market. Verizon introduced Push to talk and Sprint PCS introduced its service Ready Link. Both are to compete with Nextel's Direct Connect. Push to talk service is choppy, prone to static, and most importantly, it experiences long delays before completing a connection. Also, Verizon offers one Motorola phone for the service that is unpopular with its customers and the service itself is more expensive than Nextel's.

Threat of Substitute Products

The only threat of substitute products that may have an effect on Nextel is competitors' pricing plans that offer features such as unlimited mobile-to-mobile calling, reduced rates for calls placed between pre-established groups of callers or shared minutes between groups of callers. We do not believe this poses a large risk considering it does not match the ease of one touch connectivity. The customers that Nextel targets, which consist of small medium and

large businesses, government agencies and other organizations and high value generating individuals, come to Nextel principally for its distinguished Direct Connect service.

Bargaining Power of Suppliers

Nextel maintains its bargaining power through a number of strategic relationships. Motorola is the main provider of the iDEN infrastructure equipment on all of Nextel's phones. Motorola is also 8% owner of Nextel's class A common stock, which ensures Motorola's incentive to see Nextel perform. Nextel and Motorola work closely to improve existing products and develop new technologies¹². They have also entered into an exclusive development agreement with Qualcomm to develop Direct Connect service on various platforms.

Bargaining Power of Buyer

Due to the competitive nature of the position Nextel is in with Direct Connect, it is able to reap more profits from the average customer. Nextel's ARPU, or average revenue per user reached \$70 in the fourth quarter of 2003, compared to the average among its competitors of \$50. Lifetime ARPU was reported 33% higher than its competitors.¹³ Nextel's advantage also enables them to service customers in need of efficient dispatching services that it can find through Direct Connect. Businesses and organizations go to Nextel because of their superior service and network clarity.

Analysis of Management Strategies Relative to the Industry

Nextel Communications business strategy is to provide differentiated products and services in order to acquire the most valuable customers in the wireless telecommunications industry. It seeks to drive greater operating efficiencies in their business and optimize performance of their network while minimizing costs. Nextel's customer base is comprised of businesses, governmental agencies, and high-value individuals who utilize premium mobile communications features and services whose primary purchase decision is based on the quality and availability of differentiated services.

One of Nextel's most successful services has been their direct connect walkie-talkie service. In 2003, the company expanded this service nationwide, giving their customers the ability to communicate instantly with over 14 million Nextel and Nextel Partners subscribers on their network across the continental United States and to and from Hawaii. In September 2003, they expanded nationwide direct connect service internationally through an agreement with NII Holdings into the northern region of the Mexican state of Baja California and in 2004, they plan to further extend into North America and Latin America.

In the latter half of 2004, the company plans to deploy an upgrade to their existing iDEN technology, known as WiDEN, designed to increase the data speeds of their network by up to four times the current speeds. They are also presently testing a trial of Nextel Wireless Broadband, an easy-to-use and secure service that connects customers to the Internet at broadband speeds with the full mobility of wireless services.

In addition, Nextel is committed to provide their customers with the highest level of customer care in the industry. They have designed and implemented a customer Touch Point strategy to improve customer relationships by focusing on eliminating situations that create customer dissatisfaction at each point where they interact with their customers, including sales, fulfillment, activation, billing, network quality, collections and overall customer care.

In their efforts to acquire and retain the most valuable customers in the industry, Nextel recently embarked on a 10-year title sponsorship of the NASCAR NEXTEL Cup Series, or NASCAR. This marketing strategy will provide unique exposure for their products and services to an estimated 75 million loyal NASCAR racing fans throughout the United States. Nextel also has a Boost Mobile brand, which targets the youth and pre-paid calling wireless

¹² Note: In July 1995, Nextel acquired all of Motorola's 800 MHz SMR licenses in the continental United States in exchange for 83.3 million shares of our class A common stock and 35.7 million shares of our nonvoting class B common stock. As of March 14, 2003, Motorola owned 47.5 million shares of our class A common stock and 35.7 million shares of our nonvoting class B common stock. As a result of the agreement relating to that acquisition, Motorola has the right to nominate two persons for election as members of our board of directors

¹³ Nextel 4th Quarter Conference Call

markets in California and Nevada. The company intends to extend this Boost Mobile Brand to several additional markets in the near future.

Management continuously seeks new ways of increasing their operating efficiency. In 2003 Nextel outsourced their cell site development functions to several vendors. They also opened an additional 200 Nextel stores, bringing their total to over 600, in order to expand customer convenience, as well as provide cost-efficient distribution channels.

In 2003, Nextel continued its mission of providing the largest guaranteed all digital wireless network in the United States. They continue to implement processes and technologies to allow themselves to more efficiently utilize their network and improve performance. In 2004, Nextel plans to continue to improve and expand its network by building additional sites where necessary to expand its geographic coverage and capacity to meet the growing demands of its customers. They also plan to introduce 6:1 vocoder handsets that are designed to more efficiently utilize the networks capacity.¹⁴

Relative Industry Valuation

The Wireless Telecommunication Services Sector currently accounts for approximately 0.70% of the S&P 500 Market Capital, with Nextel Communication having an approximate weighting of 0.29% in the index.

For the period of 2003, the Wireless Telecommunication Services Sector of the S&P 500 grew by 77.7%, compared to a 26.4% growth in the S&P 500. As of February 27, 2004, the Wireless Telecommunication Services Sector has seen a YTD increase in price change of 29.0% versus a 3.0% increase in the S&P 500. The growth rates of the wireless telecom sector are one of the highest in S&P 500. In addition, the industry has an average P/E of 24.21, which is above the S&P 500 average P/E of 23.33.

Several factors will determine the direction the Wireless Telecommunication Services sector will take in the coming year. Most importantly, is the rate of recovery of the economy; a failure for the U.S. economy to return to a bullish trend and increase job growth will severely hinder the potential profit and growth opportunities of the industry. However, based on the immense growth of the Wireless Telecommunication Services Sector, and the apparently recovering economy, it is expected that the sector will continue its steady growth trend.¹⁵

Fundamental Analysis

Ratio Analysis

Liquidity Ratios

		Nextel		Verizon	Sprint PCS	Industry	Market
	Dec'01	Dec'02	Dec'03	Dec'03	Dec'03	Dec'03	Dec'03
Current Ratio	1.25	1.69	1.31	0.69	0.59	0.93	1.43
Quick Ratio	1.19	1.6	1.23	0.64	0.51	0.7	1
Cash Ratio	0.56	0.67	0.29	0.03	0.17		
Receivables TO		7.24	7.94	5.51			
Inventory TO	11.03	10.27	14.13	16.98	12.49	16.6	7.6

Source: www.hoovers.com

Current Ratio: This ratio is an indicator of how well a company can pay its short-term debt obligation. A higher ratio indicates that a company is more liquid. As illustrated above, Nextel is much more liquid than two of its top competitors. Nextel outperforms the industry as well in its ability to convert its current assets to cash to pay current liabilities. These comparisons indicate that Nextel is a fairly liquid company.

¹⁴ Nextel Communication Inc. – 10-K

¹⁵ Standard & Poor's Stock Report - Nextel

Quick Ratio: This ratio indicates the company's ability to meet debt obligations. It uses current assets, excluding inventories, to determine this. This is a more conservative measure because some inventories may not convert easily into cash. It can determine the creditworthiness of a company. Once again, Nextel appears to be able to meet their debt obligations much better than that of top competitors. It fairs well when compared to the industry and market as well.

Cash Ratio: This ratio determines how quickly a company can liquidate to cover its short-term liabilities. Although Nextel's cash ratio has varied over the past 3 years, they can still liquidate more quickly than competitors.

Receivables Turnover: The receivables turnover ratio illustrates how fast a company can collect on its sale of inventory. Nextel has enjoyed a stable receivables turnover during the past two years. It is currently greater than that of Verizon.

Inventory Turnover: The inventory turnover ratio can indicate how efficient a company is with processing its inventory of finished goods. A higher ratio is favored as long as the firm is not running out of stock. As illustrated, Nextel has shown a large improvement from the previous year. They are currently more efficient than Sprint and the market, while trailing both Verizon and the industry.

Efficiency Ratios

		Nextel		Verizon	Sprint PCS
	Dec'01	Dec'02	Dec'03	Dec'03	Dec'03
Total Asset TO	0.35	0.41	0.53	0.41	0.58
Net Fixed Asset TO	0.83	0.98	1.19	0.9	1.13
Equity TO	-13.21	3.06	1.85	2.02	3.36

Source: www.hoovers.com

Total Asset Turnover: This ratio indicates how well a company's assets are being used to produce revenue. Although they are under Sprint, Nextel has been steadily improving over the past 3 years. They are outperforming Verizon in their ability to use their assets to generate sales.

Net Fixed Asset Turnover: This ratio determines to what degree a company's capital is involved in fixed assets. As shown, Nextel has had a growing NFAT ratio over the past 3 years.

Equity Turnover: This ratio determines how well a company uses its stockholders' equity to produce revenue. Although still low, Nextel is enjoying a great improvement compared to 2001.

Profitability Ratios

		Nextel		Verizon	Sprint PCS	Industry	Market
	Dec'01	Dec'02	Dec'03	Dec'03	Dec'03	Dec'03	Dec'03
Gross Profit Margin	62.69	71.15	70.88	67.85	51.5	65.66	48.44
Operating Profit Margin	-23.75	32.39	23.05	10.85	7.19		
Net Profit Margin	-34.14	15.89	14.21	3.8	-5.21	-12.28	4.47
Return on Assets	-11.9	6.45	7.49	1.85	-3.03	-4.5	1.4
Return on Equity	-3.03		26.3	9.19	-1.75		8.7

Source: www.hoovers.com

Gross Profit Margin: The gross profit margin indicates the percentage of revenue that remains after the cost of goods sold has been deducted. Nextel has been consistent over the past 2 years, after a 10% increase from 2001. They have outperformed both Sprint and Verizon in this area. They have also are also above the industry and market. This is favorable for Nextel because they become more attractive to investors.

Operating Profit Margin: This margin indicates how effective a company can control its cost and expenses associated with their normal business operations. Although Nextel's margin has decreased over since 2002, they still enjoy a favorable margin that exceeds both competitors. This indicates that Nextel is in a favorable position in the industry.

Net Profit Margin: This margin indicates how effective a company is at cost control. A higher margin illustrates that a company is effective in converting revenue into profit. As illustrated, Nextel experienced a large increase from 2001 to 2002, where it has been at a stable level since. This level has been well above that of the competitors as well as industry and market. This is another margin that proves Nextel as being an attractive investment.

Return on Assets: Return on assets can illustrate a company's ability to earn profit. It illustrates the level of profit that can be achieved with the assets under the company's control. Nextel has shown a improving trend over the past 3 years. Nextel's ROA is currently greater than that of both Verizon and Sprint PCS. They are outperforming the market as well.

Financial Risk Ratios

		Nextel		Verizon	Sprint PCS
	Dec'01	Dec'02	Dec'03	Dec'03	Dec'03
Debt/Equity Ratio		4.32	1.66	1.18	1.27
Total Debt Ratio	0.93	0.82	0.71	0.8	0.69
LTD Ratio	1.04	0.81	0.62	0.54	0.93

Source: www.hoovers.com

Debt/Equity Ratio: This ratio is an effective indicator of the risk of a company. It can indicate what proportion of equity and debt the company is using to finance its assets. A larger ratio usually points to higher risk. As illustrated, Nextel is a riskier company than both Verizon and Sprint PCS. As mentioned in the DuPont Analysis, Nextel showed a great reduction in its debt from 2002 to 2003.

Total Debt Ratio: This ratio indicates what proportions of a company's assets have been financed by debt. Nextel has shown improvement over the past three years. They are currently below that of Nextel and close to Sprint PCS.

Long-term Debt Ratio: This particular ratio is an effective way of determining risk. Many financial analysts prefer to use long-term debt as a measure over short-term debt because short-term changes frequently. This ratio is also known as the Long-term Debt to Total Capitalization Ratio. Nextel has shown improvement over the past three years and is currently better than that of Sprint PCS. However they still trail Verizon in this category.

Valuation Models

DuPont Analysis

*All figures shown in millions.

Return On Equity (ROE) = Profit Margin * Asset Turnover * Equity Multiplier

$$\frac{\text{Net Income}}{\text{Equity}} = \frac{\text{Net Income}}{\text{Sales}} * \frac{\text{Sales}}{\text{Total Assets}} * \frac{\text{Total Assets}}{\text{Equity}}$$

Fiscal Year 2001 (Not Applicable)

$$451\% = -34.14\% * 34.85\% * -3791\%$$

$$\frac{(2625)}{(582)} = \frac{(2625)}{7689} * \frac{7689}{22064} * \frac{22064}{(582)}$$

$$4.51 = -0.3414 * 0.3485 * -37.91$$

Fiscal Year 2002

48.70% = 15.89% * 40.59% * 754.88%

$$\frac{1386}{2846} = \frac{1386}{8721} * \frac{8721}{21484} * \frac{21484}{2846}$$

$$0.4870 = 0.1589 * 0.4059 * 7.5488$$

Fiscal Year 2003

26.34% = 14.21% * 52.75% * 351.00%

$$\frac{1537}{5836} = \frac{1537}{10820} * \frac{10820}{20510} * \frac{20510}{5836}$$

$$0.2634 = 0.1421 * 0.5275 * 3.51$$

DuPont Analysis is a method used to measure the return on equity of a company. For the 2001 Fiscal Year of Nextel Communications, DuPont Analysis is not applicable because of negative returns in net income and equity. However for the Fiscal Year of 2002 and 2003, the company saw significant improvements in its return on equity. The company experienced a 15.89 cent profit for every dollar of revenue in 2002, with a small decrease in profit in 2003 with a 14.21 cent profit for every dollar of revenue. In 2003, the company saw significant growth in asset turnover, illustrating its efficiency at using its assets. For that period, the company saw an improvement in asset turnover from 40.59% to 52.75%. During the same period, Nextel saw a tremendous decrease in its equity multiplier, from 754.88% in 2002 to 351.00% in 2003. This decrease in its equity multiplier illustrates Nextel Communications, continued improvement in reducing its debt. The lower ROE in 2003 results from a significant decrease in Nextel's equity multiplier, and we believe that the company will continue to improve its ROE for the next two fiscal years.

	2003 – 2004			2004 – 2005				
	2002	2003	% Change	2004(E)	% of Sales	% Change	2005(E)	% of Sales
Total Revenue	\$8,721	\$10,820	17.10%	\$12,670	100.00%	9.87%	\$13,920	100.00%
Cost of Revenue	2,516	3,151	17.00%	3,686	29.09%	10.00%	4,054	29.12%
Gross Profit	6,205	7,669	17.15%	8,984	70.91%	9.82%	9,866	70.88%
Selling, General, & Administration Cost	3,039	3,453	12.97%	3,901	30.79%	13.28%	4,419	31.75%
Restructuring/Impairment	35	0	275.00%	275	2.17%	0.00%	275	1.98%
Others	1,595	1,694	5.96%	1,795	14.17%	6.07%	1,904	13.98%
Total Expenses	\$4,669	\$5,147	16.01%	\$ 5,971	47.13%	10.50%	\$6,598	47.71%
Operating Income	\$1,536	\$2,522	19.47%	\$3,013	23.78%	8.46%	\$3,268	23.48%
Total Other Income/Expenses Net	1,289	-28	114.29%	4	0.00%	0.00%	4	0.00%
Earnings Before Interest And Taxes	2,825	2,494	20.65%	3,017	23.81%	8.45%	\$3,272	23.51%
Interest Expense	1,048	844	-27.01%	616	4.86%	-12.99%	536	3.85%
Income Before Taxes	\$1,777	\$1,650	45.03%	\$2,401	18.95%	13.95%	\$2,736	19.66%
Income Taxes Expense	391	113	16.81%	132	1.04%	16.67%	154	1.11%
Net Income	\$1,386	\$1,537	47.10%	\$2,269	17.91%	13.93%	\$2,582	18.55%
Average Shares Outstanding								
Basic	884	1,047		1,106			1,161	
Diluted	966	1,089		1,172			1,254	
Earnings Per Share								
Basic	\$1.88	\$1.41		\$2.05			\$2.22	
Diluted	\$1.78	\$1.36		\$1.93	*\$2.04		\$2.06	*2.18

*Average Analyst's Consensus for 2004 & 2005 EPS

The chart above illustrates past and projected income for Nextel Communications, Inc. Based on estimates reported by the company and analysts, as well as research conducted by our group; we have assigned a total revenue target of \$12,670 Million for Fiscal Year 2004 and \$13,920 Million for Fiscal Year 2005. These projections are based on our belief that the company will continue to expand its networks and gain greater market share with their Direct Connect service. In addition, the company's 10 year deal with NASCAR, expansion of their Boost Mobile service, and entry into the Broadband services market will help further drive this growth. Other notable adjustments made to the income statement are the expected restructuring charges of \$275 Million for both Fiscal Year 2004 and 2005. These charges are part of a \$2.2 Billion restructuring charge that will be distributed over 8 years, for maintaining and expanding Nextel's networks.

Utilizing the resulting net income for Fiscal Years 2004 and 2005, divided by the Average Shares Outstanding (Diluted) for the respective years as well, we obtain the expected EPS for 2004 of \$1.93 and EPS for 2005 of \$2.06, compared to average analyst's consensus of \$2.04 and \$2.18 respectively. We then projected the future P/E to be 15.27 (P/E of NCTL as of 04/23/04), which still trades below the industry P/E average of over 17, as a result of our belief that the company will continue to grow and gain market share. Using these forecasted EPS's; we multiply them by the expected P/E of 15.27, and obtain the target prices of \$29.47 for 2004 and \$31.46 for 2005.

- **Additional Evaluation Data on Attached Excel Sheet**

Industry ARPU, Churn Rates, & P/E Ratio

	ARPU	Churn	P/E Ratio
Verizon	48.00	1.60	29.59
Cingular	51.80	2.70	N/A
AT&T Wireless	60.60	3.70	88.23
Sprint PCS	62.00	2.90	N/A
Nextel	69.00	1.70	15.27
T-Mobile	53.00	2.96	N/A
Industry	49.00	N/A	17.79

Sources: TdWaterhouse – S&P Net Advantage – Yahoo!Finance

Above are the most recent APRU, Churn Rates, and P/E Ratios of major competitors in the wireless telecommunications industry. The APRU or Average Revenue per User, measures the average amount of revenue received from each subscriber. According to information obtained, Nextel currently operates with the industry's highest ARPU of \$69, compared to the industry average of \$49. The premium to the average is a result of Nextel's superior service and competitive advantage, which is target to high value customers.

The Churn Rate is the percentage of subscribers that terminate their service in a given month divided by the total number of subscribers in that month. Nextel had long been the leader in Churn rate with the lowest in the industry; however it was recently lost to Verizon Wireless, who pulled in a Churn rate of 1.60, just below Nextel's Churn of 1.70. As the industry continues to get more competitive, the ability for the firm to maintain a low churn will ultimately determine their success in gaining additional market share.

Nextel currently trades at one of the lowest P/E's in the industry at approximately 15.27 compared with the industry average of 17.79. This lower P/E is due to Nextel's outstanding debt, however, the companies continued improvements in its finances, in addition to its continued growth and expansion may lead to it trading at a higher P/E in the future.

Risk Factors

Economic stability affects performance. The inability for the economy to achieve stability and employment growth will adversely affect the Wireless Telecommunications Services industry. Businesses account for approximately 90% of Nextel Communications customers and a bearish economy can hurt demand.

Nextel Communications operates in a highly competitive industry, with six national wireless communications services providers. If we are unable to compete effectively, the company's future growth and operating results will suffer. This includes meeting customer expectations with Nextel's services, failing to expand network capacity and coverage to satisfy demands, reducing prices to stay competitive, as well as financial standing amongst competitors. Other risk factors include the more expensive handsets utilized by Nextel which may limit growth, and financial or operational difficulties amongst the company's business partners.

In addition, several competitors are implementing two-way walkie-talkie services into their networks, and if successful compared to Nextel's Nationwide Direct Connect walkie-talkie service, their competitive advantage may be reduced, which in turn could adversely affect their business. An example of this is Verizon Communications, Push-to-Talk service, which competes directly with Nextel.

Government regulation or regulatory action by the FCC will also play a crucial role in how the company operates, which could increase the costs and limit the growth and strategy plans for the company. The recent implementation of number portability has led to vigorous promotion among competitors. In addition, adoption by local legislations to ban portable communications devices while operating a motor vehicle may reduce customer usage time and demand.¹⁶

Another risk factor that may hurt the company is whether the FCC will agree to terms submitted by Nextel to obtain a 1.9 gigahertz spectrum. The plan which will involve Nextel paying \$850 million in order to swap its current 800 megahertz spectrum which interferes with emergency airwaves, for the 1.9 gigahertz spectrum. However, opponents to the plan, which include Verizon who is offering \$5 billion for the spectrum, say that Nextel is getting the spectrum for a bargain, at a lost to taxpayers. But advocates of the plan, including many safety organizations made up of police and emergency personnel say that Nextel's plans will provide the necessary funding to help reorganize and restructure current emergency communication networks.

Investment Drivers

2003 was the best year in Nextel's history. There were 2.3 million or 16% more new subscribers in 2003 than 2002. 385 thousand new subscribers were added to the Boost mobile service. The company's churn rate decreased to 1.6% from 2.1% in the previous year, which is a 24% improvement. The company set record growth, subscriber rates, record retention rates, record operating margins, and posted a dramatic increase in free cash flow. Lifetime revenue per customer rose nearly 30% to \$4,300, and average revenue per user was \$69.

Investment drivers include a 13% increase in terms of minutes used per subscriber from one year ago. Strong demand for nationwide direct connect, a 44% increase in wireless data average revenue per customer. The company posted service revenue margins of 43%, 5% higher than 2002 margin of 38%. Nextel continues to post service revenue margins several % points higher than its main competitors. The company reported \$4.2 billion in operating income before amortization or depreciation; this is a 35% from '02. They saw a 37% increase in network traffic in 2003.

Through the company's continued efforts to reduce their total debt, they reduced total debt and preferred stock by 24% through debt buybacks, retirement, and refinancing. Free cash flow increased ten fold from 122 million in '02 to 1.3 billion in '03. Their ability to generate strong free cash flow coupled with smart investments lays the ground work for future top line growth in their business. Nextel will continue to invest in its business in order to make even more powerful and profitable in the future.

Nextel ended the year with 2.7 million corporate and government customers, 6.1 million small and medium business users, and 4.1 million high value individuals. More important than the impressive number of subscribers the company has, is the company's average revenue per customer and churn rate. The customer touch point strategy drove churn rate to a remarkable 1.5%. Nextel's nearest competitor posts a 33% lower revenue per subscriber.

Boost Mobil, Nextel's pay as you go service, has shown accelerated growth in the last year. In the fourth quarter of '03, it added 160 thousand new customers, a 58% increase from the previous quarter, totaling a subscriber base of

¹⁶ Nextel Communications, Inc. 10-K – Risk Factors

405 thousand at year end. The average customer uses more than 300 minutes of this service per month. These impressive numbers show yet another area of expansion in their business model, and over time will greatly contribute to their high operating margins.

In the end of 2003, Nextel's network supported the demands of 13 million subscribers. Usage of Nextel's network grew by 37% in 2003 to 101 billion minutes. Fourth quarter subscribers averaged 740 minutes of airtime per month.

Nextel Nationwide Direct Connect set the pace for push to talk communication with 75 billion direct calls last year averaging 200 million direct calls per day. In 2004 plant and equipment are expected to increase by \$2.2 billion (\$900 million for core network, \$350 million on IT & other network projects, \$600 million on expansion sites, \$350 million on new applications and features). They are also planning to unveil 3 new phones and one new blackberry device. The company predicts double digit growth in service revenues driven by 1.8 million new subscribers in core businesses, and 500 thousand new subscribers in Boost prepaid business. Disciplined cost control is a focal point of management. The company seeks to continue a high credit rating. Their projected annual growth rate of 17% is reflected in Boost, Nascar marketing, as well as their broadband technology.

The wireless industries revenues grew at approximately 11% in 2003, to more than \$90 billion. In 2004, their wireless broadband services will continue to emerge, and with their differentiated services, they will continue to gain more high quality customers.

Technical Analysis

Support/Resistance



Source: www.bigcharts.com

Nextel has been constantly making new support levels due to its recent growth. You will notice in this six month graph that it currently holds a support level at \$24. Two times in the past month it has hit \$24 and even dropped slightly below, but both times there is a pick up in volume that drives the price back up. It may break through the resistance at \$26 and form its new support there.

Bollinger Bands



Source: www.bigcharts.com

Bollinger Bands show that the stock had been oversold as the price moved towards the lower band in March. Also notice that the bands are narrowing, which indicates the stock is experiencing less volatile price fluctuations. The lower half of this graph shows the momentum of the stock price. Momentum is near zero, meaning the rate of acceleration of the stock price is steady, but we believe that it was experiencing negative momentum throughout all of March and will have turned and will progress into the positive half as the stock price appreciates. This is a short term indicator and is included only to suggest that this is a good time to invest. A longer term indicator would be that of the Advance/Decline Line below.

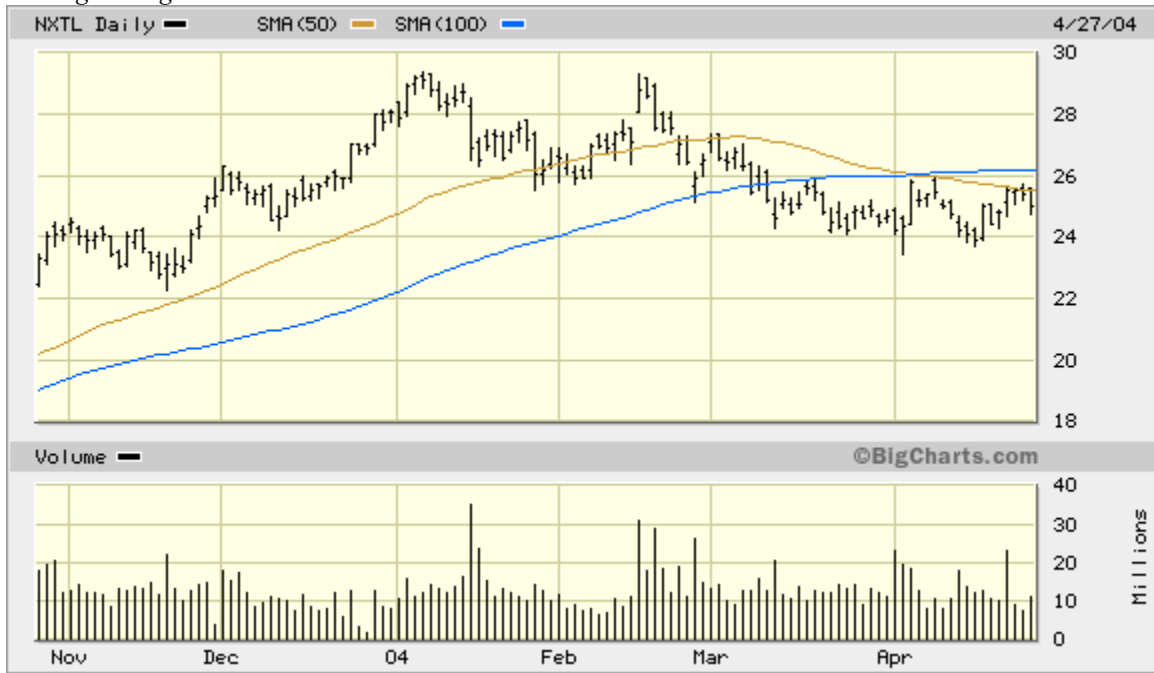
Advance/Decline Line



Source: www.bigcharts.com

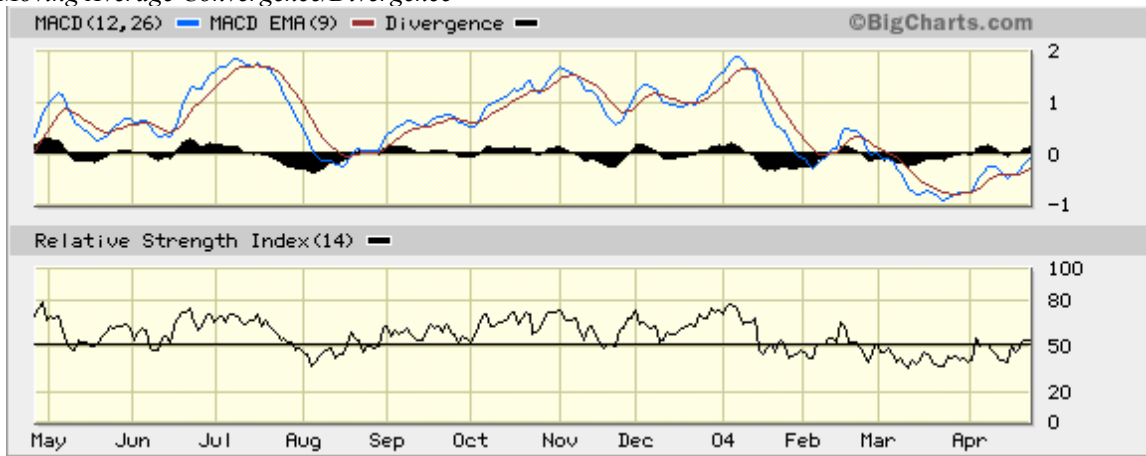
The A/D line captures the market as a whole and measures the advances and declines of security prices. It represents all of the NYSE's 3000+ security prices. You will see that the recent slump in Nextel's stock price could be attributed to the market as a whole.

Moving Averages



I have included a shorter 6 month 50 and 100 day moving averages to show that the stock price has just about reached its 50 day moving average and approaching to 100 day which is a good signal. This comes after a history of it continuously trading higher than its moving averages.

Moving Average Convergence/Divergence



Source: www.bigcharts.com

The MACD indicator above shows that between January and February 2004 the MACD had been below its 9 day exponential moving average which is bearish. That came with a fall in price. Coming into April, the MACD has broken through its EMA, as you can see above, which is a bullish indicator. The Relative Strength Indicator has dropped below 50 recently after a long run over 50. Historically, RSI seems to have a support level at 40 and a resistance level near 70. Currently it is just over 50, which seems low for this stock and might be an indicator that it is oversold and now is the time to buy.

In conclusion to the technical analysis, we believe that we found a few indicators that show the stock price is at a good entry point. It is ready to make a new support level. Its stock price is moving back towards its moving averages from a period of briefly falling below it, which may be attributed to the market as a whole. Also, both the MACD and the RSI indicate that there is room for near future growth.

INVESTMENT DISCLAIMER

A number of statements made in this research report are not historical or current facts, but deal with potential future circumstances and developments. They can be identified by the use of forward-looking words such as “believes,” “expects,” “plans,” “will,” “could,” “would,” “should,” or other comparable words, or by discussions of strategy that may involve risks and uncertainties. We caution you that these variations, changes in the regulatory environment, industry growth and trend predictions. The operation and results of our wireless communications business may be subject to the effect of other risks and uncertainties in addition to those outlined in the above “Risk Factors” section and elsewhere in this document.¹⁷

¹⁷ Nextel Communications, Inc. – 10-K