

St. John's University
Student Management Investment Fund
Presents:
Sprint Nextel Corp. (S)



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Recommendation: Sell 633 Shares

Price (12/08/06): \$19.25
Shares outstanding: 2,987,500,000
Market Cap.: 57,509,375,000

Purchase Price (Nextel): \$24.04
Shares Purchased: 500
Purchase Date: Spring 2004



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COMPANY OVERVIEW

Sprint Nextel operates a nationwide digital wireless network with about 51 million subscribers worldwide as of the third quarter of this year. In May of 2006, Sprint Nextel spun off its local wireline operations, known as Embarq, which is the number one non-bell local phone company in the United States, to focus on what they believe is the future of wireless -- wireless broadband. On August 15, 2005 Sprint Nextel began trading on the New York Stock Exchange under the ticker symbol S. Sprint Nextel, created in 2005 by a cash and stock deal valued at \$35 billion, puts the wireless carrier behind only Cingular and Verizon Wireless in number of subscribers.

One consequence of the merger has been battles Sprint Nextel has fought with its Sprint affiliates, primarily Nextel Partners, which exercised a right to force Sprint to buy out the affiliate then fought for months over the purchase price. The war ended in late 2005 when Sprint Nextel agreed to purchase Nextel Partners. Sprint Nextel also has battled Lake Charles, Louisiana-based affiliate U.S. wired, a company that had tried to block the Sprint-Nextel merger, and then agreed to be acquired in a stock deal valued at \$1.3 billion. The deal turns 500,000 subscribers of the affiliate to direct subscribers of Sprint and expands the Sprint network into 48 additional markets in nine states. In related deals, Sprint Nextel bought affiliate Alamosa Holdings in a deal valued at \$3.4 billion and has acquired UbiquiTel for \$1.3 billion, including the assumption of about \$300 million of debt.

On the heels of the merge of Sprint and Nextel, the company announced it would spend as much as \$3 billion over two years to build a wireless network based on WiMAX broadband technology. The emerging WiMAX technology, long championed by Intel, is seen as something of a gamble for the company, which is betting on increasing demand for consumer wireless Internet services. Sprint Nextel is partnering with Intel, along with equipment and technology suppliers Motorola and Samsung Electronics in the expansion project that is expected to be completed by the end of 2008.

In addition, Sprint Nextel has formed a joint venture partnership with four leading cable television operators to offer a "quadruple play" package to local markets. These include cable titans: Advance/Newhouse Communications, Comcast, Cox Communications, and Time Warner. The companies in late 2006 will test a program to provide cable, TV, home phone, and wireless phone services in a single package. The company holds a 49% stake in Virgin Mobile USA, a joint venture with Virgin Mobile Telecoms, the UK-based mobile virtual network operator. It also holds a small stake in U.S. ISP EarthLink.

REASONS FOR PURCHASE

Nextel was originally purchased by the Student Managed Investment Fund in the Spring of 2004. Five hundred shares were purchased at an approximate price of \$24.04 per share, for a total of \$12,021. Once Nextel merged with Sprint on August 15, 2005, the shares of Nextel stock that were in the Student Managed Investment Fund Portfolio were converted into shares of Sprint. On this date, the merged company began trading on the New York Stock Exchange under the

ticker symbol S. For each share of Nextel that the Fund held, it received 1.2675 shares of Sprint stock, resulting in 633 shares, which are currently in the portfolio.

Based on the students' report, there were many reasons why they choose to purchase shares of Nextel. In 2004, Nextel was the fifth largest wireless service provider in the U.S., with more than 12.2 million subscribers at the end of 2003. The company realized more than 20% service revenues growth in 2003. Also, Nextel had completed the full development of Nationwide Direct Connect technology and was expecting this to double its cellular capacity and enhance voice quality. Nextel had one of the industry's lowest churn rates, at 1.70, second only to Verizon at 1.60. 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 also had the highest Average Revenue per User (ARPU) rate. Nextel's APRU rate was \$69 per customer, compared to an industry average of \$49. Most importantly, based on their analysis, Nextel was undervalued. Nextel was viewed a stable company that was going to continue to grow in the future.

CURRENT NEWS

- **Sprint Nextel 'Powers Up' North Carolina Coverage, Capacity to Its Wireless Networks with a \$51 Million Investment**

Sprint Nextel announced enhancements to both the Sprint PCS Nationwide Network and the Nextel National Network in North Carolina with an investment of \$51 million through the third quarter of 2006, with more to come before year end. These extensive upgrades are the result of additional wireless cell sites and equipment being added to the networks, delivering additional coverage and network capacity to serve customers.

- **Sprint vows efforts will retain clientele**

Sprint's Chief Financial Officer, Paul Saleh said, "Right now, we feel we have enough on our plate. ... We have to focus on the core business." He feels that Sprint has been struggling to keep pace with larger competitors, but is poised to post significant gains in customer loyalty by mid-2007. The company plans to do this through its investments in enhancing its wireless network, a new "Power Up" marketing campaign, the addition of the Razr and other Motorola handsets, and a boost in sales incentives to phone distributors.

Industry leaders, such as Verizon Wireless and Cingular, have been signing more new subscribers and keeping a greater portion of their existing customers. Sprint has found its rate of customer defections to be resistant to improvement initiatives.

- **Sprint CFO Sees Significant Improvement In Churn In 2007**

Sprint Nextel should lower its rate of subscriber cancellation next year, with significant improvement in the second half, said Chief Financial Officer, Paul Saleh. Sprint is the number three wireless carrier, based on subscriptions, in the United States, behind Cingular who is number one, and Verizon Wireless, who holds the number two spot. Sprint Nextel has struggled in the past two quarters with subscriber growth and customer

cancellation. The company said it has been focusing on higher-quality customers, which has resulted in the losses.

- **Customers take aim at Sprint**

Sprint ranked last or second to last among the five largest wireless carriers in 18 major metropolitan areas according to a survey, which questioned subscribers on call quality, billing problems, and how well their cell phone companies responded to questions or complaints.

- **Sprint's third-quarter profit fell more than 50%**

This is largely attributed to the company's incurred costs from the spin-off of its local-phone business (Embarq) and the loss of nearly 200,000 premium wireless customers. Another estimated 500,000 customers switched to Boost mobile which is the cheaper pre-paid alternative to Nextel with subscription costs averaging \$34 a month. Even though those customers aren't lost since Boost is a part of Sprint they do have a churn of extreme proportions reaching 6%. Sprint is the number three wireless carrier in the U.S. with 51.7 million customers trailing behind Verizon who reported serving 55 million and Cingular who has 57 million customers. In churn numbers Sprint also falls behind its competitors with the largest churn rate (2.4%). The best churn rate was posted by Verizon (1.13%) and than Cingular with 1.7% who drastically improved from the 2.2% reported a year earlier.

INDUSTRY OUTLOOK

Wireless continues to be a strong growth segment of the U.S. telecommunications sector, showing high subscriber growth, stable pricing and acquisition costs, and reduced churn. TIA expects a drop to single-digit increases in wireless subscribers (wireless telephony and paging) beginning in 2007, with growth averaging 8.2 percent on a compound annual basis through 2009, when there will be an estimated 278.5 million wireless subscribers, representing 88 percent of the population. However, as wireless penetration increases, subscriber growth will become more difficult. This is forcing carriers to lower prices, putting pressure on average revenue per user (ARPU) and margins. In 2005, revenue in the U.S. wireless market totaled \$174.7 billion, up 10.7% from 2004, with an acceleration in handset revenue and a ramp-up in new wireless subscribers as key drivers of growth, according to the recently released TIA 2006 Telecommunications Market Review and Forecast.

While demand for wireless communications remains strong, there are limits to its subscriber growth potential, as nearly two-thirds of the U.S. population has already subscribed to a wireless service as reported by TIA. As a result, carriers are encouraging the development of new wireless applications that will boost ARPU. The recent increase in wireless subscribers shows, in part, moderating price increases and the introduction of new uses for wireless communications devices (wireless phones, pagers, PC cards and personal digital assistants). Revenue in the wireless devices market rose by 22.6% in 2005, reaching \$15 billion. The emergence of new mobile applications such as video and music will continue to drive both the subscriber and handset markets.

In the U.S. wireless market, a positive industry trend during the current year is the upgrade to third-generation (3G) handsets with web-based capability, therefore generating stable to higher average revenue per user (ARPU) in the U.S. market. Strong promotion of family plans may level off ARPU, but has lowered monthly customer churn to date. Year-to-date through November 17, the sub-industry index was up 2% and had appreciated 17.6% in the past 13 weeks. The S&P 1500 Index had risen 12.1% year to date.

The U.S. wireless market still has room for expansion. TIA expects wireless penetration to rise to 88.3% by 2009, which would translate into 270 million subscribers. On the other hand, it is expected that landline subscriptions will continue to fall, but the rate of decline will moderate as new services such as VoIP and broadband video help landline carriers retain subscribers. TIA estimates that by 2009, there will be 111 million more wireless subscribers than there will be landline subscribers in the U.S. Total spending on wireless services is expected to reach \$180.4 billion in 2009, growing at an 11.1% CAGR. Meanwhile, cable operator phone revenue is projected to grow at double-digit rates. TIA expects local exchange services revenue to fall at a 0.6% annual rate to \$115.8 billion in 2009 from \$118.5 billion in 2005. Long-distance revenue is expected rise at a 0.9% CAGR, reaching \$76.5 billion in 2009.

RISK FACTORS

There are many risks involving Sprint Nextel remaining the Student Managed Investment Fund.

- The main risk is the stability of the new merged company. Sprint Nextel is an organic company which tends to buy, sell, and spin off different divisions of the business.
- By trying to keep pace with other companies, Sprint has made many partnerships with cable companies to deliver services to local markets. This is risky because the local markets are already heavily saturated with other providers.
- Sprint, with Nextel, is the third largest provider of wireless service to the North American region after Verizon and Cingular. Besides these two giants, there is other competition from smaller companies in the wireless market, such as T-Mobile and Alltel. This increasing competition for customers and new technologies will pose a big challenge for Sprint.
- Realizing merger cost savings and new revenues from the new acquisitions are another risk for the company. Some of Sprint's top-level are leaving the company. For example, COO, Len Lauer, was asked to leave after dismal earnings. Additionally, former Nextel Chief Executive Officer, Tim Donahue, resigned as executive chairman. Replacing the board at this crucial transition leaves it open to many problems. The new board is not as familiar with the acquisitions and therefore may lack strategic planning for the combined companies as one.

RATIO ANALYSIS

Profitability Measures

These financial ratios are used in assessing a company's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specified period of time. In general, the higher the value is relative to a competitor, the better the company is doing.

Net Profit Margin: Net profit margin indicates how much of every dollar of revenue a company actually keeps in earnings. It is a measure of how effective a company is at cost control. The higher the net profit margin is, the more effective the company is at converting revenue into actual profit. Sprint Nextel's net profit margin has shown an erratic pattern since 2000. While its competitors and the industry average have been showing positive margins since 2003, Sprint Nextel has essentially shown a negative trend with the exception of 2005, when Sprint's acquisition of Nextel was completed.

Net Profit Margin	2000	2001	2002	2003	2004	2005	2006
Sprint	-3.163%	-6.075%	1.690%	-1.115%	-3.690%	5.193%	1.716%
Verizon	18.216%	0.579%	6.032%	4.542%	10.986%	9.848%	5.302%
Vodafone	6.186%	-65.069%	-48.165%	-32.326%	-26.863%	-22.090%	-74.348%
Deutsche Telekom	-11.911%	-7.150%	-45.795%	2.244%	7.996%	9.369%	6.517%
Industry Avg	-23.260%	-19.525%	-4.234%	3.272%	10.887%	9.568%	

Return on Equity (ROE): ROE is viewed as one of the most important financial ratios, measuring a firm's efficiency at generating profits from every dollar of net assets. It also shows how well a company uses investment dollars to generate earnings growth. Sprint Nextel's ROE has been extremely unpredictable from 2000 through 2005, while its competitors and the industry average have been fairly stable.

ROE	2000	2001	2002	2003	2004	2005	2006
Sprint	-26.610%	-55.873%	16.360%	-10.078%	-34.691%	41.110%	7.785%
Verizon	44.590%	1.160%	12.520%	9.310%	22.120%	19.160%	16.290%
Vodafone	1.580%	-6.760%	-11.720%	-7.600%	-7.300%	-6.930%	-23.060%
Deutsche Telekom	-7.790%	-6.580%	-49.930%	3.530%	13.000%	13.880%	13.880%
Industry Avg	-83.878%	-31.135%	-6.012%	4.340%	15.841%	6.773%	

Return on Assets (ROA): ROA shows how profitable a company's assets are in generating revenue, i.e. how many dollars of net earnings they can achieve for each dollar of assets they control. Sprint Nextel's ROA has also been unstable since 2000. It has been underperforming its competitors, as well as the industry average.

ROA	2000	2001	2002	2003	2004	2005	2006
Sprint	-1.778%	-3.495%	0.990%	-0.664%	-2.410%	2.503%	0.453%
Verizon	10.370%	0.230%	2.410%	1.850%	4.720%	4.430%	3.830%
Vodafone	0.630%	-5.980%	-9.750%	-6.110%	-5.730%	-5.350%	-16.490%
Deutsche Telekom	-3.080%	-2.440%	-16.550%	1.010%	3.930%	4.660%	4.660%
Industry Avg	-6.750%	-7.990%	-1.340%	1.400%	6.520%	3.430%	

Short-term Liquidity Measures

These ratios measure the extent to which a company can quickly liquidate assets and cover short-term liabilities.

Current Ratio: The current ratio is an indication of a company's ability to meet short-term debt obligations with its short-term assets. The higher the ratio, the more capable the company is of paying its obligations. Although Sprint Nextel has underperformed the industry average since 2000, it has consistently over-performed its competitors.

Current Ratio	2000	2001	2002	2003	2004	2005	2006
Sprint	0.750	0.467	0.778	1.021	1.445	1.359	1.168
Verizon	0.650	0.610	0.770	0.690	0.840	0.660	0.620
Vodafone	0.570	1.430	0.700	0.600	0.880	0.650	0.490
Deutsche Telekom	0.000	0.000	0.000	0.000	0.000	0.670	0.670
Industry Avg	1.359	1.067	1.336	1.301	1.996	1.426	

Receivables Turnover: The receivables turnover ratio is used in measuring a company's effectiveness in extending credit as well as collecting debts. It is also an indicator as to how efficiently a firm uses its assets. Sprint Nextel has performed in-line or above its competitors and the industry average since 2000.

Receivables Turnover	2000	2001	2002	2003	2004	2005	2006
Sprint	6.400	6.700	7.900	9.800	9.200	8.700	11.100
Verizon	6.200	4.800	5.000	6.000	7.200	7.900	8.300
Vodafone	5.500	4.900	6.100	4.300	4.700	5.500	5.700
Deutsche Telekom	5.600	8.300	8.000	9.100	10.100	9.400	9.400
Industry Avg	8.510	8.280	7.420	7.860	7.850	6.720	

Long-term Solvency Measures

These ratios measure the ability of a corporation to meet its long-term fixed expenses and to accomplish long-term expansion and growth.

Debt to Equity Ratio: The debt to equity ratio illustrates the relative proportion of equity and debt used to finance a company's assets. Sprint Nextel's debt to equity ratio has been comparable to its competitors, indicative of the company's relative risk amongst the industry.

Debt to Equity	2000	2001	2002	2003	2004	2005	2006
Sprint	1.512	1.670	1.963	1.710	1.500	0.696	0.620
Verizon	1.660	1.980	1.660	1.360	1.050	0.980	0.950
Vodafone	0.080	0.160	0.200	0.210	0.240	0.270	0.240
Deutsche Telekom	0.780	1.010	1.780	1.640	1.260	0.000	0.000

Financial Leverage: Financial leverage ratios measure the degree to which a company is utilizing borrowed money. Leverage allows for a greater potential return to the investor than would have been otherwise unavailable. Although Sprint Nextel has had a higher value in its financial leverage position than the industry average since 2002, it has been analogous to its competitors.

Financial Leverage	2000	2001	2002	2003	2004	2005	2006
Sprint	2.963	3.310	3.583	3.395	3.096	2.182	1.891
Verizon	4.760	5.250	5.130	4.960	4.420	4.240	4.110
Vodafone	1.080	1.180	1.220	1.270	1.280	1.310	1.490
Deutsche Telekom	2.910	2.480	3.550	3.430	3.180	2.780	2.780
Industry Avg	12.934	3.901	3.394	2.879	2.417	1.949	

ABSOLUTE VALUATION (in millions)

A) Pro Forma Income Statement

In absolute valuation, the value of an asset is determined by estimating the expected future cashflows from owning the asset and discounting them to their present value. To begin this valuation, a pro forma income statement for 2007 was developed. Sprint Nextel's net revenue assessment for 2007 was derived by first establishing the company's 2007 market share. This was accomplished by obtaining total revenue of Sprint Nextel and its competitors from 2000 through third quarter 2006, and forecasted total revenues for fourth quarter 2006 and 2007.

Sales	2000	2001	2002	2003	2004	2005	2006	2007
Sprint	23,145.00	25,562.00	26,679.00	26,197.00	27,428.00	34,680.00	40,919.00	42,220.00
VZ	64,707.00	67,190.00	67,625.00	67,752.00	71,283.00	75,112.00	91,025.00	91,910.02
VOD	12,654.70	22,322.60	48,062.90	46,628.30	56,334.10	62,959.40	52,679.50	58,847.03
DT	25,996.40	43,078.10	50,243.70	62,538.60	71,990.60	74,638.30	78,428.09	79,379.67
T	51,476.00	43,528.00	40,655.00	38,591.00	38,909.00	41,751.00	83,425.89	89,109.81
BLS	26,151.00	23,967.00	20,147.00	20,302.00	20,261.00	20,497.00	35308.93	36,304.59
Total	204,130.10	225,647.70	253,412.60	262,008.90	286,205.70	309,637.70	381,786.41	397,771.12

From the revenue figures, we calculated the relative market share for each company and its average change in growth from 2000 through 2006. Then 2007 forecasted market shares were determined by adding the average change in growth from 2000 through 2006 to the 2006 market share of Sprint Nextel and its competitors. A target market share of 10.614% for Sprint Nextel in 2007 yielded an estimated 2007 revenue of \$42,220.

Mkt Share	2000	2001	2002	2003	2004	2005	2006	2007
Sprint	11.338%	11.328%	10.528%	9.999%	9.583%	11.200%	10.718%	10.614%
VZ	31.699%	29.777%	26.686%	25.859%	24.906%	24.258%	23.842%	22.532%
VOD	6.199%	9.893%	18.966%	17.796%	19.683%	20.333%	13.798%	15.065%
DT	12.735%	19.091%	19.827%	23.869%	25.153%	24.105%	20.542%	21.844%
T	25.217%	19.290%	16.043%	14.729%	13.595%	13.484%	21.851%	21.290%
BLS	12.811%	10.621%	7.950%	7.749%	7.079%	6.620%	9.248%	8.655%

Sprint Nextel's 2007 cost of goods sold and operating expenses were calculated as a historical average percentage of net revenue. Income taxes for 2007 were based on a 2006 third quarter earnings release, which reported a tax rate of 30.8%. Shares outstanding was held constant after a repurchase of 91 million shares in the third quarter of 2006, and an uncertain timing of its common stock purchases as the \$6 million buy-back program proceeds. This left us with a projected net income of \$1,019 million and an EPS estimate for fiscal 2007 of \$0.341.

	2006 Q1-Q3	2007
Net Revenue	30,584.00	42,220.00
COGS	12,245.000	17,877.803
Gross Profit	18,339.000	24,342.197
<i>Gross Profit Margin</i>	59.963%	57.656%
Total COGS as % of Revenue	42.344%	42.344%
Operating Expenses	16,476.000	22,059.372
SGA		
D&A		
Other		
Opr Exp as % of COGS	134.553%	123.390%
Opr Exp as % of Revenue	52.249%	52.249%
Operating Income	1,863.000	2,282.825
Net Int. Income & Other	-810.000	-810.000
EBT	1,053.000	1,472.825
Income Taxes	351.000	453.630
EAT	702.000	1,019.195
Net Income	702.000	1,019.195
Shares	2,987.500	2,987.500
EPS	0.235	0.341
Realized Tax Rates	33.333%	30.800%

B) Dividend Discount Model

The Dividend Discount Model was used in the absolute valuation of Sprint Nextel to develop estimates of the intrinsic value of the stock. The first step in this valuation is to obtain the cost of capital (k). In this case, we determined two different costs of capital to provide different price perspectives.

The first cost of capital was established by utilizing the CAPM model. A risk-free rate was determined by using the yield to maturity on a 10-year Treasury STRIP due in November 2016. A beta of the Sprint Nextel stock was obtained from Bloomberg.com and the market risk premium was taken as a historical average. These variables were inserted into the CAPM formula: **k = risk-free rate + beta (market risk premium)**.

Cost of Capital (k1)	
10yr STRIP	4.440
Beta	1.950
Mkt risk Premium	6.000
CAPM (k1) =	16.140%

A second cost of capital was calculated by taking an equity risk premium and adding it to Sprint Nextel's yield to maturity on a bond expiring in December of 2016.

Cost of Capital (k2)	
S 6.00% 12/1/16	6.080
Equity risk premium	3.000
(k2) =	9.080%

The next step in utilizing the Dividend Discount Model was determining an estimate of 2007 dividends per share. This was established by obtaining dividends (DPS) and earnings (EPS) from 1997 through 2006. An expected payout ratio for 2007 was assessed by taking the average from 1997 through 2006, excluding any negative payouts, as well as any out-of-scope ratios. The 2007 expected DPS was then calculated by using our expected EPS for 2007 of \$0.341 (as determined in our pro forma income statement) and the expected 2007 payout ratio.

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
EPS	\$1.090	\$0.990	\$1.810	\$2.240	-\$1.160	\$0.430	\$0.910	-\$0.710	\$0.870	\$0.235	\$0.341
DPS	\$0.500	\$0.500	\$0.500	\$0.500	\$0.500	\$0.500	\$0.500	\$0.500	\$0.300	\$0.100	\$0.136
Payout Ratio	45.872%	50.505%	27.624%	22.321%	-43.103%	116.279%	54.945%	-70.423%	34.483%	42.557%	39.758%

The average annual growth rate of Sprint Nextel's DPS was then calculated for 1997-2006, 2001-2006, and 2002-2006.

Avg Ann Growth DPS				
	1997-2006	2001-2006	2002-2006	2008-2011
	-0.164	-0.275	-0.331	0.010

Despite the historically negative dividend growth rate trend, we decided to continually grow future DPS at a minimal positive rate (1.00%) since the company has not stopped dividend payments, nor made any announcements to take such action. Our projected growth rate was then applied to expected DPS for 2008-2011.

	2008	2009	2010	2011
DPS	\$0.137	\$0.138	\$0.140	\$0.141

Using the projected 2011 DPS, estimates for 2012 DPS were calculated by applying different growth rate scenarios from 3%-9%.

Growth rate (g)	2012 DPS Estimate
3.00%	0.145
4.00%	0.147
5.00%	0.148
6.00%	0.150
7.00%	0.151
8.00%	0.152
9.00%	0.154

Then, the intrinsic value of the Sprint Nextel stock as of 2011 was determined by applying the Dividend Discount Model to the estimated 2012 DPS. This was executed using both the CAPM cost of capital (k_1) and the second cost of capital (k_2).

Growth rate (g)	PV 2011 DPS (k_1)	PV 2011 DPS (k_2)
3.00%	1.106	2.390
4.00%	1.209	2.888
5.00%	1.330	3.631
6.00%	1.475	4.855
7.00%	1.652	7.257
8.00%	1.872	14.108
9.00%	2.154	192.222

To assess the intrinsic value of the stock at 2006, the forecasted DPS from 2007 through 2011 were discounted by the two different cost of capitals, along with the 2011 lump sum values determined under varying growth rate assumptions from 3%-9%.

Growth rate (g)	PV 2006 DPS (k_1) =	2007	2008	2009	2010	2011
3.00%	0.976	0.117	0.102	0.088	0.077	0.593
4.00%	1.022	0.117	0.102	0.088	0.077	0.639
5.00%	1.079	0.117	0.102	0.088	0.077	0.696
6.00%	1.148	0.117	0.102	0.088	0.077	0.765
7.00%	1.232	0.117	0.102	0.088	0.077	0.848
8.00%	1.336	0.117	0.102	0.088	0.077	0.953
9.00%	1.469	0.117	0.102	0.088	0.077	1.086

Growth rate (g)	PV 2006 DPS (k_2) =	2007	2008	2009	2010	2011
3.00%	2.092	0.124	0.115	0.107	0.099	1.647
4.00%	2.406	0.124	0.115	0.107	0.099	1.962
5.00%	2.887	0.124	0.115	0.107	0.099	2.442
6.00%	3.680	0.124	0.115	0.107	0.099	3.235
7.00%	5.236	0.124	0.115	0.107	0.099	4.791
8.00%	9.672	0.124	0.115	0.107	0.099	9.227
9.00%	125.009	0.124	0.115	0.107	0.099	124.565

With a current stock price of \$19.61 (12/6/06), this valuation reveals Sprint Nextel to be significantly overvalued.

In witnessing the apparent discrepancy between the intrinsic value of the stock and its actual stock price, it was determined that in order for this Dividend Discount Model to reach the its current market price of \$19.61, dividends must have had to grow at least 15.74% annually using

the CAPM cost of capital, or 8.56% using the second cost capital. Since Sprint Nextel has historically had a negative growth trend and this may have skewed the results, the outcome of this model should be viewed with caution.

Growth rate (g)	PV 2006 DPS (k1) =	2007	2008	2009	2010	2011
15.74%	\$19.769	0.117	0.102	0.088	0.077	19.386
Growth rate (g)	PV 2006 DPS (k2) =	2007	2008	2009	2010	2011
8.56%	\$19.608	0.124	0.115	0.107	0.099	19.164

RECOMMENDATION

After a thorough analysis of Sprint Nextel, we have decided that the Student Managed Investment Fund should sell all 633 shares from the portfolio. Our ratio analysis showed that Sprint was a very volatile company. Additionally, our absolute valuation proved that Sprint is currently overvalued. Their dividends are on a decreasing trend, thereby decreasing the return on the stock.

In addition to their financial difficulties, Sprint Nextel is also having tremendous problems forming a strategy for its merged company. Their Chief Operating Officer, Len Lauer, was let go for dismal financial results. Also, the former Nextel Chief Executive Officer, Tim Donahue, resigned as executive chairman. When top-level management leave a company, it sends a poor signal to stockholders. Sprint Nextel is lacking both competent leadership and strategic planning necessary to run a company of its size. All of these factors have made our team decide that Sprint Nextel should be sold from the Student Managed Investment Fund.

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