

AT&T aims for TV's future with \$48.5B DirecTV deal (Update)

May 19 2014, by Ryan Nakashima



This combo made from file photos shows the AT&T logo on the side of a corporate office in Springfield, Ill., left, and a DirecTV satellite dish atop a home in Los Angeles. Priming itself for the age of Internet-delivered video, AT&T Inc. on Sunday, May 18, 2014 said it would buy DirecTV for \$48.5 billion in cash and stock, or \$95 per share. (AP Photo)

AT&T says it views its planned \$48.5 billion purchase of DirecTV as a way to help redefine the video entertainment industry, giving it

opportunities to bundle services and tap into growing Latin American markets.

AT&T Inc.'s proposed transaction primes it for the age of Internet-delivered video.

AT&T and DirecTV promised consumer benefits like more economical bundles that tie mobile phone, pay TV and Internet service together on a single bill. AT&T said that it'll probably be 12 to 18 months for robust streaming video offerings to be available, but that bundled offerings should be available soon after the deal closes, which the companies expect to occur within 12 months.

AT&T is currently the second-largest wireless provider with 116 million customers.

The company will gain access to DirecTV's 20.3 million U.S. customers and its 18.1 million Latin American customers. DirecTV's U.S. customers, coupled with 5.7 million U-verse TV customers, will give the combined AT&T-DirecTV 26 million users for video. That would make it the second-largest pay TV operator behind a combined Comcast-Time Warner Cable, which would serve 30 million under a \$45 billion merger proposed in February.

"What it does is it gives us the pieces to fulfill a vision we've had for a couple of years—the ability to take premium content and deliver it across multiple points: your smartphone, tablet, television or laptop," AT&T Chairman and CEO Randall Stephenson said during a conference call Sunday.

Michael White, chairman and CEO of DirecTV Inc., said Monday that his company has been talking off and on with AT&T about a potential transaction for years, but that recent trends in the industry helped make

the deal happen now.

The companies are aiming to eke out \$1.6 billion in annual cost savings in an increasingly expensive and maturing pay TV business. Using DirecTV's cash flow, AT&T has greater ability to invest in its landline and mobile networks for broader reach and faster speeds in an Internet service market where it risks falling behind a bulked up Comcast-Time Warner Cable.

But the deal could face regulatory scrutiny from the Federal Communications Commission and Department of Justice. Unlike the cable company tie-up, the AT&T-DirecTV merger would effectively cut the number of video providers from four to three for about 25 percent of U.S. households.

Cable companies operate in regions that don't overlap. By comparison, AT&T provides TV service to 22 states, where it is a direct competitor to DirecTV, which operates nationwide. Reducing choice in those markets could result in higher prices for consumers, and that usually gives regulators cause for concern.

White said Monday that customers will see more competitive pricing from the combination with AT&T.



This Aug. 8, 2006 file photo shows the DirecTV building in El Segundo, Calif. AT&T says it is buying DirecTV for \$95 per share, or \$49 billion, a move that gives the telecommunications company a larger base of video subscribers and increases its ability to compete against Comcast and Time Warner Cable, which agreed to a merger in February. (AP Photo/Reed Saxon, File)

Stephenson said regulatory concerns would be addressed with a number of what he called "unprecedented" commitments. Among them:

— DirecTV would continue to be offered as a stand-alone service for three years after the deal's closing.

— AT&T would offer stand-alone broadband service for at least three years after closing, so consumers could consume video from Netflix and other online services, with download speeds of at least 6 megabits per second where feasible.

— AT&T would expand high-speed broadband access to 15 million more homes—beyond the 70 million that could now get AT&T service—within four years.

— AT&T vowed to abide by the open Internet order from 2010 that the Federal Communications Commission is now in the process of revising after a court struck it down.

— AT&T vowed to sell its roughly 9 percent stake in Latin American wireless carrier América Móvil for about \$5 billion.

Delara Derakhshani, policy counsel for Consumer Reports magazine's lobbying arm, Consumers Union, complained that the deal "is just the latest attempt at consolidation in a marketplace where consumers are already saddled with lousy service and price hikes."

"You can't justify AT&T buying DirecTV by pointing at Comcast's grab for Time Warner, because neither one is a good deal for consumers," she said in a statement.

Under the terms announced Sunday, DirecTV shareholders will receive \$28.50 per share in cash and \$66.50 per share in AT&T stock, bringing the value to \$95 a share. The total transaction value is \$67.1 billion, including DirecTV's net debt.

Stephenson and White both said the merger would allow the combined company to offer video over multiple screens, but acknowledged that deals with content providers to expand service on multiple platforms still need to be negotiated.

DirecTV's exclusive deal for its signature product, NFL Sunday Ticket, expires at the end of the coming season. White anticipates that it will come to an agreement with the NFL on an extension before the transaction with AT&T closes.

"This positions us well to compete in the 21st century," White said. "I think our future is bright together in ways that make both of our

companies stronger."

Analysts have questioned the strategic benefits of a deal, particularly because it would give AT&T a larger presence in a pay TV market that isn't growing. Last year, pay TV subscribers in the U.S. fell for the first time, dipping 0.1 percent to 94.6 million, according to Leichtman Research Group.

While AT&T and DirecTV are doing better than cable companies at attracting TV subscribers, DirecTV's growth in the U.S. has stalled while AT&T is growing the fastest of any TV provider.

But Stephenson said DirecTV's Latin American presence provides a good growth opportunity. He considers Brazil a key region to potentially add customers in.

DirecTV offers neither fixed-line or mobile Internet service, and its rights to airwave frequencies for satellite TV are not the kind that AT&T can use to improve its mobile phone network.

Still, Stephenson has talked about how the growth of online video helps boost demand for its Internet and mobile services. Last month, AT&T entered a joint venture with the Chernin Group to invest in online video services.

DirecTV would continue to be based in El Segundo, California, following the merger, the companies said. AT&T is based in Dallas.

Shares of AT&T declined 24 cents, or 0.7 percent, to \$36.50 in midday trading Monday, while DirecTV's stock fell \$1.24, or 1.4 percent, to \$84.94.

Details of the proposed AT&T and DirecTV merger

Telecommunications giant AT&T is proposing a \$48.5 billion merger with satellite TV provider DirecTV. If the deal goes through, here's what customers can expect:

WHAT CHANGES?

— At the moment, nothing. The deal is subject to government approval in both the U.S. and Latin America. Until the transaction is approved, the companies will operate separately. AT&T and DirecTV expect to close the deal within 12 months.

WHAT CAN AT&T and DIRECTV CUSTOMERS EXPECT?

— Customers of both companies will likely see more offers bundling DirecTV's 285 TV-channel service with AT&T wireless and Internet services. AT&T currently offers some plans that bundle DirecTV service, but customers get separate bills from the two companies.

— Within a few years, AT&T says, consumers can expect to get more DirecTV content on their mobile devices, or even streamed into cars or airplanes.

— Customers who only want broadband Internet service and get video through services like Netflix and Hulu, will be offered stand-alone broadband service at guaranteed prices for three years.

— DirecTV customers can continue getting the service on a stand-alone basis at nationwide package prices for at least three years.

— Within four years, AT&T would provide high-speed broadband to more than 15 million customers, mostly in rural areas. Customers will be able to buy broadband as a stand-alone option or as part of a bundle with other AT&T services. With that expansion, AT&T says its broadband

network would reach a total of 70 million customers.

— AT&T says it will remain committed, for at least three years, to federal open internet protections established in 2010 despite recent court action striking down the so-called "net neutrality" provisions.

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