

# AT&T buying HBO and CNN owner Time Warner for \$85.4 billion

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This May 14, 2014 file photo shows an AT&T logo on a store in Dedham, Mass. On Saturday, Oct. 22, 2016, several reports citing unnamed sources said the giant phone company is in advanced talks to buy Time Warner, owner of the Warner Bros. movie studio as well as HBO and CNN. AT&T is said to be offering \$80 billion or more, a massive deal that would shake up the media landscape. (AP Photo/Steven Senne, File)

Grab some popcorn—AT&T wants to take you to the movies.

AT&T is buying Time Warner, the owner of the Warner Bros. movie studio as well as HBO and CNN, for \$85.4 billion in a deal that could

shake up the media landscape.

The acquisition would combine a telecom giant that owns a leading cellphone business, DirecTV and internet service with the company behind some of the world's most popular entertainment, including "Game of Thrones," "The Big Bang Theory" and professional basketball. It would be the latest in a scramble of tie-ups between the owners of digital distribution networks—think cable and phone companies—and entertainment and news providers, all aimed at shoring up businesses upended by the internet.

The deal would make Time Warner the target of the two largest media-company acquisitions on record, according to Dealogic. The highest was AOL's disastrous \$94 billion acquisition of Time Warner at the end of the dot-com boom.

Regulators would have to sign off on the deal, no certain thing. The prospect of another media giant on the horizon has already drawn fire on the campaign trail. Speaking in Gettysburg, Pennsylvania, Donald Trump vowed to kill it if elected because it concentrates too much "power in the hands of too few."

Shares of AT&T, as is typical of acquirers in large deals, fell on reports of a deal in the works on Friday, ending the day down 3 percent.

## MEDIA MERGER MANIA

Companies that provide phone and internet connections are investing in media to find new revenue sources and ensure they don't get relegated to being just "dumb pipes." Verizon bought AOL last year and has now proposed a deal for Yahoo to build a digital-ad business. Comcast bought NBCUniversal in 2011.

AT&T has been active, too.

After its attempt to buy wireless competitor T-Mobile was scrapped in 2011 following opposition from regulators, the company doubled down on television by purchasing satellite-TV company DirecTV for \$48.5 billion. AT&T is expected to offer a streaming TV package, DirecTV Now, by the end of the year, aimed at people who have dropped their cable subscriptions or never had one.

The pressure on AT&T has been intense.

The venerable phone company, whose roots trace back to Alexander Graham Bell, has to contend with slowing growth in wireless services, given that most Americans already have smartphones. And it faces new competitors for that business from cable companies. Comcast plans to launch a cellphone service for its customers next year.



In this Tuesday, May 26, 2015 file photo, pedestrians walk by an entrance to the Time Warner Center in New York. On Saturday, Oct. 22, 2016, several reports citing unnamed sources said AT&T is in advanced talks to buy Time Warner, owner of the Warner Bros. movie studio as well as HBO and CNN. The giant phone company is said to be offering \$80 billion or more, a massive deal that would shake up the media landscape. (AP Photo/Mary Altaffer)

Buying Time Warner may be "a good defensive move" against Comcast as the cable giant continues stretching into new businesses, New Street Research analyst Jonathan Chaplin said in a Friday note. Comcast also bought movie studio DreamWorks Animation in August.

## POTENTIAL DOWNSIDES

Even if the AT&T deal overcame opposition in Washington, though, it's possible that regulators might saddle the combined company with so many conditions that the deal no longer makes sense.

"It's not hard to imagine what you can do on paper. They would keep HBO exclusive for only DirecTV subscribers, or only make TNT or TBS available over AT&T Wireless," said analyst Craig Moffett of research firm MoffettNathanson, referring to Time Warner networks. "But as a practical matter, those kinds of strategies are expressly prohibited by the FCC and antitrust law."

Then there is the \$85 billion that AT&T is handing over to Time Warner, almost 40 percent more than investors thought the company was worth a week ago.

"Count me as a skeptic that there is real value to be created," Moffett said.

Amy Yong, an analyst at Macquarie Capital, recalled many celebrated media deals of the past have turned into duds, mentioning the Time Warner-AOL deal in particular. "If you look at history, it's still an unproven" that big deals make sense, she said. AT&T, she noted, was paying "a huge price."

Still, Yong said that AT&T and other phone companies feel they have to act because the threats to their business seem to be coming from every direction. "At the end of the day, these companies are trying to compete with Google and Facebook and Amazon, not just traditional competitors," she said. "You see Google pivoting into wireless."

John Bergmayer of the public-interest group Public Knowledge, which often criticizes media consolidation, warned of harm to consumers from the AT&T deal. He said, for example, AT&T might let wireless customers watch TV and movies from Time Warner without using their data, which would make video from other providers less attractive.

## MARKET SPILLOVER

The prospect of more media acquisitions sent several stocks soaring Friday. Netflix and Discovery Communications each jumped more than 3 percent.

Time Warner rose nearly 8 percent on Friday, and is now up 38 percent since the start of the year.

The company has moved aggressively to counter the threat that sliding cable subscriptions poses to its business. Among other things, it launched a streaming version of HBO for cord-cutters and, alongside an investment in internet TV provider Hulu, added its networks to Hulu's live-TV service that's expected next year.

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