



AT&T

TimeWarner

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# Overview

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- Introduction
- Rationale AT&T
- Rationale Time Warner
- Vertical integration and diversification
- Synergies
- Valuation
- Financing
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# AT&T attempt to acquire Time Warner

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## AT&T

- AT&T helps millions of people around the globe connect with leading entertainment, mobile, high-speed Internet and voice services
- \$38.55 (52 week: 33.01 - 43.89)
- Mkt cap: \$236,759.98M
- Advised by JPMorgan, Bank of America Merrill Lynch, and Perella Weinberg

## TIME WARNER

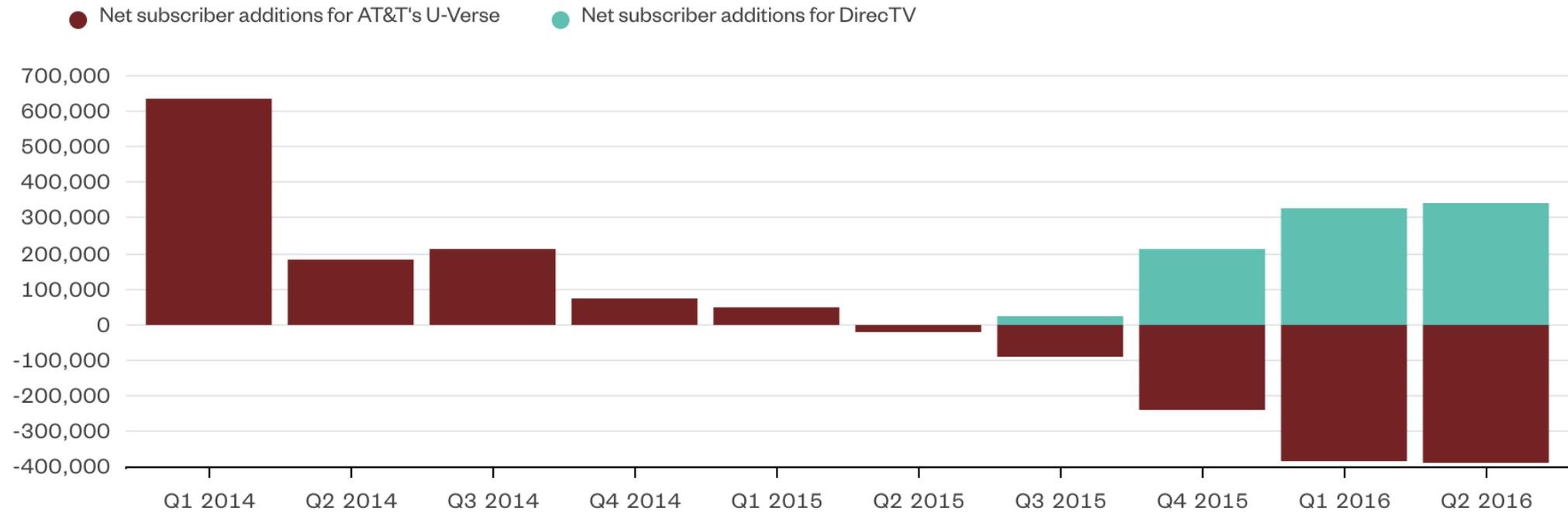
- Time Warner is a global leader in media and entertainment with businesses in television networks and film and TV entertainment
- \$92.33 (52 WK: 55.53 – 94.44)
- Mkt cap: \$71,801.99M
- Advised by Allen & Co., Citigroup, and Morgan Stanley

# Buy-side rationale: AT&T

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- AT&T: “Better value, more choices, and enhanced customer experience for over-the-top and mobile viewing”.
- Mobile penetration maturing and consolidation in the media sector, triggering need for new products and services to sell to its customers
- Create financial benefits for its shareholders
- Build a digital video platform to offset decline of its satellite television business, DirecTV, rivalling Netflix and Amazon (see next slide)
- In short: AT&T has the distribution network and it wants the content of Time Warner, parent of HBO, CNN and TBS.

# ... Buy-side rationale: AT&T (cont.)



Source: Bloomberg

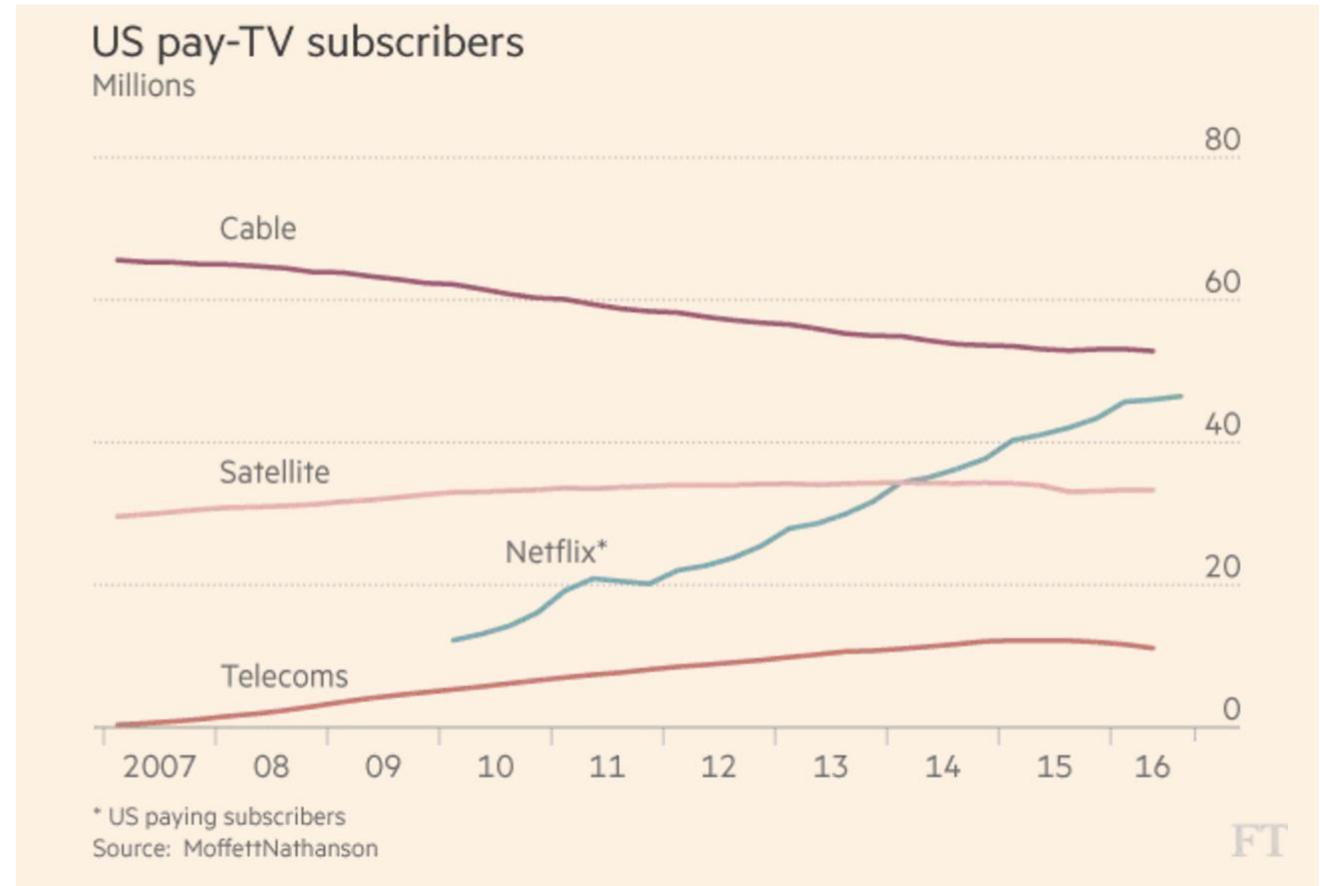
# Sell-Side Rationale: Time Warner

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- Deliver Time Warner's brands and premium content to consumers on a multiplatform basis
- Capitalise on the growing demand for video content
- Innovate more quickly and create greater value
- Make content more powerful, engaging and valuable

# ... Sell-Side Rationale: Time Warner (cont.)

- Expectations that management has lost confidence in their ability to compete in a changing market
- Movement towards streaming technologies rather than traditional methods



# Vertical integration and diversification

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## Vertical Integration

- A fresh approach for customers, content creators, distributors and advertisers
- World's best premium content with the networks to deliver it to every screen
- Provide customers with choice, quality, value and an enhanced experience
- Combine AT&T's 100million+ customers with Time Warner's content

## Time Warner provides AT&T with significant diversification benefits:

- Diversified revenue mix
- Regulation
- Lower capital intensity

# Synergies

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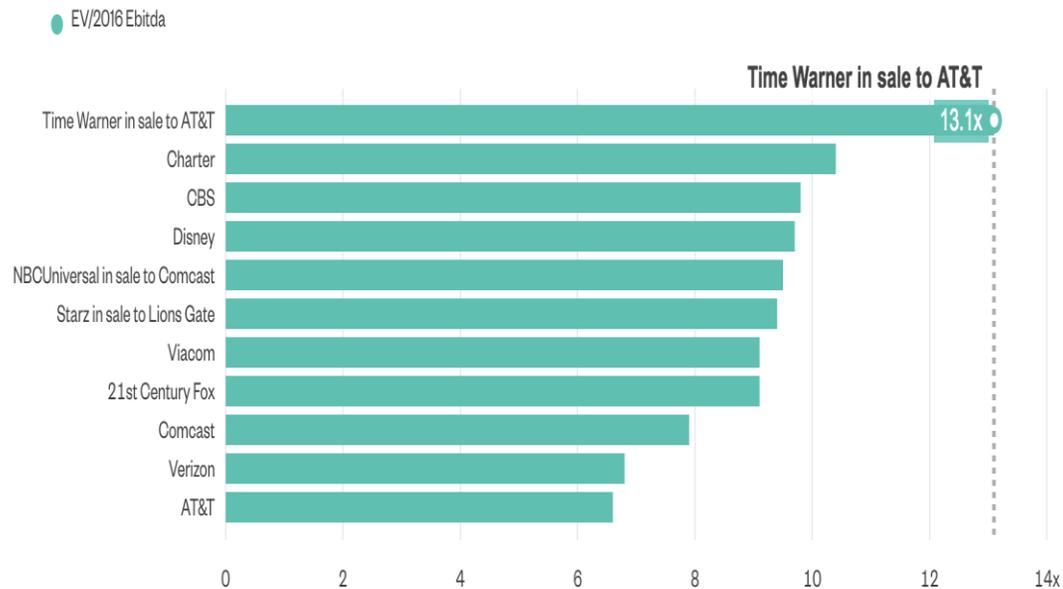
## Revenue Synergies

- AT&T expects the deal to be accretive in the first year after close

## Cost Synergies

- AT&T expect \$1bn in annual run rate cost synergies within 3 years after deal closing, driven by savings at the corporate level & greater negotiation power

# Valuation



- EV/2016 EBITDA → 13.1x

- A higher multiple than any of the big entertainment-media stocks command. It also tops comparable transactions, including when Comcast took full control of NBC Universal in 2013.

# Financing

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Time Warner shareholders will receive \$107.50 per share

- \$53.75 per share in cash; \$53.75 per share in AT&T stock
- The price represents a 35 per cent premium to Time Warner shares

This implies a total transaction value of \$108.7 billion with...

- a total equity value of \$85.4 billion and...
- cash proportion of \$23.3 billion, which will be financed through debt and cash on AT&T's balance sheet

Triggering concerns regarding AT&T debt level...

- AT&T debt might balloon to levels that would put it at risk of downgrade (currently BBB+)

# What next...

- Trump: "As an example of the power structure I'm fighting, AT&T is buying Time Warner and thus CNN, a deal we will not approve in my administration because it's too much concentration of power in the hands of too few."
- However, this is **not** a horizontal deal. This is a vertical merger.
- Therefore it's unlikely to be blocked

