

AT&T INC. (NYSE: T)

(as at May 31, 2020)

Business Description:

AT&T Inc. is an American multinational conglomerate holding company headquartered in downtown Dallas, TX. As of 2019, it is the world's largest telecommunications company, the largest provider of mobile telephone services, and the largest provider of fixed telephone services in the United States through AT&T Communications. Since June 14, 2018, it became the parent company of mass media conglomerate Warner Media, LLC, making it one of the world's largest media and entertainment companies in terms of revenue. As of 2019, AT&T is ranked #9 on the Fortune 500 rankings of the largest United States corporations by total revenue.

Investment Thesis:

- **AT&T is considered the premier provider of internet and telecommunication in the U.S.** The company is widely considered to provide the fastest and most reliable internet connections in the U.S. AT&T possesses advanced high-capacity networks built on a foundation of high-quality spectrum.
- **The company has made large headways in the 5G space.** The largest trend within the Media & Telecommunications industry is the 5G race. As of June 29th, 2020, AT&T offers access to 5G on its best unlimited wireless plans for consumers and businesses in a total of 355 markets in the U.S.
- **The company has shifted its business strategy to meet consumer content demand.** With a change in demographic, much of content demand no longer comes from cable. Instead, consumers look to satisfy their content cravings through online content streaming. AT&T made a large investment in HBO Max to position itself well in the future to satisfy this trend.

Industry Drivers/Trends

Technology, Media, & Telecommunications:

- The largest driver of growth within telecommunications is the 5G race between China and the U.S. There have been large amounts of government intervention to gain the upper hand in this space as it will open up capabilities in a wide variety of verticals.
- Another driver of growth is within emerging markets in Asia, Africa and Latin America. Many of these emerging markets are growing rapidly and expanding network communications. AT&T has made large investments in Latin America to grow the presence within the geography.
- In addition, with the changing demographic, consumer tastes have gradually shifted away from

cable television in favour of premium streamed content. An example would be the rise of Netflix, Hulu, HBO and other streaming services.

Competitive Advantages:

- Large network of advanced high-capacity networks
- Direct consumer relationships
- Premium content provider
- First mover advantage in developing technologies (5G, fiber penetration, etc.)

Competitors:

- CenturyLink Inc., T-Mobile US, Inc., Verizon Communications Inc., Deutsche Telekom AG, Comcast Corporation

Customers:

- Cell phone users, Home phone users, Internet users, HBO Max subscribers, Business & Enterprises

Barriers to Entry:

- **Regulatory Requirements:** The telecommunications industry is heavily regulated and often under public scrutiny. New entrants will encounter difficulty building a regulatory approved network and content.
- **Large Networks:** Internet and network reliability is often based on the network stability and size. Therefore, barriers to entry in this industry are especially high as it takes intense capital investment to build a competitive network.
- **Economies of Scale:** The largest telecommunications and media companies have a competitive advantage through large scale network cost advantages. As a result, new entrants cannot achieve the same financial returns as names such as AT&T, Verizon, and Sprint Corporation.

Officers and Directors:

Randall L. Stephenson, Chairman & Chief Executive Officer; **David S. Huntley**, Senior EVP & Chief Compliance Officer; **Lori Lee**, CEO of AT&T LatAM & Global Marketing Officer; **John Stankey**, President & Chief Operations Officer; **John J. Stephens**, Senior EVP & Chief Financial Officer

Capital Allocation/Uses:

AT&T has demonstrated a strong capital allocation strategy, investing in organic growth needs and splitting free cash flow between investment in mergers & acquisitions and capital returned to shareholders while maintaining a strong balance sheet.

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The key capital allocation highlights in the fiscal year of 2019 is as follows:

- \$29 billion of free cash flow
- Monetized \$18 billion of assets
- Reduced net debt by ~\$30 billion from acquisition of Time Warner
- Retired 56 million common shares
- 36 years of consecutive increases in quarterly dividends

Financial Summary:

Income Statement (USD millions, years ended December 31st)

	2015	2016	2017	2018	2019
Revenue	146,801.0	163,786.0	160,546.0	170,756.0	181,193.0
Operating Expenses	(126,439.0)	(140,243.0)	(140,576.0)	(144,660.0)	(153,238.0)
EBIT	20,362.0	23,543.0	19,970.0	26,096.0	27,955.0
Profit before Tax	20,692.0	19,812.0	15,139.0	24,873.0	18,468.0
Net Profit	13,345.0	12,976.0	28,847.0	19,953.0	14,975.0
EPS (Diluted)	2.37	2.10	4.76	2.85	1.90
Dividends per Share	1.89	1.93	1.97	2.01	2.05

Balance Sheet

Total Assets	402,572.0	403,821.0	444,097.0	531,864.0	551,669.0
Long-Term Debt	118,515.0	113,681.0	125,972.0	166,250.0	151,309.0
Book Value Equity per Share	20.1	20.2	23.1	26.6	27.8

Statement of Cash Flow

Cash Flows from Operations	35,880.0	39,334.0	38,010.0	43,602.0	48,668.0
Cash Flows from Investing	(49,114.0)	(24,215.0)	(18,943.0)	(63,145.0)	(16,690.0)
Cash Flows from Financing	9,782.0	(14,462.0)	25,930.0	(25,989.0)	(25,083.0)

Key Ratios and Figures (%)

Operating Margin, EBIT	2.0%	3.0%	1.9%	3.1%	2.6%
Return on Equity	10.3%	7.4%	8.7%	9.5%	7.2%

Source: AT&T 2019 Annual Report; Wall Street Journal



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