



Market Update:

AT&T Proposed Acquisition of Time Warner as of October 31, 2016

Summary

- AT&T (T) reported an agreement to acquire Time Warner (TWX) on October 23, 2016
- The merger will face tough regulatory scrutiny with approval in doubt
- Regardless of the acquisition outcome, AT&T continues to be an attractive investment

AT&T Deal Rationale

- Combines one of the largest media companies in the world (TWX) and a leading distribution company (T) with dominant positions in TV, wireless and internet
- AT&T seeking to get “ahead of the curve” in the blurring lines between content and distribution
- More diversified revenue mix, higher profit margins and improved dividend coverage

Terms

- Acquisition price of \$107.50 per share with consideration ½ stock and ½ cash
- Subject to Time Warner shareholders and regulatory approval
- Expected to close transaction in late 2017

Time Warner Description

- Leading media and entertainment company
- World’s largest film and television studio
- Significant content library
- Worldwide leader in premium content through HBO

AT&T and Time Warner Stock Reactions to Acquisition Announcement

- AT&T stock is down approximately 6% due to concerns over increased debt loads, modest synergies and long regulatory review process
- Time Warner stock is trading at approximately \$87, \$20 below the announced deal price due to investor skepticism that the deal will be approved by regulators

Our Thoughts on AT&T

- We do not believe that the deal will be approved by regulators
- AT&T raised the dividend shortly after the deal was announced signaling their confidence in continuing to grow whether the deal is consummated or not
- AT&T’s current dividend yield of 5.3% is amongst the highest in the S&P 500 Index
- Continue to find AT&T an attractive investment, regardless of the acquisition outcome



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