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DIRECTV
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AT&T/DIRECTV:
Congressional Briefing
June 18, 2014
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Transaction Rationale and Public Benefits
Complementary Assets =
Better Bundles in More Places
Significant Content Cost
and Other Savings
Broadband Expansion
In-Region and Out-of-Region
Enhanced Video Across

All Screens

Downward

pricing pressure on new
integrated AT&T/DTV bundle

Downward

pricing pressure on cable bundles
and standalone cable video and broadband

Stronger competitor to cable and
net positive

effect on consumer welfare

New FTTP to 2M locations

New fixed WLL to 13M rural locations

More BB and broader digital rights
support OTT

Result:

Result:

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The Parties
Complementary Assets

Broadband-focused

-

Wireline broadband network in portions
of 22-state ILEC region

Fiber to the Node (FTTN)

Fiber to the Premises (FTTP)

IPDSLAM

DSL

-

Wireless network: 300M LTE POPs

Video offering under U-verse brand
through FTTN and FTTP only

-

< 25% of U.S. customer locations passed
(~27M CLs today growing to 33M)

-

Only 5.7M subs

-

Only 138,000 stand-alone video subs

-

No content holdings

Pure-play video

-

National DBS video offering

-

20M subscribers (stalled US growth)

Not capable of offering integrated
broadband

-

Dependent on other providers to offer
synthetic
video/broadband double-
play

Limited Content Holdings

-

Minority interests in Game Show
Network, MLB Network, NHL Network,
handful of others

-

3 RSNs (none in AT&T footprint)

AT&T

DIRECTV

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Transaction Rationale: AT&T

U-verse video is sub-scale (5.7M subs) and has limited footprint

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Transaction Rationale: DIRECTV

Demand for standalone video is shrinking while demand for bundles is large and growing

Satellite cannot offer competitive broadband/DIRECTV's growth has stalled in the U.S.

As a pure video play, DIRECTV faces unsustainable content cost growth

Cable's bundle and broadband infrastructure give it a competitive advantage that DIRECTV cannot match on its own. Two recent Comcast ads exploit that issue:

Are you missing out with satellite and slow DSL.

We left satellite because they couldn't offer a really good Internet package.

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Public Benefits: Better Bundle for Consumers

New integrated DBS/BB bundle to meet consumer demand

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Where AT&T does not offer video in-region, consumers will have new bundle option for DBS/IPDSL or DBS/DSL

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Where AT&T offers video in region, consumers may choose fiber or

DBS video to bundle with AT&T high-speed broadband

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Fixed WLL expansion allows bundling of DBS/fixed WLL in rural areas in 48 states

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Better than synthetic bundle between two independent companies

DBS/mobile bundled offering throughout the country

New bundles provide strong competitive alternatives to bundles from cable companies

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Significant Content Cost and Other Savings Drive Benefits

New combination of DBS, wireline, and wireless platforms deliver much more value to content providers, create opportunities for significant content cost savings

AT&T's current content costs are ~60% of revenue

Within five years, the transaction will reduce AT&T's expected per-subscriber content costs by ~20% or more (conservative)

Other savings: customer premises equipment, OTT streaming technology, service delivery, customer care, video infrastructure, G&A

Greatly reduces cost disadvantage vs. cable, in particular, Comcast/TWC
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Public Benefits: Broadband Expansion
Commitment:
New FTTP deployment to 2M
customer locations
Speeds up to 1 Gbps
Vast majority of these locations
only have access to AT&T DSL or
do not have access to any AT&T

wireline broadband offering

Deployment in addition

to any

further expansion justified by

changes in the constantly

evolving competitive landscape

Commitment:

Fixed Wireless Local Loop (WLL)

to 13M customer locations

Improved bundles and cost savings fundamentally and permanently

improve the economics of AT&T s investment in broadband

Deployment largely in rural

areas, both in-region and across

the country

Designed to compete with

wireline broadband services

advertised at 15-20 Mbps speeds

Usage allowance that should

satisfy customer needs

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Public Benefits: Post-Transaction Fixed WLL Coverage
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Public Benefits: Enhanced Video Options Across All Screens

Consumers want to watch what they want, when they want,
where they want

Combination of complementary assets and expertise drives
development of innovative new products and services

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e.g.,
DIRECTV
hardware
and
software
expertise
+
AT&T
distribution
networks and proficiency in transporting data

Combined company will be an attractive partner for content
providers

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Able to negotiate for the flexible digital rights required to design and
structure new OTT programming services

Combined company will have freedom and flexibility to evolve
with consumer demand and develop OTT offerings tailored to
consumer desires

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Promotion of Competition: No Overlap in Bundles

AT&T bundles unprofitable video with broadband to increase
broadband sales in its footprint

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97+% of U-verse video customers subscribe to a bundle

DIRECTV has no broadband product to offer

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Synthetic
bundles offered through contracts with broadband
providers do not effectively compete with integrated bundles

Thus, no competitively significant overlap between AT&T and
DIRECTV in the product that consumers overwhelmingly demand:
an integrated video/broadband bundle from one provider

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A product cable offers throughout the country

Combining complementary products will create downward pricing
pressure on bundles, including cable bundle

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Promotion of Competition: Limited Overlap in Standalone Video

AT&T's video footprint is limited, but where there is overlap AT&T and DIRECTV are not particularly close competitors

Cable has largest share in video and significant content cost and bundling advantages

AT&T focuses on competing with the cable bundle

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Marketing efforts focused almost exclusively on bundles rather than standalone video

DIRECTV competes primarily with cable and DISH

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DIRECTV focuses on video, its only product, not on resale of third party broadband

DIRECTV pricing for new customers is predominantly national

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Promotion of Competition: Disruptive New Entrants

Google announced expansion of 1 Gbps fiber networks in up to 34 cities in 9 metro areas

Other overbuilders already present in many AT&T DMAs

OTT entry and adoption are accelerating

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Cord-cutters, cord-shavers, and cord-nevers increasing

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Netflix, *e.g.*, has far more **US**
subs (>36m) than any MVPD

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MVPDs are responding to OTT

-
OTT is driving demand for higher broadband speed

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Commitments Further Promote Competition

New Fixed WLL deployment to 13M customer locations within 4 years of close

New FTTP deployment to 2M customer locations within 4 years of close

Continue 2010 Open Internet protections for 3 years after close

Standalone wireline broadband at reasonable market-based prices, including a service of at least 6 Mbps down (where feasible) at guaranteed prices for 3 years after close

Standalone DBS video offered at nationwide package prices and other material terms that are the same for all customers, within or outside AT&T ILEC footprint, for 3 years after close

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