AT&T - Time Warner Merger

MI6

Table of Contents

Executive Summary

In 2016 AT&T acquired TIme Warner for **$85 billion.** AT&T and Time Warner had a buyer-seller relationship where AT&T would purchase licensing rights for Time Warner content and exhibit their HBO and CNN content on AT&T's media streaming platforms (DTV, U-Verse, DIRECTV NOW). Because AT&T and Time Warner had a buyer-seller relationship, the acquisition is considered to be a vertical merger.

Benefits & consequences	**Industry Impacts**	**Consumers & Companies**	**Antitrust & Lawsuit**
The AT&T Time Warner merger was a polarizing move, and thus has both positive and negative consequences. The Department of Justice worries that consumers will now have to pay more for content and create a less dynamic market. On the other hand, some believe that this will only help consumers as these companies will continually have to come up with new material and low prices to stay competitive.	The impacts of this merger can be considered both good and bad. This has the potential for AT&T to sell a bundled package that will allow them to compete with the major players in this industry. However, despite AT&T telling the DoJ that prices would not be raised after the merger, prices have increased on two separate occasions, which may lead to a disruption in competition	Consumers' cost on video streaming increased as companies in the industry pass higher content licensing cost from AT&T to customers. Post-merger, AT&T cuts high cost call centers and creates more than ten thousand unemployments in the middle west, in order to balance out the merger costs. Meanwhile, AT&T's stockholder experienced low investment return since the merger.	The merger has made the government uneasy: too much power in too few of hands. The FCC headed a lawsuit to breakup the merger and keep AT&T and Time Warner seperate to level competition. Ultimately, the FCC was shot down and the panel of three judges unanimously ruled the Merger was not a threat to U.S. Antitrust Laws or becoming a monopoly

The AT&T-Time Warner merger puts AT&T in charge of both the production and distribution of media content, causing a potential hazard in regards to the U.S. Antitrust Laws. Additionally, the merger increases unfair competition in the media industry and unemployment in the nation. Hence, we recommend the candidate to against the merger..

The AT&T Time Warner trial result will create difficulty for the DOJ in preventing future vertical integrations in the marketplace

For the first time in 40 years the United States government brought a civil lawsuit against a vertical integration (Krishan). Even though AT&T and Time Warner operated in different industries, the Department of Justice believed this merger would be harmful to consumers due to AT&T's control over several markets. However, the ruling by the judges declared the merger wasn't a monopoly because it not only is a vertical integration but was necessary for AT&T to keep up with media giants Facebook, Google, Netflix, Hulu and Amazon (Granville and Hsu).

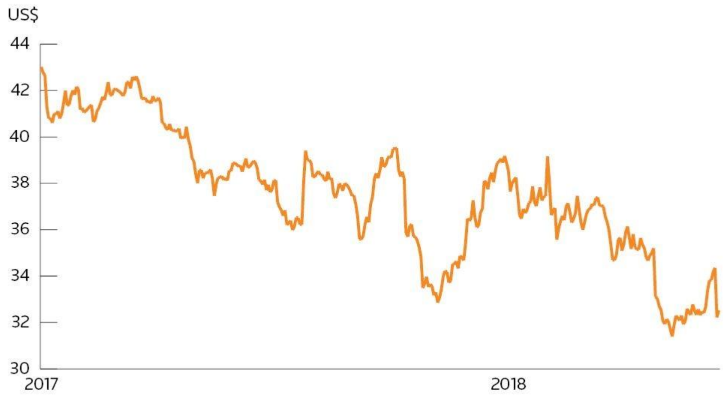
Lately, there has been minimal precedence on vertical mergers because at their core they aren't labeled "anticompetitive," so this lawsuit could help pave the way for future rulings. Additionally, there is a very high burden of proof placed upon the DOJ in vertical merger cases. Many companies nowadays realize that they can't gain scale by horizontal mergers so instead they are attempting to consolidate in several different industries. (Dubrow).

AT&T's purchases of Time Warner and DirecTV increased the company's debt, thus reducing potential investors' interest

Originally a telephone communication company, AT&T has spent well over a century as a goliath in the American marketplace and thus been able to garner an enormous subscriber base of **138 million people** (Shapiro). Recently, AT&T has been looking to penetrate new markets. In 2015 they purchased DirecTV for $63 billion and after defeating the US government in court, were then able to acquire Time Warner for $102 billion. Combined, these have acquired **$175 billion of debt** on their balance sheet, concerning shareholders and bondholders that AT&T may have over leveraged themselves and spent too much money (Lachapelle).

At the end of 2018, AT&T's stock plummeted **20%** from the start of the year, and because of that they've been looking to sell off assets that could generate $8 billion to help service their debt (Lachapelle).

AT&T Declining Stock Price



The merger decreases market competition, resulting in non-AT&T customers paying more for Time Warner entertainment

With federal judges approving the AT&T and Time Warner acquisition, it will leave many non-AT&T customers at a disadvantage. AT&T will have a motivation to use the Turner and HBO Content as a weapon to handicap distributors that competing against them. Prior to the merger, Time Warner benefited from competition among MVPDs and had no reason to favor one provider over another. After the merger, AT&T will have incentives to strategically increase the cost of their now owned Time Warner channels and productions (Shapiro).

This price inflation will be put on competitors like Comcast and Dish, forcing them to pay a premium for Time Warner material. The cost burden will then be pushed on to the customers of said providers and raising their cable bill. The Department of Justice believes that this merger could lead to **$436 million** in fees that would be placed on cable subscribers (Reiff).

Consumer fee increase by $436M

$$

$$$

The merger will initiate a rivalry between firms, making it difficult to watch others' content, limiting consumers' viewing experience

AT&T's $102 billion purchase of Time Warner was the **fourth largest deal** in the telecom, media and entertainment industry (Weissberger). This resulted in the United State's DOJ pursuing legal action, citing that AT&T could use their control of Time Warner's assets to upcharge competitors and even refuse to discuss content deals with other providers. Time Warner productions could become exclusive to only AT&T subscribers. The DOJ believes this would lead to a pay-TV market that lacks competitiveness and innovation.

A similar merger occurred in 2011 when Comcast bought NBC Universal. To win the trial, Comcast was ordered not to price gouge rivals or to create a service that consisted entirely of NBC/Comcast material. However, during this trial there was no such deal put in place. One of AT&T's internal documents stated that acquiring Time Warner could be a weapon because other providers need their content. The deal would also significantly lessen market competition, causing millions to lose out on premium programming (Weissberger).

AT&T could lock out providers for Time Warner content

AT&T's ability to compete with Amazon, Google, and Netflix would diversify consumers' streaming options

AT&T bought Time Warner because they wanted to compete with conglomerates such as Amazon, Google, and Netflix (Associated Press). They now have the ability to better organize their newly purchased Time Warner content such as HBO, March Madness, NBA, and MLB as well as Warner Bros entertainment. The future Time Warner streaming service will provide AT&T a platform to contend against Google, Amazon, and Netflix as well as offering consumers a wider range of watching options (Associated Press).

Since the end of 2010, pay-TV subscribers have decreased from **105 million to 93.4 million** by mid-2018, signaling a bleak future for cable (Restauro). AT&T's video streaming services DirecTV, DirecTV Now and UVerse **lost 650,000 customers** in the 4th quarter of 2018 alone, making the purchase of Time Warner content a necessity (Restauro).

-11.6M

Cable TV has lost 11.6 million customers over the last 8 years

For competitors to expand their customer base, they must produce original content to keep pace with AT&T’s new programming

The key component to the merger, Warner Bros, provides AT&T ample assets to produce new programming. AT&T now owns March Madness, Game of Thrones, NBA and MLB playoffs (among others), forcing competitors to consistently create new content, giving consumers a plethora of options as providers fight to keep subscribers. As a result, the merger should strengthen the industry because while there are competitors such as Netflix, Hulu, Google, and Amazon, there are also smaller but growing alternatives like Sling, Roku and PlayStation Vue. Companies will need to keep pace with the market by generating quality yet affordable entertainment.

The Time Warner acquisition is a survival tactic so AT&T can level the media and internet market (Shapiro). Many consumers are switching to a Netflix like service supplied by their TV provider where they can stream specific shows with a low price tag (Restauro). This will only help consumers because they now have an abundance of streaming choices and can use their money to dictate the market place, instead of the corporations.

97
Million

Watched the 2018 NCAA Tournament (NCAA)

Viewed in 180 countries (NCAA)

This acquisition makes AT&T hopeful they can expand their customer base through the content they've added

Consumers only have a finite amount of money to spend on entertainment. One of the perks of this merger is that now, six of the top 40 most popular channels along with HBO will be easily accessible for AT&T subscribers (Shapiro). They are also developing an app that will allow customers to watch Time Warner movies and shows. Since pay-TV is declining, having a streaming service makes AT&T an attractive alternative as they compete against Comcast, Hulu, Netflix, YouTube TV and more for subscribers.

The addition of Time Warner makes AT&T an appealing option for consumers in the video streaming/TV industry. This will cause providers to continually improve their services and content to maintain their customers. With Disney launching a new streaming app along with industry mainstays Hulu, Amazon and Netflix, consumers will have an abundance of services to choose from (Associated Press).

Customer base increase

due to more contents

AT&T was forced to merge Time Warner in order to compete with companies like Amazon, Google, and Netflix

While many people were shocked that the **$85 million** dollar purchase of Time Warner by AT&T was allowed, it was really the only way that AT&T could survive in the industry (Gordon). Titans of the industry such as Amazon, Google, and Netflix were already dominating the industry, so AT&T needed to make an acquisition to be able to compete in the already consolidated industry. AT&T has one major advantage over these rival companies, that will allow them to set themselves apart from the rest of the competition. They can offer unique bundle packages with their cellular services, along with sports, HBO, CNN, etc (Gordan). This will provide consumers with a wider variety to choose from, and will benefit AT&T customers due to the bundles that can be offered with their pre-existing services.

While this merger may decrease the amount of successful start-ups, AT&T had no other options if they wanted to stay competitive in this market.

In the span of one quarter, video entertainment revenue almost doubled in terms of total amount of revenue generated by AT&T, showing their push into the industry leading up to and following their mergence with Time Warner (Elder).

194%

From Q2-Q3 of 2015, video entertainment revenue increased 194% (Elder).

The increased price to competitors will likely cause Directv, a company owned by AT&T, to gain more customers

Due to this merger, many customers will be more enticed to join AT&T. This is because two major companies in their respective industries will be merging, creating something that has seldom been done before. There are multiple causes that could increase DirecTv's customer base. First being that AT&T could offer unique bundle packages that would increase the amount of consumers that use their services. Secondly, If AT&T decided to raise the prices of their content to their rivals, AT&T would likely be able to sell their services at a lower cost, driving customers to them (Eisenach).

The increase to DirecTv would directly impact AT&T in a positive way. Increased customers or increased fees to rival companies will both cause revenue to increase for the company. However, the amount of competition that could be lost due to this merger is something to consider, as it puts a lot of power into one company. AT&T streaming service had a consistent gain of customers since DirecTv Now was released in 2016, but in Q1 of 2019, they posted their first loss in consumers (Nickinson).

14.3%

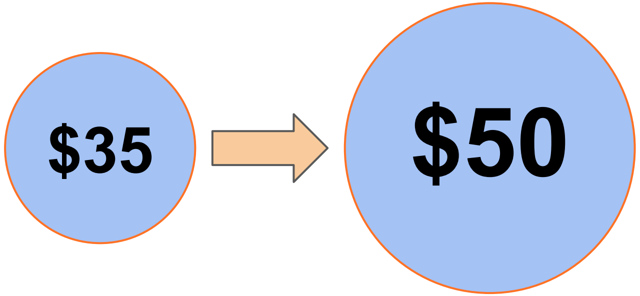
Of DirecTv Now's total consumer base was lost in Q1 of 2019 (Frankel).

The AT&T and Time Warner integration will cause prices to rise for rival companies and consumers

This merger runs the risk that rival companies will be upcharged to use content created or owned by Time Warner. The increase in price could potentially wipe out competition and make AT&T unrivaled in the industry. This could be accomplished in multiple ways. First, by withholding content from rival companies, forcing consumers to purchase the services of AT&T if they would like to view their content (Eisenach). AT&T could also increase their licensing fees to their competitors, weakening the competition (Eisenach). This raises the threat that consumers would be paying more but could potentially have limited access to the content they could view. Consumers may not see the immediate impact of this, because much of the content is under contract with rival companies, but will slowly see the impact in the future.

Additionally, the Department of Justice was right to be worried that this merger would cause a spike in prices. Since the mergers inception, **monthly rates have increased twice, first by $5, then by $10 dollars**. This is neither good for the industry, or the consumer, as it's also allowing AT&T to push more of their content, and less of their competitors (Eisenach).

Monthly fee for DirecTv Now's base package, Live A Little (Eisenbach)



Although historically prices have decreased in the long run, there is still the possibility that prices could increase, impacting the industry

AT&T told the Department of Justice that prices would not increase for consumers, but would only increase the content available to consumers (Brodkin). The risk would remain, however, that prices will increase for consumers. In fact, according to Arstechnica, AT&T has raised their prices twice since the mergers inception, despite their promise to lower prices to consumers. This causes a consolidated industry to have an unjust balance of power as only a few prominent companies hold a majority of the content. This means that they could continuously raise the price and consumers could be stuck with no other option than to pay the higher amounts.

If this merger destroys too much of the industry's competition, AT&T would be free to raise prices as they please. Along with this, AT&T can raise prices for their competitors to use Time Warner's content. By these prices being raised to competitors, they will likely have to raise prices for their consumers to combat the increased cost of content. This would allow AT&T to raise prices, but still keep their prices under their competitors. By prices increasing it would impact the industry's economy by forcing out competition and monopolizing the industry.

The Vertical integration of AT&T/Time Warner allows for AT&T to sell a complete media package into an already consolidated industry

Time Warner, a content owner and producer that sells their content to distributors, merging with a company such as AT&T, who owns DirecTv would allow for AT&T to hold ownership throughout the entire process. AT&T is also a top company, in regards to customer base, in the telecommunications industry. This unique position allows them to offer a complete media package into an industry that is already consolidated. AT&T now owns the rights to HBO, CNN, March Madness, TBS, and coverage of Major League Baseball, to name a few. They can now offer a sports package, and entertainment package, a phone and internet package, or any combination of these. AT&T, as well as the companies they own, offer various package deals amongst them, and have the potential and intent to roll out more bundles that would increase their presence in this consolidated industry.

The AT&T and Time Warner merger will make it nearly impossible for startups to enter the industry

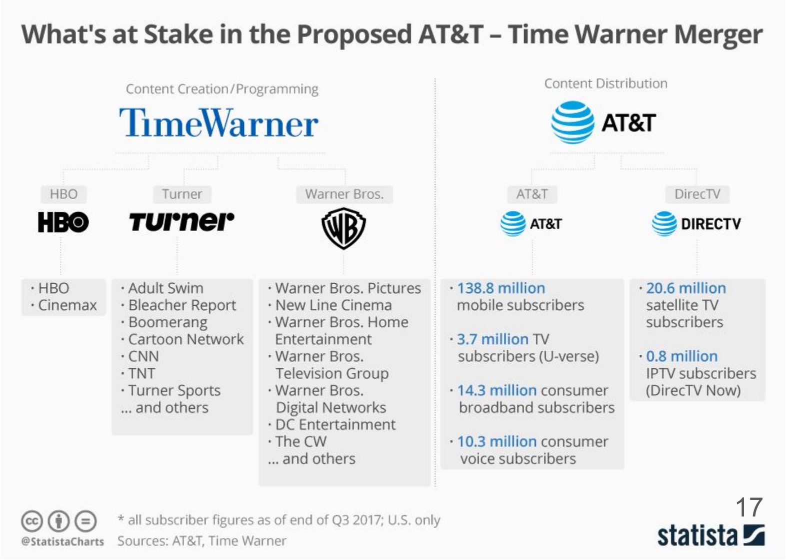
With the likes of Amazon, Google, and Netflix already dominating the content industry, as both creators and distributors, the AT&T and Time Warner merger will add a fourth titan into this industry. As AT&T needed to add both DirecTv and Time Warner under their umbrella to become a prominent player in this industry, it essentially is making content startups obsolete as they will not able to compete with the amount of material that these titans produce, as well as compete with their prices. The only way other companies will be able to enter an industry such as this one will be to complete a megamerger, such as AT&T/Time Warner (Crawford).

This merger has brought the idea of megamergers into the minds of corporate leaders of companies such as Verizon, T-mobile, Comcast, and more, who are both looking to create deals such as this to propel them into other industries (McKay). With the inception of this merger, we are looking at the start of other companies trying to reap the same rewards that AT&T is. The less competition that is created through this merger creates a higher risk for consumers that would cause negative effects, such as increased prices, limited content, and many more issues.

AT&T's opportunity to sell a complete media package creates the risk that the company could become a monopoly

AT&T's acquisition of Time Warner allows the company to sell a complete content, internet, media, and mobile package. This runs the risk that AT&T will now hold too much power through all of the companies that they own. AT&T is currently the nation's second largest cellular provider (Fung). By acquiring Time Warner, the fourth largest media company in the nation, they will not only be a giant in the telecommunications industry, but will also see them propel them into the discussion of the being an entertainment giant as well (Fung). The two titans merging allows for AT&T to offer a wide range of bundle packages over multiple industries.

Additionally, all of these sibling companies will be able to run targeted ads through the information that they gather through all of the companies owned by AT&T. Targeted ads have a 3x-5x more successful conversion rates in bringing in more money from sales (Fung). This is another way for AT&T to grow in an industry that they are beginning to monopolize.



AT&T might violate US antitrust laws because it now controls the video industry's production and distribution

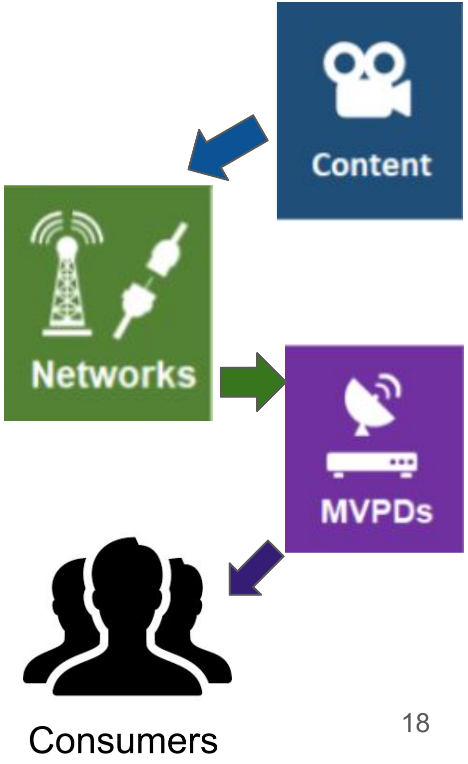
AT&T would manipulate market price

The principle influence of the AT&T and Time Warner merger is that AT&T will own and have the control over Time Warner's video content, both HBO and Turner content. Pre-merger Time Warner has the ability to negotiate content leasing prices with different companies in the industry, and gain profits from the pre-merger market competition (Shapiro). Time Warner would not favor or disfavor any companies in the industry(Shapiro). After the merger, AT&T will have high incentives to increase Time Warner's content licensing fee, in order to strategically lower AT&T rival's competition, which will lead Time Warner to disfavor AT&T's rivals, hence, increase their content licensing fees (Shapiro). The action of manipulating market price is against the antitrust laws. Therefore, more regulations will be need to limit the action of market price manipulating.

AT&T would restrict the content licensing of rival companies

Furthermore, the merger will push AT&T and Comcast, the second post-merger media giant in the industry, to cooperate with each other by restricting the content licensing of rival companies and slowing the growth of competitors (Shapiro). Hence, AT&T and Comcast will stabilize their market share and gain additional profits margins (Shapiro). The potential cooperation creates the danger of controlling market shares, which would violate the US antitrust law.

Structure of the Video Programming Industry



AT&T will increase its competitors' cost by increasing the content licensing fee, which will decrease the market competition.

Dish would lose market share due to higher licensing costs
AT&T's rival, Dish (for example), will face higher content licensing fees if AT&T increases the content licensing price after the merger (Effects). AT&T has high incentives of increasing Dish's licensing price as AT&T will benefit from such action when Dish passes the cost to its customers in the form of higher subscription prices (Effects). Hence, Dish will lose its current customers and market shares to AT&T.

Time Warner has strong incentives to increase content licensing fee
Before the merger, Time Warner may have the incentives to increase Dish's licensing fee, in order to gain profits(Shapiro). After the merger, Time Warner will have a stronger desire to increase Dish's fee since AT&T will not be affected by such action and Time Warner could gain much higher profits than the post-merger deal(Effects).

The merger increases overall content licensing costs for the industry
AT&T's rival will have increased licensing costs of **$48.9 million** per month (Shapiro). Meanwhile, AT&T's licensing cost will decrease **$29.30** million per month (Shapiro). Hence, the merger would bring the video programing industry with a net effect of increased licensing cost of **$19.60** million per month (Shapiro).

The merger results in a net effect of an increased licensing cost of **$19.60 million** per month for the video programing industry

AT&T's customers would gain additional contents from the merger while others face higher fees due to the increased content licensing fee

AT&T's customers gain additional contents from the merger
As AT&T will have access to Time Warner's contents, customers of AT&T services, including cable TV service, wireless phone service and DirecTV would enjoy the bundles package from AT&T (Market Watch). After the merger, AT&T no longer needs to pay Time Warner the content licensing fee. AT&T customers are less likely to face higher membership fees(Market Watch).

Consumers didn't subscribe to AT&T would face higher costs
On the other hand, in order to decrease the competition, AT&T will charge higher content licensing fees to its rivals as AT&T nows holds all Time Warner's video content. As AT&T's rivals are more likely to pass the increased licensing costs to its consumers, consumers who didn't subscribe to AT&T cable services may face higher video streaming costs.

Dish TV Welcome Package Price

AT&T loses its market shares as consumers will face higher membership fees

AT&T increases its premium cable fee
According to a Department of Justice report, the AT&T and Time Warner merger would cause the industry to experience a increase cost of **$48.9 million** per month (Shapiro). More than **50%** of those cost will be passed to the consumers, which means consumer will face higher membership fees (Shapiro). Additionally, according to New York Times, AT&T also plans to increase the premium cable fee from **$40** pre-merger **to $75** post-merger per month for DirectTV, which means consumers will face even higher subscription costs (New York Times).

AT&T's market shares drop due to higher membership fees
The direct result of increasing the membership fee is the decrease on AT&T's market shares. According to AT&T's SEC filing, Direct TV lost **267,000** new customers in the fourth quarter of 2018, compare to the fourth quarter of 2017 (AT&T Reports). The decrease suggests customers are less in favor of AT&T's DirectTV due to the high membership fees.

The stockholders will benefit more from the merger by having cash dividends than additional stocks

AT&T compensates stockholders with dividend and additional stocks
One of the effects of the merger includes removing Time Warner (ticker: TWI) from the New York stock exchange. For the compensation, Time Warner stockholders will receive fifty-three dollars and seventy-four cents per share in cash, plus a number of shares of AT&T common stock. On the other side, AT&T stockholders can look up to fifty cents of the additional dividend from the company.

AT&T's dividends are more valuable than its stocks
However, AT&T's dividends are more valuable than the additional stocks. According to Dallas News, AT&T issues the **5th** high-yielding dividends in the industry. Additionally, due to the strong cash flow, AT&T has been continuing to increase the dividend for shareholders since 2016. (Dallasnews)

8% increase in dividends

from 2015 to 2018

AT&T and Time Warner employees will be laid off by the merger as AT&T offshores domestic call centers.

AT&T reduced jobs after the merger

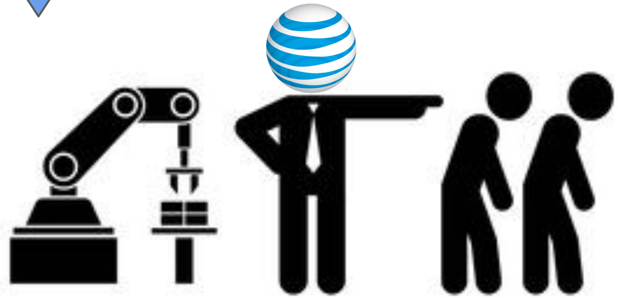
According to AT&T SEC filing, the company has **254,000** employees on board before the merger. Meanwhile, Time Warner already had **26,000** staffs pre-merger. Soon after the merger, AT&T reported overall staff of **269,280** employees in the company. The difference between number of employees indicates AT&T reduced **10720 jobs** botin in AT&T and Time Warner in the first nine months after the merger ().

AT&T enjoys windfalls from the tax cut

AT&T did not announce any job cut plans before the merger, neither respond to any questions about the employee couts post the merger. The press lease from *Communications Worker of American* confirmed that AT&T closed more than three high cost call services certerns in the middle west and offshores the services to low-cost countries, resulting thousands of job cuts. Meanwhile, AT&T will enjoying the windfall from 2018's tax cut of twenty billion US dollars (Communications Worker of American)

10,720

jobs lost



Arbitration will not eliminate the incentives Created by the Merger, such as creating the vertical integration

Arbitrators have difficult time to make new regulations

Due to the rapid technological changes, regulators in the Video Production industry will find it is difficult to keep the update with the changing environment in the market. Hence, it is challenging for regulators and arbitrators to innovate new standards and regulations.

New standards may benefit AT&T

One way arbitrators can take is to rely on private agreements and negotiations between companies in the industry as the benchmark, in order to seek the recent condition of the market and potentially set new standards to lower the merger effects towards the industry. However, the benchmarks are pre-merger and backward looking, and will not incorporate innovative changes to the industry. The regulator's reliance on privates agreement between companies will even cause misunderstanding and produce decisions which may benefits the AT&T (EX-99).

AT&T benefits from less competition

as its rivals no longer receive slow content leasing prices

After acquiring Time Warner, AT&T will control the production and distribution and risks monopolizing the entertainment industry.

The merger between AT&T and Time Warner - one of the largest video content producers - will bring the two corporations together in a vertical merger. This merger will give AT&T who is one of the largest media distributors control over all Time Warner’s content (Shapiro). Before the merger, AT&T’s distribution services competed strongly with other media companies. After acquiring Time Warner, AT&T controls some of the highest demanded content in the market, HBO and CNN who are both under Time Warner.

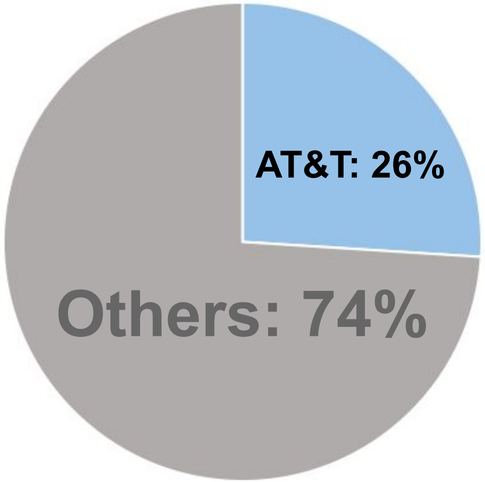
Vertically integrating with Time Warner gives AT&T a strong advantage over their competitors who pay for Time Warner exclusive content (Forbes). Not only does AT&T incur profit from their DTV, U-Verse and DIRECTV NOW media distribution services, they will also begin to incur sales profits from all Time Warner content. AT&T’s control allows them to directly benefit from sales to their competitors, like Comcast, Netflix and Disney; AT&T’s competitors now pay AT&T for the premium content their subscribers expect.

Even though the FCC failed to break up the AT&T and Time Warner merger, there is still concern because of AT&T’s span of control.

The merger of content creator, Time Warner, and the content distributor, AT&T, has potential to give AT&T an unfair advantage beyond their new revenue streams. Time Warner currently has a **21% market share** in the media production market (Hagey, Sharma) which AT&T now has full control of. As of 2016, AT&T controls **26% of all pay-TV subscribers** (Forbes) and after the merger, Time Warner’s 21% as well. Their market share allows them to leverage decisions beyond entertainment; potentially even politically.

The FCC deemed the absorption of Time Warner a threat to competition and a prerequisite to the formation of a monopoly. As a result, a year after the merger, the FCC initiated a lawsuit against AT&T for violating antitrust laws. Their goal: break up the merger and keep the companies separate. The FCC’s main concern regarding the merger was that AT&T might use their control over Time Warner’s content to weaken their competitors (Shapiro). By doing this AT&T would find themselves enjoying a monopoly over the entertainment industry.

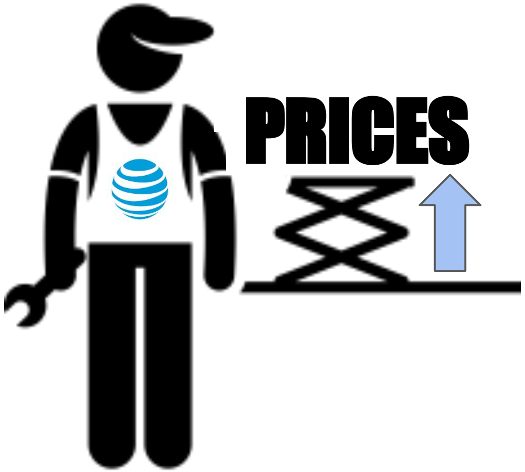
U.S. Pay TV Market Share (Subscribers)



The acquisition of Time Warner will raise content prices to MVPDs as AT&T now controls the production, distribution and prices of content

The vertical merger allows AT&T full control over Time Warner. Not only does AT&T own all Time Warner content, they have control over its selling process as well. This gives us a theory of concern called the *Raising Rivals Cost Theory of Harm* (Shapiro). AT&T controls the TIme Warner content and will charge a premium they know their competitors will pay for.

The *Raising Rivals Cost Theory of Harm* is the belief that AT&T will raise their prices to their competitors in order to weaken their place in the market (Shapiro). This theory harms the rest of the market as it will only benefit one party, AT&T. AT&T's price increases support Shapiro's theory. Because they own Time Warner, they are able to price the content however they seem fit and indirectly control the market through their highly demanded content. In order for AT&T to see residual revenue, AT&T will raise prices to competitors for Time Warner's content.

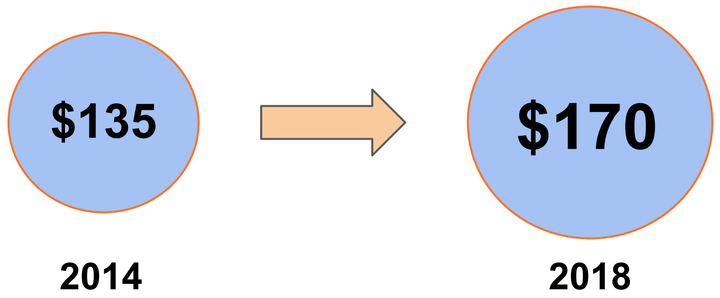


AT&T's asset acquisition, Time Warner, will raise their profits because it will lower costs while also forcing competitors to raise their prices

As AT&T benefits from their downstream rivals, such as Charter and Dish, by raising prices. Their downstream rivals are forced to pay higher affiliate fees for the Turner Content, controlled by AT&T, and thus have higher costs. If they do not pay, they will lose access to the Turner content altogether (Shapiro). AT&T will see benefits because it competes directly against Charter and Dish. When their costs are higher, their competition becomes softened and they become less of a threat to AT&T and its sister companies.

The justice department saw this to be a threat to the economy and a threat to the antitrust laws in place (Shapiro). By forcing their competitors to raise prices, they increase their span of control while lowering their competitors'. Softening their competitors have increased AT&T's sales and in turn profits. Since the merger, **AT&T's profits have increased by $45 billion** (Statista).

AT&T's Yearly Revenue, in Billions



If competitors refuse to pay Time Warner licensing fees, AT&T is at risk to take over the market as subscribers shift away from competition

AT&T utilizes the acquisition of Time Warner as leverage over their competitors. DTV (an AT&T distribution channel) openly recognized that having ownership over the Time Warner exclusive content will allow them to have increased influence when negotiating with their competitors and give them more leverage with Time Warner and its programming (Shapiro). Furthermore, AT&T recognizes the likelihood of capturing new subscribers from their competitors -- crediting their ability to have lower prices and more content. However, this also means raising prices to competitors and withholding content (Wu).

Because HBO is so prominent, it makes for a great attraction to gain subscribers. HBO is a tool MVPDs use to attract new customers. It is such a good attractor that companies have seen up to **79% more purchases** when they include it in a given bundle (Shapiro). With AT&T controlling that content and its licensing fees, some competitors may not be able to afford it or may simply not pay. In this case, it is likely we see competitor’s customers leave to follow the HBO content to AT&T.

79%

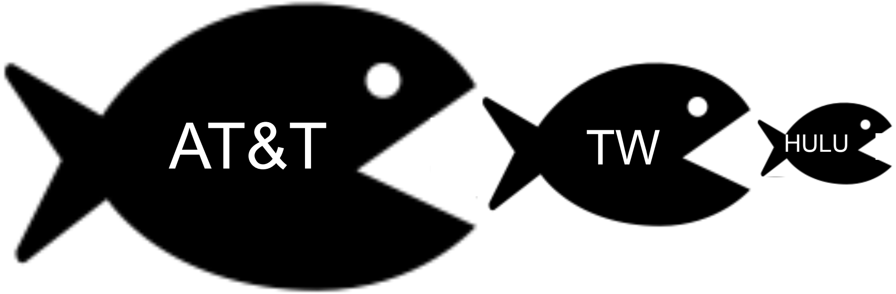
Increase in sales when HBO is included in a bundle

The merger will increase creative content and ease of access for consumers because AT&T will be able to integrate online streaming.

Part of AT&T's goal through their Time Warner merger was to compete with other large conglomerates at the prestigious level of Google, Amazon, Disney and even Netflix. Their first step is to break into the market of streaming. The acquisition alone allowed AT&T to inherit preexisting streaming services from Time Warner like, HBO, Warner Brothers and CNN. They also inherited a **10% stake in HULU**, a share valued at $93 million (Forbes).

To expand their streaming, AT&T will be launching a three tiered streaming subscription that follows that of Disney (Alexander). Along with their tiered system, AT&T has also launched Sling TV. Sling is a streaming service for those who want popular TV channels for a reasonable price. With Sling, AT&T is able to capture consumers who do not need or want to pay for the "filler channels."

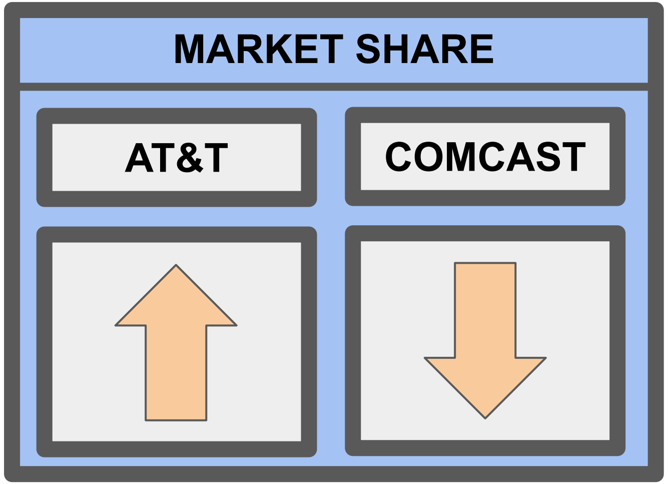
Their expansion in the market of entertainment streaming is allowing AT&T to grow to compete with media giants, and help consumers all together.



The AT&T-Time Warner merger may lead to an unfair advantage over competitors even though it does not violate U.S. Antitrust

Despite not violating any U.S. Antitrust laws, the AT&T and Time Warner merger still pose a threat to other media distributors. The market for Paid TV is mature, ~ **85% of all U.S. households** pay for television. **AT&T** already led the Paid TV market with a **26% market share**. Since the AT&T, Time Warner merger, the second largest media distributor in the Paid TV market, **Comcast: 22%**, is experiencing a steady decline in their share (Forbes). The raised prices and increased influence from AT&T will threaten their competition by lowering their profits and detracting from their subscribers.

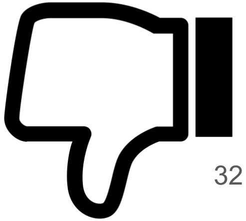
With the FCC and other regulatory organizations becoming more involved to limit further consolidation of the market since the AT&T merger it will be increasingly difficult for Comcast to acquire new market share. To combat AT&T's expansion, competitors will have no choice but to increase customer service, upgrade their on-demand category and allow for better deals when customers bundle just to remain competitive against AT&T's growing market share and power (Forbes).



Conclusion

The AT&T and Time Warner merger was an unprecedented move that has had more negative effects than the positives on the industry, including increasing both of the industry entry and operating costs, and potential unfair competitions. Additionally, the merger would harm consumers' benefit from paying higher subscription fees and result additional unemployments from AT&T's post-merger company re-consolidation. Even though AT&T's vertical integration does not directly violate U.S. antitrust law, the merger still push new boundaries under the current law.

Hence, we recommend the candidate against the merger, in order to win the support from the customer and worker unions in the future political campaigns



Reference

- Alexnder, J. (2018, November 29). *AT&T will offer three different tiers for its streaming service*. Retrieved from The Verge: https://www.theverge.com/2018/11/29/18118877/att-warnermedia-streaming-service-subscription-disney-bundle-price
- AT&T, a great dividend stock, is falling after Time Warner merger. Time to buy or danger sign? (2018, June 22). Retrieved April 8, 2019, from https://www.dallasnews.com/opinion/commentary/2018/06/22/atts-dividend-now-pays-6-buying-opportunity-danger-sign
- AT&T Reports Third-Quarter Results. (2018, October 4). Retrieved April 25, 2019, from https://seekingalpha.com/pr/17310138-t-reports-third-quarter-results
- Associated Press. (2019, March 04). AT&T's WarnerMedia to compete with Netflix by focusing on streaming. Retrieved from Market Watch: https://www.marketwatch.com/story/atts-new-warnermedia-to-compete-with-netflix-by-focusing-on-streaming-2019-03-04
- AT&T and Time Warner merger: 5 things consumers should know. (2018, June 15). Retrieved from Knox News: https://www.knoxnews.com/story/news/education/2018/06/15/att-merger-time-warner-mean-customers/699371002/
- AT&T-Time Warner merger approved. (2018, June 12). Retrieved from https://truthonthemarket.com/2018/06/12/att-time-warner-merger-approved/
- Lachapelle, Tara. (2019, January 15). Does AT&T Even Need DirecTV? Retrieved from The Washington Post: https://www.washingtonpost.com/business/does-atandt-even-need-directv/2019/01/15/831c165e-18ca-11e9-b8e6-567190c2fd08_story.html?utm_term=.9f1485e086cc
- AT&T, Time Warner Shed 11K Workers in First 9 Months of 2018. (2019, March 1). Retrieved April 12, 2019, from https://www.lightreading.com/business-employment/jobs/atandt-time-warner-shed-11k-workers-in-first-9-months-of-2018/d/d-id/748566
- Brodkin, J. (2019, March 12). AT&T raises DirecTV Now price-again-after promising lower post-merger bills. Retrieved from https://arstechnica.com/information-technology/2019/03/att-raises-directv-now-price-again-after-promising-lower-post-merger-bills/
- Crawford, S. (2018, April 05). Why AT&T-Time Warner Merger Is Bad News for Everyone. Retrieved from https://www.wired.com/story/when-you-merge-the-message-with-the-medium-you-make-a-messium/
- Dayen, D. (2018, June 12). The AT&T-Time Warner Merger Ruling Is Bad for the Country. Retrieved from The Nation: https://www.thenation.com/article/att-time-warner-merger-ruling-bad-country/
- Dubrow, J. D. (2018, June 19). Three Lessons from AT&T/Time Warner and Three Strategies for Future Vertical Transactions. Retrieved from MWE: https://www.mwe.com/insights/three-lessons-strategies-vertical-transactions/
- Eisenach, J. A., & Watts, T. (2017, July). Effects of the AT&T-Time Warner Transaction on Competition in the Premium Channels Industry. Retrieved from

References continued

- Effects of the AT&T-Time Warner Transaction on Competition in the Premium Channels Industry. (2017, July). Retrieved April 25, 2019, from https://www.washingtonpost.com/blogs/the-switch/files/2017/11/NERA-ATT-TW-Study-Redacted.pdf?noredirect=on
- Elder, R. (2017, November 10). For AT&T, the costs of missing out on Turner or DirecTV are high. Retrieved from https://www.businessinsider.com/unpacking-justice-departments-rebuttal-to-the-att-time-warner-merger-2017-11
- EX-99. (2018, March 08). Retrieved April 9, 2019, from https://www.sec.gov/Archives/edgar/data/732717/000119312518078218/d468089dex99.htm
- Forbes. (2016, August 22). *Where Do Comcast And Dish Stand In The Pay TV Market?* Retrieved from Forbes: https://www.forbes.com/sites/greatspeculations/2016/08/22/where-do-comcast-and-dish-stand-in-the-pay-tv-market/#28169039a213
- Fowler, B. (2018, June 12). How the AT&T-Time Warner Merger Affects Consumers. Retrieved from Consumer Report: https://www.consumerreports.org/competition-mergers-antitrust/how-the-att-time-warner-merger-impacts-consumers/
- Frankel, D. (2019, January 30). DirecTV Now Lost a Staggering 14% of Its Users in Q4. Retrieved from https://www.multichannel.com/news/directv-now-lost-14-percent-of-its-users-in-q4
- Fung, B., & Harwell, D. (2016, October 21). Why AT&T's merger with Time Warner is such a huge deal. Retrieved from https://www.washingtonpost.com/news/the-switch/wp/2016/10/21/att-could-soon-own-almost-everything-from-hbo-to-cnn-to-dc-comics/?noredirect=on&utm_term=.b3e5c67e2f44
- Fung, B. (2018, June 13). 6 ways the AT&T-Time Warner merger is likely to affect you. Retrieved from https://www.washingtonpost.com/news/the-switch/wp/2018/04/20/from-4k-video-to-in-store-merch-heres-how-att-plans-to-buy-your-loyalty-after-the-time-warner-merger/?utm_term=.74be99f6d120
- Fung, B. (2018, July 03). AT&T is hiking the price of DirecTV Now, despite promising lower consumer prices in the Time Warner trial. Retrieved from https://www.washingtonpost.com/technology/2018/07/03/att-is-hiking-price-directv-now-despite-promising-lower-consumer-prices-time-warner-trial/?utm_term=.97394ad3fb0d
- Gordon, M. (2018, June 13). AT&T-Time Warner Merger Could Start a New Era of Megamergers. Retrieved from https://www.inc.com/associated-press/att-time-warner-merger-signs-new-era-megamergers-compete-against-tech-giants.html
- Granville, K., & Hsu, T. (2018, June 12). AT&T Has Had Many Run-Ins With the Government. Retrieved from The New York Times: https://www.nytimes.com/2018/06/12/business/dealbook/att-antitrust.html
- Gelles, D. (2018, January 19). Kraft and Heinz to Merge in Deal Backed by Buffett and 3G Capital. Retrieved April 12, 2019, from https://www.nytimes.com/2015/03/26/business/dealbook/kraft-and-heinz-to-merge.html?_r=0

References continued

- Krishan, N., . . . Vongkiatkajorn, K. (2019, March 07). The government's failure to block the AT&T-Time Warner merger could lead to even bigger monopolies. Retrieved from Mother Jones: https://www.motherjones.com/politics/2019/03/att-time-warner-doj-donald-trump-monopolies/
- McKay, T., & McKay, T. (2018, June 10). Get Ready for More Mergers if the AT&T-Time Warner Deal Goes Through on Tuesday. Retrieved from https://gizmodo.com/get-ready-for-more-mergers-if-the-at-t-time-warner-deal-1826712406
- NCAA. (2018, April 13). 2018 NCAA tournament viewership, attendance numbers. Retrieved from https://www.ncaa.com/news/basketball-men/article/2018-04-13/2018-ncaa-tournament-and-final-four-viewership-attendance
- Nickinson, P., & Nickinson, P. (2019, January 30). A tough Q4 2018 for AT&T and DirecTV Now. Retrieved from https://www.cordcutters.com/directv-now-adds-subscribers-earnings
- Platt, E. (2018, June 13). AT&T-Time Warner ruling opens door for more media consolidation. Retrieved from https://www.ft.com/content/a06cd9bc-6eb8-11e8-92d3-6c13e5c92914
- Reiff, N. (2019, March 12). AT&T and Time Warner Merger Case: What You Need to Know. Retrieved from Investopedia: https://www.investopedia.com/investing/att-and-time-warner-merger-case-what-you-need-know/
- Restauro, D. (2019, February 05). The Rapid Decline of Cable TV. Retrieved from Grounded Reason: https://www.groundedreason.com/the-rapid-decline-of-cable-tv/
- Sainato, M. (2018, August 28). 'They're liquidating us': AT&T continues layoffs and outsourcing despite profits. Retrieved April 12, 2019, from https://www.theguardian.com/us-news/2018/aug/28/att-earns-record-profits-layoffs-outsourcing-continue
- Shapiro, C. (2018). *United States of America v. AT&T INC., DIRECTV GROUP HOLDINGS, LLC, and TIME WARNER INC.* District of Columbia: United States Department of Justice. https://www.justice.gov/atr/case-document/file/1081336/download
- Stuart, M. (2018, March 05). How AT&T conquered all forms of communication after the government forced it to break up. Retrieved from Business Insider https://www.businessinsider.com/att-breakup-1982-directv-bell-system-2018-02
- Weissberger, A. (2018, June 13). Analysis & Huge Implications of AT&T – Time Warner Merger. Retrieved from http://techblog.comsoc.org/2018/06/13/analysis-huge-implications-of-att-time-warner-merger/
- Statista. (2019). *AT&T's consolidated revenue from 1st quarter 2010 to 4th quarter 2018 (in billion U.S. dollars)*. Retrieved from The Statistics Portal: https://www.statista.com/statistics/216652/total-revenue-of-atundt-by-quarter/
- Wu, T. (2018, November 7). *How AT&T Fooled the Federal Judiciary*. Retrieved from THe New York Times: