

AT&T's DirecTV acquisition – Case materials

The following pages contain:

1. Balance sheet for DirecTV on June 30, 2015
2. Balance sheet for AT&T on June 30, 2015
3. Excerpt from AT&T's December 31, 2015 Annual Report describing its July 24, 2015 acquisition of DirecTV, and a summarizing the estimated fair values of the DIRECTV assets acquired and liabilities assumed as of the acquisition date.

Based on this information, please answer the following questions before you view the videos for Class 5.

1. How much did AT&T pay for DirecTV?
2. Given this price, what is the market values of DirecTV's Stockholders' Equity as of July 24, 2015?
3. Using the Balance sheet for DirecTV on June 30, 2015, fill in the following summary of assets, liabilities, and book value of net assets (Stockholders' Equity)

	As of June 30, 2015
Tangible Assets	
Intangible Assets	
Goodwill	
Total assets	
-Total liabilities	
Book value of net assets (SE)	

4. Using the excerpt from AT&T's December 31, 2015 Annual Report, fill in the following summary of the **estimated fair values** of DirecTV's assets, liabilities, and book value of net assets (Stockholders' Equity) as of July 24, 2015.

	As of July 24, 2015
Tangible Assets	
Intangible Assets	
Goodwill	
Total assets	
-Total liabilities	
Book value of net assets (SE)	

DIRECTV
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2015	December 31, 2014
	(Dollars in Millions, Except Share Data)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 5,061	\$ 4,635
Accounts receivable, net of allowances of \$115 and \$109	2,754	2,800
Inventories	425	299
Deferred income taxes	65	68
Prepaid expenses and other	777	1,017
Total current assets	9,082	8,819
Satellites, net	3,010	3,040
Property and equipment, net	6,477	6,721
Goodwill	3,885	3,929
Intangible assets, net	946	994
Investments and other assets	1,921	1,956
Total assets	\$25,321	\$ 25,459
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable and accrued liabilities	\$ 4,795	\$ 5,048
Unearned subscriber revenues and deferred credits	572	584
Current debt	2,355	1,327
Total current liabilities	7,722	6,959
Long-term debt	17,157	19,485
Deferred income taxes	1,624	1,726
Other liabilities and deferred credits	2,281	2,117
Commitments and contingencies		
Stockholders' deficit		
Common stock and additional paid-in capital—\$0.01 par value, 3,950,000,000 shares authorized, 504,511,567 and 502,733,342 shares issued and outstanding of common stock at June 30, 2015 and December 31, 2014, respectively	3,645	3,613
Accumulated deficit	(6,931)	(8,408)
Accumulated other comprehensive loss	(552)	(418)
Total DIRECTV stockholders' deficit	(3,838)	(5,213)
Noncontrolling interest	375	385
Total stockholders' deficit	(3,463)	(4,828)
Total liabilities and stockholders' deficit	\$25,321	\$ 25,459

AT&T INC.**CONSOLIDATED BALANCE SHEETS**

Dollars in millions except per share amounts

	June 30, 2015 (Unaudited)	December 31, 2014
Assets		
Current Assets		
Cash and cash equivalents	\$ 20,956	\$ 8,603
Accounts receivable - net of allowances for doubtful accounts of \$492 and \$454	13,821	14,527
Prepaid expenses	834	831
Deferred income taxes	1,131	1,142
Other current assets	6,421	6,925
Total current assets	43,163	32,028
Property, plant and equipment	289,856	282,295
Less: accumulated depreciation and amortization	(175,508)	(169,397)
Property, Plant and Equipment – Net	114,348	112,898
Goodwill	70,920	69,692
Licenses	80,922	60,824
Other Intangible Assets – Net	6,385	6,139
Investments in Equity Affiliates	288	250
Other Assets	10,463	10,998
Total Assets	\$ 326,489	\$ 292,829
Liabilities and Stockholders' Equity		
Current Liabilities		
Debt maturing within one year	\$ 8,603	\$ 6,056
Accounts payable and accrued liabilities	21,560	23,592
Advanced billing and customer deposits	4,075	4,105
Accrued taxes	3,848	1,091
Dividends payable	2,441	2,438
Total current liabilities	40,527	37,282
Long-Term Debt	105,067	76,011
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	38,516	37,544
Postemployment benefit obligation	36,638	37,079
Other noncurrent liabilities	18,240	17,989
Total deferred credits and other noncurrent liabilities	93,394	92,612
Stockholders' Equity		
Common stock (\$1 par value, 14,000,000,000 authorized at June 30, 2015 and December 31, 2014; issued 6,495,231,088 at June 30, 2015 and December 31, 2014)	6,495	6,495
Additional paid-in capital	91,032	91,108
Retained earnings	29,086	27,736
Treasury stock (1,301,916,280 at June 30, 2015 and 1,308,318,131 at December 31, 2014, at cost)	(46,793)	(47,029)
Accumulated other comprehensive income	7,039	8,060
Noncontrolling interest	642	554
Total stockholders' equity	87,501	86,924
Total Liabilities and Stockholders' Equity	\$ 326,489	\$ 292,829

Excerpt from AT&T's December 31, 2015 Annual Report

NOTE 5. ACQUISITIONS, DISPOSITIONS AND OTHER ADJUSTMENTS

Acquisitions

DIRECTV On July 24, 2015, we completed our acquisition of DIRECTV, a leading provider of digital television entertainment services in both the United States and Latin America. The acquisition represents an opportunity for us to integrate a unique and complementary set of assets and achieve substantial cost synergies over time, as well as generate revenue from pay television in Latin America. Our distribution scale will enable us to offer consumers bundles including video, high-speed broadband and mobile services, using all the sales channels of both companies. We believe the combined company will be a content distribution leader across mobile, video and broadband platforms.

Under the merger agreement, each share of DIRECTV stock was exchanged for \$28.50 cash plus 1.892 shares of our common stock. After adjustment for shares issued to trusts consolidated by AT&T, share-based payment arrangements and fractional shares, which were settled in cash, AT&T issued 954,407,524 shares to DIRECTV shareholders, giving them an approximate 16% stake in the combined company, based on common shares outstanding. Based on our \$34.29 per share closing stock price on July 24, 2015, the aggregate value of consideration paid to DIRECTV shareholders was \$47,763, including \$33,384 of AT&T stock and \$14,378 in cash.

Our 2015 operating results include the results from DIRECTV following the acquisition date. The fair values of the assets acquired and liabilities assumed were preliminarily determined using the income, cost and market approaches. The fair value measurements were primarily based on significant inputs that are not observable in the market and are considered Level 3 under the Fair Value Measurement and Disclosure framework, other than long-term debt assumed in the acquisition. The income approach was primarily used to value the intangible assets, consisting primarily of acquired customer relationships, orbital slots and trade names. The income approach estimates fair value for an asset based on the present value of cash flows projected to be generated by the asset. Projected cash flows are discounted at a required rate of return that reflects the relative risk of achieving the cash flows and the time value of money. The cost approach, which estimates value by determining the current cost of replacing an asset with another of equivalent economic utility, was used primarily for plant, property and equipment. The cost to replace a given asset reflects the estimated reproduction or replacement cost for the property, less an allowance for loss in value due to depreciation. Our December 31, 2015 consolidated balance sheet includes the assets and liabilities of DIRECTV, which have been measured at fair value.

The following table summarizes the preliminary estimated fair values of the DIRECTV assets acquired and liabilities assumed as of the acquisition date.

Dollars in millions except per share amounts

	DirecTV as of July 24, 2015
Assets acquired	
Cash	\$ 4,797
Accounts receivable	2,011
All other current assets	1,535
Property, plant and equipment (including satellites)	9,301
Intangible assets not subject to amortization	
Orbital slots	11,946
Trade name	1,382
Intangible assets subject to amortization	
Customer lists and relationships	19,505
Trade name	2,905
Other	457
Investments and other assets	2,360
Goodwill	34,427
Total assets acquired	90,626
Liabilities assumed	
Current liabilities, excluding current portion of long-term debt	5,693
Long-term debt	20,585
Other noncurrent liabilities	16,585
Total liabilities assumed	42,863
Net assets acquired¹	47,763

¹ For simplicity, the purchase allocation excludes noncontrolling interests of \$354 million.