

pects €600m-800m a year of savings from the deal by 2022, offsetting the decline in its nuclear earnings. Mr Teysson describes it as E.ON's "first real growth step for more than a decade"—in other words, the best news of his whole tenure.

RWE, a carbon-dioxide belcher whose lignite power plants tarnish the credibility of the *Energiewende*, becomes greener and more focused. Analysts said it gains more immediately from the deal, though E.ON will make up for that later with its expected future savings. Already RWE's profits are recovering fast. Like E.ON, on March 13th it announced a bumper payout to shareholders. Consumers, who pay a high price for electricity in Germany, are unlikely to be squeezed any harder as a result of the transaction. For once this is a deal that looks good for everyone involved, including the planet. ■

AT&T-Time Warner

Vertically challenged

NEW YORK

To win an antitrust case, just prove that a merger doesn't make business sense

AN ANTITRUST trial over AT&T's \$109bn acquisition of Time Warner, which begins on March 19th, will have more keen observers than one courtroom can handle. Disney, Comcast, 21st Century Fox, Verizon, Charter Communications, CBS and Viacom will be watching. So will Netflix, Amazon and Google.

The reason is simple. If AT&T wins the case against the Justice Department, and the "vertical merger" of the distribution and content businesses goes through, a wave of consolidation deals will follow. Companies that rely on large numbers of people to watch video will want to bulk up to compete with each other and Silicon Valley's mightiest.

Comcast may make a hostile bid for Fox's assets, setting off a bidding war with Disney, which has already agreed a \$66bn deal with Fox. (Comcast already wants to buy Sky, a European satellite provider that is part of the Disney-Fox transaction.) Other pay-TV and mobile firms, like Charter and Verizon, will feel emboldened to go after content companies such as CBS or Lionsgate. All are watching the case with "bated breath", says Craig Moffett of MoffettNathanson, a research firm.

Historically, antitrust actions have targeted horizontal mergers between firms operating in the same area. But in November the Justice Department sued to block the Time Warner purchase on the ground that it would give AT&T, which has 25m pay-TV customers and national reach with

Theranos

Bloodbath

SAN FRANCISCO

A Silicon Valley darling is accused of misleading investors

"THE Next Steve Jobs" is how *Inc.*, an American business magazine, described Elizabeth Holmes when her photograph appeared on its cover in 2015. They may share an affinity for black turtlenecks but the reputations of Ms Holmes and Apple's celebrated late boss could not be more different. On March 14th Ms Holmes was accused of fraud by America's Securities and Exchange Commission (SEC). She has agreed to pay a \$500,000 fine, not serve as an officer of a public company for ten years and turn over much of her stake in Theranos, the startup she founded (she has neither admitted nor denied wrongdoing).

Only a few years ago Ms Holmes, who is 34 years old, was touted as the world's youngest self-made female billionaire, a shatterer of Silicon Valley's reinforced-glass ceiling. She graced magazine covers and speechified about Theranos, which was trying to upend diagnostic testing by using pinprick amounts of blood rather than vials. At its height Theranos claimed a private-market valuation of around \$9bn and raised more than \$700m from investors—until a critical article by the *Wall Street Journal* in 2015 prompted media and regulatory scrutiny.

It now turns out that Ms Holmes's claims were deceptive, according to the SEC. She allegedly exaggerated her startup's capabilities. Theranos only reliably performed a dozen of the 200 tests it offered with its own technology. It also lied about its portfolio of clients. For example, investors were told that its technology had been used by the American military on the battlefield, when it had only been used in studies; and that it was poised to be rolled out by a grocery chain even when the deal had collapsed.

DirectTV, too much leverage over competitors. AT&T could extract higher fees from other cable operators for Time Warner's popular Turner channels, or simply offer them exclusively on its own cable services in order to poach customers from rivals. The government adds that AT&T could employ this anti-competitive tactic in cahoots with Comcast, a competing operator which already owns valuable programming via NBCUniversal.

AT&T retorts that it makes a lot of money selling content; withholding it from other operators would be commercially self-defeating. Calculations by independent analysts, such as Ben Thompson of Strategy, a tech newsletter, suggest that AT&T



"The Next Steve Jobs"

The financial figures were apparently concocted, too. Ms Holmes told one investor that Theranos had \$108m in revenue in 2014; the real figure was \$100,000.

The Theranos saga is not over. Ms Holmes's business partner, Ramesh "Sunny" Balwani, whom the SEC has also charged with fraud, is contesting the charges. A criminal investigation into Theranos is believed to be ongoing.

Ms Holmes wooed investors while sharing few details about how exactly her technology worked. Today they are being more inquisitive and cautious, especially in health care. The SEC is eyeing Silicon Valley's firms more closely for foul play, too, for example by asking to see how venture-capital firms mark their investments and how startups value their private shares. The time when plucky wannabe tech titans could do no wrong is gone. Ms Holmes has certainly left a mark on Silicon Valley—and not a mere pinprick.

would have to lure more than 15% of its competitors' customers for such a strategy to be profitable. The government's own witness on the issue reckons that 12% would switch. In its pre-trial brief the company claims that its pay-TV business is in structural decline, losing millions of high-paying customers to the likes of Netflix.

Vertical integration, AT&T will try to persuade the court, would enable it to target advertising more effectively, levelling the playing field against the tech titans. In reality, most analysts think the merger only makes sense if the Justice Department's worries are founded. AT&T now has the awkward task of talking this sound business case down. ■