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December 30, 2020

Yahoo! Finance
Disney will test the limits of 'franchise

AT&T (NYSE:T) is reportedly facing pressure to sell DIRECTV, the satellite and pay-TV platform it bought in 2015, to reduce its debt, streamline its business, and raise more cash for its streaming investments. Back in August,

fatigue' in 2021 and 2022

BBC
Japan developing wooden satellites to cut space junk

TechCrunch
Google pilots a search feature that aggregates short-form videos from TikTok and Instagram

Wall Street Journal
Inside the Google-Facebook Ad Deal at the Heart of a Price-Fixing Lawsuit

Variety
Verizon Warns Fios Customers That Hearst TV Channels May Go Dark Amid Contract Dispute

The Verge
McConnell ties full repeal of Section 230 to Push for $2,000 stimulus checks

The Verge
Everything You Need To Know About Section 230

Associated Press
There were not more votes than voters in Pa. | AP fact check

the Wall Street Journal claimed AT&T was working with bankers to divest the shrinking business.

In December, the Wall Street Journal claimed AT&T had received bids of "more than $15 billion including debt," with top bids coming from the SPAC Churchill Capital IV (NYSE:CCIV.U) and the private equity firm TPG. The deal wouldn't include DIRECTV's struggling Latin American business, which is also struggling to find buyers.

Taking that lowball offer would represent a big loss for AT&T, which paid $49 billion ($66 billion including debt) for DIRECTV. The New York Post claims AT&T would still retain a majority stake in DIRECTV, and the top bidder would only pay $3.75 billion in cash and assume some of the company's debt for a 49% stake.

The Post claims AT&T was expecting higher bids and could cancel the auction in January if those offers don't improve. Unfortunately, AT&T isn't in a strong position to demand higher prices, so it would be smarter to dump the dying business, raise some cash, and write off the losses. Let's see why AT&T needs to sell DIRECTV, and why its reluctance to do so raises bright red flags.

The heart of its dying pay-TV business
Between the third quarters of 2017 and 2020, AT&T's total number of video connections declined 29% from 25.1 million to 17.8 million.

DIRECTV accounts for over three-quarters of those subscribers, while the rest is split between smaller services like U-Verse and AT&T TV. All these services are losing subscribers to over-the-top (OTT) streaming services like Netflix (NASDAQ:NFLX).

AT&T's pay-TV services form the heart of its entertainment group, which generated 25% of its revenue and 17% of its operating income in 2019. The segment's ongoing loss of pay-TV subscribers has constantly reduced its revenue, but it's attempted to stabilize its operating profits by cutting costs and raising prices.

Unfortunately, AT&T will eventually run out of ways to offset its ongoing loss of subscribers. Many analysts expect the entertainment group's profits to tumble after those strategies fail.

AT&T doesn't disclose DIRECTV's earnings separately, but New Street Research recently estimated that DIRECTV's EBITDA (earnings before interest, taxes, depreciation, and amortization) could decline from about $4.5 billion in 2020 to $3 billion in 2022.

New streaming priorities, but a mountain of debt
The slow death of DIRECTV prompted AT&T to buy Time Warner -- which owns Warner Bros, HBO, and the Turner networks -- for a whopping $85 billion in 2018. AT&T subsequently launched a new streaming ecosystem based on those media assets, which now includes HBO Max and AT&T TV Now.

But AT&T still remains far behind Netflix and Disney (NYSE:DIS) in the streaming wars. AT&T ended last quarter with 38 million HBO and HBO Max subscribers in the U.S. and 57 million premium subscribers globally, but it didn't disclose how many of those subscribers were watching HBO's streaming service instead of the cable channel.

In their latest quarters, Netflix had over 195 million paid subscribers, while Disney topped 120 million paid streaming subscribers. Netflix is profitable, but Disney's streaming business isn't. AT&T doesn't disclose its streaming revenue or profits separately, but it's likely racking up losses as it spends billions of dollars on licensed and original content.

Meanwhile, AT&T ended last quarter with $153 billion in long-term debt, which actually rose from $151 billion at the end of 2019. It accumulated most of that debt from its purchases of DirecTV, AWS-3 spectrum licenses, and Time Warner.

AT&T suspended its buybacks earlier this year to conserve cash, but some analysts believe AT&T might need to cut its dividend -- which costs about $15 billion a year -- to shore up its free cash flow.

AT&T needs to cut its losses
All those problems indicate AT&T doesn't have the leverage to demand higher bids. The bidders know DIRECTV is dying and AT&T desperately needs cash -- so it seems unlikely the bidders will raise their offers.

Taking a big write-down on DIRECTV would be a humbling blow for AT&T. But it's also a chance for John Stankey, who took over as AT&T's CEO earlier this year, to streamline the business and reset its messy media strategies.

If AT&T abandons the auction, DIRECTV will continue to shrink and offset the growth of its other businesses. As a result, it could struggle to dump the ailing business at even lower prices in the future.

Where to invest $1,000 right now
Before you consider AT&T Inc., you'll want to hear this.

Investing legend and Motley Fool Co-founder Tom Gardner just revealed what he believes are the 10 best stocks for investors to buy right now... and AT&T Inc. wasn't one of them.

The online investing service he runs, Motley Fool Everlasting Stocks, has beaten the stock market by over 3X.* And right now, he thinks there are 10 stocks that are better buys. - ***The Motley Fool***