

STATEMENT OF RANDALL STEPHENSON

CHAIRMAN, CEO, AND PRESIDENT

AT&T INC.

HEARING:

**THE AT&T/DIRECTV MERGER: THE IMPACT ON COMPETITION AND
CONSUMERS IN THE VIDEO MARKET AND BEYOND**

**UNITED STATES SENATE
COMMITTEE ON THE JUDICIARY
SUBCOMMITTEE ON ANTITRUST, COMPETITION POLICY AND
CONSUMER RIGHTS**

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June 24, 2014

Thank you, Chairman Klobuchar, Ranking Member Lee, Members of the Committee.

I am Randall Stephenson, Chairman, CEO, and President of AT&T, and I appreciate this opportunity to discuss the significant consumer benefits of AT&T's acquisition of DIRECTV.

This transaction is about meeting consumer demand. It's about providing consumers with the integrated video and broadband Internet services they want, delivered over any type of device, to nearly anywhere in the country. It's about fueling investments that bring new and faster broadband connections to millions more Americans, the vast majority of whom reside in underserved rural areas. It's about bringing new competition, new services, and new levels of customer satisfaction in ways that neither company could do on its own.

DIRECTV has the premier pay-TV service in the United States. AT&T has powerful broadband networks throughout the country. By integrating DIRECTV's video capabilities with our strength in fixed and mobile broadband delivery, we will create a new competitor with unprecedented capabilities. And, the substantial cost savings and other synergies associated with the transaction will allow us to price all of our services more competitively, which will drive cable and other competitors to lower their prices and improve their own offerings.

In addition, the transaction fundamentally improves the business case for expanding AT&T's broadband infrastructure to millions more Americans. Indeed, being able to offer DIRECTV's video product on a nationwide basis gives us the confidence to expand and enhance our high-speed broadband service to at least 15 million customer locations across 48 states, mostly in underserved rural areas, within four years after deal close. This represents a multi-billion dollar commitment of capital that AT&T simply could not make without the ability to pair DIRECTV's video products and scale with our newly-expanded broadband services.

Finally, the transaction will position AT&T to meet consumers' evolving video preferences and, in particular, to propel the development of new "over the top" video services offered by AT&T, Netflix, Hulu, Amazon and others. And, we will do all that while meeting or exceeding the FCC's net neutrality standards and extending our best-in-class diversity and labor practices to the employees and suppliers of the combined company.

I will now address each of these topics in more detail.

Combining Complementary Strengths to Meet Consumer Demand

One basic consumer preference is shaping the communications marketplace: demand for integrated video/broadband services and the new generation of emerging offerings they deliver. This transaction enables the combined companies to meet that demand and allow consumers to choose when, where and how they experience video far better than either can separately.

AT&T has world-leading networks. Our 4G LTE mobility network can deliver video quickly to nearly 300 million Americans across a broad range of devices. Upon completion of the expansion of our high-speed wireline broadband networks, we will serve 70 million customer locations and deliver instantaneous access to all the Internet has to offer. But video entertainment services are essential to success in the marketplace, and ours cannot meet the needs of enough consumers. Due to technology and economic limitations, we can offer video in only a small portion of the country – less than a quarter of American households and even in our

wireline service territory, only in more densely populated areas. The cable companies, on the other hand, have a complete overlap of their broadband and video offerings.

Where we offer video, we lack the scale needed to forge strong relationships with programmers and compete effectively against the dominant cable companies. A case in point is our cost to acquire video content. Today, 60 cents of every video dollar we earn goes straight to programmers, before we spend a penny to market our service, install a set top box, send a bill, or answer a customer's call. As a result, our video product is, on its own, unprofitable. More than 97% percent of our video customers purchase video along with another AT&T product.

DIRECTV is the premier TV brand in America, and its video service is profitable. But it does not have a broadband product and cannot meet the growing demand for integrated offerings that include broadband Internet access. Nor can it offer a full range of interactive capabilities or mobility-enabled viewing. The combined company can do all those things.

The merged company will be perfectly poised to give consumers what they want. This transaction solves our challenges in video and realizes the full potential of our networks. We will combine Internet and home services with video and video interfaces. Our mobile network can become a national video distribution system. Video can be delivered everywhere to mobile phones, computers, tablets, cars, even planes. We will offer value to programmers that will lead to better traditional video services and bundles and to new over-the-top video services.

Better and More Advanced Services for Consumers

By combining complementary services and generating deep cost savings and operational synergies, the merger allows AT&T to price more competitively and to provide a higher quality experience. Customers will get a single bill and a single installation. They will have a single point of contact for placing orders, answering questions, and solving problems. Our 2,000 company-owned stores and 10,000 retail locations will show customers how home and communications products can meet their needs and ensure that we deliver what we promise.

With a combined AT&T and DIRECTV, the home experience will be better – much better. With leadership from AT&T Labs and DIRECTV’s video engineering team, we will be able to innovate in set-top boxes, customer interfaces, and DVRs that will be seamlessly integrated across all of our networks and devices. Informed by the home automation expertise we have developed through our Digital Life service, we are just beginning to explore what the use of voice commands, flexible interfaces, and integrated services can mean for controlling home systems as well as video entertainment and for making sure that all citizens, whether vision or hearing impaired or having trouble moving about, can take advantage of all these services.

Bringing Better Broadband Infrastructure to Rural and Other Customers

The addition of a profitable video product to AT&T’s portfolio is a game-changer in the economics of deploying broadband. This transaction will allow us to lower content costs for AT&T video subscribers by 20% or more, and we project total cost synergies to exceed \$1.6 billion annually within three years after closing. These transformative effects will dramatically improve the economic case to invest in new broadband infrastructure to millions of customer locations.

With this merger, AT&T will build and enhance high-speed broadband service to at least 15 million customer locations, most of them rural, within four years of the transaction closing. This expansion is in addition to the broadband expansion plans that AT&T has already announced, and it directly results from the synergies created by the transaction.

First, AT&T will use its wireless spectrum to bring a fast, innovative broadband Internet access service to 13 million customer locations in rural areas in 48 states. Attachment A to this testimony is a map that reflects our best estimate of the coverage of this broadband expansion. More than 80% of these locations will be outside of AT&T’s wireline footprint. This is a new “fixed wireless” solution that uses advanced technology, dedicated spectrum, and professional home installations to provide a consistent and reliable high-speed broadband experience at home. We expect this product to perform as well as wireline broadband services advertised today at 15-20 Mbps. Rural customers will be able to purchase this new broadband service, DIRECTV, and IP telephone service with advanced features and larger calling areas as an integrated package or, if they prefer, on a standalone basis. This is big news for rural America. We estimate that nearly

20% of these rural consumers today have no access to a high-speed wireline broadband service, and that another 27% are hostage to only one provider. In the latter case, that single option is often a slower, older generation DSL or cable service. For many, AT&T's new service will be the fastest available, and, for some, their first chance for truly high-speed broadband.

Second, AT&T will expand its "GigaPower" broadband infrastructure. GigaPower is our newest and fastest broadband. It brings fiber all the way to the home and offers speeds of up to 1 *gigabit* per second. The transaction dramatically improves the business case and will allow AT&T to upgrade at least 2 million additional customer locations to fiber. Today, most of those additional locations either have no AT&T broadband or older generation broadband that does not support video. These customer locations will therefore gain not only lightning fast Internet access but an alternative to cable for seamless bundles of broadband, video, and other services.

The Transaction Will Enhance Rather than Reduce Competition

In the vast majority of the country, AT&T and DIRECTV do not compete at all. In those areas, the transaction unambiguously enhances competition because it makes AT&T a stronger competitor and will accelerate innovation and the deployment of new broadband infrastructure.

In the limited areas where AT&T offers video, we are still first and foremost a broadband company. Fewer than 140,000 of our customers (less than 2% of our video base) purchase video on a standalone basis. DIRECTV, on the other hand, is a pure-play video provider. As a result, there is simply no significant competitive overlap between AT&T and DIRECTV in the product that consumers overwhelmingly demand—an integrated broadband/video offering.

This transaction is unlike most mergers because it primarily combines *complementary* products and capabilities. As a matter of economic theory and business reality, when complementary providers join forces, the net result is *downward* pressure on prices and *increased* incentives to invest in innovation, integration, and infrastructure. And in this transaction in particular, econometric analysis confirms that by making us more competitive, the merger will put downward pricing pressure on all cable products—cable bundles, cable video, and cable

broadband—and have a positive impact on consumer welfare, *even before* one accounts for the very substantial cost savings and synergies that the merger makes possible.

AT&T operates in a competitive environment that is only becoming more competitive. The cable companies already dominate both broadband and video. Google Fiber, Netflix, ever-faster mobile wireless services and others are transforming competition on a daily basis. This transaction gives AT&T the combination of capabilities to be a more effective competitor to cable and to anticipate and lead in the fast-changing world of communications and entertainment.

Disrupting Competition and Developing Next Generation Services

One final word about how we together are moving toward a more competitive, innovative communications marketplace. The home-delivered video industry is evolving. The traditional cable companies are focused on maintaining their particular business model that has been dominant for too long, and DIRECTV lacks the broadband capabilities to capture the future. With our core businesses in mobile and fixed broadband, AT&T is positioned to pull the video market into a newly competitive world of integrated, interactive video services delivered anywhere on any device. This transaction lets us start doing that in a meaningful way.

Whether a customer wants to buy broadband or video on a standalone basis or in a bundle, we can serve the customer far better with DIRECTV's products and people than without them, and when this transaction closes, we will follow a sales pattern that is time-tested and proven for us. When we deployed DSL technology, we focused our sales efforts first on our existing base of telephone customers. When we deployed IP broadband, we focused our sales efforts first on our DSL base. And when we deployed U-verse video, we focused first on our IP broadband base. This merger creates even bigger opportunities: DIRECTV has over 20 million video subscribers who will likely be interested in some or all that AT&T has to offer, and we will also offer DIRECTV to all of our existing customers, wireless and wireline, as part of a bundle or, if the customer prefers, as a standalone product. At AT&T, we know how important it is to satisfy customers and preserve opportunities to introduce them to new choices and that drives us to ensure that *all* of our services remain competitively-priced and of the highest quality.

Likewise, because our core business will remain the wireless and wireline delivery of broadband, we will have every incentive to work with, rather than against, the new generation of over the top providers of interactive and video services like Netflix, Amazon, and Google. Our broadband and mobile Internet access services depend on creating and delivering that rich environment of cutting edge content, and that is increasingly so in this new video age.

Finally, AT&T has found that it serves consumers best when our employees and suppliers reflect the diversity of the markets we serve. We will extend our best-in-class diversity practices to the employees and suppliers of the combined company. AT&T also has the largest full-time union workforce of any company in America, and the combined company will continue AT&T's practice of working responsibly with the unions representing its workforce. We are pleased that the Communications Workers of America supports this transaction and has expressed its confidence that regulators will move forward to ensure that the merger's public interest benefits are realized.

Thank you, Mr. Chairman.

ATTACHMENT A

