

CHICAGO--( [BUSINESS WIRE](#) )--Fitch Ratings has placed the 'A' Issuer Default Ratings (IDRs) and outstanding debt of AT&T Inc. (AT&T) (NYSE: T) and its subsidiaries on Rating Watch Negative. The company's 'F1' short-term IDR and commercial paper rating has also been placed on Rating Watch Negative. A full rating list is shown below.

Fitch has placed the 'BBB-' IDR and outstanding debt ratings assigned to DIRECTV Holdings, LLC (DTVH) on Rating Watch Positive. DTVH is a wholly-owned indirect subsidiary. Approximately \$20.8 billion of debt outstanding at DIRECTV as of March 31, 2014 is affected by Fitch's action.

### KEY RATING DRIVERS

Fitch believes AT&T's acquisition of DIRECTV will improve its financial flexibility owing to DIRECTV's strong free cash flows and the significant equity component in the transaction financing. The transaction also strengthens the company's position in the evolving video landscape, offering the potential to capitalize on trends for mobile video and over-the-top (OTT) video delivery. The acquisition also diversifies AT&T's revenue stream.

DIRECTV's video assets are complementary to AT&T's operations, but the longer term strategic benefits are less clear and depend on the post-merger company's ability to capitalize on emerging trends in the industry.

The Negative Watch reflects the modest increase in leverage for AT&T, pro forma for the transaction. AT&T's leverage is currently at the upper bounds for the current 'A' rating. As currently proposed the transaction would likely lead to a one-notch downgrade for AT&T to 'A-' and a Stable Outlook. On a pro forma basis, Fitch estimates leverage in 2015 will be less than 2.0x. However, the final rating would depend on any additional conditions placed on the transaction by the regulatory approval process, an updated view of anticipated spectrum spending, and an assessment of AT&T's post-acquisition financial policies.

## Fitch Places AT T's 'A' IDR on Negative Watch; DIRECTV on Positive Watch

Written by Australian Business

---

For DTVH, the Positive Watch reflects AT&T's ownership of the company following the close and strong strategic ties. DTVH's final rating will depend on an evaluation of AT&T's financial policies with respect to DTVH's debt and the degree of linkage to AT&T's rating.

For the latest 12 months (LTM) ended March 31, 2014, AT&T's net leverage as calculated by Fitch was 1.8x, an increase from the 1.6x at year-end 2012. AT&T has maintained relatively aggressive stock repurchases over a period when free cash flow (FCF) has been lower due to temporary, growth-focused capital spending, leading to additional borrowing. Modestly growing EBITDA is softening the effect of the rise in debt on leverage.

In Fitch's view, liquidity is strong and provided by the company's FCF; additional financial flexibility is provided by availability on the company's revolving credit facilities (RCFs). At March 31, 2014, total debt outstanding was approximately \$79.9 billion. At March 31, 2014, cash amounted to \$3.6 billion and for the most recent LTM, AT&T produced \$3.1 billion in FCF (net cash provided by operating activities less capital expenditures and dividends), an amount short of the \$8.3 billion in stock repurchases over the course of the same period. Fitch expects FCF to range from \$5 billion to \$6 billion annually, on average, over the next two years.

At March 31, 2014, the company did not have any drawings on either its \$5 billion RCF due 2018 or its \$3 billion RCF due 2017. The principal financial covenant for both facilities requires debt-to-EBITDA, as defined, to be no more than 3x.

Relative to the company's expected FCFs, upcoming debt maturities are manageable. For the remainder of 2014, debt maturities are approximately \$4 billion, and in 2015, \$7.9 billion. Maturities in 2015 include debt puttable to the company.

### RATING SENSITIVITIES

Negative: The transaction as it currently stands will likely lead to a one-notch downgrade of AT&T's rating to 'A-'.

## Fitch Places AT T's 'A' IDR on Negative Watch; DIRECTV on Positive Watch

Written by Australian Business

---

Positive: The rating could be affirmed at 'A' if the company's financial leverage of 1.6x to 1.7x by 2016. policies targeted

Fitch has placed the IDRs (short-term and long-term) and debt of the on Rating Watch Negative: following entities

AT&T, Inc.

--Long-term IDR of 'A';

--Senior unsecured debt of 'A';

--\$5 billion revolving credit facility due December 2018 of 'A';

--\$3 billion revolving credit facility due December 2017 of 'A';

--Short-term IDR of 'F1';

--Commercial paper of 'F1'.

AT&T Corp.

--Long-term IDR of 'A';

--Senior unsecured of 'A'.

BellSouth Corp.

--Long-term IDR of 'A';

--Senior unsecured of 'A'.

BellSouth Capital Funding Corp.

--Senior unsecured of 'A'.

BellSouth Telecommunications, Inc.

--IDR of 'A';

--Senior unsecured of 'A'.

AT&T Mobility LLC (formerly Cingular Wireless, LLC)

--Long-term IDR of 'A';

--Senior unsecured of 'A'.

New Cingular Wireless Services, LLC (formerly AT&T Wireless Services, Inc.)

--Long-term IDR of 'A';

--Senior unsecured of 'A'.

Ameritech Capital Funding

--Long-term IDR of 'A';

--Senior unsecured of 'A'.

Indiana Bell Telephone Company

--Long-term IDR of 'A';

--Senior unsecured of 'A'.

Michigan Bell Telephone Company

--Long-term IDR of 'A';

--Senior unsecured of 'A'.

Pacific Bell Telephone Company

--Long-term IDR of 'A';

--Senior unsecured of 'A'.

Wisconsin Bell Telephone Company

--Long-term IDR of 'A';

--Senior unsecured of 'A'.

Southwestern Bell Telephone Company

--Long-term IDR of 'A';

--Senior unsecured of 'A'.

Fitch has placed the IDR and debt of the following on Rating Watch      Positive:

DIRECTV Holdings LLC

--Long-term IDR of 'BBB-';

--Senior unsecured of 'BBB-'.

The rating actions of DIRECTV Holdings will also be addressed in a separate rating action commentary.

Additional information is available at '[www.fitchratings.com](http://www.fitchratings.com)'.

Applicable Criteria and Related Research:

--'Corporate Rating Methodology' (Aug. 5, 2013);

--'Rating Telecom Companies - Sector Credit Factors' (Aug. 9, 2012).

Applicable Criteria and Related Research:

Corporate Rating Methodology - Effective 12 August 2011 to 8 August 2012

[http://www.fitchratings.com/creditedesk/reports/report\\_frame.cfm?rpt\\_id=647229](http://www.fitchratings.com/creditedesk/reports/report_frame.cfm?rpt_id=647229)

Rating Telecom Companies

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=682323](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=682323)

Additional Disclosure

Solicitation Status

[http://www.fitchratings.com/gws/en/disclosure/solicitation?pr\\_id=830720](http://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=830720)

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: <HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS>. IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE '<WWW.FITCHRATINGS.COM>

' PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.