

Fitch Rates AT T's Senior Unsecured Notes Offering 'A'; Remains on Negative Watch

Written by Australian Business

CHICAGO--([BUSINESS WIRE](#))--Fitch Ratings has assigned an 'A' rating to AT&T Inc.'s (AT&T) offering of senior unsecured Euro1.6 billion of global notes due 2024 and Euro500 million of global notes due 2034. AT&T's Issuer Default rating (IDR) is 'A'. The company's IDR and debt securities remain on Rating Watch Negative, where they were placed on May 19 upon the announcement of the acquisition of DIRECTV. DIRECTV's wholly-owned indirect subsidiary, DIRECTV Holdings LLC, currently has an IDR of 'BBB-'.

Proceeds from this offering, combined with cash on hand a June 3, 2014 offering in the amount of \$2 billion, are expected to be used for general corporate purposes, including the repayment of debt maturing from 2014 to 2016 with a principal amount totaling approximately \$4.4 billion.

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 addition of DIRECTV will also strengthen AT&T's position in the evolving video landscape, offering the potential to capitalize on trends for mobile video and over-the-top (OTT) video delivery. Other benefits include the scale brought by DIRECTV's substantially larger video subscriber base and the diversification of 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. Currently, AT&T operates with leverage 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 AT&T's anticipated spectrum spending, and an assessment of AT&T's post-acquisition

Fitch Rates AT T's Senior Unsecured Notes Offering 'A'; Remains on Negative Watch

Written by Australian Business

financial policies.

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, AT&T's liquidity is strong and supported by the company's cash, FCF and availability on its revolving credit facilities (RCFs). 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 \$8.4 billion in stock repurchases over the course of the same period. Fitch expects 2014 FCF to be similar to the trend through the LTM ending March 31, 2014.

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.

At March 31, 2014, total debt outstanding was approximately \$79.9 billion. Relative to the company's expected FCFs, upcoming debt maturities are manageable. Taking into account the repayment of maturing debt as noted above, for the remainder of 2014, debt maturities are approximately \$2.5 billion, and in 2015, \$6.5 billion. Maturities in 2015 include debt putable 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-'.

Positive: The rating could be affirmed at 'A' if the company's financial policies targeted

Fitch Rates AT T's Senior Unsecured Notes Offering 'A'; Remains on Negative Watch

Written by Australian Business

leverage of 1.6x to 1.7x by 2016.

Additional information is available at ' www.fitchratings.com '.

Applicable Criteria and Related Research:

--'Corporate Rating Methodology' (May 28, 2014);

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

Applicable Criteria and Related Research:

Corporate Rating Methodology - Including Short-Term Ratings and Parent and
Subsidiary Linkage

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=749393

Rating Telecom Companies

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=832939

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.