Implications for Valuation

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Panel: Implications for Valuation
Part 1

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Wireless Observations

- AT&T substantially behind the industry leader with LTE roll out with substantial capx to spend to catch up
- Add 50 million LTE POPs by end of 2014
- The GSM network is scheduled to be shut down by 2016. At the end of economic life
- Generations of technology are turning over faster as time goes on. LTE Advanced is rolling out before we can even get the initial LTE assets in place. Therefore economic lives are getting shorter.

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Wireless Valuation Issues

- Valuation schedules require shorter lives and steeper depreciation curves to reflect more rapidly changing technology
- Recognize obsolescence for 2G equipment that is at the end of its economic life
- More competition with Softbank's disruptive market strategy. Higher risk rates
- Huge capital expenditure requirements to finish LTE build and move on to LTE Advanced
- LTE causes 3G networks to lose value due to lower LTE replacement cost

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Narrowband Valuation Issues

- Circuit switched network very near the end of its economic life. This is a large part of existing infrastructure.
- Much of it can no longer be operated at a profit due to loss of customers
- 25% of AT&T wireline customers move to AT&T LTE wireless network through VIP to obtain necessary broadband speeds
- Additional allowances for obsolescence must be recognized

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Cost of Capital Issues

- Many industry experts still have concern as to whether AT&T can earn an adequate profit on the VIP investment in wireline
- Cost of capital for existing ILECs far higher than the parent holding companies. (Not generally not recognized by appraisal experts.)
- There is not a single cost of capital for all telecommunication lines of business of similar size despite existing assumptions

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