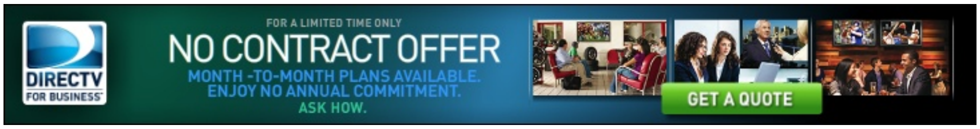

Technology

AT&T's next big transformation

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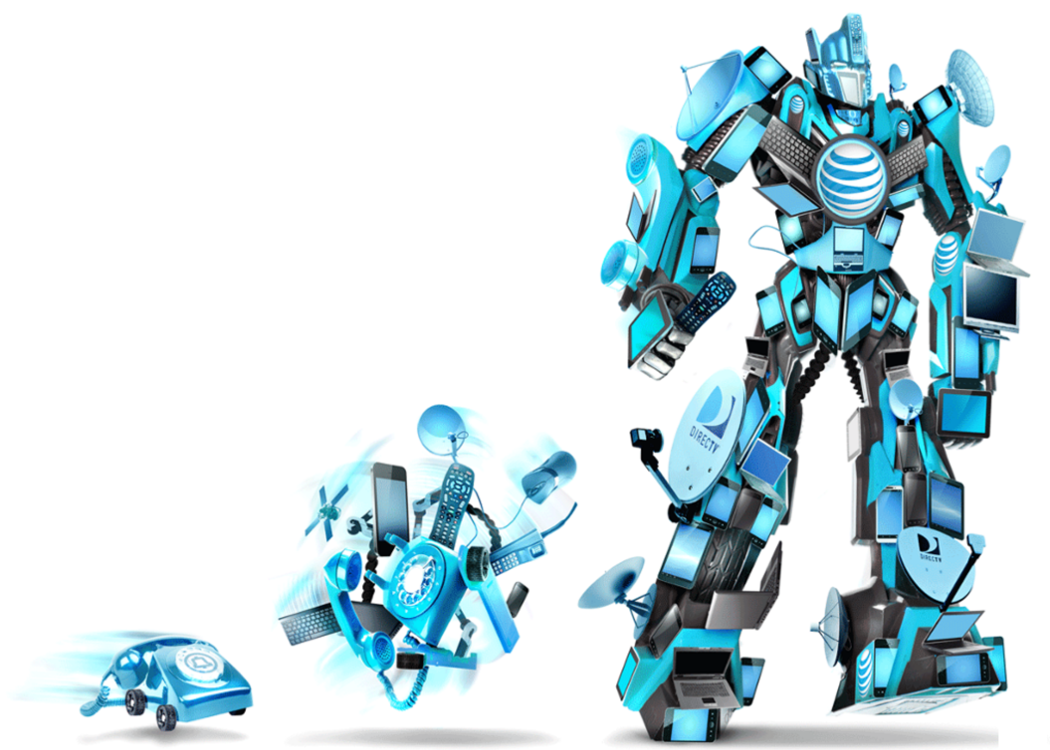

Michael Hogue/Staff Artist

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Built through acquisitions into one of the largest companies in the world, AT&T Inc. is in the midst of its biggest corporate transformation yet.

By midyear, the company expects to receive regulatory approval to acquire satellite video provider DirecTV, a deal valued at $67 billion including debt. When the deal is final, AT&T will have new services to sell and new geographic markets, all with an increased focus on business customers.

"This is our first acquisition with a whole new product set," chief financial officer John Stephens said during an interview at company headquarters in downtown Dallas.

With $132 billion in revenue last year, AT&T already ranks among the three dozen largest companies on the planet, according to *Fortune* magazine.

Counting DirecTV, which had $33 billion in revenue last year, as well as acquired and yet-to-be-acquired Mexican wireless operations, AT&T's annualized revenue should approach $180 billion. That would put it among the biggest 15 or so companies in the world, and the top five or six in the U.S. Something on the order of $8 billion annually will come from Latin American video and wireless operations, a review of records shows.

AT&T has closed its acquisition of Mexico's Iusacell. A deal for Nextel Mexico is pending. The Mexican wireless companies will be part of what AT&T calls a North American mobile service area.

DirecTV has about 20 million subscribers in the U.S. and 19 million in Latin America. AT&T has about 6 million video subscribers through its U-verse service.

Focus on business

In the future, AT&T says, the largest source of its total annual revenue will be from business-related accounts. The company didn't provide dollar specifics, but doing the math from details it did provide, that should amount to roughly $80 billion.

"It's one of our fastest-growing areas simply because of untapped potential," said Ralph de la Vega, head of AT&T Mobile & Business Solutions, a group formed last August. Wireless business-related revenue grew 10.9 percent in 2014 over the previous year, AT&T reported. Overall business-related revenue grew 4 percent.

AT&T says it has more than 3.5 million business customers in 100 countries, including all of the *Fortune* 1000 companies.

"This is a new AT&T," said Steve McGaw, the chief marketing officer for the business solutions group. "We really are transforming."

More and more, de la Vega said, mobile software and centralized data storage technology — the cloud — are changing the way business is done. Companies want secure access to everything on every device their employees use — smartphones, tablets, laptops and desktops. And in every environment, wireless and wired.

Last September, Shell, the global energy company, signed an agreement with AT&T that will eventually enable 150,000 Shell employees and contractors in more than 50 countries to communicate more easily by voice, video and instant message.

DirecTV potential

The acquisition of DirecTV gives AT&T even more potential appeal to business customers.

Hotels and hospitals, for example, may already be wired for big data connections. With DirecTV, AT&T can bundle that with television for common areas, hospitality locations and every guest or patient room.

"We're not just a commodity" to business customers, de la Vega said. "We're someone who solves problems."

His use of the term *commodity* refers to one of the issues AT&T faces in the domestic consumer wireless market, a primary growth area for several years. AT&T once had the iPhone exclusively. Not anymore.

As the smartphone market becomes saturated, carriers fight for the replacement business. That can get brutal. Look at Sprint's current TV commercials. Customers use chain saws and other tools to cut their AT&T and Verizon bills in half.

De la Vega, a 40-year veteran of AT&T and its forerunners, is accustomed to key assignments. He helped negotiate AT&T's exclusive iPhone deal with Steve Jobs of Apple, giving AT&T a big head start in smartphones.

Stephens, the CFO, also carries the title of senior executive vice president. He said AT&T, especially with DirecTV, has a competitive advantage in the converging world of wired, wireless, Internet and video technologies. The general aim is to make video and other content available anytime, anywhere and on almost any device.

Stephens pointed out that of 2,300 AT&T retail stores, 1,000 of them currently can't sell television service. With DirecTV, all the stores will offer television.

Last fall, DirecTV and the National Football League renewed their deal for the Sunday Ticket, which gives fans access to out-of-market games. Some media reports put the price at $12 billion over eight years, or about $1.5 billion a year.

AT&T considered the Sunday Ticket so important that it put a clause in the takeover agreement: If DirecTV couldn't renew its NFL deal, AT&T could back out of the acquisition.

Stephens said he couldn't talk about AT&T's specific plans for the Sunday Ticket. But he did use phrases like "completion of the bundle" and "integrated package," making clear the potential for The Ticket to eventually be available on many AT&T devices. The company has 120 million wireless subscribers.

"It may not happen overnight," Stephens said.

Sending signals

The current incarnation of AT&T traces itself to Southwestern Bell, one of the seven "Baby Bells" that the old AT&T was forced to divest in 1984. Before then, AT&T was called "The Biggest Company on Earth" in a book by Sonny Kleinfield.

Over the years, Southwestern Bell changed its name to SBC Communications and acquired three other Baby Bells (Pacific Telesis, Ameritech and BellSouth) as well as various wireless operations. In 2005, SBC acquired its former parent, AT&T Corp., reclaiming the valuable brand name.

The new AT&T has been signaling its transformation for a while:

It has become a major content creator as well as a carrier.

It accelerated the modernization of its wireless and wired networks.

It established idea think tanks in Plano and elsewhere, where developers fast-track product concepts.

It acquired Leap Wireless and its Cricket brand of no-contract, usually less expensive, mobile service.

And it says it is becoming a leader in the Internet of things, connected devices that monitor — and sometimes control — everything from door locks at home to cars and jet engines. In 2014, AT&T said that it connected nearly 20 million different devices to its network.

If anyone missed those messages, CEO Randall Stephenson left no doubt in January.

By the end of this year, he told analysts, AT&T is going to be a "very different company."

For companies, the ability to change and adapt is essential as their products and services go through periods of growth and decline.

In the 1970s, Kimberly-Clark switched its focus from paper to consumer products such as disposable diapers. In the 1980s, Xerox re-imagined its approach to manufacturing so it could compete against low-cost Japanese copier makers. In the 1990s, a struggling IBM changed its culture to more embrace customers.

For AT&T, the current transformation is evolutionary. Survival isn’t at stake. The company remains a cash machine that generates generous profits, stock dividends and funds for investment.

“It’s a growth story,” Stephens said.

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