Comcast's Bid for AT&T Broadband. From a BBC Radio interview in July, 2001.

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by

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[Based on an interview conducted by BBC Radio in July, 2001.]

In early July, Comcast Corporation offered to buy the broadband CATV business from AT&T in a deal valued at $58 billion. Comcast offered $44.5 billion in Comcast stock and the assumption of $13.5 billion in debt. Days later, AT&T declined the proposal and announced it was in talks with other possible suitors.

AT&T's CATV business was acquired from TCI and MediaOne The TCI acquisition, announced in 1998, was valued at $48 billion, and the MediaOne acquisition, consummated in 2000, was valued at $57 billion. AT&T overpaid tremendously for these two acquisitions. MediaOne had been divested from US West after being acquired from Continental Cablevision in 1996 for only $5.2 billion. The two acquisitions by AT&T were paid mostly in AT&T stock, which in 1999 and 2000 was going for about $50 a share. Today, AT&T stock is under $20 a share—a decrease by well over half.

AT&T is reported to have about 13.5 million CATV subscribers, which means the Comcast offer of $58 billion equates to about $4,300 per subscriber. In early July, Comcast purchased about 115,000 cable subscribers in Baltimore from AT&T for $518 million in cash—about $4,500 per subscriber. Although the larger offer from Comcast was not cash, the value per subscriber is comparable to the previous purchase and thus looks like fair value.

The total price tag for the two cable acquisitions by AT&T was about $105 billion. Reducing this by the proportionate decrease in the value of AT&T stock gives an equivalent value today of about $40 billion. From this perspective, the Comcast offer was generous. AT&T should have taken the offer and ran. But greed and apparent ignorance of financial realities again gripped AT&T, and another questionable decision was made in the continuing litany of strategic blunders at AT&T.

An interesting aspect of the Comcast offer is that AT&T's market capitalization today is $67 billion, for an AT&T that includes both the broadband business and the long-distance network business. Comcast had offered $58 billion for the broadband business alone. Clearly, the long-distance business is worth far more than the apparent difference of only $9 billion. This implies that AT&T is considerably undervalued.

At the time of the first AT&T cable acquisition in 1998, I predicted financial ruin for AT&T. Indeed, such ruin occurred, but AT&T did the correct thing in announcing finally the planned divestiture of the broadband business. But the delays in implementing this divestiture have been costly for AT&T.

One way or another, Comcast will get what it wants. If not today, then after the broadband unit is divested and no longer under the control of AT&T and its board.

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