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Warner Bros. Discovery

**An Opportunity or a Poisoned gift?**

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## **Abstract**

This case aims to analyse the spin-off between AT&T and its division WarnerMedia as well as the subsequent merger between the latter and Discovery to form the new company: Warner Bros. Discovery. The case study dives deep into the history of the involved companies, the context in which the transaction occurred and the terms of the deal. In the Teaching Note, the reasoning behind the deal is analysed, namely the motivations of the intervenient companies and possible explanations for opting for the chosen deal structure. Finally, it evaluates if there was a conglomerate discount and how the shareholders will be affected with this deal.

**Key Words:** AT&T; Spin off; Warner Bros. Discovery; Valuation; M&A; Telecommunications; Media

## Case Study

### Warner Bros. Discovery: An Opportunity or a Poisoned gift?

**NEW YORK and DALLAS, April 8, 2022.** Today Discovery, Inc. and AT&T Inc. (NYSE:T) announced that they have closed their transaction to combine the WarnerMedia business with Discovery. The combination creates a premier standalone global media and entertainment company, Warner Bros. Discovery, Inc., which will begin trading on the Nasdaq<sup>1</sup> with the start of trading on Monday, April 11, under the new ticker symbol “WBD” (U.S. Securities and Exchange Commission, 2022)<sup>i</sup>.

James Goodman had just arrived at his office to start his working day. As always, he began his routine by drinking a coffee and reading the online newspaper. His attention was immediately directed to the article that confirmed the establishment of the new company, Warner Bros. Discovery. This announcement followed a previous one made on May 17, 2021 (see **Exhibit 1**), which informed that AT&T and Discovery had reached an agreement to combine the latter with WarnerMedia, a business segment from AT&T.

As a shareholder of AT&T, James Goodman was wondering how his position would be impacted by this deal as the new company, Warner Bros. Discovery, would start trading a few days later, on April 11. The type of deal left Goodman with many alternatives. As already confirmed on February 2022 by AT&T and its board of directors, in the first part of the deal, AT&T is making a spin-off of 100% of the interest in the WarnerMedia division to AT&T’s shareholders. After the spin-off, the WarnerMedia division will merge with Discovery to form a new company, Warner Bros. Discovery. Under the terms of the transaction, AT&T’s shareholders will own stock representing approximately 71% of the new company<sup>ii</sup>.

Goodman is a senior banker with more than 30 years of experience in the industry. With a strong background in Economics, he is also an experienced investor with an outstanding track

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<sup>1</sup> National Association of Securities Dealers Automated Quotations

record that enabled him to develop a good reputation among private investors. Despite preferring long-term investments, James Goodman usually monitors the performance of his positions and the news that can impact them. In this case, his long-term involvement with AT&T also allowed him to have a deep understanding of the company and its activities, but Goodman knew that he had a complex decision in his hands, not only because this position was relevant in his portfolio, but also because this deal implied structural changes for both the NewCo<sup>2</sup> and the RemainCo<sup>3</sup>.

### **AT&T Inc.**

AT&T Inc. is an American multinational telecommunications company headquartered in Downtown Dallas and is the world's largest telecommunications company in terms of revenue (see **Exhibit 2**), as well as the third-largest provider of mobile phone services in the United States. AT&T was placed 11th on the Fortune 500 list of the top US corporations in 2021, with \$168.8 billion in revenue<sup>iii</sup> (see **Exhibit 3**).

The American Telephone and Telegraph Company (AT&T) was founded in 1885 as a subsidiary of the Bell Telephone Company<sup>iv</sup>. AT&T focused on extending its telephone network in its early years, and by the turn of the century, it had become the dominant player in the communications business. It continued growing in the twentieth century, also becoming the leader in long-distance telephone service, and introducing innovative technologies such as the transistor<sup>4</sup>, which revolutionized the electronic sector. The AT&T monopoly in the telecommunications industry was challenged in 1974 when the US Department of Justice filed an antitrust action against the company, alleging anti-competitive practices. The case was settled in 1984 when AT&T agreed to break up and divest the Bell System into seven regional operating companies - Nynex, Bell Atlantic, Ameritech, BellSouth, Southwestern Bell

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<sup>2</sup> Company formed after merging two entities, in this case by the SpinCo (WarnerMedia) and Discovery

<sup>3</sup> Divesting company

<sup>4</sup> Semiconductor device with three connections, capable of amplification in addition to rectification

Corporation (SBC), US West, and Pacific Telesis Group – known as “Baby Bells”<sup>v</sup>. AT&T Corp. kept control of the long-distance network and continued innovating, namely with the creation of the first cellular phone network in the US.

The company began to diversify its business in the 1990s, entering the computer industry and acquiring companies such as NCR Corporation and Teradata Corporation. It also established AT&T Wireless, which grew to become one of the largest wireless service providers in the United States. Simultaneously, SBC, one of the “Baby Bells”, was expanding its US presence through a series of acquisitions, including two other “Baby Bells”: Pacific Telesis Group in 1997 and Ameritech Corp. in 1999<sup>vi</sup>. In 2005, SBC acquired AT&T Corp., creating the new AT&T Inc., a leader in global communications for businesses<sup>vii</sup>. One year later, the acquisition of BellSouth, the last independent “Baby Bell” company, consolidated ownership of Cingular Wireless<sup>5</sup>, which ultimately helped in the development of the mobile internet. This meant AT&T Inc. had reconstituted part of the Bell System dismantled 20 years before, more precisely 4 out of the 7 regional companies and the original AT&T Corp., that included the long-distance network.

Until 2016, AT&T operated 4 main business segments (see **Exhibit 4**) and had nearly 135 million wireless subscribers in the US. The first segment, Business Wireline, included wireless services, voice and data services, strategic services, and wireless devices. The second, Mobility, provided services and equipments to customers. The third, called Entertainment and Internet services, included video entertainment, Internet, and traditional data services. The fourth and last business sector was the International one that provided video and wireless services in Latin America. AT&T’s recent moves indicated a commitment to expand the mobile Internet business outside of the US, particularly in Latin America. This included the acquisitions of Mexican carrier Iusacell for \$2.5 billion in 2014 and Mexican telecom operator Nextel Mexico for \$1.88

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<sup>5</sup> Now integrated in the AT&T Mobility LLC that is fully owned by AT&T

billion, which together formed AT&T Mexico. The entry into the video business was also a new strategy that came as a consequence of consumers' new video-watching practices, as well as the increasing relevance of social media. To get into the market, AT&T started by purchasing Fullscreen, one of the main YouTube content providers, in 2014. One year later, it went on to buy DIRECTTV, the country's largest satellite TV provider, for \$48.5 billion, an acquisition that boosted the revenue growth in the company's entertainment business and turned AT&T into the largest pay-TV company in the United States<sup>viii</sup>.

In 2016, AT&T got an agreement for the acquisition of Time Warner that would only be officialised in June 2018. Randall Stephenson, AT&T's CEO, argued that it was "the perfect opportunity to ally the state-of-the-art content provided by Time Warner with the experience in direct-to-consumer distribution possessed by AT&T."<sup>ix</sup>. Three years later, AT&T was announcing the spin-off of the then called WarnerMedia division.

### **Telecommunications Industry**

The telecommunications industry has experienced rapid evolution and transformation in recent years. With technological advancements, rapidly shifting consumer demands, and the emergence of revolutionary innovations, this industry has become a driving force behind global connectivity, digital communication, and information exchange. The main telecom companies are well established in the market and usually make strategic acquisitions to maintain or increase their market share and to accommodate the market dynamics. Although the focus of those investments is the core business of the Telecom companies, historically, there is also openness to invest in other businesses.

In the late 90's, there was a significant trend of telecom companies investing in media ventures, driven by the dotcom bubble<sup>6</sup> x. During this period, the media industry was seen as highly lucrative and with the aim of capitalizing on the internet hype, many telecom companies

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<sup>6</sup> Stock market bubble that was caused by speculation in dotcom or internet-based businesses from 1995 to 2000.

acquired overpriced media-related firms. The lack of understanding on the media industry and its dynamics, together with the burst of the dotcom bubble in the early 2000s led to financial problems among telecom companies that were forced to divest their media assets with losses, given that they had been acquired at high valuations<sup>xi</sup>. In the following years, telecom companies refocused on their core business that included providing voice and data communication services. This enabled them to regain stability and diversify within telecommunications, namely by expanding into new geographic markets and by introducing innovative services.

More recently, the implementation of 5G has been the main priority in the mobile sector, with the development of 6G technology happening concurrently. Meanwhile, fibre-optic networks are offering high-speed internet to fixed broadband consumers in numerous areas. The magnitude and expense of supplying these networks have sparked changes in the worldwide market, with authorities looking to reconsider limitations on large-scale mergers while also contemplating measures to force giant tech corporations into contributing to network costs<sup>xii</sup>.

In the services sector, the proliferation of Internet of Things (IoT) devices has increased across various industries, including healthcare, manufacturing, energy and utilities, and the public sector, to name a few. To operate and communicate effectively, the rapidly expanding IoT devices will require high-speed data access. As a result, demand for telecom services in the machine-to-machine services market is predicted to expand significantly in the future<sup>xiii</sup>.

Key market players are focused on strategic mergers and acquisitions to expand their geographical presence and product portfolios<sup>xiv</sup>. As so, they are investing to obtain the spectrum required to provide next-generation services. Having enough spectrum would allow market participants to diversify their portfolios and extend their subscriber base across other nations. Only in February 2021, did AT&T Inc. and Verizon Communications invest over \$70 billion for 5G spectrum to provide greater network access to its consumers<sup>xv</sup>. Several other telecom

operators, including China Mobile Ltd., KT Corporation, BT Group plc (EE), and Vodafone Group plc, are also heavily investing in the acquisition of millimetre wave (mmWave) spectrum to provide greater bandwidth connection for business and consumer applications<sup>xvi</sup>. In the US, the telecom market is shaped by a handful of major companies that own a big share of the market<sup>xvii</sup> (see **Exhibit 5** and **Exhibit 6**).

### **Time Warner**

On June 15, 2018, AT&T concluded the acquisition of Time Warner, announced almost two years before, in October 2016. The acquisition completion was delayed because of the attempt to block the deal by the US Department of Justice (DOJ), due to antitrust reasons and claims that the concentration of power could prejudice customers<sup>xviii</sup>.

Before being acquired, Time Warner Inc. operated as a media and entertainment company. It was divided into three business segments<sup>xix</sup>: Networks, primarily encompassing cable television networks offering diverse programming; Filmed Entertainment, that produced and distributed feature films, television shows, and home videos; and Publishing, mainly focused on magazines. The Networks segment included both domestic and international networks, along with premium pay television programming services. The popular multi-channel services HBO and Cinemax were part of this premium pay television programming<sup>xx</sup>.

This deal happened at a time when media companies were more active than ever in the market, mostly due to concerns related to Netflix's exponential growth (see **Exhibit 7**) and the decline in cable television revenues. Following AT&T's deal, Comcast and Disney battled to acquire 21st Century Fox. Disney ended up completing the deal, but Comcast proceeded to the acquisition of Sky, a European pay-tv provider<sup>xxi</sup>. For traditional companies, these deals were mostly a reaction to the shift in industry trends and especially to the new threat: Netflix. AT&T's move marked the beginning of a trend that Netflix's CFO David Wells considered to be the wrong approach. Wells argued that "getting bigger was not the answer to everyone",

pointing out that “some brands are big enough to compete to be another Netflix, or another YouTube, and vie for the global consumer media dollar, but not everybody’s going to be in that bucket” and “they (other media companies) may want to specialize in content production, and that may be a better business for them.”<sup>xxii</sup>.

Netflix was one of the main causes for all the mergers and acquisitions occurring in the past years, but its business model made it unrealistic for traditional companies to compete using a similar strategy, especially because it did not look sustainable in the long term. Netflix consistently spent more than it earned, leveraging itself more every year. Every single leader of the remaining companies knew that ignoring the new threats would be fatal, but nobody knew how to proceed and that was the challenge.

### **Time Warner Acquisition Details**

To acquire Time Warner, AT&T issued 1.185 million shares of common stock and paid \$42.5 billion in cash<sup>xxiii</sup>. Based on the closing price of \$32.52 per share of AT&T Common Stock on the New York Stock Exchange on June 14, 2018, the aggregate implied value paid to former holders of Time Warner Common Stock was approximately \$81 billion. Besides that, AT&T also assumed the net debt from Time Warner, which meant a total transaction value of \$104.3 billion. AT&T entered into a credit agreement to borrow \$25 billion from JP Morgan and \$15 billion from Bank of America. The \$40 billion were exclusively used to finance part of the cash consideration to be paid in the Merger, the refinancing of debt of Time Warner and its subsidiaries, and the payment of other fees and expenses<sup>xxiv</sup>.

### **Discovery Inc.**

Discovery, Inc. was an American multinational media and entertainment firm based in New York<sup>xxv</sup>. It operated a portfolio of television networks, digital media brands, and other entertainment and educational businesses<sup>xxvi</sup>. Among the television networks owned by Discovery Inc. were the Discovery Channel, TLC, Animal Planet, Science Channel, and

Investigation Discovery. Discovery Inc. also operated several digital media brands, including the Discovery Go app, the Food Network website, and the HGTV website. In addition, the company has invested in direct-to-consumer streaming services, such as Discovery+. <sup>xxvii</sup>

John S. Hendricks founded Cable Educational Network in 1985 to create a television network dedicated to educational and informational content<sup>xxviii</sup>. Hendricks recognized the demand for factual, entertaining, and informative content and set out to develop a network that would provide a distinctive and disruptive viewing experience. The first channel created, Discovery Channel, went to air in June 1985 and became the company's flagship<sup>xxix</sup>. It specialised in documentaries and other non-fiction programmes and immediately established a loyal group of viewers who were constantly seeking educational information. In the 1990s and early 2000s, Discovery expanded its portfolio through the acquisition of some networks, such as TLC<sup>xxx</sup>, Animal Planet and Travel Channel<sup>xxxi</sup>, and the creation of new digital cable channels. Some of these new channels were Discovery Kids, Discovery Travel, Discovery Health, and Discovery Civilization<sup>xxxii</sup>. The strategy of increasing the number and type of content offered aimed to broaden the target audience.

In 2006, David Zaslav was named CEO of Discovery Communications<sup>xxxiii</sup> and proceeded to a shift in the strategy of the company. The focus was on continuing with the expansion by developing Discovery's core channels and programming, nationally and internationally. To do that, Zaslav wanted to give priority to the content produced in-house, to grow as a content-producing company and not solely as a cable company. Content ownership was seen as crucial for the future success of the company and Discovery saw joint ventures as a solution to produce better content and even to replace or relaunch the existing one. Zaslav also placed Digital Media reach as one of the priorities for the company<sup>xxxiv</sup>. The first step to improve in this field was taken in January 2014 with the launch of Curiosity.com, a website aggregating educational content online<sup>xxxv</sup>, that was later spun out as a venture-funded startup<sup>xxxvi</sup>. Shortly after,

Discovery Go was launched, providing access to live-streaming content from the diverse Discovery cable networks<sup>xxxvii</sup>. This move provided another way of distributing the content produced reinforcing Zaslav's willingness to get away from the idea that Discovery was solely a cable company.

In 2016, the CEO announced a restructuring plan for the third quarter of the year, in which he intended to save costs in the order of between \$40 and \$60 million<sup>xxxviii</sup>. At the same time, he announced another shift in strategy that would be characterized by heavier investments in content, digital media, sports, and international markets<sup>xxxix</sup>. The first move was to purchase a minority interest in VS Media, a Hong Kong-located digital talent and content company, that allowed Discovery to deliver its content in China<sup>xl</sup>. In 2018, Discovery completed the acquisition of Scripps Networks Interactive (SNI) for \$14.6 billion, a company that included famous channels in the US, namely Food Network, HGT, and Travel Channel. With this deal, SNI shareholders retained 20% of Discovery's stock which was renamed from Discovery Communications to Discovery Inc.. With this acquisition, Discovery intended to diversify the content offered and to do crossovers between characters from both Discovery and SNI's networks to produce new programs<sup>xli</sup>. This acquisition was followed by the purchase of the rights to transmit the PGA Tour and the Olympics from Eurosport<sup>xlii</sup>.

In March 2020, Discovery gave continuity to its direct-to-consumer strategy by launching Discovery+ in India<sup>xliii</sup>. The boom of streaming services in the pandemic period led to the announcement of the streaming service also in the US, in January 2021<sup>xliv</sup>.

### **Media Industry**

The media industry has faced major changes in recent years, owing to fast technological innovation and shifting consumer behaviours. The emergence of digital platforms, the proliferation of mobile devices, and the growing desire for personalised and on-demand information have all altered how consumers behave and interact with media. Understanding

these dynamics is critical for media companies (see **Exhibit 9** and **Exhibit 10**) wanting to prosper in an era of extraordinary connectivity and ever-changing consumer tastes, from the emergence of streaming services to the fragmentation of media consumption<sup>xlv</sup>.

During the pandemic and lockdown period, consumers were desperate for premium personalized video content. Streaming services, fuelled by their affordability, convenience, and vast content libraries, got their boom in terms of subscribers. This “new” way of delivering content forced traditional forms of media, such as cable television, to also adopt on-demand personalized experiences. Streaming giants like Netflix and Amazon Prime, launched in 2007 and 2006 respectively, appeared as dominant players in the market and the already established media companies ended up creating new platforms to compete with them<sup>xlvi</sup>. NBCUniversal created Peacock<sup>xlvii</sup>, Paramount gave birth to Paramount+<sup>xlviii</sup>, and Disney launched Disney+<sup>xlix</sup>. Streaming services challenged the dominance of television and cinema and, eventually, traditional media companies saw their business models changing drastically as they had to create space for the new streaming platforms to answer to consumer preferences.

Streaming platforms revolutionized the industry mostly because they represent a completely new distribution channel, defined as direct-to-consumer (DTC)<sup>l</sup>. With the increasing number of players in the streaming industry, the challenge consists more and more in offering original content able to attract and retain consumers. Securing exclusive rights to popular movies and series was a viable strategy when the competition was not high, which is not true anymore. With more companies in the streaming market, audiences got fragmented and licensing costs for this type of content are increasing, making it less profitable for companies to simply license and distribute non-original content<sup>li</sup>. The focus for media companies is more and more on producing content in-house to differentiate themselves from the competition and attract new subscribers. Being perceived as a streaming platform that creates quality content is an important step to build brand loyalty.

As the global demand for streaming services grows, media corporations are actively increasing their presence in foreign markets. These businesses can effectively interact with different audiences by customising their content and user experiences to suit their preferences. Localization activities, such as language adaptation, subtitling, and cultural adaptation, enable media firms to overcome linguistic and cultural obstacles, ensuring that their content connects with audiences worldwide<sup>lii</sup>. This strategy not only helps media firms get new customers but also generates a feeling of inclusion and relevancy, allowing them to develop a strong worldwide footprint in the competitive streaming environment.

Monetizing streaming services is another challenge for media companies, especially when it comes to advertising strategies and how they affect subscription fatigue. Balancing ad-supported and subscription revenues is something corporations need to effectively do to be financially successful. From one side, it is important to have several revenue streams so that the dependency on subscribers is not so high. Advertising is probably one of the main sources, but customers can only handle it to a certain extent. That is why leveraging data analytics and targeted advertising to deliver personalized content and advertisements is crucial to drive revenue growth<sup>liii</sup>.

### **The Birth of Warner Bros. Discovery**

On May 17, 2021, less than 4 years after being acquired by AT&T, the WarnerMedia segment was about to be subject to another major change. AT&T and Discovery announced a definitive agreement to combine WarnerMedia's entertainment, sports and news assets with Discovery's nonfictional and international entertainment and sports businesses to create a global entertainment company able to compete with the biggest players in the media industry, called Warner Bros. Discovery<sup>liv</sup>.

It all started back in February 2021 when Discovery's CEO, David Zaslav, was watching the Golf Channel at his oceanfront East Hampton house and decided to text John Stankey, AT&T's

CEO: “You around (...) I’ve been thinking....”, adding icons of a golfer and sunglasses. Just a few minutes after, Stankey replied: “Always scares me when you do that (...) would you like to chat?”. This initial conversation lasted several hours.<sup>lv</sup>

During the following months, there were several meetings between the two parts, in which, only the most important figures of both AT&T and Discovery participated. During the calls and the meetings, code names were used to keep the potential deal in secret. For AT&T and Stankey, it was important for the new company to have a simple ownership, which meant Discovery would need to eliminate the use of different classes of shares that have unequal voting power. This ensures the new company could be an easier takeover target in the future, in case another big player is interested. To meet this demand, Zaslav would need to convince some important shareholders to renounce on some of their power. The negotiations proceeded without any leakage until the day before the announcement. Despite there was still paperwork to be finished, the information leakage did not compromise the announcement and a group of Discovery and AT&T executives gathered on that night to celebrate the occasion. Just before the sun set, Zaslav gave a toast. “These assets aren’t just better together,” he said. “We think it’s going to be the best media company in the world.”<sup>lvi</sup>

For the new company, Warner Bros. Discovery (WBD), this deal aimed to create a strong competitor in Global Streaming, a fast-growing direct-to-consumer (DTC) business. The combined portfolio, which includes HBO Max and Discovery+, offers subscribers vast and diversified content. Apart from WarnerMedia’s valuable content library and intellectual property, the new company would also benefit from having Discovery’s regional expertise across more than 200 countries through local language content. The combination of the assets of WarnerMedia and Discovery results in approximately 200,000 hours of programming distributed between more than 100 well-known brands that will be centralized in a single portfolio<sup>lvii</sup>. Some of the most relevant brands are HBO, Warner Bros, Discovery, DC Comics,

CNN, Cartoon Network, HGTV, Food Network, the Turner Networks, TNT, TBS, Eurosport, Magnolia, TLC, and Animal Planet. The deal was made under the argument that WBD will then be able to invest in more original content and global programming options, offer innovative video experiences and consumer choices, support under-represented storytellers, and increase investment in high-quality nonfictional content.

David Zaslav, Discovery's President, and Chief Executive Officer (CEO), that remains as the CEO of the new company, commented on the following on the day of the announcement:

" (...) these assets are better and more valuable together. It is super exciting to combine such historic brands, world-class journalism and iconic franchises under one roof and unlock so much value and opportunity. With a library of cherished IP, dynamite management teams and global expertise in every market in the world, we believe everyone wins...consumers with more diverse choices, talent and storytellers with more resources and compelling pathways to larger audiences, and shareholders with globally scaled growth company committed to a strong balance sheet that is better positioned to compete with the world's largest streamers. We will build a new chapter together with the creative and talented WarnerMedia team and these incredible assets are built on a nearly 100-year legacy of the most wonderful storytelling in the world. That will be our singular mission: to focus on telling the most amazing stories and have a ton of fun doing it."<sup>lviii</sup>

The new company will be led by a Board of Directors composed of a total of 13 former members of both companies. Of those 13 members, 7 are appointed by AT&T, including the chairperson, and 6 are appointed by Discovery, including the CEO David Zaslav<sup>lix</sup>.

For AT&T, the deal aims to potentialize the value of the media assets of the company for its shareholders by taking advantage of the DTC trend in the industry. At the same time, AT&T

can focus on investing in connectivity, namely 5G. The company CEO, John Stankey, elaborated on that during the announcement:

“This agreement unites two entertainment leaders with complementary content strengths and positions the new company to be one of the leading global direct-to-consumer streaming platforms. It will support the fantastic growth and international launch of HBO Max with Discovery’s global footprint and create efficiencies which can be re-invested in producing more great content to give consumers what they want. For AT&T shareholders, this is an opportunity to unlock value and be one of the best-capitalized broadband companies, focused on investing in 5G and fibre to meet substantial, long-term demand for connectivity. AT&T shareholders will retain their stake in our leading communications company which comes with an attractive dividend. Plus, they will get a stake in the new company, a global media leader that can build one of the top streaming platforms in the world.”<sup>lx</sup>

### **Warner Bros. Discovery – Deal details**

After the first announcement in 2021 (see **Exhibit 1**), there was still no confirmation about the exact structure of the deal and doubts were raised on whether AT&T was going for a spin-off or other form of deal, namely a split-off. The details of the deal were only confirmed on February 1<sup>st</sup>, 2022<sup>lxi</sup>.

On April 8, 2022, the transaction was concluded as AT&T completed the separation and distribution of the WarnerMedia business, and the division merged with Discovery to form the new company Warner Bros. Discovery. To complete the distribution of the unit to its shareholders, AT&T created a subsidiary to hold the WarnerMedia business, called WarnerMedia Holdings, also referred to as SpinCo<sup>lxii</sup>. In accordance with the terms of the Separation and Distribution Agreement (SDA), prior to the distribution and merger, AT&T received approximately \$40.4 billion, which includes \$38.8 billion of SpinCo cash and \$1.6

billion of debt retained by WarnerMedia<sup>lxiii</sup>. Immediately thereafter, the SpinCo was combined with Discovery. AT&T shareholders receive 0.241917 shares of WBD for each share of AT&T common stock detained at close on a tax-free basis. In total, AT&T shareholders will own 1.7 billion shares of WBD, which represents 71% of WBD's total shares. The remaining shares are held by Discovery shareholders that see the multiple classes of shares being consolidated into a single class with one vote per share (see **Exhibit 11**). The number of AT&T shares held by shareholders before close remains unchanged, but the dividend is cut to almost half, from \$2.08 to \$1.11, per share.<sup>lxiv</sup>

Between the announcement and the conclusion of the deal, both companies saw their stock value decrease significantly (see **Exhibit 13A**). This trend was common to many other players in the industry, such as Netflix and Disney, especially after Netflix reported disappointing results in the first quarter of 2022 (see **Exhibit 14**). The alarm regarding the long-term profitability of the streaming sector was turned on.

### **Decision**

For James Goodman, it was imperative to take an informed decision. Therefore, he was hesitant about how to proceed after the deal announcement in 2021 and decided to hold his position until the deal was confirmed. He wanted to be sure of all the details of the deal and observe how the market would react to it before making any decision. This meant analysing not only how the deal would impact AT&T, but also if the fusion between WarnerMedia and Discovery would contribute to an appreciation of his new shares.

That morning, he knew that he had to act before it was late.

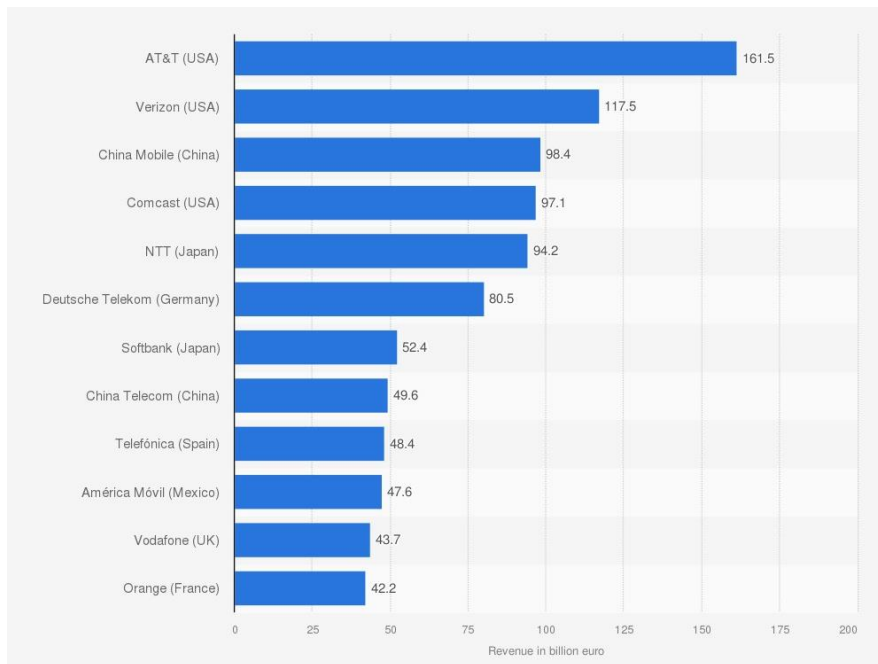
## Case Study Appendix

### Exhibit 1: Events Timeline

Date	Event
October 22, 2016	AT&T reached a deal to buy Time Warner for \$85.4 billion.
June 15, 2018	AT&T concluded the acquisition of Time Warner.
May 17, 2021	AT&T and Discovery announce a definitive agreement to combine WarnerMedia and Discovery.
February 1, 2022	AT&T confirms the terms of the deal.
April 8, 2022	Discovery and AT&T announce they have closed the transaction.
April 11, 2022	New company (WBD) will start trading.

Source: Yahoo Finance

### Exhibit 2: Telecommunication operators/companies worldwide by revenue in 2020 (in billion euro)



Source: Statista

### Exhibit 3A: AT&T Income Statement 2016-2021 (Year ended December 31)

<i>\$ in millions</i>	2021	2020	2019	2018	2017	2016
<b>Operating Revenues</b>						
Service	146,391	152,767	163,499	152,345	145,597	148,884
Equipment	22,473	18,993	17,694	18,411	14,949	14,902
<b>Total operating revenues</b>	<b>168,864</b>	<b>171,760</b>	<b>181,193</b>	<b>170,756</b>	<b>160,546</b>	<b>163,786</b>
<b>Operating Expenses</b>						
Cost of revenues						
Equipment	23,778	19,706	18,653	19,786	18,709	18,757
Broadcast, programming and operations	24,797	27,305	31,132	26,727	21,159	19,851
Other cost of revenues (exclusive of depreciation and amortization)	31,232	32,909	34,356	32,906	37,942	38,582
Selling, general and administrative	37,944	38,039	39,422	36,765	35,465	36,845
Asset impairments and abandonments	4,904	18,880	1,458	46	2,914	361
Depreciation and amortization	22,862	28,516	28,217	28,430	24,387	25,847
<b>Total operating expenses</b>	<b>145,517</b>	<b>165,355</b>	<b>153,238</b>	<b>144,660</b>	<b>140,576</b>	<b>140,243</b>
<b>Operating Income</b>	<b>23,347</b>	<b>6,405</b>	<b>27,955</b>	<b>26,096</b>	<b>19,970</b>	<b>23,543</b>
<b>Other Income (Expense)</b>						
Interest expense	(6,884)	(7,925)	(8,422)	(7,957)	(6,300)	(4,910)
Equity in net income of affiliates	631	95	6	(48)	(128)	98
Other income (expense) – net	9,853	(1,431)	(1,071)	6,782	1,597	1,081
<b>Total other income (expense)</b>	<b>3,600</b>	<b>(9,261)</b>	<b>(9,487)</b>	<b>(1,223)</b>	<b>(4,831)</b>	<b>(3,731)</b>
<b>Income (Loss) Before Income Taxes</b>	<b>26,947</b>	<b>(2,856)</b>	<b>18,468</b>	<b>24,873</b>	<b>15,139</b>	<b>19,812</b>
Income tax expense	5,468	965	3,493	4,920	(14,708)	6,479
<b>Net Income (Loss)</b>	<b>21,479</b>	<b>(3,821)</b>	<b>14,975</b>	<b>19,953</b>	<b>29,847</b>	<b>13,333</b>
Less: Net Income Attributable to Non controlling Interest	(1,398)	(1,355)	(1,072)	(583)	(397)	(357)
<b>Net Income (Loss) Attributable to AT&amp;T</b>	<b>20,081</b>	<b>(5,176)</b>	<b>13,903</b>	<b>19,370</b>	<b>29,450</b>	<b>12,976</b>

Source: AT&T Annual Reports (2018-2021)

### Exhibit 3B: AT&T Balance Sheet 2017-2021 (Year ended December 31)

<i>\$ in millions except per share amounts</i>	2021	2020	2019	2018	2017
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash equivalents	21,169	9,740	12,130	5,204	50,498
Accounts receivable – net of related allowance for credit loss of \$771 and \$1,221	17,571	20,215	22,636	26,472	16,522
Inventories	3,464	3,695	—	—	—
Prepaid and other current assets	17,793	18,358	19,995	19,751	12,126
<b>Total current assets</b>	<b>59,997</b>	<b>52,008</b>	<b>54,761</b>	<b>51,427</b>	<b>79,146</b>
Non current Inventories and Theatrical Film and Television Production Costs	18,983	14,752	12,434	7,713	—
Property, Plant and Equipment – Net	125,904	127,315	130,128	131,473	125,222
Goodwill	133,223	135,259	146,241	146,370	105,449
Licenses – Net	113,830	93,840	97,907	96,144	96,136
Trademarks and Trade Names – Net	21,938	23,297	23,567	24,345	7,021
Distribution Networks – Net	11,942	13,793	15,345	17,069	—
Other Intangible Assets – Net	11,783	15,386	20,798	26,269	11,119
Investments in and Advances to Equity Affiliates	7,274	1,780	3,695	6,245	1,560
Operating Lease Right-Of-Use Assets	24,180	24,714	24,039	—	—
Other Assets	22,568	23,617	22,754	24,809	18,444
<b>Total Assets</b>	<b>551,622</b>	<b>525,761</b>	<b>551,669</b>	<b>531,864</b>	<b>444,097</b>
<b>Liabilities and Stockholders' Equity</b>					
<b>Current Liabilities</b>					
Debt maturing within one year	24,630	3,470	11,838	10,255	38,374
Note payable to DIRECTV	1,245	—	—	—	—
Accounts payable and accrued liabilities	50,661	50,051	45,956	43,184	34,470
Accrued taxes	—	—	—	1,179	1,262
Advanced billings and customer deposits	5,303	6,176	6,124	5,948	4,213
Dividends payable	3,749	3,741	3,781	3,854	3,070
<b>Total current liabilities</b>	<b>85,588</b>	<b>63,438</b>	<b>68,911</b>	<b>64,420</b>	<b>81,389</b>
<b>Long-Term Debt</b>	<b>152,724</b>	<b>153,775</b>	<b>151,309</b>	<b>166,250</b>	<b>125,972</b>
<b>Deferred Credits and Other Non current Liabilities</b>					
Deferred income taxes	65,226	60,472	59,502	57,859	43,207
Post employment benefit obligation	12,649	18,276	18,788	19,218	31,775
Operating lease liabilities	21,261	22,202	21,804	—	—
Other non current liabilities	30,223	28,358	29,421	30,233	19,747
Non current portion of note payable to DIRECTV	96	—	—	—	—
<b>Total deferred credits and other non current liabilities</b>	<b>129,455</b>	<b>129,308</b>	<b>129,515</b>	<b>107,310</b>	<b>94,729</b>
<b>Stockholders' Equity</b>					
Common stock (\$1 par value, 14,000,000,000 authorized at December 31, 2021 and December 31, 2020; issued 7,620,748,598 at December 31, 2021 and December 31, 2020)	7,621	7,621	7,621	7,621	6,495
Additional paid-in capital	130,112	130,175	126,279	125,525	89,563
Retained earnings	42,350	37,457	57,936	58,753	50,500
Treasury stock (479,684,705 at December 31, 2021 and 494,826,583 at December 31, 2020, at cost)	(17,280)	(17,910)	(13,085)	(12,059)	(12,714)
Accumulated other comprehensive income	3,529	4,330	5,470	4,249	7,017
Non controlling interest	17,523	17,567	17,713	9,795	1,146
<b>Total stockholders' equity</b>	<b>183,855</b>	<b>179,240</b>	<b>201,934</b>	<b>193,884</b>	<b>142,007</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>551,622</b>	<b>525,761</b>	<b>551,669</b>	<b>531,864</b>	<b>444,097</b>

Source: AT&T Annual Reports (2018-2021)

### Exhibit 3C: AT&T Cash Flow Statement 2017-2021 (Year ended December 31)

<i>\$ in millions</i>	2021	2020	2019	2018	2017
<b>Operating Activities</b>					
Net income (loss)	21,479	(3,821)	14,975	19,953	29,847
Adjustments to reconcile net income (loss) to net cash provided by operating activities:					
Depreciation and amortization	22,862	28,516	28,217	28,430	24,387
Amortization of film and television costs	11,006	8,603	9,587	3,772	—
Distributed (undistributed) earnings from investments in equity affiliates	184	38	295	292	174
Provision for uncollectible accounts	1,240	1,972	2,575	1,791	1,642
Deferred income tax expense	5,246	1,675	1,806	4,931	(15,265)
Net (gain) loss on investments, net of impairments	(927)	(742)	(1,218)	(739)	(282)
Pension and post retirement benefit expense (credit)	(3,848)	(2,992)	(2,002)	(1,148)	(1,031)
Actuarial (gain) loss on pension and post retirement benefits	(4,140)	4,169	5,171	(3,412)	1,258
Asset impairments and abandonments	4,904	18,880	1,458	46	2,914
Changes in operating assets and liabilities:					
Receivables	(634)	2,216	2,812	(1,580)	(986)
Other current assets, inventories and theatrical film and television production costs	(16,472)	(13,070)	(12,852)	(6,442)	(778)
Accounts payable and other accrued liabilities	1,636	(1,410)	(1,524)	1,602	816
Equipment installment receivables and related sales	(265)	(1,429)	548	(490)	(1,239)
Deferred customer contract acquisition and fulfillment costs	52	376	(910)	(3,458)	(1,422)
Post retirement claims and contributions	(822)	(985)	(1,008)	(936)	(2,064)
Other—net	456	1,134	738	990	39
<b>Total adjustments</b>	<b>20,478</b>	<b>46,951</b>	<b>33,693</b>	<b>23,649</b>	<b>8,163</b>
<b>Net Cash Provided by Operating Activities</b>	<b>41,957</b>	<b>43,130</b>	<b>48,668</b>	<b>43,602</b>	<b>38,010</b>
<b>Investing Activities</b>					
Capital expenditures	(16,527)	(15,675)	(19,635)	(21,251)	(21,550)
Acquisitions, net of cash acquired	(25,453)	(1,851)	(1,809)	(43,309)	1,123
Dispositions	8,740	3,641	4,684	2,148	59
Distributions from DIRECTV in excess of cumulative equity in earnings	1,323	—	—	—	—
Other—net	(172)	337	70	(733)	1,425
<b>Net Cash Used in Investing Activities</b>	<b>(32,089)</b>	<b>(13,548)</b>	<b>(16,690)</b>	<b>(63,145)</b>	<b>(18,943)</b>
<b>Financing Activities</b>					
Net change in short-term borrowings with original maturities of three months or less	1,316	(17)	(276)	(821)	(2)
Issuance of other short-term borrowings	21,856	9,440	4,012	4,898	—
Repayment of other short-term borrowings	(7,510)	(9,467)	(6,904)	(2,098)	—
Issuance of long-term debt	9,931	31,988	17,039	41,875	48,793
Repayment of long-term debt	(3,142)	(39,964)	(27,592)	(52,643)	(12,339)
Note payable to DIRECTV, net of payments of \$459	1,341	—	—	—	—
Payment of vendor financing	(4,596)	(2,966)	(3,050)	(560)	(572)
Issuance of preferred stock	—	3,869	1,164	—	—
Purchase of treasury stock	(202)	(5,498)	(2,417)	(609)	(463)
Issuance of treasury stock	96	105	631	745	33
Issuance of preferred interests in subsidiaries	—	1,979	7,876	—	—
Redemption of preferred interest in subsidiary	—	(1,950)	—	—	—
Dividends paid	(15,068)	(14,956)	(14,888)	(13,410)	(12,038)
Other—net	(2,444)	(4,570)	(678)	(3,366)	2,518
<b>Net Cash Provided by (Used) in Financing Activities</b>	<b>1,578</b>	<b>(32,007)</b>	<b>(25,083)</b>	<b>(25,989)</b>	<b>25,930</b>
Net increase (decrease) in cash and cash equivalents and restricted cash	11,446	(2,425)	6,895	(45,532)	44,997
Cash and cash equivalents and restricted cash beginning of year	9,870	12,295	5,400	50,932	5,935
<b>Cash and Cash Equivalents and Restricted Cash End of Year</b>	<b>21,316</b>	<b>9,870</b>	<b>12,295</b>	<b>5,400</b>	<b>50,932</b>

Source: AT&T Annual Reports (2018-2021)

**Exhibit 4A: AT&T Revenues by Business Segment 2016-2018 (Year ended December 31)**

<i>\$ in millions</i>	2018	2017	2016
<b>Communications</b>			
Mobility	71,344	71,090	72,587
Entertainment Group	46,460	49,995	50,660
Business Wireline	26,827	29,293	30,985
Total Communications	144,631	150,378	154,232
<b>WarnerMedia</b>			
Turner	6,979	430	418
Home Box Office	3,598	—	—
Warner Bros.	8,703	—	—
Other	(339)	—	—
Total WarnerMedia	18,941	430	418
<b>Latin America</b>			
Vrio	4,784	5,456	4,910
Mexico	2,868	2,813	2,373
Total Latin America	7,652	8,269	7,283
<b>Xandr</b>	1,740	1,373	1,333
Segment Total	172,964	160,450	163,266
Corporate and Other			
Corporate	1,240	1,522	1,754
Acquisition-related items	(49)	—	—
Certain significant items	—	(243)	(23)
Eliminations and consolidations	(3,399)	(1,183)	(1,211)
AT&T Inc.	\$170,756	\$160,546	\$163,786

Source: AT&T Annual Report 2018

**Exhibit 4B: AT&T Revenues by Business Segment 2019-2021 (Year ended December 31)**

<i>\$ in millions</i>	2021	2020	2019
<b>Communications</b>			
Mobility	78,254	72,564	71,056
Business Wireline	23,937	25,083	25,901
Consumer Wireline	12,539	12,318	13,012
Total Communications	114,730	109,965	109,969
<b>WarnerMedia</b>	35,632	30,442	35,259
<b>Latin America</b>			
Mexico	2,747	2,562	2,869
Vrio	2,607	3,154	4,094
Total Latin America	5,354	5,716	6,963
Segment Total	155,716	146,123	152,191
Corporate and Other			
Corporate	1,264	2,207	2,203
Video	15,513	28,610	32,124
Acquisition-related items	—	—	(72)
Certain significant items	—	—	—
Eliminations and consolidations	(3,629)	(5,180)	(5,253)
<b>AT&amp;T Inc.</b>	<b>168,864</b>	<b>171,760</b>	<b>181,193</b>

Source: AT&T Annual Report 2021

**Exhibit 4C: AT&T Revenue by Region (2016-2021)**

<i>\$ in millions</i>	2021	2020	2019	2018	2017	2016
UnitedStates	151,631	155,899	161,689	154,795	149,841	154,039
Europe	6,079	5,387	6,536	4,073	1,064	1,122
Mexico	3,043	2,862	3,198	3,100	2,913	2,472
Brazil	1,486	1,807	2,797	2,724	2,948	2,797
All other Latin America	3,118	2,679	3,219	2,214	829	817
Asia/Pacific Rim	2,637	2,322	2,793	3,055	2,743	2,348
Other	870	804	961	795	208	191
<b>Total</b>	<b>168,864</b>	<b>171,760</b>	<b>181,193</b>	<b>170,756</b>	<b>160,546</b>	<b>163,786</b>

Source: AT&T Annual Reports (2018-2021)

### Exhibit 4D: AT&T Segment Information (Year ended December 31, 2021)

<i>\$ in millions</i>	Revenues	Operations & Support Expenses	EBITDA	Depreciation & Amortization	Operating Income (Loss)	Operating Contribution
<b>Communications</b>						
Mobility	78,254	46,820	31,434	8,122	23,312	23,312
Business Wireline	23,937	14,755	9,182	5,192	3,990	3,990
Consumer Wireline	12,539	8,467	4,072	3,095	977	977
Total Communications	114,730	70,042	44,688	16,409	28,279	28,279
<b>WarnerMedia</b>	35,632	27,737	7,895	656	7,239	7,277
<b>Latin America</b>						
Mexico	2,747	2,652	95	605	(510)	(510)
Vrio	2,607	2,302	305	231	74	80
Total Latin America	5,354	4,954	400	836	(436)	(430)
<b>Segment Total</b>	<b>155,716</b>	<b>102,733</b>	<b>52,983</b>	<b>17,901</b>	<b>35,082</b>	<b>35,126</b>
Corporate and Other						
Corporate	1,264	4,805	(3,541)	372	(3,913)	(3,945)
Video	15,513	12,666	2,847	356	2,491	3,110
Acquisition-related items	—	299	(299)	4,233	(4,532)	(4,532)
Certain significant items	—	4,961	(4,961)	—	(4,961)	(4,961)
Eliminations and consolidations	(3,629)	(2,809)	(820)	—	(820)	(820)
<b>AT&amp;T Inc.</b>	<b>168,864</b>	<b>122,655</b>	<b>46,209</b>	<b>22,862</b>	<b>23,347</b>	<b>23,978</b>

Source: AT&T Annual Report 2021

### Exhibit 5: Telecom Industry players

<b>Vodafone Group PLC (VOD)</b>	Vodafone provides telecommunications services worldwide, through mobile services and fixed-line services, namely broadband, television and voice. The company has over 300 million mobile customers and 22 million TV customers. These are the main sources of revenue that totalled €43.81 billion in 2021. However, Vodafone also offers Internet of Things (IoT), public and private cloud services, cloud-based applications, and products for securing networks and devices. Vodafone operates mainly in Europe with the “Old” continent representing more than 77% of the income generated.
<b>Verizon Communications Inc. (VZ)</b>	The company founded in 1983 is, after AT&T, the main telecommunications provider in the US with revenues totalling \$133.61 billion in 2021. From the total revenues, \$110.45 billion are generated from telecom services that include wireless services and wireline communication and connectivity services. Verizon is composed of two business units – Verizon Consumer and Verizon Business. The Consumer segment refers to consumer-focused wireless and wireline communications services and is the most relevant, representing 71% of the company’s consolidated revenues. In 2021, Verizon completed the sale of its Media segment that included AOL and Yahoo, acquired in 2015 and 2017 respectively.
<b>Deutsche Telekom AG (DTEGY)</b>	With its headquarters in Bonn, Germany, Deutsche Telekom is one of the main players in the telecommunications industry worldwide. In 2021, the company generated €108.79 billion in net revenue, mostly through telecommunications services in Germany and the US. With a total of 168 million subscribers all over the globe, Deutsche Telekom is also the owner of T-Mobile US, a subsidiary that operates in the United States with revenues amounting to \$80.12 billion in 2021. T-Mobile US is a major US wireless carrier that delivers various data plans as well as consumer and business telecommunications services and offers prepaid wireless products and services. In April 2020, T-Mobile merged with Sprint Corp., which is also a telecom company.
<b>Comcast Corp. (CMCSA)</b>	Comcast Corporation, established in 1963, is another big player in the US Telecommunications market with more than 18 million TV subscribers and \$116.39 billion in revenue in 2021. The corporation has a big presence in the Cable Communications sector, through wireless and broadband services, as more than half of the total revenues are generated in that segment. However, NBCUniversal and Sky also represent a big portion of the income generated by Comcast, which means the company is focused not only on the Communications sector but also on the Media sector.

Source: Vodafone Annual Report 2022, Verizon Annual Report 2021, Deutsche Telekom Annual Report 2021, Comcast Annual Report 2021

### Exhibit 6: Multiples Telecom Companies (Year ended December 31, 2021)

Companies	Market Cap	EV/EBITDA	Debt/EBITDA	Net P/E	Average YoY growth EBITDA **
AT&T	USD 175,669	6.45x	3.03x	8.91x	1.62%
Vodafone *	EUR 43,727	5.35x	2.73x	20.7x	0.43%
Verizon	USD 218,116	7.72x	3.21x	9.77x	1.97%
Deutsche Telekom	EUR 77,318	5.61x	3.54x	18.7x	15.10%
T-Mobile US	USD 144,865	7.99x	2.60x	48.1x	19.84%
Comcast	USD 229,954	9.26x	2.63x	16.6x	6.08%

\*March 31, 2022

\*\*Average Yealy growth from 2016 to 2021

Source: Market Screener

### Exhibit 7: Netflix Stock price graph



Source: Yahoo Finance

## Exhibit 8A: Discovery Income Statement (2016-2021)

<i>\$ in millions</i>	2021	2020	2019	2018	2017	2016
<b>Revenues:</b>						
Advertising	6,215	5,583	6,044	5,514	3,073	2,970
Distribution	5,409	4,866	4,835	4,538	3,474	3,213
Other	567	222	265	501	326	314
<b>Total revenues</b>	<b>12,191</b>	<b>10,671</b>	<b>11,144</b>	<b>10,553</b>	<b>6,873</b>	<b>6,497</b>
<b>Costs and expenses:</b>						
Costs of revenues, excluding depreciation and amort.	4,620	3,860	3,819	3,935	2,656	2,432
Selling, general and administrative	4,016	2,722	2,788	2,620	1,768	1,690
Depreciation and amortization	1,582	1,359	1,347	1,398	330	322
Impairment of goodwill and other intangible assets	—	124	155	—	1,327	—
Restructuring and other charges	32	91	26	750	75	58
(Gain) loss on disposition	(71)	—	—	(84)	4	(63)
<b>Total costs and expenses</b>	<b>10,179</b>	<b>8,156</b>	<b>8,135</b>	<b>8,619</b>	<b>6,160</b>	<b>4,439</b>
<b>Operating income</b>	<b>2,012</b>	<b>2,515</b>	<b>3,009</b>	<b>1,934</b>	<b>713</b>	<b>2,058</b>
Interest expense, net	(633)	(648)	(677)	(729)	(475)	(353)
Loss on extinguishment of debt	(10)	(76)	(28)	—	(54)	—
Loss from equity investees, net	(18)	(105)	(2)	(63)	(211)	(38)
Other income (expense), net	82	42	(8)	(120)	(110)	4
Income (loss) before income taxes	1,433	1,728	2,294	1,022	(137)	1,671
Income tax expense	(236)	(373)	(81)	(341)	(176)	(453)
<b>Net income (loss)</b>	<b>1,197</b>	<b>1,355</b>	<b>2,213</b>	<b>681</b>	<b>(313)</b>	<b>1,218</b>
Net income attributable to noncontrolling interests	(138)	(124)	(128)	(67)	—	(1)
Net income attributable to redeemable noncontrolling int.	(53)	(12)	(16)	(20)	(24)	(23)
Net income available to Discovery, Inc.	1,006	1,219	2,069	594	(337)	1,194

Source: WBD Annual Reports (2018-2021)

## Exhibit 8B: Discovery Balance Sheet (2018-2021)

<i>\$ in millions</i>	2021	2020	2019	2018
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and cash equivalents	3,905	2,091	1,552	986
Receivables, net	2,446	2,537	2,633	2,620
Content rights and prepaid license fees, net	245	532	579	313
Prepaid expenses and other current assets	668	970	453	312
<b>Total current assets</b>	<b>7,264</b>	<b>6,130</b>	<b>5,217</b>	<b>4,231</b>
Noncurrent content rights, net	3,832	3,439	3,129	3,069
Property and equipment, net	1,336	1,206	951	800
Goodwill	12,912	13,070	13,050	13,006
Intangible assets, net	6,317	7,640	8,667	9,674
Equity method investments	543	507	568	935
Other noncurrent assets	2,223	2,095	2,153	835
<b>Total assets</b>	<b>34,427</b>	<b>34,087</b>	<b>33,735</b>	<b>32,550</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Current liabilities:</b>				
Accounts payable	412	397	463	325
Accrued liabilities	2,230	1,793	1,678	1,604
Deferred revenues	478	557	489	249
Current portion of debt	339	335	609	1,819
<b>Total current liabilities</b>	<b>3,459</b>	<b>3,082</b>	<b>3,239</b>	<b>3,997</b>
Noncurrent portion of debt	14,420	15,069	14,810	14,974
Deferred income taxes	1,225	1,534	1,691	1,811
Other noncurrent liabilities	1,927	2,019	2,029	1,251
<b>Total liabilities</b>	<b>21,031</b>	<b>21,704</b>	<b>21,769</b>	<b>22,033</b>
Commitments and contingencies (See Note 22)				
Redeemable noncontrolling interests	363	383	442	415
<b>Equity:</b>				
Additional paid-in capital	11,086	10,809	10,747	10,647
Treasury stock, at cost: 230 shares	(8,244)	(8,244)	(7,374)	(6,737)
Retained earnings	9,580	8,543	7,333	5,254
Accumulated other comprehensive loss	(830)	(651)	(822)	(755)
Total Discovery, Inc. stockholders' equity	11,599	10,464	9,891	8,386
Noncontrolling interests	1,434	1,536	1,633	1,716
<b>Total equity</b>	<b>13,033</b>	<b>12,000</b>	<b>11,524</b>	<b>10,102</b>
<b>Total liabilities and equity</b>	<b>34,427</b>	<b>34,087</b>	<b>33,735</b>	<b>32,550</b>

Source: Discovery Annual Reports (2018-2021)

## Exhibit 8C: Discovery Cash Flow Statement (2017-2021)

<i>\$ in millions</i>	2021	2020	2019	2018	2017
<b>Operating Activities</b>					
<b>Net income</b>	<b>1,197</b>	1,355	2,213	681	(313)
Adjustments to reconcile net income to cash provided by operating activities:					
Content rights amortization and impairment	<b>3,501</b>	2,956	2,853	3,288	1,910
Depreciation and amortization	<b>1,582</b>	1,359	1,347	1,398	330
Deferred income taxes	<b>(511)</b>	(186)	(504)	(131)	(199)
Equity in losses of equity method investee companies and cash distributions	<b>63</b>	167	62	138	223
Loss on extinguishment of debt	<b>10</b>	76	28	—	54
Share-based compensation expense	<b>178</b>	110	142	80	39
Impairment of goodwill and other intangible assets	<b>—</b>	124	155	—	1,327
Gain on sale of investments	<b>(19)</b>	(103)	(10)	—	—
(Gain) loss on disposition	<b>(71)</b>	2	—	(84)	4
Other, net	<b>105</b>	(22)	86	127	149
Changes in operating assets and liabilities, net of acquisitions and dispositions:					
Receivables, net	<b>47</b>	105	(7)	(84)	(258)
Content rights and payables, net	<b>(3,381)</b>	(3,053)	(3,060)	(2,883)	(1,947)
Accounts payable, accrued liabilities, deferred revenues and other noncurrent liabilities	<b>185</b>	(131)	122	(74)	265
Foreign currency, prepaid expenses and other assets, net	<b>(88)</b>	(20)	(28)	121	45
Cash provided by operating activities	<b>2,798</b>	2,739	3,399	2,576	1,629
<b>Investing Activities</b>					
Purchases of property and equipment	<b>(373)</b>	(402)	(289)	(147)	(135)
Purchases of investments	<b>(103)</b>	(250)	—	108	106
Investments in and advances to equity investments	<b>(184)</b>	(181)	(254)	(61)	(444)
Proceeds from sales and maturities of investments and dissolution of joint venture	<b>599</b>	69	125	—	—
Business acquisitions, net of cash acquired	<b>(2)</b>	(39)	(73)	(8,565)	(60)
(Payments for) proceeds from derivative instruments, net	<b>(86)</b>	85	54	(2)	(101)
Other investing activities, net	<b>93</b>	15	(1)	74	1
Cash used in investing activities	<b>(56)</b>	(703)	(438)	(8,593)	(633)
<b>Financing Activities</b>					
Principal repayments of debt, including premiums to par value and discount payment	<b>(574)</b>	(2,193)	(2,658)	(16)	(650)
Borrowings from debt, net of discount and issuance costs	<b>—</b>	1,979	1,479	—	7,488
Repurchases of stock	<b>—</b>	(969)	(633)	—	(603)
Principal repayments of revolving credit facility	<b>—</b>	(500)	(225)	(200)	(475)
Borrowings under revolving credit facility	<b>—</b>	500	—	—	—
Distributions to noncontrolling interests and redeemable noncontrolling interests	<b>(251)</b>	(254)	(250)	(76)	(30)
Other financing activities, net	<b>(28)</b>	(112)	(70)	9	221
Cash used in financing activities	<b>(853)</b>	(1,549)	(2,357)	(283)	5,951
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	<b>(106)</b>	83	(38)	(23)	62
<b>Net change in cash, cash equivalents, and restricted cash</b>	<b>1,783</b>	570	566	(6,323)	7,009
Cash, cash equivalents, and restricted cash, beginning of period	<b>2,122</b>	1,552	986	7,309	300
Cash, cash equivalents, and restricted cash, end of period	<b>3,905</b>	2,122	1,552	986	7,309

Source: Discovery Annual Reports (2018-2021)

**Exhibit 8D: Discovery Revenue by segment (2016-2021)**

<i>\$ in millions</i>		<b>U.S. Networks</b>	<b>International Networks</b>	<b>Corporate, intersegment eliminations, and other</b>	<b>Total</b>
<b>2021</b>	Advertising	4,188	2,027	—	6,215
	Distribution	3,297	2,112	—	5,409
	Other	177	400	(10)	567
	<b>Totals</b>	<b>7,662</b>	<b>4,539</b>	<b>(10)</b>	<b>12,191</b>
<b>2020</b>	Advertising	4,012	1,571	—	5,583
	Distribution	2,852	2,014	—	4,866
	Other	85	128	9	222
	<b>Totals</b>	<b>6,949</b>	<b>3,713</b>	<b>9</b>	<b>10,671</b>
<b>2019</b>	Advertising	4,245	1,799	—	6,044
	Distribution	2,739	2,096	—	4,835
	Other	108	146	11	265
	<b>Totals</b>	<b>7,092</b>	<b>4,041</b>	<b>11</b>	<b>11,144</b>
<b>2018</b>	Advertising	3,749	1,765	—	5,514
	Distribution	2,456	2,082	—	4,538
	Other	145	302	54	501
	<b>Totals</b>	<b>6,350</b>	<b>4,149</b>	<b>54</b>	<b>10,553</b>
<b>2017</b>	Advertising	1,740	1,332	1	3,073
	Distribution	1,612	1,862	—	3,474
	Other	82	87	157	326
	<b>Totals</b>	<b>3,434</b>	<b>3,281</b>	<b>158</b>	<b>6,873</b>
<b>2016</b>	Advertising	1,690	1,279	1	2,970
	Distribution	1,532	1,681	—	3,213
	Other	63	80	171	314
	<b>Totals</b>	<b>3,285</b>	<b>3,040</b>	<b>172</b>	<b>6,497</b>

Source: Discovery Annual Reports (2018-2021)

## Exhibit 9: Media Industry Players

<b>Netflix (NFLX)</b>	Founded in 1997, Netflix evolved from being a DVD-by-mail business to becoming the first streaming giant, completely revolutionizing the media industry in the last decade. At the end of 2021, the company had 222 million subscribers which contributed to generating \$29.52 billion in streaming revenue. Netflix's revenues are mostly originated from membership fees from streaming customers with only \$182 million coming from the DVD rental business.
<b>Paramount Global (PARA)</b>	ViacomCBS was a result of the merger between Viacom and CBS, in 2019. More recently, in February 2022, the company changed its name to Paramount Global. Paramount provides content worldwide through digital platforms, online and mobile, film and television. Some of its most famous TV brands are Nickelodeon, TeenNick, Spike TV, and Comedy Central. In the film business, Paramount Pictures and MTV Films are the most relevant ones. Besides providing content, the company also operates in the gaming business through websites. In 2021, Paramount operated three different segments that provided \$28.59 billion in total. The most relevant one, Cable Networks, generated \$14.2 billion in revenues, while TV Entertainment generated \$12.9 billion. The rest came from the Filmed Entertainment business.
<b>Fox (FOX)</b>	After selling its entertainment business to Disney for \$71 billion, including 20th Century Fox television and film studios and 30% of Hulu and US cable channels like FX, Fox is not a powerhouse in the media industry anymore. Fox's main operations in the present, include the Fox News Channel, Fox Business, Fox Broadcasting Company, and Big Ten Networks and the total revenues of the company amounted to \$12.91 billion in 2021.
<b>Walt Disney (DIS)</b>	Founded in 1923, Disney is one of the largest media and entertainment groups operating internationally. It operates two main segments that generated revenues of \$67.42 billion in 2021. The Media and Entertainment one is the most relevant as it produced \$50.87 billion, while the rest of the total revenues come from Parks, Experiences and Products. With a market cap of \$238 billion, Disney's media operations include the Disney+ streaming service launched in 2019. With close to 200 million subscribers, the service offers shows and movies, including vintage Disney content, originals, exclusive shows, and blockbuster films.

Source: Source: Netflix Annual Report 2021, Paramount Global Annual Report 2021, Fox Annual Report 2021, Walt Disney Annual Report 2021

## Exhibit 10: Multiples Media Companies (Year ended December 31, 2021)

Companies	Market Cap (\$ in millions)	EV/EBITDA	Net Debt/EBITDA	P/E	Average YoY growth EBITDA ***
Netflix	USD 266,852	40.6x	1.38x	53.6x	28.62%
Paramount Global	USD 19,669	7.00x	2.57x	4.35x	91.39%
Fox *	USD 21,054	7.49x	0.67x	10.3x	2.92%
Walt Disney **	USD 319,832	30.0x	3.22x	161x	-11.34%
Discovery	USD 15,332	6.86x	2.84x	15.3X	13.15%
Comcast	USD 229,954	9.26x	2.63x	16.6x	6.08%

\* June 30, 2021

\*\* October 31, 2021

\*\*\* Average Yealy growth from 2016 to 2021

Source: Market Screener

## **Exhibit 11: Shares' Reclassification**

*Pursuant to the terms of the Merger Agreement, as part of the Reclassification, all shares of Discovery capital stock issued and outstanding or held by Discovery as treasury stock immediately prior to the effective time of the WBD charter will, at the effective time of the WBD charter, automatically be reclassified and converted into shares of WBD common stock.*

*Each share of Discovery Series A common stock, Discovery Series B common stock and Discovery Series C common stock issued and outstanding or held by Discovery as treasury stock immediately prior to the effective time of the WBD charter will be reclassified and converted into one share of WBD common stock.*

*Each share of Discovery Series A-1 preferred stock issued and outstanding or held by Discovery as treasury stock immediately prior to the effective time of the WBD charter will be reclassified and converted into 13.11346315 shares of WBD common stock.*

*Each share of Discovery Series C-1 preferred stock issued and outstanding or held by Discovery as treasury stock immediately prior to the effective time of the WBD charter will be reclassified and automatically converted into such number of shares of WBD common stock as the number of shares of Discovery Series C common stock such share of Discovery Series C-1 preferred stock would have been convertible into immediately prior to the effective time of the WBD charter, which, as of September 30, 2021, would have been 19.3648 shares of WBD common stock.*

Source: U.S. Securities and Exchange Commission 2021

## Exhibit 12: Unaudited Pro forma condensed combined Balance Sheet December 31, 2021

<i>\$ in millions</i>	Historical		Transaction Accounting Adjustments		Pro Forma Combined
	Discovery	WarnerMedia Business after Reclassification Adjustments	Pre-Merger Adjustments	Merger Adjustments	
<b>ASSETS</b>					
<b>Current assets:</b>					
Cash and cash equivalents	3,905	1,879	1,102	(1,287)	5,599
Receivables, net	2,446	4,310	—	(37)	6,719
Content rights and prepaid license fees, net	245	1	—	—	246
Prepaid expenses and other current assets	668	1,767	(9)	1,287	3,713
<b>Total current assets</b>	<b>7,264</b>	<b>7,957</b>	<b>1,093</b>	<b>(37)</b>	<b>16,277</b>
Film and television library, net	3,832	22,901	—	1,374	28,107
Property and equipment, net	1,336	4,238	—	(121)	5,453
Goodwill	12,912	39,692	—	(19,000)	33,604
Intangible assets, net	6,317	36,312	—	19,207	61,836
Other noncurrent assets	2,766	6,741	—	(324)	9,183
<b>Total assets</b>	<b>34,427</b>	<b>117,841</b>	<b>1,093</b>	<b>1,099</b>	<b>154,460</b>
<b>LIABILITIES AND EQUITY</b>					
<b>Current liabilities:</b>					
Accounts payable and accrued liabilities	2,642	11,019	—	264	13,925
Deferred revenues	478	1,287	—	(3)	1,762
Current portion of debt	339	10	—	—	349
<b>Total current liabilities</b>	<b>3,459</b>	<b>12,316</b>	<b>—</b>	<b>261</b>	<b>16,036</b>
Noncurrent portion of debt	14,420	1,713	39,796	356	56,285
Deferred income taxes	1,225	11,361	—	4,961	17,547
Other noncurrent liabilities	1,927	7,177	—	45	9,149
<b>Total liabilities</b>	<b>21,031</b>	<b>32,567</b>	<b>39,796</b>	<b>5,623</b>	<b>99,017</b>
Redeemable noncontrolling interests	363	—	—	—	363
<b>Equity:</b>					
Discovery Inc. stockholders' equity					
Series A-1 convertible preferred stock	—	—	—	—	—
Series C-1 convertible preferred stock	—	—	—	—	—
Series A common stock	2	—	—	(2)	—
Series B convertible common stock	—	—	—	—	—
Series C common stock	5	—	—	(5)	—
WBD common stock	—	—	—	24	24
Additional paid-in capital	11,086	—	—	43,160	54,246
Treasury stock, at cost	(8,244)	—	—	—	(8,244)
Net parent investment	—	85,356	(38,703)	(46,653)	—
Retained earnings	9,580	—	—	(1,130)	8,450
Accumulated other comprehensive loss	(830)	(82)	—	82	(830)
<b>Total stockholders' equity</b>	<b>11,599</b>	<b>85,274</b>	<b>(38,703)</b>	<b>(4,524)</b>	<b>53,646</b>
Noncontrolling interests	1,434	—	—	—	1,434
<b>Total equity</b>	<b>13,033</b>	<b>85,274</b>	<b>(38,703)</b>	<b>(4,524)</b>	<b>55,080</b>
<b>Total liabilities and equity</b>	<b>34,427</b>	<b>117,841</b>	<b>1,093</b>	<b>1,099</b>	<b>154,460</b>

Source: U.S. Securities and Exchange Commission. 2022. "EX-99.2."

**Exhibit 13A: Stock Price Comparison after the Announcement – AT&T, Discovery, Netflix & S&P500**



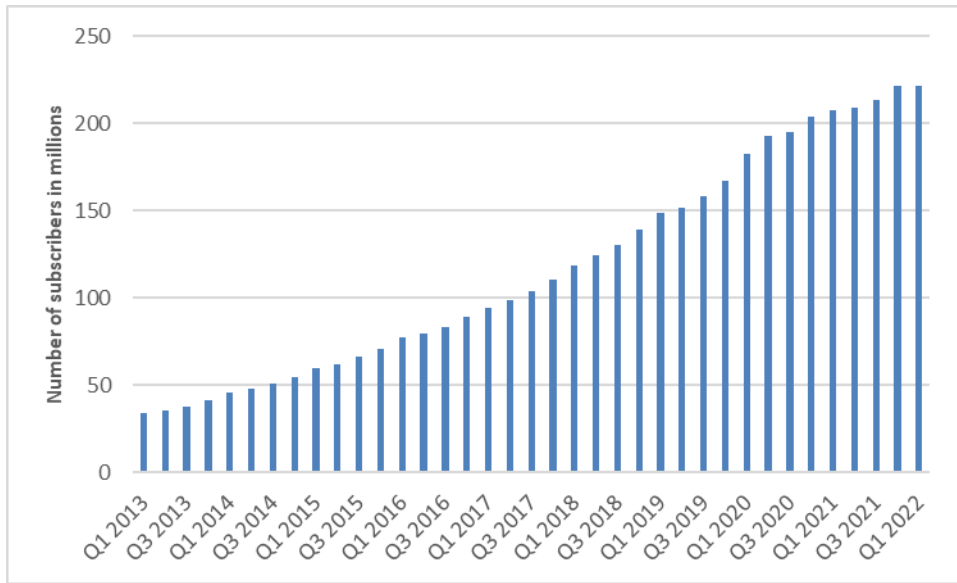
Source: Yahoo Finance

**Exhibit 13B: Stock Price Comparison - AT&T, T-Mobile US, Verizon**



Source: Yahoo Finance

**Exhibit 14: Number of Netflix paid subscribers worldwide (Q12013-Q12022)**



Source: Statista

**Exhibit 15: Stock Price Chart AT&T**



Source: TradingView

## Teaching Note Appendix

### Exhibit-TN 1: Enterprise Value AT&T without WarnerMedia (2021)

<b>EV AT&amp;T w/o WarnerMedia (2021)</b>	
<i>\$ in millions</i>	
AT&T EBITDA w/o WarnerMedia	\$ 38,314
Multiple	7.5x*
<b>AT&amp;T EV w/o WarnerMedia</b>	<b>\$ 287,355**</b>

\* Multiples of Verizon and T-Mobile US (Exhibit 6) used as reference

\*\* Result from the multiplication of the two items

### Exhibit-TN 2: Enterprise Value WarnerMedia (2021)

<b>EV WarnerMedia Segment (2021)</b>	
<i>\$ in millions</i>	
WarnerMedia EBITDA	\$ 7,895
Multiple	7.0x*
<b>WarnerMedia EV</b>	<b>\$ 55,265**</b>

\* Multiples of Paramount, Fox and Discovery (Exhibit 10) used as reference

\*\* Result from the multiplication of the two items

### Exhibit-TN 3: Enterprise Value Conglomerate (2021)

<b>EV AT&amp;T Conglomerate (2021)</b>	
<i>in millions except for the share price</i>	
# of shares outstanding	7,621*
Share price	\$ 18.58
<b>Market Capitalization</b>	<b>\$ 141,598**</b>
(+ ) Short-term borrowings	\$ 24,630
(+ ) Long-term debt	\$ 152,724
(-) Cash and cash equivalents	\$ 21,169
<b>AT&amp;T Conglomerate EV</b>	<b>\$ 297,783***</b>

\* Extracted from Exhibit 3B

\*\* Result from the multiplication of the previous two items

\*\*\* Result from the addition/subtraction of the three previous items with the Market Capitalization item

#### Exhibit-TN 4: Enterprise Value Discovery (2021)

<b>EV Discovery (2021)</b>		
<i>in millions except for the share price</i>		
# of shares outstanding		664*
Share price	\$	23.54
<b>Market Capitalization</b>	<b>\$</b>	<b>15,630**</b>
(+) Short-term borrowings	\$	339
(+) Long-term debt	\$	14,420
(-) Cash and cash equivalents	\$	3,905
<b>Discovery EV</b>	<b>\$</b>	<b>26,485***</b>

\* Extracted from Note 19 in Discovery Annual Report 2021

\*\* Result from the multiplication of the previous two items

\*\*\* Result from the addition/subtraction of the three previous items with the Market Capitalization item

#### Exhibit-TN 5: WBD Share price estimation

<b>Combined Company - WBD Share Price estimation</b>		
<i>in millions except for the share price</i>		
Discovery EV	\$	26,485*
WarnerMedia EV	\$	55,265*
<b>WBD EV</b>	<b>\$</b>	<b>81,750**</b>
(-) Short-term borrowings	\$	349***
(-) Long-term debt	\$	56,285***
(+) Cash and cash equivalents	\$	5,599***
<b>Market Capitalization</b>	<b>\$</b>	<b>30,715</b>
(÷) # of shares outstanding		2,394****
<b>Share Price</b>	<b>\$</b>	<b>12.83</b>

\* Calculated in Exhibit-TN 4 and Exhibit-TN 2

\*\* Result from the sum of the previous two items

\*\*\* Extracted from Exhibit 12

\*\*\*\* Calculated based on information given in the "Warner Bros. Discovery – Deal details" chapter of the case: 1,700 billion shares of the new company correspond to approximately 71% of the total number of shares

## Exhibit-TN 6: AT&T post-deal Share price estimation

<b>AT&amp;T post-deal Share Price estimation</b>		
<i>in millions except for the share price</i>		
<b>AT&amp;T EV</b>	<b>\$</b>	<b>287,355*</b>
(-) Short-term borrowings	\$	24,620**
(-) Long-term debt	\$	111,215**
(+) Cash and cash equivalents	\$	18,188**
<b>Market Capitalization</b>	<b>\$</b>	<b>169,708</b>
(÷) # of shares outstanding		7,621***
<b>Share Price</b>	<b>\$</b>	<b>22.27</b>

\* Calculated in Exhibit-TN 1

\*\* Extracted from Exhibit 12

\*\*\* Extracted from Exhibit 3B

## Endnotes

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