Case Analysis

Student Name

Course

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Professors Frank Li and Xiaokang Zhao came up with a case *The $85.4 Billion Merger of AT & T and Time Warner* to necessitate class discussion. In the case, the professors mentioned Bewkes who reported the possibility of the telecom operator AT & T Company to merge with Time Warner. AT & T had planned to acquire Time Warner for $107.502 per share half in stock and the other half in cash. Typically, businesses or companies primarily choose to merge following some reasons. First, companies may choose to merge to augment their financial capacity, and it is commonly known that every company experiences an extreme financial capacity to facilitate their operations either through equity markets or debts. Having insufficient financial capacity may force one company to either merge or being absorbed by another willing company (Li, 2019). Consequently, this will be possible for the consolidated entity to secure a financial capacity that can be used to advance business development processes further.

In the case study, one learns that some requirements should be fulfilled before the merging or acquisition process where these requirements should be reviewed by the US Securities and Exchange Commission. To be specific, a company absorbed by another company is always expected to file a report where based on the case Time Warner filed a report. In the report, Bewkes commented that the merging was a wise decision because it would impact the business in the long term (Li, 2019). Based on his comment, he felt that merging with AT & T will help to transform their business as well as propel their core strategies. Through merging, the aspect of innovation will be realized, and the transition of the ecosystem will be accelerated to present the consumers with better choices. Reflecting on the report, one will realize that the main idea behind merging is to transform the company and at the same time, serve the consumers better by presenting them with better choices.

In my knowledge, most companies embrace the idea of merging and acquisition to create value which can be by increasing the wealth of their shareholders. Consolidating two enterprises promotes synergies that augment the value of the new developed business entity. Importantly, synergy implies that there is increased value following the cumulative value of the two merging companies. Certainly, this echoes the report presented by the Time Warner wherein particularly, Bewkes commented on how impactful the merging decision will be to them. Synergy generally appears in two forms that is revenue synergies and cost synergies. Revenue synergies entail synergies which focus on improving the revenue-generating ability of the company while cost synergies entail synergies that minimize the cost structure of the company (Hashemian-Rahaghi et al., 2017). Possibly, these synergies could be the reason that led to the merging decision because the reported demonstrated the zeal of Time Warner to propel its core strategies. Ideally, the strategies in a company are usually designed to allow the company to pursue its mission as well as goals necessarily, and this is something that also seems to happen in the case.

Investors are always encouraged to determine the impact of merging in the coming years before making a decision, and this is something that Frank was trying to figure out if the merger was problematic or costly. Reflecting on the dealings, the two companies, namely Time Warner and AT & T were willing to close a deal. While AT & T lacked enough assets to acquire Time Warner, it demonstrated its enthusiasm to fulfilling its commitment to close the deal by borrowing loans from various avenues to ensure that it acquires Time Warner, eventually. History suggests that Time Warner was among the giant companies in the entertainment sector (Li, 2019). Certainly, this demonstrates that the accomplishment of the merging and acquisition process will be impactful to the newly formed entity, which will be necessitated through increased diversity as well as reduced tax liability.

Reflecting on the aspect of diversification, Time Warner based on the case is known to deliver entertainment services to its consumer. Conversely, AT & T delivered services based on telecommunications. So, by merging, it will be possible for this entity to embrace the aspect of diversification in that the entity will deliver both entertainments as well as telecommunication services to the consumers. The merging idea seems to be impactful for the new entity because it will enjoy a large pool of customers who will be willing to enjoy its services (Li, 2019). This also seems to be an opportunity for the entity to present its existing customers with the new services that have been introduced for them while ensuring that they are still subscribing to the common services. For instance, Time and Warner customers would now subscribe to telecommunication services while still enjoying the entertainment services offered by the enterprise, which is in the process of being absorbed. In my opinion, I feel that the merging is necessary, and this has been after considering the long-term impact of the merging decision as well as the acquisition dealings.

From the case, I also learned that the merger was met with some controversies. Understandably, AT&T enjoyed a large pool of TV subscribers as well as broadband along with mobile subscribers through DIRECTV and fixed telecommunications and by merging with the top content provider, the new entity would present high-quality video content to its subscribers. Nevertheless, the controversy based on the merging process is that the deal seemed to be costly for AT&T wherein, particularly this enterprise was to spend $85.4 billion to seal the deal (Li, 2019). As an enthusiastic prospective investor, I feel that the deal was worth, and I tend to disagree with those coming up with controversies and rather challenge them to reflect on the long-term value corresponded to the merger. In other words, I tend to side with Bewkes by encouraging people to look at the deal in terms of how important it would be for the new enterprise to pursue its strategic objectives to ascertain its mission as well as pursue its business objectives. They should also try to think like risk-takers who pursue risky decisions, yet they expect to rip substantially from such decisions.

References

Hashemian-Rahaghi, S. R., FanFah, C., Abed-Ashtiani, F., & Hassan, T. (2017). Financial Performance Measures in Merger and Acquisition Studies. *Available at SSRN 3436345*.

Li, X. Z. (2019). *THE $85.4 BILLION MERGER OF AT&T AND TIME WARNER: VALUATION ANALYSIS1.* Ivey Business School Foundation Version.