

COMPANY PROFILE

AT&T Inc

TABLE OF CONTENTS

Company Overview	3
Key Facts	3
SWOT Analysis	4

COMPANY OVERVIEW

AT&T Inc. (AT&T) is a provider of communications and digital entertainment services. The company's products and services varies from market to market and include wireless communications, data/broadband and internet services, digital video services, local and long-distance telephone services, telecommunications equipment, managed networking, and wholesale services. The company caters to its customers under brands names including AT&T, Cricket, DIRECTV, SKY, and Unefon. It offers its products and services to consumers in the US, Mexico, and Latin America and to businesses and other providers of telecommunications services worldwide. The company primarily operates in the US where it is headquartered in Dallas, Texas, the US.

The company reported revenues of (US Dollars) US\$160,546 million for the fiscal year ended December 2017 (FY2017), a decrease of 2% over FY2016. In FY2017, the company's operating margin was 13%, compared to an operating margin of 14.9% in FY2016. In FY2017, the company recorded a net margin of 18.3%, compared to a net margin of 7.9% in FY2016.

KEY FACTS

Head Office	AT&T Inc Room 1033 208 South Akard Street Dallas Texas Dallas Texas USA
Phone	1 210 8214105
Fax	
Web Address	www.att.com
Revenue / turnover (USD Mn)	160,546.0
Financial Year End	December
Employees	252,000
New York Stock Exchange Ticker	T

SWOT ANALYSIS

AT&T Inc (AT&T or 'the company') is a provider of communications and digital entertainment services. Market leadership attained from large scale of operations, extensive wireless and wired network infrastructure, and focused research and development (R&D) activities are the company's major strengths, whereas weak revenue performance remains an area of concern. In the future, the saturation in the US mobile market, foreign currency fluctuations, intense competition and government regulations could hamper its growth prospects. However, focus on Internet of Things platform, increasing demand of NFV and SDN technologies, rising demand for high bandwidth mobile communications, focus on Internet Protocol (IP) technology and digital business are likely to offer new growth opportunities to the company.

<p>Strength</p> <p>Well Established Leadership Position and Large Scale of Operations Wireless and Wired Network Infrastructure Research and Development (R&D) Activities</p>	<p>Weakness</p> <p>Business Performance</p>
<p>Opportunity</p> <p>Focus Area Internet of Things (IoT) Rising Demand for High-bandwidth Mobile Communications Focus on Internet Protocol (IP) Technology and Digital Business NFV and SDN Driving the ICT Market</p>	<p>Threat</p> <p>Foreign Currency Fluctuations Saturation in the US Mobile Phone Market Intense Competition Stringent Regulatory Environment</p>

Strength

Well Established Leadership Position and Large Scale of Operations

AT&T is the leading market player across the segments it operates in. At the end of FY2017, the company had a subscriber base of 90.4 million for wireless communication services, 11.7 million for access line network solution, and 15.7 million for broadband solution. In addition, AT&T served approximately 51.1 million consumer mobility subscribers, including 26 million postpaid, 15.3 million prepaid, 9.2 million reseller and 457,000 connected devices during FY2017. AT&T submitted winning bids for 251 advanced wireless service (AWS) spectrum licenses for a near-nationwide contiguous block of high-quality AWS spectrum in the AWS-3 auction. It also served over 400 customers in the North America with LTE network. As of December 2017, more than 99% of the US network was covered by AT&T. The company's robust spectrum provides it a platform to deliver further innovation and growth. In addition to market leadership another key factor that provides resilience for the company is the diversified revenues base. AT&T derives revenues from a broad range of services to a varied customer base. Through its portfolio of services, the company caters to the businesses, individuals and government agencies. The

company's scale has so far enabled it to spend aggressively on network, customer service and new products and services.

Wireless and Wired Network Infrastructure

The company's network includes extensive wireless and wired access capabilities, as well as one of the world's most advanced internet protocol (IP) backbones. AT&T's network also incorporates multiprotocol label switching (MPLS), which supports a range of applications over a single IP network infrastructure. The AT&T global backbone network carries 4.6 petabytes of data traffic on an average business day. Its backbone network carries a range of IP-based services, including wireless data, business video, data and voice services, private line and wavelength traffic, as well as IP-based residential services and internet access for AT&T's more than 15.7 million total broadband customers. The company operates one of the largest wireless fidelity (Wi-Fi) networks in the US, including more than 18,000 AT&T Wi-Fi hotspots at hospitality locations, retail stores, and stadium restaurants in the US and served 17.8 million connected cars in its network. As of Extensive wireless and wired network serves as a competitive advantage and allows the company to serve a huge subscriber base.

Research and Development (R&D) Activities

Focus on R&D and operational network could enhance the company's portfolio of offerings. AT&T's strong R&D activities could further enhance its portfolio of offerings. The company conducts intense R&D activities through its AT&T labs. Its R&D activities focuses on the areas of IP networking, advanced network design and architecture, network and cyber security, network operations support systems, satellite technology, artificial intelligence, video platform development, Internet of Things, and data analytics. The R&D programs are intended to create new services and to invent tools and systems to manage secure and reliable networks for the company's customers. Its R&D capabilities enable to overcome technical barriers encountered in the commercialization of sophisticated mobile communication, cable services, digital network and network security. In FY2017, it spent US\$1,503 million on its R&D. AT&T also plans to launch 5G mobile network in FY2018.

Weakness

Business Performance

Weak revenue performance decreases the company's ability to provide higher returns to its shareholders and also restricts its ability to allocate adequate funds for future growth initiatives. The company's total revenue declined by 2%, from US\$163,786 million in FY2016 to US\$160,546 million in FY2017. Revenue decline was attributed to continued declines in wire-line voice and data products and lower wireless service revenues. The wire-line voice and data, and wireless service revenues declined by 18.8% and 5.4% in FY2017. There was a migration of the company's post-paid customers to business solutions due to discounted monthly service charges. Further, the company waived US\$243 in service revenues for customers in areas affected by natural disasters in FY2017.

Opportunity

Focus Area Internet of Things (IoT)

AT&T has taken several initiatives for the deployment of Internet of Things (IoT) technology. IoT is the network of physical devices, vehicles, and other items embedded with electronics, software, sensors, and network connectivity, which enable these objects to collect and exchange data. In February 2018, the company introduced Fleet Management services for government and business enterprises. AT&T integrated its IoT platform with Geotab's fleet tracking platform to launch a comprehensive solution. The new fleet management solution could help the government to improve productivity, control costs, enhance safety and manage compliance for its customers. In the same month, AT&T entered into partnership with CarForce, a cloud-based Software-as-a-Service (SaaS) solution provider. This collaboration could enable the company to offer car dealerships, fleet managers, and repair shops better manage car maintenance and predict car issues before they happen. The deal could allow the two companies integrating their Artificial Intelligence (AI) and Internet of Things technology to provide preventative and predictive vehicle maintenance services, reduce vehicle downtime and increase efficiencies in parts supply and repair networks, and sending customers automated alerts for regular maintenance, changing oil, by notifying them when a repair is needed. In February 2018, AT&T entered into partnership with Ericsson to provide testing, verification and white glove assistance for IoT devices. The deal could enable the company's customers lower their risk and speed timelines for IoT expansion. As of FY2017, the company had 38.5 million connected devices, 17.8 million cars, 2.7 million connected fleet vehicles, more than 2 million asset management devices, and more than 3,000 certified devices on its network.

Rising Demand for High-bandwidth Mobile Communications

The US mobile broadband market had grown strongly over the last few years and is expected to continue growing in the coming periods. The growth in mobile broadband is primarily attributable to the high data consumption by mobile devices, including smartphones and tablets. According to industry estimates, the global mobile data traffic amounted to 7 exabytes per month in 2016. Furthermore, the mobile data traffic is expected to grow at a CAGR of 53% to reach a value 30.6 exabytes per month by 2020. AT&T has robust network infrastructure to support the growing demand for high-bandwidth mobile communications. In the US, the company covers all major metropolitan areas and more than 400 million people through its 4G LTE network. Amid the decline in voice and other services, data traffic growth will enable AT&T to sustain revenue growth. The company can leverage its leadership position in the wireless market to further drive average revenues per user (ARPU) by tapping into the trend of growing mobile traffic.

Focus on Internet Protocol (IP) Technology and Digital Business

AT&T focuses on the Internet Protocol (IP) technology to add value to its revenue stream. IP technology allows TV, computer, home phone and wireless devices to integrate and provide a wide range of useful features. IP technology is utilized for the transmission of data, which includes voice, and a software-based technology rather than a traditional wire and physical switch-based telephone network. This technology offers voice and data services at a lower cost as compared to traditional network. The company aims to deploy 75% of its network with software defined network (SDN) and network virtualization (NFV) by FY2020, which could enable it to deliver cost advantage in the deployment of next-generation technology over the traditional, hardware-intensive network approach. AT&T focuses on offering digital transformation services by deploying SDN network. SDN could deliver flexibility and

scalability to help businesses optimize and align network performance, functions and costs, apart from allowing business enterprises to migrate to the cloud server. Business enterprises could mix and match site types and connect AT&T VPN sites, internet protocol security sites and SD-WAN sites in a single virtual private network (VPN). This could enable businesses to deploy the solution at their own pace. In addition, the company targets to expand its hybrid network technology in more than 150 countries.

NFV and SDN Driving the ICT Market

Due to rise in the usage of storage data centers and increasing complexities to manage data crossing across the network, many companies are facing challenges to change according to the digitalization requirements. Therefore, enterprises started focusing on transforming and building their network by adopting NFV (Network Functions Virtualization), which transmute abstract physical networking components into software applications through virtualization technology. NFV is gaining momentum in the industry with significant benefits being guaranteed to consumers of network and IT services. By running network applications on a large - scale and low - cost server infrastructure are inviting enterprises to replace expensive dedicated appliances. According to in-house research, communications service providers have surfaced as a major beneficiary of NFV. The increasing adoption rate of NFV is expected to be a major trend in the coming years, primarily owing to large scale roll - out of 5G networks. Consequently, with a considerable reduction of operational and capital expenditure as well as management hassles, the demand for NFV is set to witness a n upward momentum in the coming years. Software defined networking (SDN) is one of the fastest growing segments in virtualization technology spectrum. With emerging technology advancements, WAN requirements of enterprises have changed considerably forcing enterprises to look into software defined WAN (SD -WAN) technology. AT&T is a global leader in network virtualization and software defined network and it is in aim to virtualize 75% of its network by 2020. In a way to enhance its virtualization efforts and speeding up the implementation of SDN and NFV offerings, in June 2017, AT&T acquired Vyatta Software technology from Brocade. In an effort to enhance its portfolio of network visualization solution, in July 2016, AT&T launched Network Functions on Demand offer, targeting enterprise customers.

Threat

Foreign Currency Fluctuations

AT&T operates in several countries and is subjected to fluctuations in foreign exchange rates. The company reports revenue in the US dollar and therefore its revenue is exposed against other functional currencies such as Brazilian Real, Euro, Mexican Peso among others. The major exchange rate risks include the company's investments in overseas subsidiaries and affiliates and monetary assets and liabilities arising from business transactions in foreign currencies. In FY2017, the company reported a gain of US\$15 million from foreign currency translation adjustments as compared to losses of US\$777 million in FY2016 and US\$1,188 million in FY2015 respectively. The company could involve in foreign exchange hedging activities by entering into foreign exchange forward contracts to minimize risk associated with currency translation. However, there could be no assurance that such hedging activities or measures would limit the impact of movements in exchange rates on the company's results of operations.

Saturation in the US Mobile Phone Market

The mobile phone market in the US has reached near saturation levels. Wireless penetration in the country was more than 120.6% in FY2016. Accordingly, mobile phone subscription growth will be negatively impacted as the companies will not be able to drive this growth by market penetration in the years ahead. The impending saturation was witnessed by AT&T. High penetration of over 100% eliminates any chance of significant growth in the future. Moreover, the high penetration rate signifies weak prospects for the company to report growth through increase in number of connections. The saturation in the US mobile market, with call charges declining, could result in the fall of operators' wireless revenues.

Intense Competition

The company faces substantial and increasing competition in all aspects of its wireless business. Under current Federal Communications Commission (FCC) rules, multiple licensees, providing wireless services on the cellular, personal communication service (PCS), AWS, 700 MHz and other spectrum bands, may operate in each of the company's service areas, resulting in the potential presence of multiple competitors. The company has multiple wireless competitors in each of its service areas and competes for customers based principally on service/device offerings, price, call quality, coverage area and customer service. The company's competitors include companies such as Orange Business Services, BT, Singapore Telecommunications Limited and Verizon Communications Inc, Verizon Wireless, Sprint and T-Mobile, as well as various regional wireless services providers. In addition, AT&T faces competition from providers that offer voice, text messaging and other services as applications on data networks. More than 98% percent of the US population lives in areas with at least three mobile telephone operators, and 94% of the population lives in areas with at least four competing carriers. This makes the company's environment highly competitive. In the wire-line segment, the company faces competition from wireless, cable and other voice over internet protocol (VoIP) providers, interexchange carriers and resellers. The company competes for customers, often on pricing of bundled services, with large cable companies, including Comcast, Cox Communications, and Charter Communications, among others. In addition, in Latin American countries served by DIRECTV, AT&T faces competition from other video providers, including America Movil and Telefonica. Moreover, the US wireless industry is expected to witness price competition in the coming years. All the players in the US telecoms space have either introduced new plans or cut prices to poach subscribers in an increasingly saturated postpaid market. The increasing competition coupled with impending price competition will continue to put pressure on pricing and margins as companies compete for potential customers.

Stringent Regulatory Environment

AT&T and its subsidiaries' operations are subject to federal and state regulatory authorities within the US. AT&T subsidiaries operating outside the US are subject to the jurisdiction of national and supranational regulatory authorities in the markets where service is provided. The federal communications commission (FCC) released an order for adopting new rules, and reclassifying both fixed and mobile consumer broadband Internet access services as telecommunications services, subject to comprehensive regulation under the Telecommunications Act of 1996. The FCC's decision significantly expands the FCC's existing authority to regulate the provision of fixed and mobile broadband Internet access services. The FCC also asserted jurisdiction over Internet interconnection arrangements, which until now have been unregulated.

These actions could have an adverse impact on the company's fixed and mobile broadband services and operating results.

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