DirecTV could see buyer interest amid falling subscribers, revenue – advisors

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- AT&T and private equity firm TPG Capital face decisions as no-sale clause expires
- US's third-largest pay television provider hit by cord-cutting, secular headwinds

DirecTV, already marked down sharply from the USD 67bn that **AT&T** [NYSE:T] originally paid for the asset in 2015, could at the right price still attract interest from potential buyers, said sector advisors.

AT&Twill be free beginning this week to sell its 70% stake in DirecTV as per a three-year-old carveout with **TPG Capital**, amid expectations that one or both of the owners will soon look to exit the subscriber- and revenue-shedding asset, the sector advisors and analysts said.

In 2021, the Dallas-based telecom giant contributed its AT&T TV and U-verse video units to the new DirecTV, while the private equity firm contributed USD 1.8bn in cash for a 30% stake in the entity, which was then valued at USD 16.3bn.

Since then, DirecTV has continued to hemorrhage customers in the face of cord-cutting and other secular headwinds, with the number of subscribers falling to 11.3 million at the end of September 2023, from 20.4 million at the end of 2019, according to a Moody's rating of amended loan terms issued in January.

Free cash flow likewise continued to decline at about 20% per year, with distribution to AT&T expected to be about USD 3bn for full year 2024, down from USD 4.45bn in 2022, the company said during its 1Q24 conference call on 24 April. It reiterated that decline rate during its 2Q24 earnings call last week.

DirecTV has proven a successful investment for TPG, which has seen all of its senior preferred equity retired and continues to benefit from free cash distributions to shareholders.

"If you just do the math around timing and where they are from an investment standpoint…it'd be a logical thing for private equity firms and strategics to be evaluating," one sector advisor said.

DirecTV remains the third-largest pay television provider, in terms of subscribers.

It's unclear precisely how much TPG has earned on the diminishing cash distributions from its three-year-old investment in the already pared-down new DirecTV, but it is likely nearing the point of seeking a liquidity event, this advisor said.

AT&T was reported as far back as October to be exploring options for its stake in the asset.

Terms of the joint venture included a three-year commitment under which AT&T could sell its stake after 31 July 2024, *Bloomberg* reported. The agreement contained a clause allowing the telecommunications firm to engage in sale discussions at some point before that date.

"They would kill to get rid of DirecTV," another sector advisor said of AT&T.

AT&T's purchase of DirecTV came as the video subscription industry entered a period of secular decline, when rising carriage fees and content production costs confronted price-sensitive customers increasingly willing to forego expensive channel packages.

By contrast, AT&T generates significant cash flow around its internet and wireless mobile services, the second advisor said.

"AT&T has done this math…is it better to just keep it and mine that cash flow until it just peters out," this advisor said.

A more likely option is that there is a price at which AT&T will seek to exit the investment while it still retains some value, much as it has with parts of its wireline business, according to the second advisor.

Indeed, AT&T has significantly pared back its involvement in video subscription businesses, including the 2022 spinoff of WarnerMedia.

A lesson in Sky Mexico exit

More recently, AT&T in June announced the sale of its 41.3% stake in satellite TV services provider **Sky Mexico** to **Televisa** [BMV:TELEVISA] for undisclosed terms.

Sky Mexico, part of the DirecTV holdings acquired by AT&T in the 2015 transaction, reported 6.4 million subscribers in June of that year, according to data from Mexico's telecommunications authority, IFT.

That customer base peaked at 9.8 million subscribers two years later, before falling steadily to 6.8 million subscribers as of June 2023, data from Televisa shows. Revenue peaked at USD 580m in 2017, and has since declined to USD 309m last year.

Like its former parent DirecTV, Sky Mexico has faced increasing competition, secular market changes and constraints related to the growing obsolescence of its direct-to-home satellite TV technology, said Ignacio Cepeda, director at Mexican telecommunications industry consultancy **Asercom**.

Since its launch in 1996, Sky Mexico's value proposition has been built around offering premium content like European sports leagues and regional professional soccer.

During the past decade, competitors like **Dish** – operated by Mexico City-based media company **MVS Comunicaciones** and **Dish Network**, a subsidiary of Englewood, Colorado-based satellite communications company **Echostar** [NASDAQ:SATS] – and local provider **StarTV** began offering prepaid content packages for as low as USD 10 a month, Cepeda said.

By comparison, Sky Mexico's content bundles could cost as much as USD 50 a month, relying mainly on post-paid clients, Cepeda said.

As a technology, satellite delivery of television is waning, becoming largely a niche product for remote areas out of reach of fixed copper- or fiber optic-based telecommunications networks, said Ariel Barlaro, vice president at Paris-based telecommunications and media research firm **Dataxis**.

Technology is among the reasons why a long-rumored strategic tie up with Dish Network "still makes sense," said Michael Hodel, director of communications services equity research at **Morningstar**.

In addition to generating cost savings, such a transaction would leave a single niche provider serving US satellite TV customers, the analyst said.

He acknowledged, however, that Dish faces its own financial challenges and could find it difficult to pull off such a deal.

Though what to do with the DirecTV and Sky Mexico assets represent "very distinct decisions for AT&T," both have long stopped being meaningful parts of AT&T's overall strategy and become purely financial investments, Hodel said.

Ownership is continuously reviewing "whether receiving cash flow from DirecTV, which is steadily declining, outweighs whatever options it has to sell all or part of the business," Hodel said.

TPG, AT&T and MVS Comunicaciones declined to comment. DirecTV did not respond to a request for comment. A Televisa spokesperson referred to its 24 April deal press release.