

## **Michael Mahoney's Views on the Future of Broadband Competition**

Verizon's Charter Flirtation Bodes 'Anything Goes' Trump Era (1)  
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(Bloomberg) -- Now that President Donald Trump, a self-described deal artisan, is occupying the White House, corporate America seems ready to revisit mergers it never would have dared to propose under the previous administration.

Take the CEOs of the nation's cable, media, and telecommunications companies, who've never been able to resist a good deal. They're now dreaming up even bigger strategies, crossing industry lines and proposing once-unthinkable takeovers. As confidence grows that the new administration will welcome megamergers, more deal proposals are likely in the coming months.

Verizon Communications Inc. Chief Executive Officer Lowell McAdam talked to Greg Maffei, CEO of Liberty Media Corp., about buying one of Liberty's biggest holdings -- the \$104 billion cable giant Charter Communications Inc., people familiar with the matter said Thursday. That overture highlights what could be a new wave of consolidation that could sweep up Sprint Corp., T-Mobile US Inc., Comcast Corp. and others.

"Companies are gearing up because no one knows if this will turn into an 'anything goes' environment where people have to be ready to think about deals they had not contemplated before," said Walt Piecyk, an analyst with BTIG LLC.

While companies are envisioning more ambitious targets for deals, they're waiting to see key positions filled in the Justice Department's antitrust division and to watch how the new administration handles some of the first deals under its purview, such as AT&T Inc.'s acquisition of Time Warner Inc. A months-long federal auction of wireless airwaves has also kept some of the telecommunications industry's biggest companies from discussing other transactions because of collusion rules.

Watch more here: Sullivan & Cromwell Partner Francis Aquila on M&A outlook.

Even Verizon hasn't yet formally approached Charter, which is one of more than a dozen companies, including cable, media and communications network operators, on McAdam's list, according to people familiar with the matter. Charter shares fell 4.9 percent Friday, the most intraday since May, on speculation a deal won't materialize.

Still, there are early signs that the Trump administration will be more deal-friendly than its predecessor.

"He's appointed a very pro-business cabinet -- that portends good things," said Francis Aquila, a partner at merger and acquisition law firm Sullivan & Cromwell, in an interview this week on Bloomberg Television. "He's already, through executive action, put on hold further regulations. He has basically a regulation czar and has talked about cutting back regulations that impede business. We know we're going to get corporate tax reform and that's going to lead to a more efficient economy."

### Wireless Target?

Deals in the telecommunications and cable industries look especially likely, with a looser regulatory climate giving companies more options to contend with the same pressures they've been facing for years. For one thing, cable companies and phone companies continue to compete more directly with each other for customers. Comcast's and Charter's planned launch of wireless services this year has sparked speculation that either one could go after a mobile-phone provider next -- Sprint or T-Mobile.

“Big mergers across telecom, media, cable have been difficult in the last eight years, so companies see an opening to make a move early given that there are limited options available,” said Chetan Sharma, an industry consultant.

### AT&T Deal

Other companies will be emboldened to look even farther afield of their traditional industries if AT&T gets regulatory approval for its \$85.4 billion Time Warner deal, which combines one of the nation’s largest phone, internet and TV providers with one of the largest creators of movies and TV shows.

While Trump has said he’s opposed to AT&T’s bid for Time Warner, it’s not clear what influence he’ll exert or if he’s willing to stay out of the Justice Department’s antitrust review, as presidents traditionally do.

Trump’s pick of Ajit Pai to head the Federal Communications Commission is one of the first signs that the old rules of the Obama administration are going to change. As an FCC commissioner since 2012, Pai was a critic of net neutrality rules that require equal treatment of all web traffic and a proponent of faster merger reviews.

Regulators under Trump may be more willing to entertain the argument that phone and cable companies can act as competitors to Google and Facebook Inc. in markets like advertising while controlling the web giants’ access to internet users. The telecommunications companies have long argued that their Silicon Valley rivals are already encroaching on their business. Alphabet Inc.’s Google now makes phones, offers wireless service through Project Fi and is expected to launch a streaming TV service this year. Amazon.com Inc. already has a popular video streaming service, and Facebook wants to connect the world to the internet.

“AT&T and Verizon have shifted who they view as competitors to Google, Amazon and Facebook,” said Kevin Roe, an analyst with Roe Equity Research. “The new administration accelerates their impetus.”

### 5G Future

Not only has the new administration opened up M&A possibilities, there’s a confluence of other pro-deal conditions. For example, interest rates are still low and set to rise. And wireless companies are upgrading their infrastructure to provide fifth-generation, or 5G, services, sparking a land grab for fiber networks that they also need to handle the surge in capacity demands.

The approach of 5G threatens to dislodge some of the giants of cable and satellite TV as wireless speeds surpass the performance of many of today’s landline connections. That means wireless companies could offer phone, broadband internet and TV service to consumers without connecting a single cable to their homes.

Companies that “own wireless spectrum have the potential to compete with any other provider with an entertainment service,” said Michael Mahoney, senior managing director of Falcon Point Capital.

On the other hand, wireless companies will rely on wired infrastructure, including cable companies’ broadband networks, to route data traffic to support their 5G services. That’s one of the reasons Charter could be attractive to Verizon. And wireless companies are motivated to find new sources of growth now that most Americans have a smartphone and a data plan.

“All of these companies are facing their own form of disruption, and at same time slowing growth in their main businesses,” Piecyk said. “At this point it causes them to think about what kind of business it’s going to be five years from now.”

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