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# Activist Investor Challenges AT&T Over Strategy, Board

Elliott Management questions acquisition strategy, calls on AT&T to divest assets

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One of Wall Street's most powerful activist investors is challenging AT&T Inc.'s ambition to build a media conglomerate and is pushing the company to refocus on its telecommunications roots. Hedge fund Elliott Management Corp. disclosed a $3.2 billion stake in AT&T, criticized its longtime CEO's acquisition strategy and called on the company to shed some assets. The investor, which has tangled with Samsung Electronics Co. and the Argentine government, also suggested that AT&T name new directors to its board.

The start of a public battle will test shareholder support for Chairman and Chief Executive Randall Stephenson's plans to remake AT&T into a media and advertising powerhouse. He has used big takeovers to add properties such as HBO, Warner Bros. and DirecTV, and is seeking to compete with Comcast Corp. as well as Netflix Inc. in the battle for consumers' attention. But the deals have also left AT&T with more than $160 billion of net debt. "AT&T has suffered from operational and execution issues over the past decade, for which the current leadership team is accountable," Elliott wrote in a letter to AT&T's board and made public Monday. AT&T defended its strategic direction and said it will engage with the hedge fund. "Indeed, many of the actions outlined are ones we are already executing today," the company said in a statement.

Elliott began laying the groundwork for its campaign last year when AT&T's shares sagged in the wake of its Time Warner acquisition, though the firm decided to go public after AT&T promoted one of Mr. Stephenson's lieutenants to be his likely successor, according to a person familiar with the matter. AT&T last week elevated John Stankey, a longtime executive who advocated for both the DirecTV and Time Warner deals, to be its president and chief operating officer. He was promoted after telecom chief John Donovan, who oversaw more than 80% of the parent company's revenue, announced his retirement after it became clear he would not succeed the CEO. Elliott questioned the executive change and asked whether AT&T conducted an external review for the new No. 2 position. "Especially given the recent management changes, this is the moment to determine the right team for the next decade," Elliott wrote.

AT&T wasn't given much advance notice of Elliott's plan, and Mr. Stephenson had yet to meet with its portfolio managers early Monday, according to people familiar with the matter. AT&T has a history of making big acquisitions and of choosing its top managers from within. Elliott criticized both practices in its letter Monday. Elliott didn't ask AT&T to sell specific divisions but said the company should review any businesses that don't fit its future direction, including the DirecTV satellite service and Mexican wireless operations. The investor added that the company "has yet to articulate a clear strategic rationale for why AT&T needs to own Time Warner."

With a market value of more than $260 billion, the Dallas company is among the hedge fund's biggest corporate targets to date. Elliott's roughly 1% stake means it will probably need support from other institutional investors to pressure the company. AT&T shares, which have lagged behind the broader market and some of its peers over the past five years, have rallied in recent months after starting the year around $30. AT&T shares closed up 1.5% at $36.79 in Monday trading.

Elliott assailed AT&T management for its nearly $50 billion purchase of DirecTV in 2015 and said it remains cautious about last year's roughly $80 billion purchase of Time Warner. AT&T has replaced most of the leadership at Time Warner as it prepares to launch a new streaming service. "AT&T has been an outlier in terms of its M&A strategy," Elliott wrote. "Most companies today no longer seek to assemble conglomerates."

The company is the No. 2 U.S. cellphone carrier by subscribers, trailing rival Verizon Communications Inc., and the top provider of pay-TV channels just ahead of Comcast. It also owns the Warner Bros. film studio and cable networks like CNN and TNT.
AT&T said its "strategy is driven by the unique portfolio of valuable businesses we've assembled across communications networks and media and entertainment." The company said it would focus on growing and investing in these businesses.

President Trump, a frequent critic of CNN, weighed in on the news, tweeting: "Great news that an activist investor is now involved with AT&T." As a presidential candidate in 2016, Mr. Trump vowed to block AT&T's takeover of Time Warner. The U.S. Justice Department in 2017 sued to stop the merger, but AT&T prevailed in court after months of costly litigation.

Elliott, founded by billionaire Paul Singer, is one of the biggest activist investors. Last year, the hedge fund launched the equivalent of nearly one new public activism campaign every two weeks, pushing for change at companies around the world including Sempra Energy, Nielsen Holdings PLC and Pernod Ricard SA. In its AT&T letter, Elliott argues the company has underperformed the market for the past decade and puts much of the blame on Mr. Stephenson's acquisition strategy. In addition to asset sales, Elliott called

on AT&T to boost its profit margins by cutting at least $5 billion in costs, including outsourcing some functions, consolidating offices and trimming its retail footprint.

The hedge fund predicted that if AT&T pursues the strategic and operational improvements Elliott suggests, the shares could be worth more than $60 a share by the end of 2021. Shares hit a multiyear low of $27.36 in December as investors questioned whether its heavy debt load was sustainable. The company has spent the past year shoring up its balance sheet, partly through sales of assets.

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