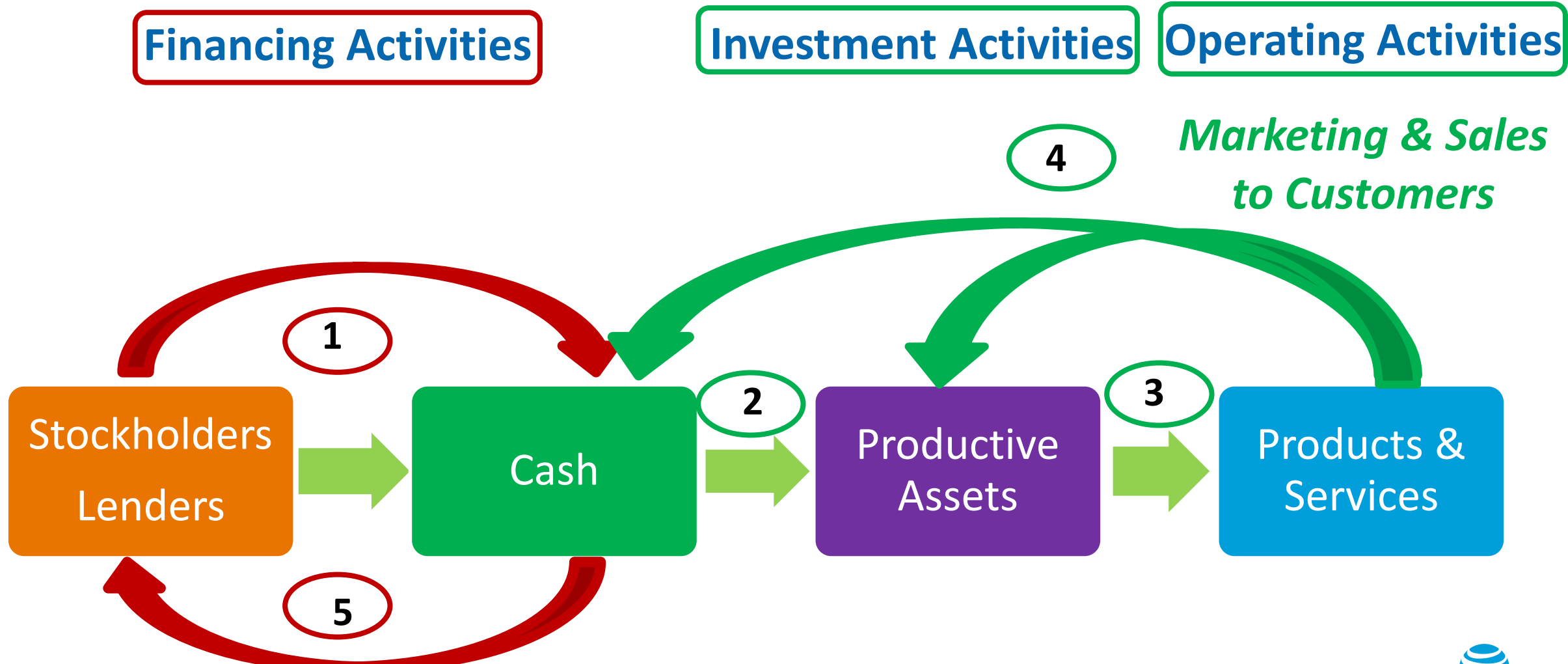


Finance Essentials – OASIS Workshop

March 31, 2017



Business Activities



Financing Activities - Start up



Jane & Joe

Innovation

Vision

Business Plan

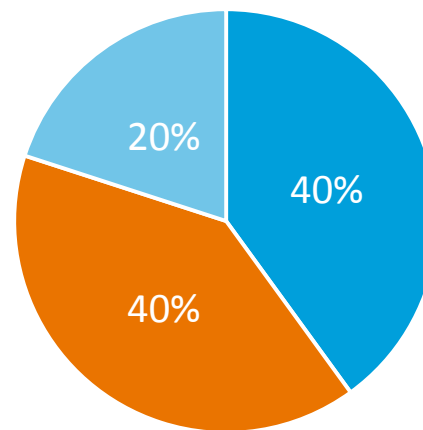
❖ Ready to launch NewCo

❖ How will they Finance?

NewCo Ownership - Day 1

Day 1 – Seed Funding

- Personal Source
- Family & Friends
- Crowd Sourcing



■ Jane ■ Joe ■ Mom

Issued 100,000 shares
@ \$2/share
NewCo valued at \$200,000



Start up Financing (contd)

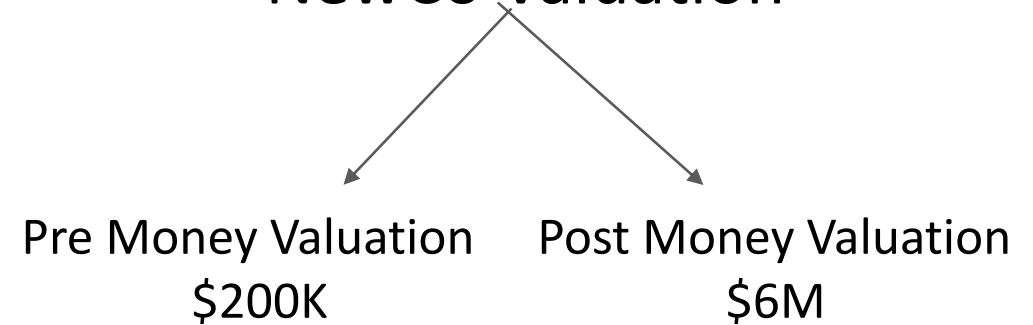
Two years later.....

- Business running well
- Ready to expand
- Need \$1M to invest
- Raise capital

Approach Venture Capitalists (VCs) & Angel Investors for Series A funding

- Sell vision
- Network
- Business Plan & **Valuation**

NewCo Valuation



$$\text{VC Ownership} = \frac{\text{Investment } (\$1\text{M})}{\text{Post Money Valuation } (\$6\text{M})}$$

VC Ownership of NewCo = 16.7% = 20,048 shrs
Jane, Joe, & Mom = 83.3% = 100,000 shr
Share Valued at = $\$1\text{M}/20,048 = \49.88

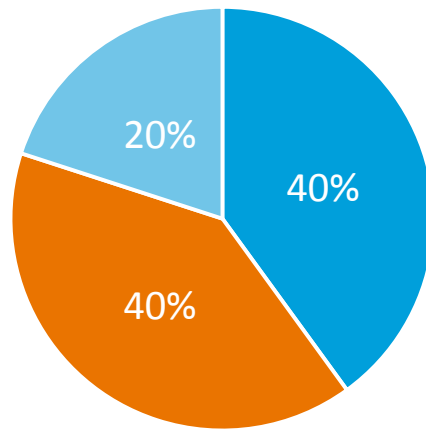


Start up Financing (contd)

Raise capital by issuing new shares – Series A, Series B, Series C.....

- Valuation increase for each investment round
- Dilution as new shares are issued

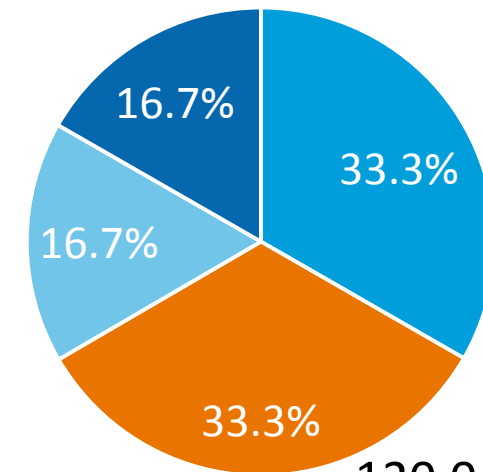
NewCo Ownership - Day 1



■ Jane ■ Joe ■ Mom

100,000 shrs @ \$2/shr

NewCo Ownership - 2 Yrs later



■ Jane ■ Joe ■ Mom ■ VC

120,048 shrs @ \$50/shr



Investment Activity

- Disciplined Capital Budgeting Process
- Allocate capital to maximize returns and increase value
- Time value of money
 - How much do I invest to generate \$x in n years
- Investment decisions driven by
 - Net Present Value (NPV)
 - Internal Rate of Return (IRR)
 - Discounted payback period (DPP)
- **Good Investment: $NPV > 0$; $IRR > \text{Cost of Capital}$; $DPP = 2$ yrs or less**



Operating Activity

- Drive Revenue
 - ✓ Marketing
 - ✓ Sales
 - ✓ Product Management
- Manage costs judiciously
 - ✓ Operational Processes
 - ✓ Operational efficiency
- Drive Profits & Cash Flow



The 4 Ps of Marketing

Product

Price

Place

Promotion

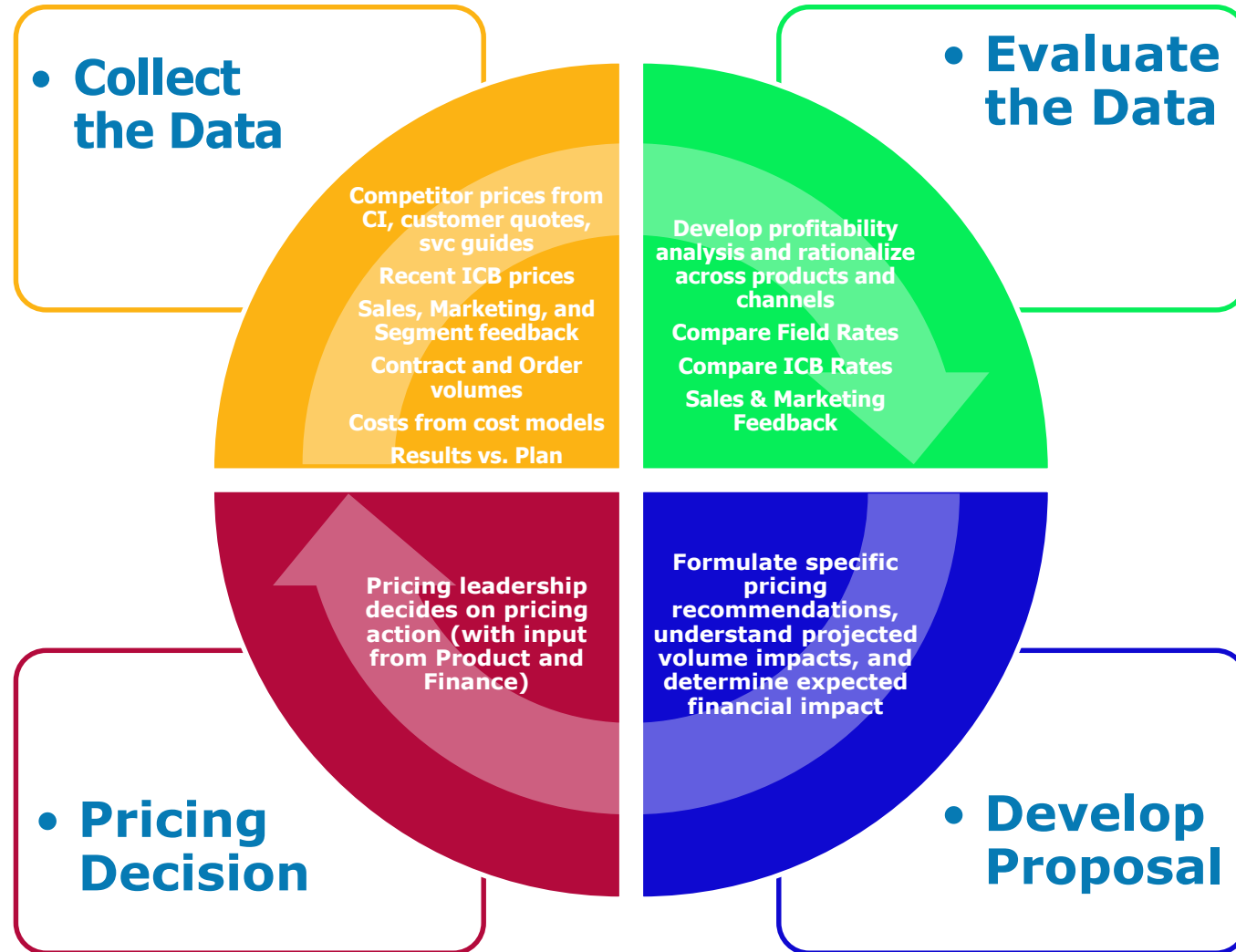


Pricing Objectives

- Capture optimal value of Products & Services
 - Profitable
 - Competitive
- Enhance customer experience
 - Simple
 - Flexible
- Pricing strategy aligned with product/offer strategy which in turned is aligned with the firm's strategy
- Ensure legal/regulatory compliance



Pricing Process at AT&T



Financial Statements

- Balance Sheet
 - Assets
 - Liabilities
 - Shareholder Equity
- Income Statement
 - Shows results of operations
 - Revenue
 - Expense
 - Profitability
- Cash Flow Statement
 - Reconciles beginning and ending cash and cash equivalents



Balance Sheet

Consolidated Balance Sheets		
<i>Dollars in millions</i>		
<i>Unaudited</i>	Dec. 31,	Dec. 31,
	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	\$ 5,788	\$ 5,121
Accounts receivable - net of allowances for doubtful accounts of \$661 and \$704	16,794	16,532
Prepaid expenses	1,555	1,072
Other current assets	14,232	13,267
Total current assets	38,369	35,992
Property, Plant and Equipment - Net	124,899	124,450
Goodwill	105,207	104,568
Licenses	94,176	93,093
Customer Lists and Relationships - Net	14,243	18,208
Other Intangible Assets - Net	8,441	9,409
Investments in Equity Affiliates	1,674	1,606
Other Assets	16,812	15,346
Total Assets	\$ 403,821	\$ 402,672
Liabilities and Stockholders' Equity		
Current Liabilities		
Debt maturing within one year	\$ 9,832	\$ 7,636
Accounts payable and accrued liabilities	31,138	30,372
Advanced billing and customer deposits	4,519	4,682
Accrued taxes	2,079	2,176
Dividends payable	3,008	2,950
Total current liabilities	50,576	47,816
Long-Term Debt		
	113,681	118,515
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	60,128	56,181
Postemployment benefit obligation	33,578	34,262
Other noncurrent liabilities	21,748	22,258
Total deferred credits and other noncurrent liabilities	115,454	112,701
Stockholders' Equity		
Common stock	6,495	6,495
Additional paid-in capital	89,604	89,763
Retained earnings	34,734	33,671
Treasury stock	(12,659)	(12,592)
Accumulated other comprehensive income	4,961	5,334
Noncontrolling interest	975	969
Total stockholders' equity	124,110	123,640
Total Liabilities and Stockholders' Equity	\$ 403,821	\$ 402,672



Income Statement

Consolidated Statements of Income				
<i>Dollars in millions except per share amounts</i>		Twelve Months Ended		
<i>Unaudited</i>		December 31,		Percent
		2016	2015	Change
Operating Revenues				
Service	\$ 148,884	\$ 131,677		13.1 %
Equipment	14,902	15,124		-1.5 %
Total Operating Revenues	163,786	146,801		11.6 %
Operating Expenses				
Cost of services and sales				
Equipment	18,757	19,268		-2.7 %
Broadcast, programming and operations	19,851	11,996		65.5 %
Other cost of services (exclusive of depreciation and amortization shown separately below)	38,276	35,782		7.0 %
Selling, general and administrative	36,347	32,919		10.4 %
Asset abandonments and impairments	361	35		-
Depreciation and amortization	25,847	22,016		17.4 %
Total Operating Expenses	139,439	122,016		14.3 %
Operating Income	24,347	24,785		-1.8 %
Interest Expense	4,910	4,120		19.2 %
Equity in Net Income of Affiliates	98	79		24.1 %
Other Income (Expense) - Net	277	(52)		-
Income Before Income Taxes	19,812	20,692		-4.3 %
Income Tax Expense	6,479	7,005		-7.5 %
Net Income	13,333	13,687		-2.6 %
Less: Net Income Attributable to Noncontrolling Interest	(357)	(342)		-4.4 %
Net Income Attributable to AT&T	\$ 12,976	\$ 13,345		-2.8 %
Basic Earnings Per Share Attributable to AT&T	\$ 2.10	\$ 2.37		-11.4 %
Weighted Average Common Shares Outstanding (000,000)	6,168	5,628		9.6 %

© 2016 AT&T Intellectual Property. All rights reserved. AT&T, GlobeLogo, Mobilizing Your World and DIRECTV are registered trademarks and service marks of AT&T Intellectual Property and/or AT&T affiliated companies. All other marks are the property of their respective owners.



Cash Flow Statement

Consolidated Statements of Cash Flows

<i>Dollars in millions</i> <i>Unaudited</i>	Twelve Months Ended December 31,	
	2016	2015
Operating Activities		
Net income	\$ 13,333	\$ 13,687
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	25,847	22,016
Undistributed earnings from investments in equity affiliates	(37)	(49)
Provision for uncollectible accounts	1,474	1,416
Deferred income tax expense	2,947	4,117
Net (gain) loss from sale of investments, net of impairments	(169)	91
Actuarial loss (gain) on pension and postretirement benefits	1,024	(2,152)
Asset abandonments and impairments	361	35
Changes in operating assets and liabilities:		
Accounts receivable	(1,003)	30
Other current assets	1,708	(1,182)
Accounts payable and accrued liabilities	118	1,354
Equipment installment receivables and related sales	(576)	(3,023)
Deferred fulfillment costs	(2,359)	(1,437)
Retirement benefit funding	(910)	(735)
Other - net	(2,414)	1,712
Total adjustments	26,011	22,193
Net Cash Provided by Operating Activities	39,344	35,880
Investing Activities		
Capital expenditures:		
Purchase of property and equipment	(21,516)	(19,218)
Interest during construction	(892)	(797)
Acquisitions, net of cash acquired	(2,959)	(30,759)
Dispositions	646	83
Sales of securities, net	506	1,545
Other	-	2
Net Cash Used in Investing Activities	(24,215)	(49,144)
Financing Activities		
Net change in short-term borrowings with original maturities of three months or less	-	(1)
Issuance of long-term debt	10,140	33,969
Repayment of long-term debt	(10,823)	(10,042)
Purchase of treasury stock	(512)	(269)
Issuance of treasury stock	146	143
Dividends paid	(11,797)	(10,200)
Other	(1,616)	(3,818)
Net Cash (Used in) Provided by Financing Activities	(14,462)	9,782
Net increase (decrease) in cash and cash equivalents	667	(3,482)
Cash and cash equivalents beginning of year	5,121	8,603
Cash and Cash Equivalents End of Year	\$ 5,788	\$ 5,121

