

The page features an abstract graphic design on the right side. It consists of three overlapping circles in various shades of blue, arranged vertically. A yellow square is positioned in the top right corner, partially overlapping the top circle. Two thin, light blue lines intersect at the top left and extend diagonally across the page, framing the graphic elements.

General Mills

Financial Analysis

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4/21/2014

General Mills Inc.

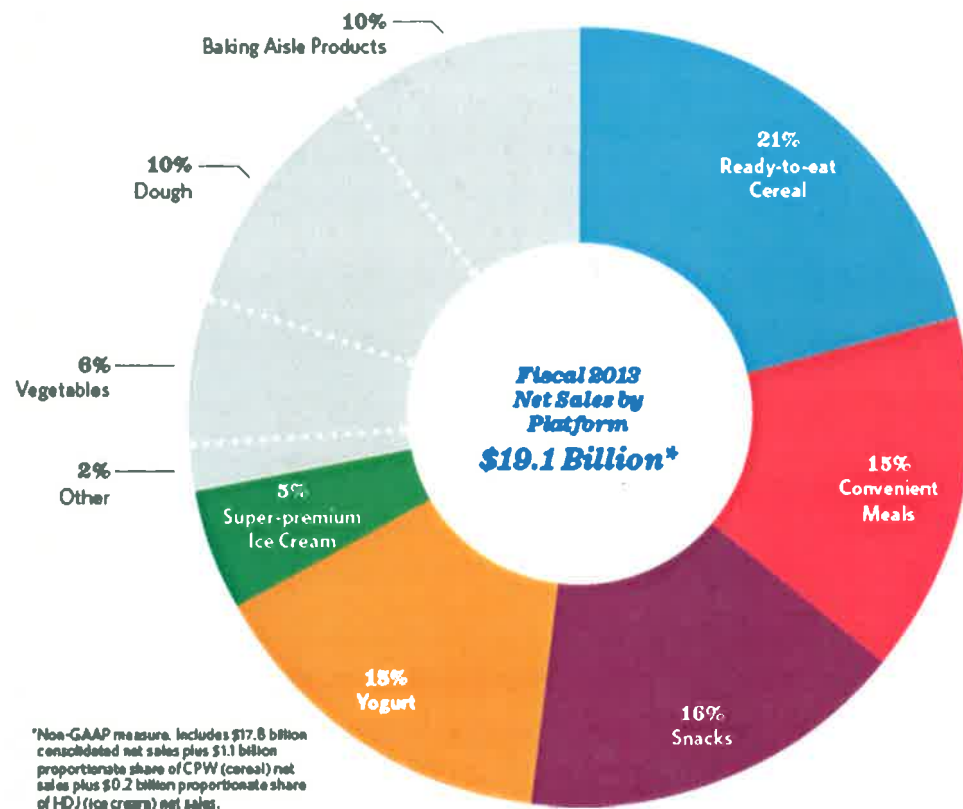
Background

General Mills incorporated into the company it is today in 1928 when Washburn Crosby Company and twenty-six other mills merged together. That same year the company they also issued their initial public offering and set up their company headquarters in Minnesota where it remains to this day. The company is currently listed on the New York Stock Exchange with the stock symbol GIS. They are currently ranked on the Fortune 500 list as one America's largest corporations.

Since its incorporation, General Mills has been a provider of top brands to millions of households across the globe; some of them being originally produced by them, while others have been acquired through takeovers of other companies. Three years after becoming a corporation, they began producing their first major product called Bisquick to the American public and it remains a top seller to this day. In 1941, the company entered the cereal market when they began making Cheerioats, the top selling cereal brand to this day in America. Following that in 1947, General Mills introduced an American pop culture icon, and major cake mix brand, Betty Crocker to the public eye. During the 1960's and 1970's the company entered a period of diversification when it purchased major brands like Lacoste clothing, Parker Brother's Board Games, Eddie Bauer and Talbots clothing. Realizing it had overreached itself too much, the company would only own them for a short period of time, opting to sell them away during the 1980's. In 1977, General Mills acquired the US rights to Yoplait Yogurt Brand, making it the last major purchase they would make for over two decades. Nearing the beginning of the twenty-first century, they once again chose to grow the brand name when they purchased Chex Cereal

and other snack brands from Ralston Purina. The corporation made its largest acquisition, in 2001, when they bought Pillsbury, nearly doubling the company in size.

General Mills currently divides its business into seven categories which generate annual net sales of \$19.1 billion dollars. The pie chart below illustrates the breakdown of General Mills business portfolio.



On the global scale, General Mills focuses on five major categories to separate its sales into (annual net sales): ready-to-eat cereal (\$4 billion), refrigerated yogurt (\$2.9 billion), convenient meals (\$2.8 billion), wholesome snack bars (\$1.5 billion), and super-premium ice cream (\$930 million). General Mills currently produces over twenty-five different cereal brands, including Cheerios, Cinnamon Toast Crunch, Lucky Charms, and Reese’s Puffs. The yogurt brands they produce include Yoplait, Go-GURT and Liburte. The convenient meals category includes the major household names the produce like Old El Paso dinner kits, Progresso soups

and Helper Dinner meals. The wholesome snack bar category encompasses their brands of Nature Valley bars, Fiber One bars, Chex Mix, Fruit Roll Ups, and Fruit by the Foot. Finally, the super-premium ice cream sales come from their ownership of the major ice cream brand Haagen-Dazs.

There are currently fifteen analyst firms following General Mills stock. The firms include: Argus Research, Bank of America Merrill, Barclays Capital, CLSA Americas, CO Forecast, Deutsche Bank SEC, Edward Jones, Gabelli and Company, Goldman Sachs, J.P. Morgan, Janney Mont., Jeffries & Co., Morgan Stanley, Stifel Nicolaus, and Wells Fargo SEC. The chart below illustrates their recommendations.



The breakdown of the ownership structure for General Mills is composed of 71% percent of shares held by institutional and mutual fund holders, while zero percent is held by insiders and five percent owners. State Street Corporation is the largest blockholder of the company, owning 6.64% of equity in the company (40,793,536 shares). The second largest blockholder is the Vanguard Group, Inc. which owns 5.11% of equity in the company (31,385,889 shares).

There are currently thirteen members who serve on the Board of Directors for the company. Only one insider of the company, CEO Kendall Powell, currently serves on the board, making up only 8% of it. Abiding by the company's requirements, the board is composed of seven independent members who take up a majority 54% of the board. Finally, five members who are company outsiders but still affiliated serve on and make up 38% of the board.

Capital Structure

The capital structure of General Mills for the fiscal years 2014, 2013, 2011 are as follows:

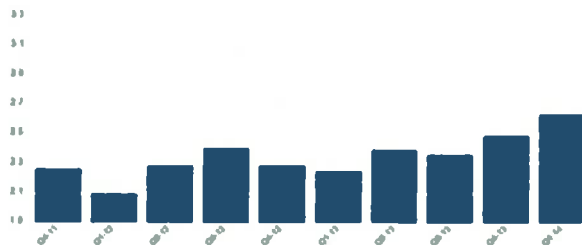
2nd Quarter 2014		
	\$ in billions	Percentage of Total
Long-term Debt	6.74	17.57
Preferred Stock	0	0
Common Stock	31.62	82.43
Firm Value	38.36	100

2nd Quarter 2013		
	\$ in billions	Percentage of Total
Long-term Debt	5.57	17.58
Preferred Stock	0	0
Common Stock	26.13	82.42
Firm Value	31.70	100

2nd Quarter 2012		
	\$ in billions	Percentage of Total
Long-term Debt	5.25	17.69
Preferred Stock	0	0
Common Stock	24.43	82.31
Firm Value	29.68	100

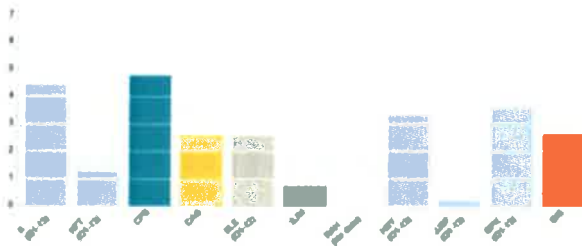
I. Capital Structure Compared to Competitors

Trend DEBT TO EQUITY



Average = 2.332
 Range = 2.1 - 2.63

Comparison with Competitors DEBT TO EQUITY



Average = 2.636
 Range = .25-4.8

Compared to the average of the industry, the debt to equity ratio of General Mills is right in line with the average. However, the industry has a large variation of debt to equity ratios and firm size. J&J Snack Foods has a ratio of only .25 while Campbell Soup Company has a ratio of 4.8. General Mills is about right in the middle with its average debt to equity ratio over the last ten

quarters being 2.332. Its current quarterly D/E ratio is 2.63 and there has been an upward trend for the last several quarters.

II. Explanation

General Mills is a company with many profitable and reliable products. Because of this, the company can benefit from a tax shield without worrying about its ability to make the debt payments. In order to continually grow as a company, however, General Mills needs to be consistently creating new products or working on acquisitions. To do this they need a bit of flexibility they cannot have with a lot of debt. This is why their D/E ratio is not higher. ✓

III. Opinion

We believe that General Mills has an appropriate capital structure for their industry and the opportunities/challenges they face. We appreciate the stability of the D/E ratio and percentage of long-term debt because, while it fluctuates minutely, it gives investors the reassurance that General Mills is not mismanaging its finances. As the firm value has gone up from \$29.68 billion to \$38.36 billion in the last 3 years, it is clear that General Mills has a capital structure that fits well with the business decisions of the firm.

IV. Changing Capital Structure

With many of General Mills' bonds reaching a maturity date in 2016 and 2019, there is a question as whether to change the capital structure of the company. Because of the delicate balance between benefitting from a tax shield and allowing for flexibility for new opportunities, we believe the capital structure should remain as it is. The consistency of the percentages of common stock and long-term debt shows management is being fiscally responsible. As this is a

positive signal to shareholders, changing the capital structure may cause unnecessary concern with investors.

Dividend Policy

General Mills	2011	2012	2013
Dividend Per Share	\$1.12	\$1.22	\$1.32
Dividend Yield	2.86%	3.12%	2.76%
Earnings Per Share	\$2.80	\$2.42	\$2.86
Payout Ratio	41.40%	51.90%	47.40%
Stock Price	\$39.77	\$38.28	\$48.98

I. Dividend Policy Compared to Industry

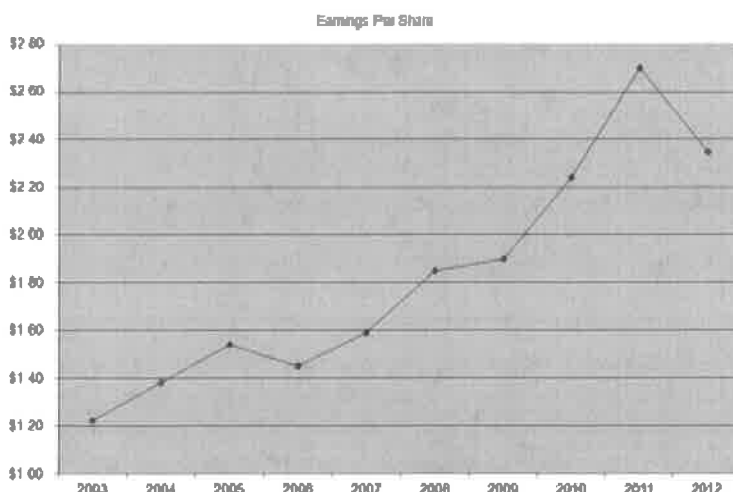
Compared to other companies in the global packaged goods industry, General Mills is right in the middle of group with 52% of the companies having a higher payout ratio. In another form of comparison, General Mills has a much higher dividend yield; the industry mean is 2% while theirs is 2.97%.

II. Explanation

The company's choice of dividend policy currently is focused upon a growing EPS and continually increasing the dividend yield every year. Compared to the industry, they seem to be right in the middle of the pack in payout ratio but this is due to being a large market cap company in an industry where there are many small corporation breaking in with new products. The dividend yield is above average because they company prides itself in rewarding investors. After recent large acquisitions in the early 2000's, General Mills appears to be content with the dividend policy they have maintained for many years.

III. Opinion

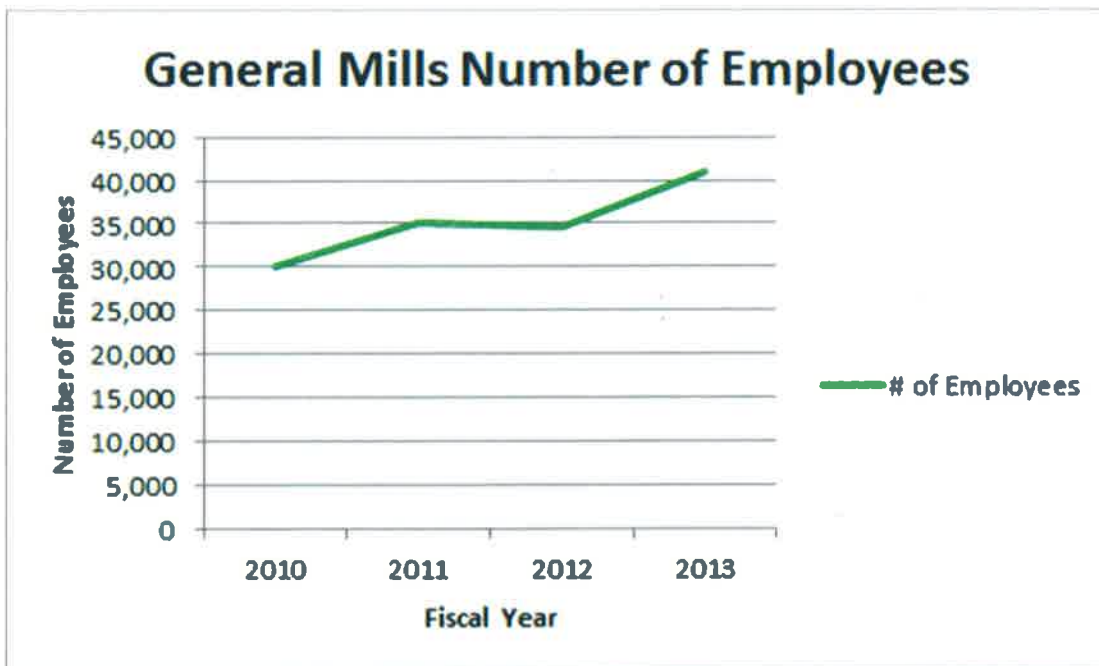
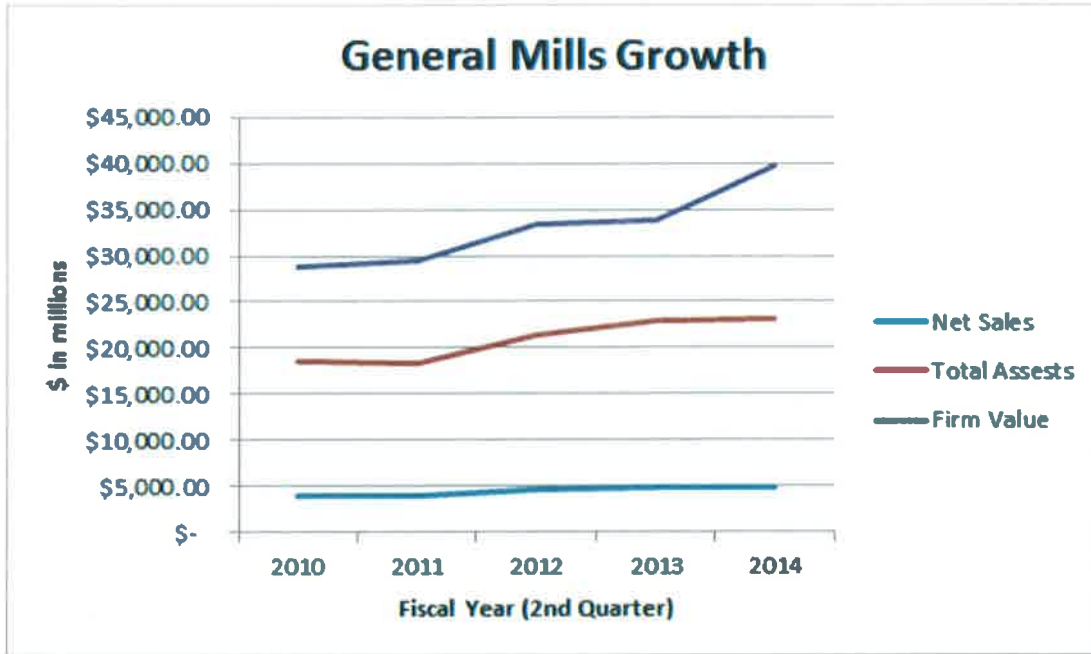
General Mills has maintained a very strong dividend policy over the entirety of their company history. Investors of the stock remain happy with the consistent returns they get every year, often times larger than year past. When this occurs, there is sometimes cause for concern that the company is not properly reinvesting to grow and mature the company, but in this case we do not think that is appropriate analysis. Over the past decade they have continually grown their EPS, all the while continually rewarding their investors.



IV. Changing Dividend Policy

As a team we do not believe that changing its dividend policy would increase the value of the company. The company might be able to achieve earnings growth if they would begin expanding internationally, introducing new products, making strategic acquisitions as well as managing its bottom line. However, because of its recent purchase of Pillsbury, we believe that right now rewarding investors would build up more capital in the long run versus continuing to acquire new things.

Growth



Growth Rates For General Mills					
	2010/2011	2011/2012	2012/2013	2013/2014	Average
Net Sales	-0.284%	13.702%	5.580%	-0.125%	4.718%
Total Assets	-0.985%	16.804%	6.923%	0.868%	5.902%
Firm Value	2.229%	13.833%	1.407%	17.296%	8.691%
# of Employees	16.667%	-1.429%	18.841%	N/A	11.360%

Firm value, total assets, net sales, and the number of employees that work for General Mills worldwide have all followed upward trends. Firm value has had the highest growth rate, moving from \$28,170 million to \$39,740 million in the last five years. Net sales had the slowest growth, from 4,078.2 million to \$4,875.5 million, with slight dips in years 2011 and 2014, in a five year period.

I. Growth in Lines of Business in the Last Three Years

	First Six Months of Fiscal Year		
Lines of Business Net Sales Growth	2012	2013	2014
Retail Segment	3%	1%	1%
International Segment	43%	22%	10%
Convenience Stores/Bakeries and Foodservices	12%	-2%	-1%

General Mills is having huge net sales growth in their international segment. They have had a net sales growth in the double digits for the last three years. The huge returns of 43% in 2012 can be attributed to an acquisition of international Yoplait. Excluding acquisitions, the international segment has been growing at high single digit compounding rates over the last five years. The

retail segment gets small positive returns. However, they have not had an increasing rate of returns in the international segment. The large presence General Mills has already established in this market partially contributes to this. General Mills re-segmented their sales from Bakeries and Foodservices to Convenience Stores and Foodservices which explains the change from positive rates to negative. This is also explained by lower pound volume in this segment.

II. Growth in Lines of Business in the Future

General Mills is completing a two year period of investment that worked to strengthen the core of the company in the U.S and expand further into international markets. The company is now focusing on improving operations across the entire company. General Mills' retail segment is expected to have low single digit sales growth. The international segment expects continued positive net sales growth. However, due to unfavorable currency exchange conditions, the growth may be smaller than it has been in the past.

III. Internal Growth vs. Growth Through Acquisitions

In 2013, strategic acquisitions grew net sales by 7%. These include an international Yoplait and a Brazilian company called Yoki. Most of the growth through acquisitions General Mills has been experiencing has been in the international market. This is comparable to some of the company's larger competitors. Some of the smaller competitors are seeing larger growth in their domestic sector, as they establish a larger market share. For General Mills, their strategy is well-formatted for their business strategy. As they are already well-established and hold a large market share in the domestic market, acquiring international businesses and expanding their current products to international markets is the best way to see net sales growth.

Liquidity Policy

General Mills	2011	2012	2013
Cash Ratio	0.17	0.12	0.14
Quick Ratio	0.63	0.58	0.52
Current Ratio	1.07	0.96	0.81

I) Liquidity Policy Compared to Industry

Compared to the industry at .65, General Mills has a low quick ratio of .52. They also have a comparatively low current ratio of .81 versus the industry's 1.25. Finally, their cash ratio .14 is much lower than the industry average of .25.

II. Explanation

General Mills has comparatively low ratios versus the industry in all three categories related to the liquidity policy. This is due to recent business decisions during the 2012-2013 fiscal year, in which they increased their short term liabilities by a large amount compared to years past, all the while increasing their current assets at a rate more typical of historic data. The other companies in the industry have opted to keep a much higher inventory, which in turn increases the current assets and make their ratios seem much higher.

III. Opinion

The current outlook of General Mills liquidity policy is not very solid, however due to the nature of positive long term outlook there is no cause for major concern. Over the last three years their current ratio has been falling at a very quick rate to .81. Having such a small ratio indicates they

might have difficulty paying off their short term obligations. Still, General Mills is not overly concerned because they can borrow against their long term prospects to pay off the short term ones. Regardless, our team would still like them to make some adjustments for comfort sake of the investors.

IV. Changing Liquidity Policy

In order to address this problem, our team believes that General Mills should focus on a plan to pay off a portion of their short term obligations over the next fiscal year, all the while continuing their historical rate of increase in regards to current assets. By slowing the pace of increasing short term debt, the company's liquidity policy ratios could begin to see a rebound over the next three to five years.

Stock Outlook

I. Stock Performance

The following chart shows GIS stock movement compared to the Dow Jones Index, S&P 500 and NASDAQ from April 18, 2011 to April 16, 2014:



General Mills follows the general upward trend of the market indexes over the last three years. When the market indexes dip, such as in October of 2011 and April of 2013, GIS tends to do better than the three market indexes. In April 2012 and January 2014, when there were peaks in the growth of the stock prices of the indexes, GIS fell below them.

II. Leading and Lagging Price to Equity Ratio

The leading P/E ratio of General Mills is 16.83. The lagging P/E ratio is 19.1. The difference in these prices is not the best sign; however, it is not significant enough to cause worry.

II. Business Prospects and Earning Growth

The largest problem General Mills faces is the U.S snacks and cereal market being mature. The company has implemented several strategies to combat this issue and continue to grow. General Mills is greatly expanding in the international market to try to capture emerging markets, such as yogurt in China. They are also continuously adding product lines to the U.S retail market in order to recruit new customers by offering innovative products.

IV. What the Analysts Say

According to fifteen analysis firms, GIS is at a buy status. Five firms have the stock rated as a strong buy, one as a buy, four say it is a hold, two firms put it at underperform, and one firm has it as a sell. General Mills has been consistently meeting and exceeding its estimated earnings since May 2012. In November of 2013, it failed to meet its estimated earnings resulting in an increased dire outlook. Many analysts believe General Mills to be a solid stock and worthwhile investment.

V. Opinion

We believe that General Mills will continue producing increasing returns. The shifting of the company from investment to improved operations will have less visible effects on the sales figures, but the costs should reduce significantly. The company has a goal of returning more money to investors with a recent dividend increase and stock buyback. Thus, this is a company focused on increasing sales worldwide, making operations more efficient, and rewarding stakeholders. This combined with the increasing stock prices makes General Mills a worthwhile investment.

VI. Improving the Company Valuation

The best way to improve the valuation would be to improve the performance in Convenience Store/ Foodservices sector. Investing money to achieve positive rates of sales would reassure investors that part of the company is not dragging the rest down. If this is not possible it might be best for the company to cut their losses in the sector. The company is still having positive sales in this area, but it is not improving year to year as the other two sectors are. It is in fact going down. Without a positive sales rate in this sector, the stock price may be lower than it would be should the sales be increasing.



at&t

AT&T Company Analysis
Leslie Branch & Lauren Monacelli
Dr. Agrawal
April 23, 2014

Background

AT&T (American Telephone and Telegraph Corporation) was started in 1885 by Alexander Graham Bell, Gardiner Hubbard, and Thomas Sanders and was incorporated on March 3, 1885 as a subsidiary of American Bell Telephone Company. In 1899 AT&T acquired Bell Company by acquiring all of its assets. By the early 1900s AT&T established itself in New York, Chicago, and San Francisco and began providing services overseas in London in 1927, Hawaii in 1931, and Tokyo in 1934. In the late 1980s and early 1990s, AT&T acquired Metromedia and multiple “baby bell” companies further expanding its geographic reach and brand. The largest and most recent acquisition of “baby bell” companies was that of Bellsouth in 2006. After the acquisition of Bellsouth, AT&T officially acquired Cingular Wireless, LLC in 2007. The company’s initial public offering occurred on April 26, 2000 for \$30.12 per share on the New York Stock Exchange. AT&T issued 360 million shares that day and the stock closed at \$31.75 per share giving the company \$10.62 billion of new capital. AT&T is now a fortune 500 company headquartered in Dallas, Texas and is the 21st largest company in the world. Along with being the 21st largest company in the world, AT&T is the second largest telecommunications company holding a 33% market share in its industry. AT&T has a ticker symbol of “T” and as of April 23, 2014 its stock price was \$35.02.

AT&T’s lines of revenue producing businesses are: intellectual property, wireline offerings, and wireless offerings. The company’s wireline services increased by 5.5% from 2012 to 2013 and increased revenue by \$33.6 billion. Within the more popular wireless offerings, AT&T’s business segments are: voice and data networking, business continuity (mobility), directory and operating services, and wholesales. Within these business segments, voice and data networking services are the clear driver of the company’s success for the past decade. From 2012

to 2013 alone this segment grew 18.7%, increasing the company's full-year revenue to \$21.7 billion. AT&T's 2013 year-end sales revenue was \$128.8 billion while cost of goods sold was \$51.5 billion. The company's operating cash flow for 2013 was \$34.8 billion while levered free cash flow was \$13.49 billion. Lastly, the company's market cap was at \$185.1 billion compared to the industry's market cap of \$484 billion.

AT&T's board of directors consists of 14 members with only one of them being an insider. This director is Randall L. Stephenson who is the current chairman and CEO of AT&T. Other board members are: Reuben V. Anderson who is the lead director (partner at Phelps Dunbar, LLP), James H. Blanchard who is a chairman of the board (partner at Jordan-Blanchard Capital, LLC), Jaime Pardo who is the founder and CEO of ENESA, Scott Ford who is the CEO of Westrock Group, LLC, James Kelly who is a chairman of the board (CEO of United Parcel Service, Inc.), Jon Madonna who is chairman and CEO of KPMG, Michael McCallister who is the CEO of Humana, John McCoy who was chairman and CEO of Bank One Corporation until his retirement, Beth Mooney who is chairman and CEO of KeyCorp, Joyce Roche who is President and CEO Girls Incorporated, Matthew Rose who is chairman of the board of Burlington Northern Santa Fe, LLC, Cynthia Taylor who is president and CEO of Oil States International, Inc., and lastly Laura Tyson who is a professor of business administration and economics at the Hass school of business.

AT&T has 5.21 billion shares outstanding with 219 institutional investors holding 3.2 billion shares between them. Vanguard Group Inc. holds 258,192,215 shares being 8.1% of total outstanding shares, State Street Corporation holds 236,368,354 shares being 7.4% of total outstanding shares, and Evercore Trust Company holds 228,922,496 shares being 7.2% of total outstanding shares. Institutional ownership is 62.1% and insider ownership is .03%. The largest

individual owners are Randall L. Stephenson who owns 166,074 shares, Rafael de la Vega who owns 348,934 shares, and James W. Cicconi who owns 246,581 shares.

Multiple analysts follow AT&T, some of which are: Argus, Barclays, FBR Capital, National Securities, Edward Jones, Morgan Stanley, JP Morgan, Scotiabank, Raymond James, and Wells Fargo. According to Morningstar, 9 of these analysts suggest a strong buy 0 recommend to buy, 15 recommend to hold, 0 suggest the company underperforms, and 1 recommends to sell. The mean recommendation of AT&T's analysts is 2.7 where 1 means buy and 5 means sell. From these analyses, investors should hold existing ownership of AT&T due to the consistency of the company and its smoothed dividends. The majority being hold recommendations means shareholders should maintain their position with their investments because AT&T is performing comparably to its competitors.

Capital Structure

AT&T- Capital Structure						
	2011		2012		2013	
	\$ (Bil)	%	\$ (Bil)	%	\$ (Bil)	%
Debt	61.3	26%	66.3	25%	69.3	27%
Equity (mkt value)	172.4	74%	199.3	75%	189.4	73%
Total Firm Value	233.7	100%	265.6	100%	258.7	100%

Verizon- Capital Structure						
	2011		2012		2013	
	\$ (Bil)	%	\$ (Bil)	%	\$ (Bil)	%
Debt	50.3	31%	47.6	27%	89.6	39%
Equity (mkt value)	110.2	69%	127.2	73%	142.5	61%
Total Firm Value	160.5	100%	174.8	100%	232.1	100%

During the past three years, AT&T has operated with a more conservative capital structure than its competitor, Verizon. AT&T's debt as a percentage of firm value averaged 26% versus 32% for Verizon. This conservative strategy protects them against paying for high interest costs if business conditions become less favorable. Despite being financed differently, both companies' capital structures allow them to have flexibility to secure necessary liquidity to support their operating goals. Both companies should have no difficulty in the near future to access debt and cash when necessary.

AT&T would benefit from increasing their debt because interest rates are historically low and they would be able to use these funds to make investments and expand their business operations. Typically, equity investors demand a higher return on their investment than debt investors and some management control in return for their investment. Bondholders (debt investors) will typically accept a lower return on their investment in the form of periodic interest payments than equity investors. In the event of financial difficulty by AT&T, the bondholders will normally receive their interest payments from the company before any dividends are paid to equity shareholders. This advantage makes it reasonable for bondholders to accept a smaller interest payment versus a higher equity yield. In addition, the tax deductibility of interest payments

serves to increase net income. This might be an excellent time for AT&T to acquire competitors or expand their existing operations because of the availability of credit at low interest rates.

Dividend Policy

AT&T has increased its dividends for 28 consecutive years. Even in 2008-2009, the peak of financial crisis, AT&T kept its dividends consistent with actually a 5 cent jump from the 4th quarter of 2007 to the 1st quarter of 2008 compared to a 1 cent jump in more recent years. The company's quarterly dividend per share was \$.44, \$.45, \$.46, and \$.47 in 2011, 2012, 2013, and 2014 respectively (refer to Exhibit 1). Its annual earnings per share was .66, 1.25, and 3.39 in 2011, 2012, and 2013 respectively. AT&T's stock price has increased from 2012 to 2014 by opening at \$30.10 on December 31st, 2011 and opening at \$35.61 on March 31st, 2014. The company's payout ratio has decreased over the years being 259.09% in 2011, 140.8% in 2012, and 53.39% in 2013. The company has had a high payout ratio because of high depreciation costs as PPE is its largest asset on its balance sheet. It is common if a payout ratio is over 100% a dividend cut is in the near future, but AT&T's dividend is consistently rising at a constant rate. Its payout ratio is decreasing each year because the company wants to retain earnings to further expand its network to stay competitive with Verizon and T-Mobile. Lastly, AT&T's dividend yield has remained fairly constant at around 5% being 5.69%, 5.22%, 5.12%, and 5.2% in 2011, 2012, 2013, and 2014 respectively.

Verizon is AT&T's strongest competitor with a dividend per share of \$.53, dividend yield of 4.40%, and earnings per share at \$4 in 2013. Verizon's stock price on April 23, 2014 was \$47.40. AT&T has a higher dividend yield but lower dividend per share and earnings per share. A higher dividend yield makes AT&T's stock more attractive to investors but because of the inverse relationship between the two statistics, AT&T's earnings per share decreases. Sprint is

the 3rd strongest competitor in the telecommunications industry with a stock price of \$8.52 on April 23, 2014 and earnings per share of -.93 as of the company's 2013 4th quarter. T-Mobile has a stock price of \$30.30 on April 23, 2014 and earnings per share of .05 as of the company's 2013 4th quarter. The latter two companies' dividend per share and dividend yield are unavailable for the reason that these companies do not distribute dividends.

AT&T has chosen to steadily increase its dividends by one cent each year in order to meet investor expectations and provide certainty about the company's financial well-being. This shows that AT&T is stable. Because the company has given dividends in the past, it needs to continue to do so to meet investor expectations. We agree with AT&T's choice because it attracts investors while keeping current and new investors satisfied.

Growth

(Billions)	2008	2009	2010	2011	2012	2013	AVG Annual Increase	5 Yr Growth
Sales	124	123	124.3	126.7	127.4	128.8	0.8%	N/A
Total Assets	265.2	268.8	268.5	270.3	272.3	277.8	0.9%	4.8%
Debt	60.8	64.7	58.9	61.3	66.3	69.3	2.8%	14.0%
Equity (Mkt value)	166.6	162.0	160.8	172.4	199.3	189.4	2.9%	13.7%
Firm Value	227.4	226.7	219.7	233.7	265.6	258.7	2.8%	13.8%

(thousands)	2008	2009	2010	2011	2012	2013	AVG Annual Increase	5 Yr Growth
Employees	302660	282,720	266,590	256,420	241,810	243,360	-4.2%	19.59%

Over the past five years, AT&T's firm value increased 13.8% in a relatively stagnant economy. The company's sales have shown very little increase since 2009 in part because of competition increasing and the wireless industry becoming more saturated. During this timeframe, the AT&T common stock price increased from \$27.46 to \$35.18. One factor contributing to this increase was the share repurchase program which decreased the total number of shares outstanding, effectively increasing the earnings per share and higher book value per share. Investors saw this as a rationale for increased confidence for AT&T stock.

The share price was also influenced by productivity gains at AT&T. Most significant was the decrease in the total number of employees by more than 39,000 – an amazing accomplishment. This achievement reflects the implementation of new management strategies that feature consolidation efforts towards a more efficient channeling of intra-company resources and other productivity gains. The services people buy from AT&T for are primarily distributed by technology, not human resources and therefore cutting back on employees seems to be a logical and cost effective move. In 2013, AT&T generated a total revenue of \$128.8 billion and of this revenue, 83% came from their two growth drivers—wireless and wireline data services. AT&T continues to narrow the LTE (Long-Term Evolution) gap between themselves and Verizon. In January of 2012, AT&T's coverage was more than 100 million PoPs (point of presence/ number of access points to the internet) behind Verizon's network.

In just a year, AT&T has worked to close this gap, as they are now only 20 million PoPs behind and subscriber patterns are stabilizing. The company is currently expanding Project VIP—an effort to bring high speed broadband connectivity to 300 million people across the US. One goal for 2014 is to grow the U-verse fixed-line broadband service to 57 million locations nation-wide. AT&T's most innovative and powerful U-verse service is called GigaPower. This

product offers blazing-fast internet, operating at a speed of 300 Mbps. This year, AT&T plans to increase this speed to 1 Gbps—fast enough to download 25 songs in 1 second. GigaPower is the future of high speed internet and will compete head-on as with other companies that are developing similar next-generation services like Google Fiber.

Liquidity Policy

AT&T	2011	2012	2013
Cash Ratio	0.101	0.151	0.095
Quick Ratio	0.55	0.55	0.46
Current Ratio	0.75	0.71	0.66

Industry	2013
Cash Ratio	--
Quick Ratio	0.92
Current Ratio	0.98

Verizon	2011	2012	2013
Cash Ratio	0.45	0.13	2.00
Quick Ratio	0.98	0.75	2.59
Current Ratio	1.01	0.79	2.62

In comparison to the telecommunications industry and Verizon, AT&T's liquidity ratios are low and would normally suggest a potential weakness in the company's balance sheet. Verizon has consistently outpaced AT&T in terms of liquidity during the past three years. AT&T's liquidity ratios are much lower in comparison to Verizon's, especially in 2013. During 2013, Verizon increased its current cash on hand by issuing long term debt. This had the effect of substantially benefitting their liquidity ratios. The current ratio shows AT&T's ability to meet its immediate debt obligations. The current ratio of .66 is less than one which means the company does not have enough total current assets to cover its total current liabilities and it hints at inefficiency in its operating cycle. The quick ratio is a measure of the company's short-term liquidity in its ability to cover current liabilities with quick sources of cash. AT&T's quick ratio

decreased even lower during 2013 from a value of .55 to .46. AT&T's cash ratio remains consistently very low, but this ratio is not significant from an investor's standpoint because it's not realistic for a corporation of this size to purposefully sustain high levels of cash assets to cover current liabilities.

AT&T's liquidity policy choice indicates that they do not put much value in having excess liquid assets—possibly because they are confident that the economy will enjoy continued stability or moderate growth in the near future. With this more aggressive policy, they are exposing themselves to liquidity risk in the case of economic downturn. It is unlikely that Verizon, AT&T's largest competitor, will continue to maintain a 2.6 quick ratio for very long since they will probably find a way to make better use of their excess cash.

Stock Outlook Over the Next 1, 3, and 5 Years

The ETF that tracks AT&T is Vanguard Telecom Services. This is the industry standard we used to compare AT&T's stock performance to (refer to Exhibit 2). This ETF tracks AT&T, Verizon, CenturyLink, SBA Communications, Sprint, T-Mobile, etc. AT&T's stock is below that of the S&P 500, Nasdaq, Dow Jones, Vanguard Telecom Services, and Verizon. Although AT&T is underperforming, the company continually increases its dividend and have positive earnings along with an increasing stock price, so this does not pose as threatening information to the company in the long run.

AT&T's trailing P/E ratio is 10.39 and its forward P/E ratio is 12.55. An increasing P/E ratio shows that growth prospects are high which follows suit with AT&T's public announcement about expanding its already large network. AT&T reported \$33.2 billion as its 2013 4th quarter revenue, being above expectations of \$33.1 billion and marking a 1.8% increase from the company's 2012 4th quarter. Net income was \$6.9 billion, a significant increase over the negative

\$3.9 billion of net income in the 4th quarter of 2012. AT&T's fourth quarter earnings totaled 53 cents per share, beating analyst estimates by three cents and increasing by 20.5% from its 2012 4th quarter earnings. AT&T has added 566,000 contract subscribers since the end of its 2013 fiscal year. AT&T has been under increased pressure from T-Mobile, which earlier in January announced that it would cover early termination fees for subscribers causing some to leave AT&T, Verizon, and Sprint for this deal. In the full year of 2013, AT&T has \$128.8 billion in revenue which was a 1% increase from 2012. 2013 full-year net income was \$18.2 billion which increased from \$7.5 billion in 2012.

AT&T intends to expand its 4G LTE network to 300 million people by 2014 year-end. For the full year of 2014, AT&T said it expects consolidated revenue growth in the 2%-3% range. As long as AT&T is trying to expand its network, it will have a lower payout ratio than it has had in the past. While constantly smoothing dividends to keep investor income stable and by keeping dividend yield constant around 5.2%-5.5%, the company will continue to see increases in earnings.

Analysts predict that earnings will grow an average of 5.86% annually over the next five years. The company's P/E ratio is expected to decline over the next 5 years which could be because of decreasing investor confidence in the company, but due to a steady increase in dividends, the two should work against each other, not hurting the company in the long run. The company's earnings per share is predicted to remain fairly constant over the next five years as well. Analysts have also noted that Verizon's statistics will do the same as AT&T's for future years to come. Some analysts have predicted that AT&T's intrinsic value will be worth around \$40-\$45 in 2017. Assuming this prediction is correct we would suggest to invest in the company's stock because its intrinsic value exceeds that of the company's market stock price.

To further increase AT&T's company valuation we suggest that the company needs to retain current customers and increase its customer base. This could be done by expanding the company's network, speed, and increase promotional offers. There have been recent talks about AT&T selling cell towers, buying back stock, and considering acquisitions in Europe to increase its balances on its balance sheet in order to conduct the \$14 billion network upgrade it plans to do. The tower sales are a crucial part of AT&T's future plans because it not only allows AT&T to increase its cash on hand, it also allows the company to focus on parts of its business that are most profitable such as voice and data networking services. Along with these options to further increase AT&T's profitability and customer reach, the company recently acquired Leap Wireless with the promise to the Federal Communications Commission to increase networking infrastructures in rural areas which will increase customer base. Lastly, we recommend that AT&T increase its liquidity valuation by increasing its cash and asset account balances. One way of doing this by selling assets that are not vital to operations, as noted previously by selling cell towers.

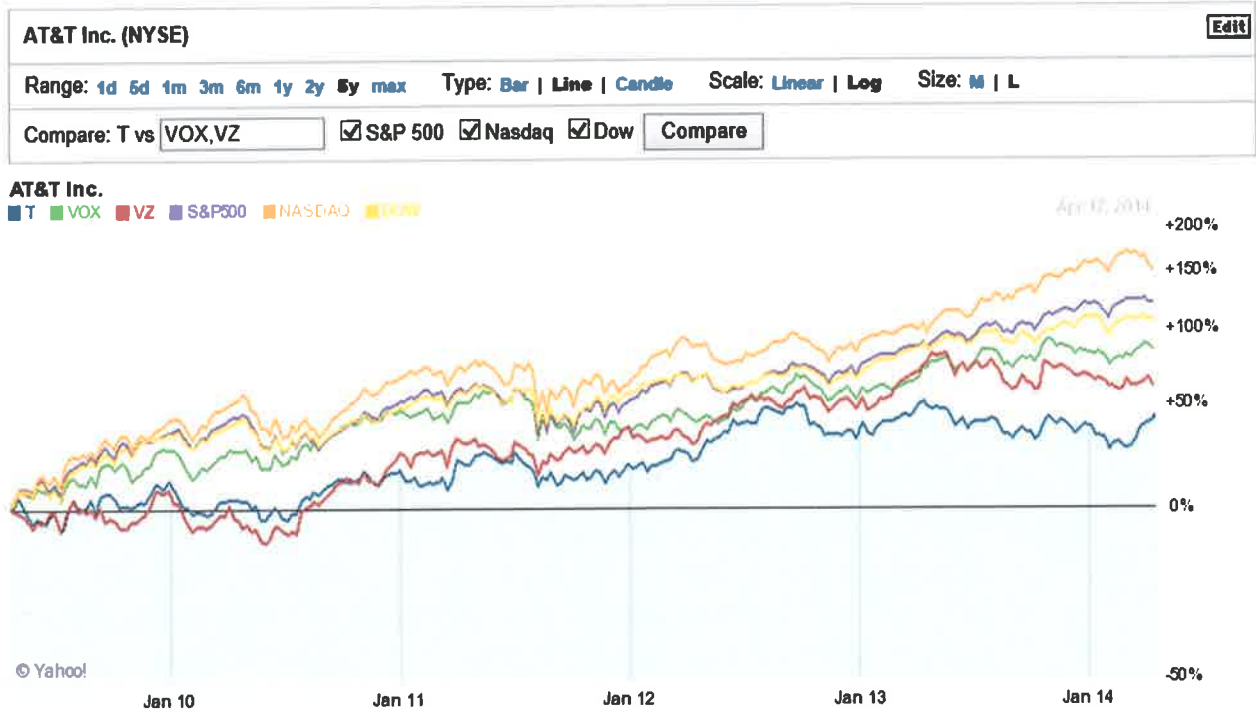
Appendix

Exhibit 1: Dividend History

Ex/Eff Date	Type	Cash Amount	Declaration Date	Record Date	Payment Date
4/8/2014	Cash	0.46	3/28/2014	4/10/2014	5/1/2014
1/8/2014	Cash	0.46	12/13/2013	1/10/2014	2/3/2014
10/8/2013	Cash	0.45	9/27/2013	10/10/2013	11/1/2013
7/8/2013	Cash	0.45	6/28/2013	7/10/2013	8/1/2013
4/8/2013	Cash	0.45	3/29/2013	4/10/2013	5/1/2013
1/8/2013	Cash	0.45	11/6/2012	1/10/2013	2/1/2013
10/5/2012	Cash	0.44	9/28/2012	10/10/2012	11/1/2012
7/6/2012	Cash	0.44	6/29/2012	7/10/2012	8/1/2012
4/5/2012	Cash	0.44	3/30/2012	4/10/2012	5/1/2012
1/6/2012	Cash	0.44	12/16/2011	1/10/2012	2/1/2012
10/5/2011	Cash	0.43	9/30/2011	10/10/2011	11/1/2011
7/6/2011	Cash	0.43	6/24/2011	7/8/2011	8/1/2011
4/6/2011	Cash	0.43	3/25/2011	4/8/2011	5/2/2011
1/6/2011	Cash	0.43	12/17/2010	1/10/2011	2/1/2011
10/6/2010	Cash	0.42	9/24/2010	10/8/2010	11/1/2010
7/7/2010	Cash	0.42	6/25/2010	7/9/2010	8/2/2010
4/7/2010	Cash	0.42	3/26/2010	4/9/2010	5/3/2010
1/6/2010	Cash	0.42	12/18/2009	1/8/2010	2/1/2010
10/7/2009	Cash	0.41	9/25/2009	10/9/2009	11/2/2009

7/8/2009	Cash	0.41	6/26/2009	7/10/2009	8/3/2009
4/7/2009	Cash	0.41	3/27/2009	4/10/2009	5/1/2009
1/7/2009	Cash	0.41	12/12/2008	1/9/2009	2/2/2009
10/8/2008	Cash	0.4	9/26/2008	10/10/2008	11/3/2008
7/8/2008	Cash	0.4	6/27/2008	7/10/2008	8/1/2008
4/8/2008	Cash	0.4	3/28/2008	4/10/2008	5/1/2008
1/8/2008	Cash	0.4	12/10/2007	1/10/2008	2/1/2008
10/5/2007	Cash	0.355	9/28/2007	10/10/2007	11/1/2007
7/6/2007	Cash	0.355	6/29/2007	7/10/2007	8/1/2007
4/5/2007	Cash	0.355	3/30/2007	4/10/2007	5/1/2007
1/8/2007	Cash	0.355	12/15/2006	1/10/2007	2/1/2007
10/5/2006	Cash	0.3325	9/29/2006	10/10/2006	11/1/2006
7/6/2006	Cash	0.3325	6/30/2006	7/10/2006	8/1/2006
4/6/2006	Cash	0.3325	3/31/2006	4/10/2006	5/1/2006
1/6/2006	Cash	0.3325	12/9/2005	1/10/2006	2/1/2006
10/5/2005	Cash	0.3225	9/30/2005	10/10/2005	11/1/2005
7/6/2005	Cash	0.3225	6/24/2005	7/8/2005	8/1/2005
4/6/2005	Cash	0.3225	3/11/2005	4/8/2005	5/2/2005
1/6/2005	Cash	0.3225	12/10/2004	1/10/2005	2/1/2005

Exhibit 2: Stock Performance Over the Last 5 years



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