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Altice Deal Broadcasts Big Changes In Telecom Sector

By **Benjamin Horney**

Law360, New York (May 22, 2015, 6:30 PM ET) -- When European telecommunications titan Altice SA revealed earlier this week that it had agreed to buy a massive chunk of private equity-backed Suddenlink Communications, it marked Altice's entry into the U.S. cable market, and experts say this deal exemplifies some big-time shifts in the way the sector views its future.

That deal, combined with other recently announced deals within the industry, including Verizon Communications Inc.'s $4.4 billion purchase of AOL Inc. and Nokia Oyj's $16.6 billion pickup of rival Alcatel-Lucent SA, provides the blueprint for some fundamental changes that are occurring in an industry in the midst of massive evolution.

With companies looking to broaden their horizons — both in terms of the physical locations where their services are available and the types of services they are able to provide — attorneys agree that it's safe to say we'll be seeing more consolidation in the sector in the months to come.

"As consumer preferences shift, the traditional role of a cable company is changing," Goodwin Procter LLP partner Andrea Agathoklis Murino told Law360.

And Honigman Miller Schwartz and Cohn LLP partner Phillip Torrence said executives at telecom companies have to brace for what he described as an "intricate dance" to come as the rules of the sector change before their eyes.

"Literally the ground they are standing on is shifting," he said.

Under the terms of the deal between the European telecommunications giant and Suddenlink, Altice — owned by billionaire Patrick Drahi — will pick up a 70 percent stake in the seventh-largest cable operator in the U.S. from BC Partners, CPP Investment Board and Suddenlink management. Suddenlink, which Altice said would be valued at roughly $9.1 billion including debt under the terms of its deal, generated $2.3 billion in revenue last year alone.

Any deal of this size within the industry will be looked at carefully by regulators and antitrust authorities, but Murino said what sets the deal between Altice and Suddenlink apart is that it marks the first major cross-border transaction within the telecom space — which could signal that we're on the precipice of a worldwide consolidation explosion.

“It will be interesting to see whether international players will try to create worldwide entities that provide services on multiple continents,” she said.

Andrew R. Thompson, a partner at Cravath Swaine & Moore LLP, said that Altice’s decision to enter the U.S. marketplace marks the first time in recent memory that such a potentially sector-shifting cross-border transaction has occurred within the telecom space.

“The part that’s interesting about that deal is that you are seeing a cross-border consolidation play,” he said. “Over time, there’s been a lot of consolidation within Europe, and there have been consolidation efforts in the U.S., but the cross-border element strikes me as relatively novel.”

According to Murino, law firms and the telecom companies they represent are waiting with bated breath to see how the Altice deal is scrutinized by regulatory authorities, noting that the “jurisdictional juggling” involved in a cross-border deal like this adds another layer of intrigue.

“International deals present a different set of antitrust challenges,” she said. “It’s difficult to say whether the path will be easier or harder in those cases, but the path will definitely be different.”

Jens Peter Schmidt, a Mayer Brown LLP partner based in Brussels, explained during a recent teleconference looking at ways to mitigate risk in cross-border transactions that the European Commission is one of the “clearest and toughest” regulatory authorities out there. He said that if you can be compliant with the EC, “you can be pretty sure” your deal will pass other authorities’ muster.

If Altice’s acquisition of a 70 percent stake in Suddenlink goes through without a hitch, it’s possible that other companies in the industry will begin looking abroad in order to construct a truly worldwide empire. For instance, rumors already abound that Altice will now go after Time Warner Cable Inc.

“We’re right at the cutting edge of this,” Murino said of cross-border deals within the cable sector. “Typically it’s been U.S. companies buying U.S. companies.”

Meanwhile, Altice's actions provide some insight into another not-so-subtle shift the telecom sector has been seeing — the expansion of services companies provide. It's no longer good enough to merely provide cable for your customers; you're also expected to be their Internet provider, and it wouldn't hurt to supply customers with other services that have become technological necessities in today's day and age.

Torrence said the question has become: "How will people receive content in the future?"

“Think about how many people get their content through Netflix as opposed to good old fashioned pay-per-view and cable,” he said.

Torrence also noted how some of the services that used to be these companies' bread and butter are quickly going the way of the dinosaurs, existing only as fossils to wonder at in museums.

“How many households still have landlines?” he asked.

The idea that companies are focused on expanding their range of services was particularly evident in Verizon's acquisition of AOL — the major players recognize that telecom, technology, media and even advertising are all merging into one, with the lines between those sectors becoming more and more blurred each day.

"You are seeing some convergence plays to address the fact that similar content is now being delivered through different means," Thompson explained.

"It's gonna be an interesting year in telco, that's for sure," Torrence said.

-- Additional reporting by Matthew Perlman. Editing by Jeremy Barker and Christine Chun.
