

## **AT&T said to hold talks with Cerberus on Yellow Pages sale**

*Cristina Alesci*

*AT&T Inc. is in talks to sell a majority stake in its Yellow Pages unit to Cerberus Capital Management LP in a transaction that values the entire business at about \$1.5 billion, said two people familiar with the matter.*

AT&T would retain a substantial minority stake in the division, and a deal could be reached this month, said the people, who declined to be identified because the negotiations are private. Dallas-based AT&T, which is being advised by Citigroup Inc. and Bank of America Corp., has held talks with several buyout firms on the unit, one of the people said. A final agreement hasn't been reached and talks could fall apart, the people said.

The sale would allow AT&T, which hung on to its Yellow Pages division as competitors fled the business, to reduce its exposure to a unit facing increasing competition from online rivals Google Inc., Groupon Inc. and Yelp Inc. To boost sales, AT&T, the biggest U.S. phone company, is focusing on its mobile- service unit, a business where it trails Verizon Wireless.

"There is no real market for yellow pages businesses anymore," said Craig Moffett, a Sanford C. Bernstein & Co. analyst in New York, who rates the stock "market perform." AT&T "wants to shed the businesses that are shrinking the fastest to boost its overall growth rate."

Fort Worth, Texas-based TPG Capital was among buyout firms that looked at the business, though the firm's interest waned in recent days, according to two people familiar with the matter.

Spokesmen for AT&T, Cerberus and TPG declined to comment, as did those for Citigroup and Bank of America.

### **Slumping Sales**

Sales at AT&T's directory business, which includes Yellow Pages, fell 16 percent last year to \$3.29 billion. The company's website says it's the biggest Yellow Pages publisher in the world by revenue, with more than 1,250 titles published in 22 states. The company recorded 48 cents a share in asset impairments on the directory operations in the fourth quarter, when it reported a loss of \$1.12 a share.

The directory businesses "are in a fairly steady decline," AT&T Chief Executive Officer Randall Stephenson said in a March 1 investor meeting. "We're obviously going to have to look at areas -- look at options in terms of what we do with those assets."

### **Beyond Turning Around**

AT&T rose 0.7 percent to \$31.10 at 9:43 a.m. New York time.

The deal under discussion would value the AT&T business at about 1.5 times earnings before interest, taxes, depreciation and amortization, Moffett said. Verizon Communications Inc. exited its yellow-pages business at 6 times Ebitda about six years ago, he said.

"The window has long since closed for divesting yellow- pages businesses for a meaningful price," Moffett said.

Because the business is in irreversible decline, a buyer will just seek to earn a return that exceeds the purchase price before closing it down, he said.

"For a business like this, you can value it relatively straightforwardly as the present value of the remaining cash flows before the business is entirely gone," Moffett said. "They're not forecasting a particularly long life."

To persuade local businesses to stay with its service and compete with the Web rivals' various offerings, AT&T's YP.com last year started offering daily deals to consumers.

Cerberus, based in New York, has been raising money, including a \$4 billion flagship private-equity fund. Recent investments include the \$1.02 billion acquisition with Chatham Lodging Trust of 64 hotels from Innkeepers USA Trust in October.

Private-equity firms have made several investments in Yellow Pages businesses in the past decade, drawn by the traditionally steady cash flow. KKR & Co. bought France Telecom SA's PagesJaunes SA in 2006, while Hicks Muse Tate & Furst Inc. and Apax Partners LLP agreed to buy BT Group Plc's Yellow Pages unit in 2001.

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