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# EDITED TRANSCRIPT

T.N - Q1 2026 AT&T Inc Earnings Call

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## OVERVIEW:

Company Summary

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## PRESENTATION

### Operator

Good morning, and welcome to AT&T's first quarter 2026 earnings call. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to turn the conference call over to our host, Brett Feldman, Treasurer and Head of Investor Relations. Please go ahead.

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### Brett Feldman - AT&T Inc - Senior Vice President - Finance and Investor Relations

Thank you, and good morning. Welcome to our first quarter call. I'm Brett Feldman, Treasurer and Head of Investor Relations for AT&T. Joining me on the call today are John Stankey, our Chairman and CEO; and Pascal Desroches, our CFO. Before we begin, I need to call your attention to our safe harbor statement.

It says that some of our comments today may be forward-looking. As such, they are subject to risks and uncertainties described in AT&T's SEC filings. Results may differ materially. Additional information, as well as our earnings materials are available on the Investor Relations website. I also want to note that the quiet period for FCC Spectrum Option 113 is in effect.

During this period, applicants are required to avoid discussions of bids, bidding strategy and post-auction market structure with other auction applicants. And finally, I want to note that the discussion of our operating results and outlook during this call will be on a continuing operations basis. With that, I'll turn things over to John.

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### John Stankey - AT&T Inc - President, Chief Executive Officer, Director

Thanks, Brett, and good morning, everyone. I appreciate you joining us today. We executed well in the first quarter, delivering results that were consistent with the outlook we provided, while implementing several key strategic initiatives. Last quarter, we told you that we had positioned AT&T for improved growth with our investment-led strategy in fiber and 5G. There's clear evidence of this in our first quarter results.

We reported 584,000 total fiber and fixed wireless advanced Internet customer net additions. This is our best ever first quarter result in the sixth consecutive quarter with over 0.5 million consumer and business net adds. We also continue to see accelerated pace of our customers

purchasing through wireless and Internet connectivity together 42% of our advanced home Internet customers also choose AT&T Wireless. But when excluding the transaction with Lumen, this convergence rate approached 45% on an organic basis during the first quarter.

This is more than a 3 percentage point increase compared to last year, which is our fastest ever year-over-year convergence growth rate. These results are encouraging but not surprising. It is exactly what customers have told us they want.

They're increasingly choosing what we believe to be the best combined fixed to mobile internet service in the market. When our customers choose AT&T for their wireless and Internet connectivity, they consistently express stronger brand love, higher Net Promoter Scores and ultimately stay with us longer.

During our Analyst and Investor Day in 2024, we shared a few data points highlighting the relative improvements that we see among our converged customers in key operating metrics such as customer lifetime values and churn. These benefits remain robust, and we expect that as a greater portion of our customers purchase their wireless and Internet connectivity from AT&T will demonstrate improved trends in churn and additional improvement in account growth.

During the first quarter, we made further progress at positioning AT&T as the preferred provider for connecting consumers and businesses to the internet. We closed our transaction with Lumen, ahead of schedule, adding 1.1 million fiber customers, and over 4 million fiber locations. We're pleased with the progress we're making as we integrate these assets in several major metro areas and position the business for faster growth.

Early indicators are positive. We now offer fiber services throughout our distribution channels in these areas, which has driven sales activity well above pre-transaction trends. We're executing the steps to scale engineering, construction and service delivery in the acquired geographies, expected as we move into the back half of the year, will achieve steady improvement in fiber and wireless customer growth in these areas.

When we focus on customers needs and invest in the experience and products they want, we find success, and in the first quarter, we gave customers more reasons to choose AT&T. We expanded the AT&T guarantee to cover internet Air and launched a new flagship app to deliver a simple digital-first experience to customers.

We also launched AT&T OneConnect, which enables customers to easily connect all their eligible devices at home and on the go, and eliminates the need to buy internet access twice. We refreshed our Unlimited Your Way plans to deliver more value. All these moves are based on a consistent set of principles that drive our approach to serving customers the way they want to be served, with offers that deliver simplicity, value and choice and converged connectivity.

After years of industry-leading investments in our fiber and wireless network, we believe that we have now established a structural advantage that others will not catch. We reached more than 90 million customer locations across the country with our advanced internet services, over either fiber or 5G.

We believe this provides us with more scalable reach and converged connectivity than any of our peers, including a meaningful scale and performance advantage in fiber. This is an advantage we're growing as we ramp our deployment at a faster pace than anyone else. Today, we reach over 37 million customer locations with fiber, and we're on track to reach 60 million plus locations by the end of the decade.

As I discussed last quarter, when we complete our work at a fiber location, we believe we're able to offer that customer access to the internet on a lower marginal cost structure than any competitor, with superior performance and an industry-leading experience on America's best and fastest home internet. This positions AT&T to compete on performance and value by putting our service at the center of our converged offers and shifting the focus away from expensive device subsidies.

You saw us lean into this advantage with the launch of AT&T OneConnect, the industry's first ever single subscription service for fiber and wireless with a flat monthly price. This is how you should expect us to go to market as we accelerate the expansion of our fiber availability,

with offers and marketing strategies that yield attractive returns by driving deeper fiber penetration and growth in converged customer relationships.

Running these plays has not only strengthened our performance in the consumer market, but they've begun to demonstrate that the same strategy can strengthen our business enterprise operations. During the first quarter, Advanced Connectivity business service revenues stabilized on a year-over-year basis for the first time ever.

This reflects improved growth in fiber and 5G that is now offsetting declines in transitional services such as VPN, as we drive better sales execution across an expanding footprint of business locations that we can reach with fiber and fixed wireless.

We're operating from a position of strength as we lean into the strategic foundation we've built. Our investments have positioned us to accelerate and scale the execution of our strategy in 2026. And through the course of the year, you can expect to see the momentum in our operating trends build.

As we continue our journey forward, our strategies and capital allocation will remain focused on meeting the Advanced Connectivity needs of consumers, businesses, the public sector and first responders they adopt and rely on AI-enabled tools and applications.

We expect AI to fundamentally transform network requirements beyond download speeds to the ability to support symmetrical capacity, ultra-low latency and session control across multiple access technologies under sustained load.

And that's how we're architecting our converged network. We've committed to greater investment than any of our peers in the US connectivity infrastructure. And by the end of this decade, we expect to operate the most advanced and open communications network in the US built on a foundation of dense metro fiber and deep nationwide spectrum. With the opportunity to reach more end users than our competition, coupled with our historically scaled metro and long-haul core, AT&T is well positioned to lead our industry in AI-ready connectivity.

Investment in high-performing networking is a critical component of a competitive American AI ecosystem. We continue to appreciate the leadership of SEC Chairman Carr in the commission's continued efforts to modernize America's networks.

What we see transpiring on the federal policy front are the absolute right moves for the US to sustain leadership in communications infrastructure at this seminal moment and the birth of the AI economy. I reflect on this moment within the context of AT&T's milestone celebration of the 150 anniversary of the first phone call.

For a century and a half, we've adjusted this in markets, technology and the evolution of public policy. It's a story of many chapters over 150 years shared by proud and dedicated AT&T employees and retirees, consistently rising to our long-standing call of the spirit of service.

While all the chapters are important, some turn out to be more consequential than others. And I believe we're entering one of those chapters that will be exactly that. I couldn't be more optimistic given how this company is positioned itself as we enter this defining moment, that our best days are ahead of us.

With that, I'll turn it over to Pascal.

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**Pascal Desroches** - AT&T Inc - Chief Financial Officer, Senior Executive Vice President

Thank you, John, and good morning, everyone. At a consolidated level, total revenues were up 2.9% year-over-year in the first quarter, and service revenues were up 1.4%. Our growth is increasingly driven by gains in fiber and fixed wireless internet customers, as well as our success at growing customer accounts that choose AT&T for both internet and wireless connectivity.

We continue to expect we will grow consolidated service revenues in the low single-digit range for the full year, driven by growth in wireless service, fiber and fixed wireless revenues, partially offset by declines in transitional and legacy revenues. Adjusted EBITDA was up 2.3% year-over-year in the first quarter, and adjusted EBITDA margin decreased 30 basis points to 37.4%.

As a reminder, our first quarter 2025 results included a benefit to adjusted EBITDA of approximately \$100 million related to the resolution of vendor settlements. During the first quarter, we made good progress executing against our ongoing transformation initiatives as we work towards achieving our target of \$4 billion in annual cost savings by the end of 2028.

These include force optimization and vendor rationalization, efficiency gains from further AI enablement, accelerated digitalization efforts and reductions to our legacy operations and support costs. We expect improved growth in adjusted EBITDA in the second quarter as comparisons normalize. Service revenue growth improves and as we implement further cost actions.

And we continue to expect consolidated adjusted EBITDA growth in the 3% to 4% range for the full year. Free cash flow was \$2.5 billion, which is at the high end of the \$2 billion to \$2.5 billion outlook we bought in January. Free cash flow declined by roughly \$600 million compared to last year, which was driven primarily by higher capital investment of \$5.1 billion as we accelerate the pace of our fiber deployment.

For the second quarter, we expect free cash flow in the range of \$4 billion to \$4.5 billion, and we continue to expect \$18 billion plus of free cash flows for the full year. Adjusted EPS of \$0.57 in the first quarter was up nearly 12%, and we continue to expect full year adjusted EPS to be in the \$2.25 to \$2.35 range.

Under our new segment reporting, over 90% of our consolidated revenue and nearly all of our adjusted EBITDA is generated by our Advanced Connectivity segment. We believe this new reporting format improves transparency into the growth we are achieving from our investments in fiber and 5G, as well as our progress at powering down our legacy copper network. Focusing first on Advanced Connectivity.

Service revenues were up 3.6% compared to a year ago. Wireless service revenues grew 1.7% year-over-year which is consistent with our guidance that growth in the first quarter would be below the run rate we expect for the full year.

Our wireless service revenue growth was primarily driven by growth in our customer base, including 294,000 postpaid phone net adds in the first quarter. Postpaid phone ARPU was flat versus a year ago. This is consistent with the outlook we provided for relatively stable ARPU as we gain customers in underpenetrated categories such as the value segment and grow our base of converged accounts that receive discounts but typically stay with us longer.

We expect second quarter year-over-year wireless service revenue growth to improve from growth reported in the first quarter and maintain our full year outlook for growth in the 2% to 3% range. This is driven by our outlook for customer gains from our new unlimited and converted subscription plans, and our expanding opportunity to sell wireless and home internet services together.

It also reflects our recent pricing actions that take effect during the second quarter. Advanced home internet service revenues grew 27.3% year-over-year. This includes two months of revenues from fiber customers in geographies we acquired from Lumen, which added about 650 basis points to our reported growth rate in the quarter.

Similar to wireless, our organic growth in Advanced home internet service revenue was primarily driven by growth in our customer base. Advanced home internet net adds were 512,000, which does not include the 1.1 million customers we acquired from Lumen in early February.

This was our best ever first quarter and included 273,000 fiber net adds and 239,000 internet Air net adds. We continue to expect that our fiber reach will grow by about 8 million locations in 2026, including over 4 million new locations we acquired from Lumen.

As we ramp our fiber reach, we expect to see improved trends in our fiber net adds over the course of the year while still considering typical seasonality. We are also seeing strong growth in our business fiber and advanced connectivity service revenues, which include business

fixed wireless and value-added services. In the quarter, these revenues grew 7.2% year-over-year which is consistent with the trend last quarter and improved from mid-single-digit growth a year ago.

As John noted, total Advanced Connectivity business service revenues were essentially flat year-over-year for the first time ever. Based on our improved sales execution and expanding fiber reach, we expect total business service revenues within Advanced Connectivity segment to remain stable in the near term and continue to grow at a low single-digit CAGR through 2028.

Advanced Connectivity EBITDA grew 5.6% year-over-year, and we improved EBITDA margin by 30 basis points despite a few notable headwinds. These include high single-digit growth in low-margin equipment revenues, as well as the inclusion of revenues and geographies acquired from Lumen, which did not make a material contribution to EBITDA in the quarter. In addition, about 40% of the adjusted EBITDA benefit from the vendor settlements we called out in the first quarter of 2025 was incurred in the Advanced Connectivity segment.

So the improvement in Advanced Connectivity EBITDA margin was driven by service revenue growth, as well as the durable benefit of cost actions that I discussed earlier. Our outlook continues to anticipate immaterial EBITDA contribution this year from the operating regions acquired from Lumen.

This reflects increased spending within these geographies to stand up a business that is positioned for faster growth in fiber and wireless customers, as fiber deployment accelerates and as we leverage our existing distribution in these regions.

We're really pleased with how the business is positioned coming out of the first quarter and continue to expect Advanced Connectivity service revenues to grow 5% plus this year with EBITDA growth of 6% plus. Legacy service revenues declined about 25% year-over-year, which is consistent with our outlook for 20% plus decline in 2026.

We stopped taking new orders for legacy services last year in most of our wireline footprint, and we now have approval to discontinue legacy services in more than 30% of our wire centers. We're actively working with customers in these areas and helping them upgrade to more advanced services like internet Air and Phone Advanced.

There is a lag between when customers migrate to more advanced services and when we are able to discontinue operations of legacy infrastructure. This is the primary reason why the decline in legacy EBITDA of about 40% was greater than the decline in revenue. And we expect this dynamic will persist for the next several quarters.

We ended the first quarter with net debt to adjusted EBITDA of 2.71 times, which is up from 2.53 times at the end of the fourth quarter last year. This was primarily due to the close of the transaction with Lumen. We continue to expect that our net leverage ratio will increase to approximately 3.2 times following our transaction with EchoStar, then declined to approximately 3 times by the end of 2026, and return to a level consistent with our target in the 2.5 times range within approximately three years following the transaction. We ended the first quarter with \$12 billion in cash and with \$19 billion available to draw under term loans. So we are in a strong liquidity position as we prepare to close our transaction with EchoStar.

We also continue to expect that we will close the transaction with an equity investor for the acquired Lumen fiber assets during the second half of the year. We returned \$4.3 billion to shareholders in the first quarter through dividends and share repurchases. We continue to expect to repurchase approximately \$8 billion of stock this year and to maintain a consistent pace of buybacks through 2028 as we execute against our plans to return \$45 billion plus to shareholders over this time period.

I'm really proud of the team's ability to successfully balance our investment in fiber and 5G, while maintaining consistent return to shareholders. To wrap up, we continue to execute well, and I'm confident that we're positioned to drive improved growth and consistent capital returns through 2028 as we execute on our strategy. Brett, we're now ready for the Q&A.

**Brett Feldman** - AT&T Inc - Senior Vice President - Finance and Investor Relations

Thank you, Pascal. Operator, we are ready to take the first question.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions)

John Hodulik, UBS.

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**John Hodulik** - UBS AG - Analyst

Great. Thank you, guys. Two if I could. First on OneConnect. Can you talk about sort of how widely it will be rolled out? What kind of support you have from an advertising standpoint, maybe the target market? And then, do you think it can drive subs in the near term?

Just sort of your view on what the impact that could have? And then secondly, the phone churn trend definitely improved up 6 basis points. You have been seeing double-digit increases. Can that, kind of, improvement in phone churn that we've seen continue despite the increases from the unlimited your way pricing? Thanks.

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**John Stankey** - AT&T Inc - President, Chief Executive Officer, Director

Good morning, John. Your first question. Look, if we didn't think it was going to have an impact, we wouldn't have started down this path. But to get to maybe the root of your question, and I think as we indicated, when we rolled it out, this is going to be kind of an iteration rollout. We've established a platform now with OneConnect that allows us to start looking at the segments and the customers differently.

I think you can pretty well understand by how the plan is tailored, the kind of customers that it is targeted towards one of the things that we see is, first of all, the BYOD segment is increasing more broadly. That's one reason why we started with it. We see customers more willing to hang on their devices a bit longer, and they're certainly becoming more accustomed to porting them from one carrier to the next.

And so we want to tailor this plan to make sure that we can receive those customers and then attach them to a network construct that drives churn down. And our belief is that by allowing them to have the simplicity of taking a number of devices and not thinking about how -- whether it's the WiFi in the car, or the watch or anything else that they carry around. We think that, that starts to provide the network as the basis for driving customer loyalty and relationships which plays into our strong suit.

And that's also bolstered by the fact that as you notice, it requires that you have fiber broadband. And one of the best things we have to drive customer retention and customer lifetime value is by pairing fiber broadband with wireless. And so this is a plan to allow that to happen.

It also tailors well into those account sizes that maybe are less than family plan sizes today that can grow over time. And I think you should expect that this platform that we've now laid out there can iterate over time, it can evolve and over the course of this year, you'll see more variants of that plan come out that start to open the aperture more broadly in the market, for customers that can qualify under the construct and work into it. It will be one of several offers in our portfolio.

We just redid all of our rate plans if you notice, and this is a particular plan that's targeted in a particular segment group of customers that we think will help with convergence and drive churn in a better direction over time. But we also have done some rework on our other base plans that will hit other portions of the market. And I think these are just natural evolution that you see, one, given the maturity of the wireless

space and two, given the shifts that are occurring in convergence in the market that allow us to play offense and go out with something that's pretty important.

So I don't expect right now, sitting here today, I can tell you massive amounts of volume on it in the first couple of weeks. We didn't expect that to be the case. But we do expect the platform to evolve to become an important part of the portfolio as we move forward.

An important part of the portfolio of putting the network first as a basis to attaching the customer and minimizing other constructs of how people have maybe chosen their service provider over time. And related to your second question on churn trend and can it continue?

I mean, I don't mean to be flip about it, but I think this is -- over time, the churn dynamic is just math. And as we shared, and what I tried to articulate in my opening remarks, the best way for us to manage churn is to converge customers. And when we get through the repositioning and the shifting that's going on in the industry right now, which is aligning customers to asset basis, I believe you're naturally going to see that churn dynamic improve.

And so we said we're at 45% converged on kind of our non-Lumen base you've been getting those numbers in the last several quarters that we've been sharing with you to show that acceleration. We've given you guidance out for several years where we've gone and done the math on where our fiber footprint is, where our AIA footprint is, the cohorts of customers we're going to target in those particular areas, the ones that we think we can hold over time, and we believe that -- that's what builds a sustainable franchise, and leads us to service revenue growth in growth and leadership in the industry by the time we exit this decade.

And that reordering of convergence along those asset bases that's going to make that happen. It's going to take a little bit of time for that reordering of customer base to asset base to occur. And I think there's going to be a little bit of the accelerated churn dynamic that you've been seeing in the last couple of quarters as that shakes itself out. But just like any math equation, you hit that tipping point where you start to get the benefits of the strategy, and I think you're going to see it ultimately come back in the line.

And when we tell you that we've got fantastic converged lifetime values, for example, fiber and wireless, then we'll have a dominant part of our portfolio that represents that base, and that's when profitability looks good. And the franchise looks like a really strong franchise move forward.

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**Brett Feldman** - AT&T Inc - Senior Vice President - Finance and Investor Relations

Thanks for the question, John. We'll go to the next question, operator.

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**Operator**

Michael Rollins, Citi.

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**Michael Rollins** - Citibank Cameroon SA (Douala Branch) - Analyst

Thanks and good morning. John, in your opening comments, you described that AT&T operates the most advanced and open communications network by the end of the decade. Can you unpack how AT&T is defining the term open, including how that impacts your go-to-market? And how you look at further partnerships, or acquisitions to maximize the TAM and your return on capital?

And then just secondly, if I could, on the account growth sequentially in consumer and mobility. Can you share what's working for you and how you're balancing growth in accounts ARPA relative to what you were just describing in convergence, versus kind of the core mobility services that you offer? Thanks.

**John Stankey** - AT&T Inc - President, Chief Executive Officer, Director

Morning, Michael, so when I think about open and what we're driving toward the thrust, I would articulate in that regard are one, you know what we're doing in our wireless network. And the purpose of us opening aspects of our wireless network is to manage supply chain costs and performance of equipment and the architecture over time.

And I think we're leading the industry in that regard, and I would expect it shortly as we begin to get to a point where we start to deploy some new spectrum as we close the EchoStar transaction, you'll see the first instantiation of that as we move forward and work our process of deploying that spectrum, and how we build our network and what we're able to gain as benefit associated with that. And so that's one aspect of it. The second aspect is the complete reengineering of the core of the network that we're doing that I think sometimes is overlooked a little bit.

As I've shared with you before, we have multiple routing infrastructures that support different product lines in this business or different segments. What we use for routing infrastructure and consumer broadband fixed services is different than what we do, for example, for our business enterprise services, which is different than how we ship around our wireless packets and services, and we've been investing very aggressively to re-architect that network, flatten it, integrate it so that it's one solid routing network that handles all traffic.

In doing that, it does a lot of things. One is it opens up the opportunity, given the software stack and how we build that to begin to offer a much broader set of APIs out into the public domain that allows people to manage and control their traffic differently. And that's going to allow for a tremendous amount of flexibility.

And if you want to think about it in the context of just as hyperscalers opened up, the ability to spin up compute and storage through touching parts of the terminal. There's no reason why our routing infrastructure, and what we turn out to customers shouldn't have that same software-based capability that is digitally driven through API structures and allow not only our end users, but partner network customers to be able to control aspects of the network moving forward at a much lower internal operating cost that's all software-driven, and as that core becomes software-driven, it allows us to also use AI as a basis of us administering and managing that network.

So instantiating those APIs out to the broader domain of our customer base is what makes the network flexible around it. And so I would say that those are the two most fundamental aspects of opening the network that allow for us to be effective moving forward. And if we have great preferred access technology, meaning we can get bandwidth in more places than anybody else, hence, a deeper fiber network, or a denser spectrum footprint and better wireless network, then that attracts traffic onto that network.

It's the software control and programming of it and the dense access capillaries that allow people to say, I can get to more places with better bandwidth and better performance than anybody else and therefore, that's why I want to be on that network.

When it matters, it must be AT&T, and that's how you drive returns over the long haul on that investment strategy and that aggregation of capabilities. In terms of account growth and what's working, it should be, I think, fairly apparent from what we shared. What's working is converging customers. And so when you look at the step-up in the convergence levels that you're getting, and I look at what's happening now, we're getting account growth.

And if you looked at like average line sizes, for example, on our wireless account base, those accounts that are coming in tend to be below average for what we might have in the embedded base. And that's an indicator that we're picking up. One and two line accounts that are new to us. They're new, new. They're new fiber, they're new wireless.

And that's really good because ultimately, those one- and two-line accounts become the three- and four-line accounts of the future. And as I said earlier during John's question, if we get them anchored in on a fiber base when they come in, the highest brand love of any product in the market. It's the best performing product in the market. They have great positive brand perceptions. They're more likely to stay with us longer.

They're more likely to buy more from us in the future. That's what all the data sets on the customer base that's out there. And so those new, new customers, those kind of accounts are the ones that I want to grow.

And then secondly, we're getting some lift from Internet Air and the ability to converge both wireless and internet Air with new customers on a combined basis, and we're being more specific in targeting that in places, for example, where we know we will have fiber in the future, so that we can grow that customer base today and ultimately meet them with a very good, robust, sustainable offering over time. And those two things, I would say, are probably the biggest impact on the consumer side.

And then I would also tell you, look at the business revenues and look at the business performance and what we've been able to demonstrate to you that doesn't happen without some new business account growth that's occurring in order to stabilize the advanced connectivity service revenues that you've seen in the quarter, very proud of what the team has done, on that and obviously optimistic that we can carry that momentum forward and there's more that we can do there as we fine-tune our distribution even further.

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**Brett Feldman** - AT&T Inc - Senior Vice President - Finance and Investor Relations

Thanks for the questions, Mike. Operator, we'll take the next one.

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**Operator**

Sean Diffley, Morgan Stanley.

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**Sean Diffley** - Morgan Stanley - Analyst

Thanks very much, team. I was curious how you assess and plan for the perceived threat from satellite more on the fiber and broadband side. But anything you would add on direct to sell. Clearly, you have an AST space mobile partnership. Would you ever consider doing MVNOs with emerging players? And how would you compare and contrast satellite versus the fixed wireless learnings?

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**John Stankey** - AT&T Inc - President, Chief Executive Officer, Director

Hi, Sean, sure. Let me -- it's a long question but let me start by reiterating kind of what I just said and what our direction is -- our direction is to build the best converged network offering in the United States. And that means in order to do that, you have to have great foundational assets that you own and operate to do that.

I just shared with you, for example, why is it important to have a core switching architecture, routing architecture that allows you to see every packet on a network, because that's the way that you're able to manage service performance, security, offer the kinds of capabilities across heterogeneous access technologies like wireless, fixed fiber, Wi-Fi, other technologies that allow you to ensure the quality of service of delivering a packet over those heterogeneous architectures.

And we start from a fantastic place with assets. We have great fiber. We've got a great wireless network. We have a great customer base that we know -- that we know how to manage their accounts. We know how to manage the billing.

We can build trust with them over time on the relationships that we have. And so when you start to think about more access technologies becoming available, such as right to sell, which we're going to see an opportunity to close out white spaces, I think we're naturally positioned to add those capabilities on to the great integration we've already done to be a converged access provider.

And I don't mean to harp on fiber, but once you get that in place with the customer, it's a really good place, not only because it's the lowest marginal cost to carry a bit of any technology that's available out there, but its performance is superior. And when you get top end performance,

the best performance coupled with low marginal costs in the networking business, that's typically a really good combination for the long haul. So we're going to continue to move to integrate partners.

And I think when I think about LEO and satellites, you've heard me say it before. I think it's going to be great innovation for consumers. I think it's going to open up applications that none of us expected or knew about, and they're going to be new and different and they're going to help grow the market in total.

I think that when you look at where we are right now, what's really on the horizon that maybe a couple of years ago, we all would have said, could this really happen, the 12 to maybe 18 to 24 months from now, we will have always on connectivity in the United States. And that's going to be really, really important.

And I think our customers are going to want that. And I think it's natural that we work with LEO providers that have the capabilities to solve that problem to integrate those offerings into our services. We have a great position with those customers. And as you've heard me say, my ideal outcome for the satellite space is that there's more than one satellite constellation up there. And I've offered that at some point I'd expect that there's probably at least three serving the United States with capable products and services.

We're working with one closely right now to make sure that they get off the ground and they're viable. That's AST SpaceMobile mobile. We've been putting most of our R&D and our work on bringing product out with what they will be matching to the market, but I fully expect that SpaceX will ultimately have a robust direct-to-device capability I would expect that Amazon LEO will have a robust direct-to-device capability and who knows, maybe even a force shows up.

My goal would be that I have a good strong wholesale relationship, and it may not just be one of them, it may be with more than one of them. And that we architect this in a way that we can continue to manage the traffic on our network and control packets, so that we are able to offer that end-to-end integrated service on a heterogeneous network, and that's the direction that we're taking.

Now if you're thinking about the threat of a directed device approach. Look, there's a lot to be done in getting LEO constellations up and working on directed device. I think it will happen, but I don't think it's going to be a straight line from here to there. There's all kinds of challenges to work through these things. One is getting satellites up in the air.

And two is getting them up and keeping them up. It's getting the right spectrum portfolio in place and working through all the issues of power levels and interference that are driven from it. It's getting the devices tuned so they work properly. Satellite works really good outdoors. It doesn't work very good indoors.

It sometimes lost on people that we have spent literally decades investing in communications infrastructure in this country to raise service levels and performance for end-user customers that they become accustomed to.

And the landscape is littered with those that have come in and tried to kind of get into the business on the cheap or get into the business without understanding what the level of performance is necessary to have a minimally viable offering. Customers don't tolerate much interruption anymore. And there's decades of that infrastructure that's built. A lot of it is built on the interior buildings.

I know in our company, we put about \$1.5 billion a year into doing things to make sure hospitals and stadiums, and hotels and universities all work really well and you can't just flip a switch and get that done. When I think about an MVNO construct, my approach in terms of how AT&T looks at it is we like to think about MVNOs in a way where it gets to a part of the market that we can't get to.

It's an extension in a segment that maybe we're not doing a good job of penetrating, and somebody can do it in a more creative way. And we also think about it in the context of we ensure that our network capabilities are used in a way that's consistent with our long-term goal to be the best converged operator in the US which means that we don't just give traffic away without certain conditions and capabilities and requirements as to how they do business with us, and how that capability is instantiated in the market. So it's just not a wide open here, get connection to the network, do what you want with it.

And within that context, do I think that I'm looking at satellite LEO right now and saying that that's a place that an MVNO relationship would open up access to customers, I don't have today. No, I don't think that's the case.

I think I've got a way to bring the right value to customers broadly and what I just articulated. And look, I don't know that I'm worried about taking on any comer in broadband right now when I've got fiber in a home. As I said, lowest marginal cost, best performance.

That usually does pretty well in the market. And I like our investment strategy and where we're going to have 60 million-plus fiber homes by the time we get to 2030 and living off that base and being very successful with it.

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**Operator**

David Barden, New Street Research.

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**David Barden - New Street Research - Analyst**

Hey, guys. Thank you so much for taking the question. I really appreciate it. So I guess two, if I could. The first would be, John, the EchoStar Spectrum acquisition, could you kind of elaborate how that's going to augment the business and how we generate a return off of that opportunity?

And then second, could you update us on the copper retirement program and some of the advancements that you guys have been able to generate at the FCC along that front? And what that means from a cost savings and return standpoint? Thank you.

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**John Stankey - AT&T Inc - President, Chief Executive Officer, Director**

Sure, Dave. So on the EchoStar side, look, there's two fundamental things that come here. One, the improvement of performance in the network is noticeable, and there's markets where because of the deployment of the spectrum and I'm not speculating on this, as you know, we have a lease on a portion of the spectrum that we're acquiring, that we've shared with you that we've put a large percentage of that already in service.

And when we do that, we are already testing network perception in those markets that we felt like it would most help in, and we are seeing that perception shift. And as a result of that perception shifting, it will help our wireless business just by nature, it will help in terms of customer growth and retention and all those things that drive value on that.

As you know, when we can buy spectrum, there's economic value created that is capital efficiency. It avoids us from having to build growth and capacity in other ways that are more expensive than that has been since the start of time and that still plays into the factor. And then as you are seeing, it's also allowed us to expand and increase our AIA, our internet Air penetration and distribution. And I'm very happy with where we stand on that right now. As I said earlier, it's a fantastic tool for us to use, one, to get businesses that we haven't had before.

And I think it's a very sustainable technology for certain types of businesses that are out there. Again, I'll go back to where you're seeing some improvement in our business performance. AIA is part of that. It's what's helping us get into customers, or maybe we didn't have fiber before that have a little different broadband portfolio, or profile that they need. And we can be relevant and we can go into large multi-location bids for customers and now we can do 100% of the bid in many instances rather than just 65% or 70% of the bid on fixed infrastructure for broadband.

So that's an important way that it helps us. And I think in particular, with our strength in the Business market segment at AT&T. It's a natural pairing for us to be able to do that. And then in the consumer space, preceding in markets where we know we're going to have fiber and being aggressive about our deployment to hold converged customers. That growth is really good growth because the transition is from a

broadband connection ultimately to a fiber connection, and that transition is a very profitable connection when you have a converged customer in that situation.

And then in the markets where we know we're not going to be in fiber in the near term, finding the right segments to attack that we can hold for a long haul with fixed wireless and wireless together as a converged customer. That's not every customer in those markets.

There are clearly what I would call the scaled broadband profiles that are going to probably use terrestrial connections to ultimately sustain themselves, but there's good places we can hunt in those markets that I believe a fixed wireless with wireless combination is a good combination. We've been able to open up and expand that market and grow in that space to drive some return of the -- that spectrum as well. On your second question about copper retirement.

Look, I -- probably five years ago, if I were letting you in on the inside baseball and started to kind of set the direction on where we're going to go on aggressively shutting down legacy infrastructure in this business. I would tell you I probably got some looks across the table from individuals within the business and said, never going to happen. We're going to be with it a long time. And a big complement to the team. It's like that's not an acceptable outcome.

And went to work on what we needed to do to literally get to a path to shut down the infrastructure. And to sit here today, five years later and to have what we have in front of the FCC today is absolutely fantastic. It's the right moves to this country because the old copper infrastructure does nobody any favors. It sucks a ton of power. We've got buildings being cooled and switches and are running with a nominal number of customers on it.

It's stuff that was built decades ago. It's not as secure as robust from a cybersecurity perspective as today's technology can be when built properly, it doesn't offer the same level of resiliency and services that we're building into networks today. Our capabilities putting resiliency in the wireless network that is actually able to withstand other problems Copper especially aged copper can't withstand is clearly there and advanced features that are available on these networks are better. So this is a good thing for the customer. It's a good thing for US competitiveness, and it's a good thing for AT&T, because we need to get those costs out.

We need to get that infrastructure shut down, and we need to remove the distraction from the business. All the mainframes that go with it, and all the business processes that have built up over decades of regulation that have been layered on that. And as you heard Pascal mention, 30% of our wire centers are on a definitive schedule for shutdown right now. And we have a path to do more.

And I think you're going to see in the next couple of months, even more activity moving forward. This FCC order that came out as a very strong order in my view. It gives a very good road map for how this should work out. We have a very receptive commission to getting this work done. We are mobilized at AT&T to take advantage of these things.

We have a good organization built around it. The leadership of that organization has been doing a nice job getting the company in tune with everything we need to do. It's not what I would call really sexy work to shut this stuff down. But it's essential work and that includes what do you do with the copper when you're done with it? And how do you get it out and make sure that you monetize it, do all the things you need to do?

And we are planning all the way through that and have every intention of being in a really great place by the time we get to 2030. And those cost improvements in that structure is all forecasted in our going-forward guidance that we've given you.

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**David Barden** - *New Street Research - Analyst*

Thank you, John.

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**Operator**

Mike Ng, Goldman Sachs.

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**Michael Ng** - *Goldman Sachs Group Inc - Analyst*

Hey good morning. Thanks for the question. I have two, if I could as well. First for John, in prepared remarks, you talked about shifting away from device subsidy competing more on service. Will that be more gradual as OneConnect gains traction? Or do you expect a harder shift away from subsidies that we may see across 2.0 plans as well? And then for Pascal, it was encouraging to see the reiteration of the guidance.

You talked about accelerating growth in 2Q. I was just wondering if you could provide some color on key drivers for the EBITDA acceleration throughout the year. How do you expect the Lumen opportunities, cost efficiencies and kind of new planned traction just impacting the curve of growth throughout the year? Thank you.

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**John Stankey** - *AT&T Inc - President, Chief Executive Officer, Director*

Good morning, Mike, the short answer to your question is it's a balancing of the portfolio is the way I think about it. Our portfolio right now is over-indexed on device. And it's not the devices aren't important to customers into certain segments of customers, they'll continue and remain to be important, but I think we need a more balanced portfolio, that make sure that the customer understands the inherent value of the network underneath the relationship. And the true amount that they're paying for that fantastic service that they depend on every day. And that they're not clouded by the difference of what they're paying for device versus network.

And I think we have an opportunity to really help people understand the inherent value of what's in the network and what's the difference between what they need to do to access the network. And there are other things besides devices that customers get value out of.

And putting that at forefront to ensure that customers have choice about how they choose to allocate those products and those benefits and things that are important to their loyalty over time. I think we can do a job of balancing that portfolio, and I think we will gradually work our way through this over time. I don't think this is throwing the switch.

But you've got to get a foundational capability out there in which to work from, and OneConnect is a foundational capability that we can iterate on and work from in the coming quarters to continue to work to balance that portfolio. I could probably answer your second question for you because everybody in the company is laser-focused on this particular issue, but my voice is tired, and I'm going to let Pascal do it for you.

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**Pascal Desroches** - *AT&T Inc - Chief Financial Officer, Senior Executive Vice President*

Sure. Mike, pleasure to talk to you. Going into Q2 and improving for the rest of the year. We expect both service revenues and EBITDA to accelerate gradually. There are a few factors at play one, for -- in our wireless business, we expect to continue to drive growth in converged relationships, including wireless.

That should drive improvement plus we have pricing action that begins to take effect in April. For Q2, it's going to be not the entire quarter that benefits, but most of it. And it will for the rest of the year, full quarter benefits of those pricing actions. Also, we're scaling Lumen.

We said coming into the year that movement early on, we're going to have to invest significantly in order to stand up that organization in order to drive incremental fiber penetration into their footprint and to really set up ourselves. That process began in earnest in Q1, we'll continue.

But I expect every month that passes the performance of the Lumen asset will continue to get better. We're going to continue to see improvement in fiber net adds and converged relationships. Also, as you get through, in terms of free cash flow, Q1, as a reminder, is always seasonally low for a couple of reasons.

One, you have our annual incentive comp payment in Q1. That's a meaningful cash flow in Q1. Two, the majority of the devices from the holiday season are paid in Q1. Those headwinds go away. And you also saw in this Q1 that we stepped up our -- we began to step up of our capital, and that was also a headwind.

As we get through the balance of the year, I expect pretty much the same seasonal patterns that we've seen in free cash flow, and we remain confident. All in all, look, even at Q2, I think you should see meaningful improvement in our service revenue trajectory as well as our EBITDA trajectory. So I feel really good about where we are and the pacing for the rest of the year.

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**Michael Ng** - Goldman Sachs Group Inc - Analyst

Great. Thank you, John. Thanks, Pascal.

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**David Barden** - New Street Research - Analyst

Thanks, Mike. Operator, we're going to take our last question.

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**Operator**

Peter Supino, Wolfe Research.

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**Peter Supino** - Wolfe Research LLC - Equity Analyst

Hi. Good morning. Question about the broadband market. AT&T reported 2.5 million DSL subs, and that's been a really valuable feedstock for the fiber business over time. It's a great thing that you have a long-term declining business that is going to stop diluting your growth rate over the next couple of years. I'm wondering if the fade of the DSL business in general, including in beyond our own -- affects your view of the broadband market over the next couple of years. Whether that relates to fiber volume growth or fiber pricing or FWA pricing, all of the above?

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**John Stankey** - AT&T Inc - President, Chief Executive Officer, Director

Hi, Peter, I don't know that the fate of the DSL base in and of itself causes me to think differently about things. I probably offer a couple of observations on the market. One is that pace is getting pretty tiny at this juncture. And I think one of the things that we should inherently understand is our fiber growth numbers have been relatively consistent over the last number of years. Our ability to find DSL customers that want to be fiber customers is much more difficult prospect these days because there really aren't many DSL customers left.

And so when you look at our growth numbers on fiber, the question that was asked earlier about new accounts. They're new accounts. They're customers coming in, and that's that new dynamic I talked about. And we're getting better at picking up those new customers. And I think that the other observation I would give is in you've got certain parts of the DSL base that, in some cases, customers self-selected.

They may be in a situation where it's the best that they can get in a not very good set of choices. Some of that's being taken care of today. That's what satellite serves well. That's what [BEAD] addresses. But there's also a price-sensitive segment because in many cases, people can buy out of that may be at a little bit lower price than other broadband alternatives in the market.

And so the place I think about where we naturally need mature at AT&T that I want to make sure we do well is we should be able to be a man for all seasons. We should be able to handle every customer, one that wants a premium high-powered, most capable service around and one that wants efficient, more cost-effective, more value-driven offering.

And fiber, when we head in there certainly allows us to do that given the marginal cost structure, I'm profitable at any point, and that's maybe different than DSL. I mean, DSL is a high-cost infrastructure to manage. And I've shared with you that when we get fiber and our operating costs are dramatically reducing in these geographies now.

And when we get the copper turn down, it's going to be even more. So we should be a little bit better on making sure we're hitting all segments of the market with our offerings. And hence, the question earlier about why OneConnect and why these things, we can drive value into some of these segments and make sure that we're monetizing it effectively on those price options for customers.

And I think we can be a little bit better picking up some of that price sensitive segment, not only with a better portfolio of fiber pricing, as well as what we do with fixed wireless in places where that performance is adequate, given the nature of the household or the size of the household, the demands of the particular customers in those households. And you can maybe drive a little bit more of a value profile and what you're offering in that customer base to match that as well.

And then -- and finally, I'll say this also lines up with the reality of where the broadband market is, in my view, which is getting from 0% to 40% penetration as we build fiber is really important. That's a really good return when we do that, and we're doing that incredibly well, and very effectively that hasn't changed as we've opened up new footprint, accelerated our build.

We see our half to 40% as being really good, really strong. We continue to even refine it, get a little bit better. Although I'm pretty impressed, I've shared with you before that we're probably a year faster than what we expected we would be in the original business case, and that helps drive returns up higher.

But getting from 40% to 50% is different. It's a different set of plays that are required than getting from 0% to 40%. And the reason I bring that up is because I think it's that value segment from 40% to 50% that's an important segment for us moving forward to add new accounts that we can do on an accretive basis. And so for those of you that are looking at new accounts, that's a driver of it. For those of you who are looking at ARPU temperament.

Look, it's entirely economically rational and value creating and the right thing for AT&T to do to get from 40% to 50%, even if it means we take some ARPU to dilution to do that. And I think in the size of our base today and what's going on, you're going to see a little bit more of that. And some of that directs to that customer base that was that DSL holdout base that you're referring to, you need to get really good at figuring out how to pick up with the more value-sensitive price-sensitive parts of the base.

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**Brett Feldman** - AT&T Inc - Senior Vice President - Finance and Investor Relations

Thanks, team. All right, operator, that's it. You go ahead and close out the call.

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**Operator**

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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