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# EDITED TRANSCRIPT

T.N - AT&T Inc at Bank of America Media, Communications & Entertainment Conference (Virtual)

EVENT DATE/TIME: SEPTEMBER 14, 2021 / 2:20PM GMT

## CORPORATE PARTICIPANTS

**Pascal Desroches** AT&T Inc. - Senior EVP & CFO

## CONFERENCE CALL PARTICIPANTS

**David William Barden** BofA Securities, Research Division - MD

## PRESENTATION

**David William Barden** - BofA Securities, Research Division - MD

Good morning, everyone, or good afternoon, as the case may be. Thank you for joining us again. for our Day 2 keynote with AT&T's Chief Financial Officer, Pascal Desroches. Pascal, thank you so much for joining us. I understand you may have a safe harbor statement that you might want to make.

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**Pascal Desroches** - AT&T Inc. - Senior EVP & CFO

Sure thing. Good morning, everybody. It's a pleasure to be with you. And we have a safe harbor statement that you can see on the attendee portal. And if you have any -- for more details, feel free to go to our Investor Relations website. All right, ready to go.

## QUESTIONS AND ANSWERS

**David William Barden** - BofA Securities, Research Division - MD

That was awesome. I took a ton of notes just there. So all right. So let's kick things off. So the jumping-off point for the conversation obviously is the second quarter results. You guys raised guidance for the revenue and earnings outlook for the rest of the year. But obviously, that was pre the closing of the DTV divestiture. And so I guess I have 2 questions related to that. Actually, I have a copy of the earnings release where there's about 3 bullets that kind of talk about the change to guidance for the rest of the year.

And then I have an 8-page very detailed 8-K that talks about what's -- what the actual numbers are going to look like as a function of the accounting post the DTV divestiture. So maybe we could have -- divide this question into 2 parts. One is let's talk about what is going right with the business that led you to take up your outlook for the rest of the year? And the second part is what is the actual rest of the year going to look like as a function of all the things that are happening as a result of the new accounting in the 8-K.

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**Pascal Desroches** - AT&T Inc. - Senior EVP & CFO

Okay. Well, first, before we even jump into that, I just want to acknowledge the great effort by my teammates in responding to the aftermath of Hurricane Ida. The team, as soon as the storm passed, they were right to work and worked around the clock tirelessly. And as of yesterday, we had restored service to most of the locations. There were still 51 down across the region, only 3 cell towers were ours. So of the 51, only 3 cell towers we're ours. So we're really proud of the team's effort. Unfortunately, we're back at it today because of tropical storm Nicholas in South Texas.

So Dave, in terms of guidance, I think a broader picture is probably necessary here. When John Stankey took over as CEO, he identified several priorities in areas that he was -- we're going to focus on as a firm. 5G, wireless more broadly, fiber and HBO Max. And in the year he's been CEO, just some things to keep in mind, we've added 3 million postpaid wireless subscribers. To Fiber, we've added 1 million Fiber subscribers. HBO Max, we launched in the second quarter of 2020, and we've added 11 million subscribers and subscription revenue for HBO Max in the first half of the year grew 37%.

So really not only have we done well the last 6 months, we have done well since John took over as CEO. And in addition to the revenue growth being generated by these subscription relationships, we are doing our part in transforming the business, making it more efficient and more effective. We've disclosed that we -- this year, we expect our cost transformation efforts to yield \$2 billion of cost savings that are being used to help fund some of the investments in our key priority areas. And then not to be left unsaid, we've made significant strides in strengthening our balance sheet.

One, we've monetized over \$50 billion in assets, including the WarnerMedia separation, upcoming separation. And we put -- our business is in the right capital structure. WarnerMedia with Discovery, DIRECTV with TPG and the connectivity business through these actions will be delevered and have an ability to continue to invest significantly at a critical juncture in the evolution of connectivity. So there's a lot that has gone right in order to allow us to be in the position to raise guidance, and we feel really good about how the teams are executing and what the future looks like.

With that said, there is some complexity associated with DIRECTV. DIRECTV this year will be part of our reported results for 7 months of the year and won't be part of our results for the last 5 months. As a result, you're going to have comparability issues. We're not going to be on a same-store sales basis for the entire year. So what the team is doing is to work to endeavor to try to provide as much clarity on a pro forma basis, providing information of what it would have looked like had we been separated from DIRECTV for the -- since the beginning of 2020. And so the balance of the year, you're going to have some noise and complexity in the numbers. With that said, I think we are doing our part in really trying to help investors, analysts understand what the organic growth profile of the business looks like.

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**David William Barden** - BofA Securities, Research Division - MD

Okay. Yes. And I know that there's a lot of detail in there, and it's going to take a little work to kind of figure out what the numbers are supposed to look like. But overall, with the separation of DTV, the deconsolidation of DTV, there's some other moving parts, would you -- is this going to be -- how would you characterize this? Is it, say, it's going to result in lower earnings but faster growth as a function of removing the declining satellite TV business from the reported results?

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**Pascal Desroches** - AT&T Inc. - Senior EVP & CFO

The question becomes which financial measure are you looking at? As we said, in our guidance, EPS is not expected to change as a result of this -- the DIRECTV separation. So -- but revenues having one year with 12 months of revenues and another one with 7 months is going to result in reported revenues having some comparability challenges. Similarly, you're going to see the same thing in EBITDA. But when you get down -- make your way down the income statement because we pick up our pro-rata share of DIRECTV's earnings, it won't have a meaningful impact on EPS. And I think we said in our free cash flow, we said that it's going to cost us about \$1 billion.

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**David William Barden** - BofA Securities, Research Division - MD

So that's the DTV piece. It's something we've been talking about for a while. The big change that's coming at AT&T is going to be the WarnerMedia sale. Obviously, everyone is looking forward to that happening. What's the latest update on that?

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**Pascal Desroches** - AT&T Inc. - Senior EVP & CFO

Couldn't be more pleased with how the process is going. We are exactly where we thought we would be at this stage of the process, and we expect the transaction to close in the first half of 2022. So we're really pleased with how that's moving along.

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**David William Barden** - BofA Securities, Research Division - MD

So the -- no regulatory issues that you can kind of see or anticipate from the consolidation of big media in the world?

**Pascal Desroches** - AT&T Inc. - Senior EVP & CFO

Here is the reality. When you look at the rules around antitrust, there is no reason why this merger should not be approved. It's -- especially given the changes in competitive landscape and the participation by big tech companies in media. When you look at the traditional rules of antitrust, we feel really good about the ability of this to be approved. And as we -- and we'll make our way through the process and expect that in the first half, this thing will close.

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**David William Barden** - BofA Securities, Research Division - MD

There's a lot that people don't know yet about the transaction. The reverse Morris trust structure that you've created could be done as a dividend, could be done as an exchange offer, a blend of the 2. We don't know what's going to be done with the \$43 billion you're getting in cash as a function of the divestiture. When will we know?

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**Pascal Desroches** - AT&T Inc. - Senior EVP & CFO

Well, first, in terms of spin versus split or in exchange. It's a decision that we are going to make as we get a little closer to the time of the separation. Our responsibility is to optimize shareholder returns. And that could be -- if we believe that the remainco, the remaining connectivity business is undervalued, it may suggest that we should do a split. If on the other hand, we think that the media business is the new media company or our 70% of it is undervalued, it may lean more towards a spin. With that said, we're going to look at all these factors as we get a little closer.

And look, you appropriately pointed out, we can do a combination of both, an exchange followed by a dividend of the balance. So all options are on the table, and we feel really good about using all those options to optimize value for shareholders. In terms of the cash we received, we've said, our intention is to delever our balance sheet and to get below 2.5x, 2.5x or below by the end of 2023. So you can take that to suggest what we will do with the cash.

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**David William Barden** - BofA Securities, Research Division - MD

Got it. And so another question related to this is AT&T was a dividend payer, grew its dividend for 35 years in a row, didn't grow its dividend last year, and then with this split, effectively will reduce its dividend to a midpoint \$8.5 billion relative to about the roughly \$14.5 billion that it pays out today. The retail investment community that owns AT&T, that owns the majority of AT&T is pretty disappointed about this. What can you do to sell this idea that we're creating value by doing a split, which I believe we are? What can you do to sell this idea that value is being created even though the dividend is being reduced to the noninstitutional investment community?

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**Pascal Desroches** - AT&T Inc. - Senior EVP & CFO

Dave, if you look at the components of our business and with the separation of WarnerMedia, if you -- based on where Discovery is trading now, you can surmise what the value of the remaining -- of the connectivity business is. And if you look at that in juxtaposition to the \$8.5 billion of potential dividend, the yield would suggest somewhere in the 5.5% dividend yield, which is candidly better than all of our peers and better than most companies. So we feel that we are -- we will still have a very attractive dividend post separation. And for those who want to participate, there is an opportunity to achieve growth through continuing to hold WarnerMedia. So there -- or Warner Bros. Discovery stock. So there is an opportunity here to achieve an attractive yield and dividend plus really nice growth in value through appreciation of new media assets.

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**David William Barden** - BofA Securities, Research Division - MD

And the new AT&T should be streamlined, less levered, unburdened from the satellite TV business reporting, unburdened from the WarnerMedia content investment requirements and what you're left with is the wireless business, the broadband business, the enterprise business, it looks a lot

like an old-fashioned telecommunications company. You guys have kind of sort of shared that there's an expectation that, that company that's going to be paying \$8.5 billion of dividends can generate \$20 billion of free cash flow.

And you know and I know you know that people have struggled to understand how without the WarnerMedia business and without the DTV cash flows consolidated and without [Frio] or -- not that it contributed very much, and that's another asset that we're selling, how we get there and how we bridge from the \$26 billion of free cash flow guidance we have today to that \$20 billion of 2023 guidance. And you've been asked a million times and I'm going to ask you the million-and-first time. Why am I asking you this question which is why is it -- why are people asking me, how do I get from \$26 billion to \$20 billion?

And why do I have to keep asking the question? Why isn't there like a slide on the Investor Relations website of AT&T that says, "Here's how \$26 billion of cash flow in 2021, including DTV, including WarnerMedia, becomes \$20 billion. It obviously has some assumptions in it about taxes and growth and deleveraging"? And just -- why not just tell me? Just tell me those numbers, tell me what you're assuming and get me to \$20 billion.

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**Pascal Desroches** - AT&T Inc. - Senior EVP & CFO

Dave, I'm -- I think you've done a terrific job of laying out the path towards that. I think at the core of your question, at the core of why people are not buying in is there is a belief that we're not going to be able to grow this business over the next couple of years. This guidance that we gave is for 2023. So -- and we have said through low single-digit revenue growth and cost transformations, we will grow EBITDA mid-single digits. And if you take where your estimates are today for the connectivity business or what remains of AT&T post all transaction and grow it mid-single digits and you add on to that, a couple of other assumptions, if you start with \$26 billion, yes, we're going to grow our CapEx by around \$7 billion, but we're also going to have less interest as a result of delevering over \$50 billion at an average interest rate of 4%.

That's \$2 billion of interest savings. Yes, we're going to lose DIRECTV in our consolidated metrics, but we're going to get some cash from them as -- by virtue of the fact that we are getting -- we own 70% of the residual interest in that entity. In terms of taxes, we haven't assumed a meaningful change in the tax legislation that we have in place today. If that changes, then our guidance obviously would change. And so -- and in terms of WarnerMedia, the way -- I think this is another area that's not really clearly understood. WarnerMedia -- if you look at WarnerMedia's EBITDA and what do you think it's converting at?

When -- the content spend is increasing this year alone, probably in the vicinity of \$4 billion. So when you take all those piece parts, you should get pretty close to how we get to \$20 billion. So it's really, at its core, I think some of the lingering questions, it's not because we haven't laid it out clearly. I think at its core, there is a belief that we may not be able to grow. But I feel really good about our ability to grow. I think we have shown, in the last year under John Stankey's leadership, how we're growing revenues. And we -- and now through our transformation efforts, we are growing profit. So we feel really good about that.

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**David William Barden** - BofA Securities, Research Division - MD

So I think that -- and you and I have had this conversation before, but I think that one of the pieces is that you -- when you gave guidance, talked about the DTV divestiture removing about \$1 billion of free cash flow from the business. And the way that the TPG agreement was structured is there's a waterfall that TPG gets the first \$1.65 billion of cash flow, which means that, that \$1 billion that you're losing is going into their pocket. There's another \$650 million from next year's cash flow that goes into their pocket. But then you get the next \$8 billion. And so that the cash flow that you're going to get in 2022 or 2023 is going to be way higher. And then presuming that the Sunday ticket goes away, the cash flow generation from that business will actually skyrocket.

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**Pascal Desroches** - AT&T Inc. - Senior EVP & CFO

It will improve, yes.

**David William Barden** - BofA Securities, Research Division - MD

In 2023. And so obviously, then after you hit your \$8 billion, there's 70-30 split. And I think that, that's a piece that's an important bridge to get into that \$20 billion that I think people don't see today. And I just wanted to make sure we mentioned that. So obviously, that's a piece of it. Debt savings is a piece of it. We know that taxes is something that you guys have always been good at. I personally don't know if you're as good as John Stephens on the tax situation, you're going to have to convince us on that.

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**Pascal Desroches** - AT&T Inc. - Senior EVP & CFO

But we do have another Stephens that heads up our tax department. So I feel good about our ability.

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**David William Barden** - BofA Securities, Research Division - MD

We've got John Stephens 2.0.

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**Pascal Desroches** - AT&T Inc. - Senior EVP & CFO

Yes.

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**David William Barden** - BofA Securities, Research Division - MD

Okay. But let's talk about the growth piece. All right so the growth piece is kind of the important piece that we need to talk about. And I think there's 2 pieces to that, right? There's the broadband piece and there's the wireless piece. The wireless is the meat of it. Let's get to that in a second. But so the game plan was to build 3 million homes passed this year with fiber. You guys built out about 12 million as a function of the 2014 DOJ agreement with the DTV deal. You ended 2020 with 14 million, implying you've been roughly running at a 1 million build rate. So tripling the run rate of growth and the suggestion was that it was possible we could do 4 million in 2022. Supply chain issues have kind of weighed in on this and slowed that down.

So I want to talk about 2 things. One is, should we be concerned about that as a lingering effect into 2022? And the second piece is, if I build 1 million fiber homes passed a year, presumably, I have low-hanging fruit to sell X. If I build 2.5 million fiber homes passed, I have low-hanging fruit to sell Y and presumably Y is larger than X. And therefore, should we be anticipating an acceleration in the broadband business as a function of this accelerated investment in fiber homes passed?

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**Pascal Desroches** - AT&T Inc. - Senior EVP & CFO

Absolutely. Dave, I need to take you out on the road with me because yes, you are a good straight math. It is -- we couldn't be more pleased with how the broadband business is evolving. We said that we expected to start to get to the point where a decline in legacy products would be outpaced by growth in broadband revenues. We reached that crossover point in the second quarter, and we feel really good about the path forward that growth should continue to improve as we build out more homes. And you coupled it with the scale that we are gaining by building out more homes, the margin profile also will improve significantly, that, coupled with ongoing transformation efforts. So that's a business that's going to grow for us very attractively as you look forward.

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**David William Barden** - BofA Securities, Research Division - MD

I wanted to ask you a question, a client question just came in. And -- because I have been busy all day doing this thing on my track, [Jessica] has been doing her thing. And apparently, Comcast reportedly is lowering their broadband expectations for this year. And I was wondering, they didn't really give an explanation, as far as I can tell, but it looks like the question is really related to, do you think that broadband, in general, is -- expectations

need to come down because post-COVID, the demand for broadband is coming down in the home, for instance? Or is it possible that this is more of a competitive issue where your fiber builds and other fiber builds, maybe fit for us to access, are all combining to kind of put pressure on kind of the cable broadband hegemony. I don't know the answer to that question.

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**Pascal Desroches** - AT&T Inc. - Senior EVP & CFO

Look, it's hard for me to speculate on why Comcast took down their guidance, but we feel really good about the future of this business. Everywhere where we have rolled out fiber in a market, we're able to take share from cable because the product is better and it's a much better value proposition for consumers. And we feel really good about the guidance we've previously provided and can't comment on what Comcast said.

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**David William Barden** - BofA Securities, Research Division - MD

Okay. I just had to ask. So all right, let's shift gears a little bit to wireless. I can't -- we've only got like 10 minutes left, I can't believe it. So I'm asking everyone this question. In the second quarter of 2020, the LTM postpaid phone net add number for the U.S. wireless industry was 4.6 million. In 2Q '21, the LTM postpaid phone net add number was 8 million. Of all the wireless carriers, AT&T went from negative, I think, 150,000 in 2Q '20 to like a positive 800,000 in 2Q '21, a huge improvement.

And there's a lot of questions about what drove that improvement? How sustainable is that improvement? And if that improvement is not sustainable, who gets hurt? And AT&T was the one company that by far away, seems to have enjoyed the lion's share of that increase from 4.6 million to 8 million trailing 12 months net adds. So can you kind of convince us that this is sustainable? And if it's not sustainable, what is?

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**Pascal Desroches** - AT&T Inc. - Senior EVP & CFO

Sure thing. Look, I think there are -- at the industry level, I think there are a few factors happening. You have, with the pandemic, probably consumers deciding to get more phones for the households, particularly for kids who are getting phones probably a little bit earlier. Also connected devices are also getting more popular in home because of the pandemic and remote work and remote education. As it relates to us, I think it's -- everybody focuses on the great offer we've put out.

We've done a lot of things over the course of the last 18 months to really position the success that we have seen. Remember, Jeff McElfresh took over the connectivity business as the CEO in 2019. One of the first things he did in early 2020 was he decentralized the go-to-market approach for wireless offerings. So local teams can respond to the dynamics of the market without having to go back. That empowering of the local teams and accountability by the teams naturally has helped improve performance.

Two, we have focused on identifying areas that are not solved, needs that are not satisfied. For example, let's take FirstNet. This was a need that we saw that needed to be met. And as a result of the FirstNet relationship, we are able -- we've added a number of wireless subscribers. We're also doing a number of other affinity-type relationships where we are trying to solve specific needs for specific partners. Then you start with -- we added value through bundling HBO Max in some of our higher-tier plans then we put in our offer last fall. So all those things collectively are allowing us to grow and to gain share. And we believe we can continue to gain share through great execution and providing enormous value for shareholders -- for the consumer, excuse me. I apologize, Dave, I'm battling a bit of a head cold.

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**David William Barden** - BofA Securities, Research Division - MD

Okay. As long as it's not COVID, we're happy.

So the -- so let me ask this. So it sounds like you think that what you've accomplished to this point is sustained and that if this 8 million number recedes to the 6 million number, you think AT&T is still going to be doing 0.8 million of customers a year? I mean is that a real thing?



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**Pascal Desroches** - AT&T Inc. - Senior EVP & CFO

Well, look, I'm not going to provide future guidance on what we think we can do, but we feel really good about our position and our ability to be really competitive. And we are no longer in the business of donating our share of customers to the industry. So we are in the mode that if we compete, if we provide good value to consumers, we will gain share.

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**David William Barden** - BofA Securities, Research Division - MD

So let me ask about that, and this is a little bit of a nerd question, and I apologize. But yes, you are retaining customers, you've been very aggressive, it's been successful from a net add perspective, at a minimum by reducing churn. It's come at the cost of building a balance sheet item that will have to be amortized into your revenue line into the future. And your growth guidance, your free cash flow guidance is premised on this idea that you can grow the revenue line at this kind of low to mid-single-digit number.

But that's going to be harder and harder to do as you start to amortize this asset into your contra revenue items into the balance -- into the income statement. So I mean it feels easy to do today because you're getting all the benefit of the net adds right now, but you don't have a lot of the costs of what you're doing to get those net adds coming into the income statement. So how are we supposed to think about that and mitigation efforts that would create top line growth?

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**Pascal Desroches** - AT&T Inc. - Senior EVP & CFO

Here's the way I think about it very simply. Under the accounting rules, you're required to amortize the subsidy that you are providing on devices over the course of that -- the life. It doesn't change the cash that we are getting over time, like the cash has been spent to originate that relationship. Over time, we are still getting a very healthy ARPU as a result of the relationship. Yes, for accounting purposes, it gets amortized down. With that said, when you look at even net of the amortization, our ARPUs are still among the best in the industry. So yes, is this going to result in a little bit lower ARPU? Maybe, yes. But with that said, over time, we're still -- our ARPU will still be very attractive relative to others in the industry.

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**David William Barden** - BofA Securities, Research Division - MD

Okay. And the core of the ARPU growth story, as John Stankey has explained it, has been migrating the metered customers to the unlimited customers. Now you're north of 60% of the base. How comfortable are you that there's a second act here? Because we're probably getting to the point where, at about a 10% rate of upgrade per year, thinking again about the 2023 free cash flow guidance, there's not a lot of years left where we're going to be migrating metered to unlimited and squeezing a 1% or 2% ARPU growth out of that base. What's the next act?

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**Pascal Desroches** - AT&T Inc. - Senior EVP & CFO

That presupposes that this -- those are the only customers we can attract, that we can't attract customers from outside of our existing base, which we believe we can. Through these continuing really competitive offers and great execution, we think we can grow. And so it's not simply limited to the migrations of prepaid to postpaid or to higher-tier plans. It's really gaining new subscribers, and we think we can do that.

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**David William Barden** - BofA Securities, Research Division - MD

And then I think my -- I guess my last question on wireless is the prepaid market has been a very -- I don't know, interesting battleground. A lot of players suggest that one of the reasons why postpaid phone net add growth has been so healthy has been because the prepaid market has been a capable source of growth. A lot of changes are happening here. Boost had this arguably good deal with T-Mobile. They got into a fight. They signed a deal with you. That's on the plus side.



Verizon is buying TracFone. It seems like that deal is likely to go through at the end of the year. Some portion of the 8 million TracFone customers that are not already on the Verizon network are going to be your customers, so there's going to be a plus and a minus in terms of the wholesale revenues that AT&T enjoys. What are we supposed to expect coming down the pipe for a combination of prepaid and wholesale, outside the postpaid market and for AT&T?

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**Pascal Desroches** - AT&T Inc. - Senior EVP & CFO

The prepaid market is -- the prepaid business for us is really attractive. We run it exceedingly well. The economics are really attractive. And it's serving a need of consumers, and we feel really good that we can -- we will be a very active player in that market as we move forward. So I feel really good about that. And the consumer is getting healthier, too. So even those consumers who choose prepaid plans, they are in a better position in large part because of the stimulus that has come in over the course of the last 12 months. So that's one.

In terms of wholesale business, look, wholesale business is a very good business for us. We're really pleased with the DISH deal. It's a good deal for us. It's a good deal for them. And wherever possible, we're going to continue to look to add wholesale relationships because we think the economics are really attractive. Our partners would get to ride on a very good network and we get the benefit of certain returns to -- that allow us to reinvest in our network and continue to improve it.

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**David William Barden** - BofA Securities, Research Division - MD

So I got like a minute and 20 seconds left, and I'm bummed because there's so many other things we need to talk about. But I think the last thing I would just ask, AT&T's perspectives on the Democrat infrastructure bill, is it a good thing, a bad thing or a non-thing for AT&T?

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**Pascal Desroches** - AT&T Inc. - Senior EVP & CFO

I think it's to be determined because the situation, as you know, is still very fluid. The bipartisan bill that came out of the Senate, we think whenever you have a bipartisan effort, it allow -- it eliminates some of the polar ends of each of the parties. And we always think that is a good thing. So it's too early to tell. With that said, we're -- our view is this. If you get to a plan that continues to incentivize private industry investment into the broadband infrastructure in this country, it is a win for consumers.

Because you saw during the pandemic how the U.S. broadband infrastructure held up much better than other parts of the world. And that's largely because of the private sector investments that have been made in the industry over the last several years. If there is anything that comes out of this bill that undermines that, that won't be a good thing. So far, the Senate bill looks like it is very workable for us and feel really good about it. But it remains to be seen how this evolves over the next several weeks.

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**David William Barden** - BofA Securities, Research Division - MD

Understood. Well, Pascal, that was amazing. Thank you so much for the time. I really appreciate it.

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**Pascal Desroches** - AT&T Inc. - Senior EVP & CFO

Thank you.

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**David William Barden** - BofA Securities, Research Division - MD

Enjoy your one-on-one meetings. Thanks, everybody, for joining us again, and I'll see you later today. Have a great rest of the day.

Pascal Desroches - AT&T Inc. - Senior EVP & CFO

Take care, Dave. Thank you, everybody.

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Information set forth in this communication, including financial estimates and statements as to the expected timing, completion and effects of the proposed transaction between AT&T, Magallanes, Inc. ("Spinco"), and Discovery, Inc. ("Discovery") constitute forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These estimates and statements are subject to risks and uncertainties, and actual results might differ materially. Such estimates and statements include, but are not limited to, statements about the benefits of the transaction, including future financial and operating results, the combined Spinco and Discovery company's plans, objectives, expectations and intentions, and other statements that are not historical facts. Such statements are based upon the current beliefs and expectations of the management of AT&T and Discovery and are subject to significant risks and uncertainties outside of our control. Among the risks and uncertainties that could cause actual results to differ from those described in the forward-looking statements are the following: the occurrence of any event, change or other circumstances that could give rise to the termination of the proposed transaction; the risk that Discovery stockholders may not approve the transaction proposals; the risk that the necessary regulatory approvals may not be obtained or may be obtained subject to conditions that are not anticipated; risks that any of the other closing conditions to the proposed transaction may not be satisfied in a timely manner; risks that the anticipated tax treatment of the proposed transaction is not obtained; risks related to potential litigation brought in connection with the proposed transaction; uncertainties as to the timing of the consummation of the proposed transaction; risks and costs related to the implementation of the separation of Spinco, including timing anticipated to complete the separation, any changes to the configuration of the businesses included in the separation if implemented; the risk that the integration of Discovery and Spinco being more difficult, time consuming or costly than expected; risks related to financial community and rating agency perceptions of each of AT&T and Discovery and its business, operations, financial condition and the industry in which it operates; risks related to disruption of management time from ongoing business

operations due to the proposed merger; failure to realize the benefits expected from the proposed merger; effects of the announcement, pendency or completion of the proposed merger on the ability of AT&T, Spinco or Discovery to retain customers and retain and hire key personnel and maintain relationships with their suppliers, and on their operating results and businesses generally; and risks related to the potential impact of general economic, political and market factors on the companies or the proposed transaction. The effects of the COVID-19 pandemic may give rise to risks that are currently unknown or amplify the risks associated with the foregoing factors.

These risks, as well as other risks associated with the proposed transaction, will be more fully discussed in the proxy statement/prospectus that will be included in the registration statements that will be filed with the SEC in connection with the proposed transaction. Discussions of additional risks and uncertainties are contained in AT&T's and Discovery's filings with the Securities and Exchange Commission. Neither AT&T nor Discovery is under any obligation, and each expressly disclaims any obligation, to update, alter, or otherwise revise any forward-looking statements, whether written or oral, that may be made from time to time, whether as a result of new information, future events, or otherwise. Persons reading this announcement are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date hereof.

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#### Additional Information and Where to Find It

This communication may be deemed to be solicitation material in respect of the proposed transaction between AT&T, Spinco, and Discovery. In connection with the proposed transaction, AT&T, Spinco and Discovery intend to file relevant materials with the Securities and Exchange Commission ("SEC"), including a registration statement on Form S-4 by Discovery that will contain a prospectus of Discovery and Spinco that also constitutes a proxy statement of Discovery, and a registration statement by Spinco. This communication is not a substitute for the registration statements, proxy statement/prospectus or any other document which AT&T, Spinco or Discovery may file with the SEC. STOCKHOLDERS OF AT&T AND DISCOVERY ARE URGED TO READ ALL RELEVANT DOCUMENTS FILED WITH THE SEC, INCLUDING THE REGISTRATION STATEMENT AND PROXY STATEMENT/PROSPECTUS, BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED TRANSACTION. Investors and security holders will be able to obtain copies of the proxy statement/prospectus (when available) as well as other filings containing information about AT&T, Spinco and Discovery, without charge, at the SEC's website, <http://www.sec.gov>. Copies of documents filed with the SEC by AT&T or Spinco will be made available free of charge on AT&T's investor relations website at <https://investors.att.com>. Copies of documents filed with the SEC by Discovery will be made available free of charge on Discovery's investor relations website at <https://ir.corporate.discovery.com/investor-relations>.

#### No Offer or Solicitation

This communication is for informational purposes only and is not intended to and does not constitute an offer to sell, or the solicitation of an offer to subscribe for or buy, or a solicitation of any vote or approval in any jurisdiction, nor shall there be any sale, issuance or transfer of securities in any jurisdiction in which such offer, sale or solicitation would be unlawful, prior to registration or qualification under the securities laws of any such jurisdiction. No offer of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended, and otherwise in accordance with applicable law.

#### Participants in Solicitation

AT&T and its directors and executive officers, and Discovery and its directors and executive officers, may be deemed to be participants in the solicitation of proxies from the holders of Discovery capital stock and/or the offering of Discovery securities in respect of the proposed transaction. Information about the directors and executive officers of AT&T is set forth in the proxy statement for AT&T's 2021 Annual Meeting of Stockholders, which was filed with the SEC on March 11, 2021. Information about the directors and executive officers of Discovery is set forth in the proxy statement for Discovery's 2021 Annual Meeting of Stockholders, which was filed with the SEC on April 30, 2021. Investors may obtain additional information regarding the interest of such participants by reading the proxy statement/prospectus regarding the proposed transaction when it becomes available.