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PRESENTATION

Timothy Kelly Horan - Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst

Hi, everybody. This is Tim Horan, the cloud and communications analyst here at Oppenheimer. My pleasure to host the AT&T CFO, Pascal. AT&T has basically attended every conference that I've run here at Oppenheimer for the last 22 years, and thank you so much. I really appreciate that. And they've attended many other conferences that I have also worked on.

Pascal, good to see a fellow New Yorker doing so well. I know you're down in Texas now. But a great job, and you're doing a great job here at AT&T. It seems like frankly, a brand-new AT&T, the company is being dramatically transformed here.

QUESTIONS AND ANSWERS

Timothy Kelly Horan - Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst

And before we talk about in depth about what AT&T is doing, can you talk a little bit about your experience on the media side of the world and how that's kind of helped you look at AT&T and what A&T strategy should be from that experience?

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

Sure thing, Tim. Good morning, everybody. It's a pleasure to be here. Before I get started, Tim, I have to provide safe harbor disclaimer. Some of the statements we make here are forward-looking and are subject to risks and uncertainty and results can differ materially. Also, we are in the quiet period for spectrum Auction 110, so I'm not going to be able to talk about that. If you want additional information about our safe harbor and our forward-looking statements look on the investor website.

So Tim, even before I jump into that question, I think it's -- there's been so much going on around our company, I think it's so important to try to put some of it into perspective. John Stankey has been the CEO now for just a little more than a year. Last July was 1-year anniversary, last month was his 1-year anniversary. During that time, he put in place a new management team. He identified 3 simple guiding principles on which to manage the business.

One, wanted to grow subscriber relationships and Wireless, Fiber and HBO Max. And I'd say across the board, that has been accomplished, nearly 3 million wireless subscriber additions in the last year, 1 million fiber additions and 11 million HBO Max additions. Said he wanted to operate more effectively and efficiently. Our customer service and promotion NPS scores have improved significantly. We've taken \$2 billion of costs out of the business. And we wanted to really be very disciplined and deliberate in our capital allocation. So what have we done.

On the one hand, we said we wanted to significantly invest in our 3 areas of subscription revenue growth that we're trying to go after. And we've significantly invested, including spending \$27 billion in the recent spectrum Auction 107. We also significantly invested in content and capital across all of our business. Then really importantly, we've put in place some of the actions we did with the Warner Media transaction, really sets us up to sustain those investments for the long term and to accelerate the growth that we are seeing in these initiatives.

So in just a short period of time, we have strengthened the balance sheet significantly and really allowed ourselves to put in place a capital structure that could support future growth at a critical juncture in the evolution of this -- of both the Connectivity business and Software-based entertainment.

So in terms of my background, I, whenever you're taking on a big role like the CFO of AT&T, you bring to it the collection of all your experiences. I mean, I've spent over 30 years in the workforce in Corporate America, including I was a partner at a big accounting consulting firm. I worked at the SEC for a couple of years. And I spent 20-plus years at Time Warner, now WarnerMedia, which own a variety of different media assets as well as once upon a time, an internet service provider as well as a cable company. And so during those times, I saw a lot of different things. And also, look, I served as the Chair of the Audit Committee of a public company board. So those collection experiences, I think, help me understand the myriad of challenges, including some of the strategic challenges that we face. And it's been really about 4 months now, and I'm having a good time.

Timothy Kelly Horan - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Great stuff and good luck. So the company is making some obviously, radical changes you talked on the fundamentals which have improved dramatically. But you're obviously breaking up the company into basically 3 different companies at this point. What was the impetus for the breakup? And what do you hope to accomplish?

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

When we look back at, when John Stankey talking to me about taking this position, what he was keenly focused on was we were at the early innings of a significant evolution in connectivity, 5G and fiber. Remember, fiber in the pandemic would prove to be the best technology given the symmetrical speed. So understanding that would be a place where we really needed to invest along with 5G. And as importantly, HBO Max, we needed to invest significantly.

And one of the things we realized, not with Stankey, even though we were succeeding in really in our launch of HBO Max, the market wasn't giving us the appropriate credit for it. And we felt that a more efficient capital structure would be to provide Warner Media with its own capital structure and stock so that investors who are interested in media would be able to invest directly into Warner Media. So it's a combination of we needed to make sure we had additional investment capacity as well as making sure that our capital structure was efficient and provided -- and unlock value for shareholders.

Timothy Kelly Horan - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Great color. And I guess, while you touched on it, I do want to come back for a few other. Well, we're going through a little bit more detail on your fiber strategy and kind of what's going on there, which I completely totally agree with. But before we do that, can we just maybe step back on the quarter here. Can you just -- now that all your competitors and the industry has reported, just any thoughts on what we saw this quarter out of the industry and your results in particular?

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

I think what you saw is a very healthy consumer. We see it in wireless. The industry is definitely growing. It's growing faster than population growth. Fiber, I think recently, somebody told me, 2020 was the year of the SPAC. 2021 is the year fiber investment. And because fiber is proven that it will be the standard long term. And we saw significant growth at HBO Max, testament to our product and the quality of the product and the offerings. So look, the consumer is strong. Our businesses are operating very well. The Jason Kilar, WarnerMedia and Jeff McElfresh are doing an outstanding job in really continuing to execute and deliver value to our shareholders.

Timothy Kelly Horan - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Great color. So it seems like to me on the call, you were pretty emphatic that you don't want to lose wireless market share anymore. And you seem to be actually gaining market share out there. Just what caused the change in mindset? It seems like you guys have been losing market share for the last decade almost. And is it in your power to grow market share at this point in wireless? And is that important to you?

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

Look, I think management matters. And you saw like in the wireless business, Jeff McElfresh took over late 2019 in managing the overall connectivity business. And there are several things Jeff did to really position what you're seeing now. One, he decentralized the wireless organization structure. And so on a go-to-market strategy, the local teams have the ability to react to specific market conditions and operate much more nimbly.

Also, became focused on key customer segments that may be unserved. Think about our FirstNet offering where we created an offering tailored to first responders and provided them with priority access to our networks and good plans at appropriate value proposition. We also started to bundle HBO Max. And then finally, we provided our customers, our best customers, those we have long-term relationships with, with our best offer because we know long term, we're going to deliver a lot of value as a result of that. The lifetime value of those customers is really attractive and provides appropriate return. The other thing to keep in mind is our ARPU is at the top of the industry. So we felt that it would be perfectly fine to trade a few points of ARPU to maintain and grow our market share given that we are still much higher than others in the industry.

Timothy Kelly Horan - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Yes, great job, great flow share here this last quarter. And do you think you sustain that? Is that the goal to just continue to grow the subscriber market share?

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

Absolutely. And again, it is really good execution and paying attention to our customers, identifying underserved segments of the population and really going after those in a deliberate way. And we think that is sustainable, and we can do so very profitably.

Timothy Kelly Horan - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

And on FirstNet, are you the only carrier that still offer priority like in emergency situations? I know you have -- is that just for the spectrum that you got for FirstNet? Or is it your whole network that first responders get priority? And does anyone else offer that?

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

Look, I think everyone will say they offer some version of that. We provide priority access to our -- in our whole network. Now that's boosted by the network -- the FirstNet network that we built, but we have -- we provide priority access across the board.

Timothy Kelly Horan - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

And FirstNet, obviously, we have disasters all the time. The Northwest and the United States is having quite a few disasters as we speak. Is the network performing as kind of expected? Does it hold up pretty well during these disasters?

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

It does indeed. It really does. And there are -- we've gotten really positive feedback from the FirstNet authority and we couldn't be more pleased with the performance.

Timothy Kelly Horan - Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst

Congratulations. And can you update us on where you are with your 5G build-outs at this point and maybe the C-band rollouts?

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

Look, we are in terms of the 5G build-out as of the end of the second quarter. We have coverage of around 200 million POPs. And so we feel really good about that. And that's all before we're rolling out. We start our c-band deployment later on this year with most of the deployment happening in '23 -- in '22 and '23.

Timothy Kelly Horan - Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst

And what will -- when do you think the C-band will be turned on at spectrum or start to be turned on?

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

It will start to be turned on in 2022 and then obviously beyond that.

Timothy Kelly Horan - Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst

So can you talk about what the 5G has meant for your average speeds and latency or any other color what it's meant to the network?

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

Well, look, I think the network has never operated better. The speed is great. Consumers are happy, and it will only continue to get better. Right now, while speed is a differentiating factor over time, I expect to see much more specific product use cases for 5G that will really help demonstrate the power that it brings to the market and delivers to consumers.

Timothy Kelly Horan - Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst

And do you have -- I'm sorry, I'm getting some questions from participants and anyone can ask on the Wall Street webcasting chat here. But just elaborating on 5G, do you have a strategy in enterprise on 5G to maybe build private networks for enterprises or new specific vertical applications for enterprises on 5G?

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

Absolutely. I think there will be some unique cases, very much like FirstNet. I think there are segments of the enterprise market that will benefit significantly from 5G. Think about autonomous vehicles, think about AR, VR, like the use cases for 5G are fairly -- can be really attractive and differentiated for those segments of the industry.

Timothy Kelly Horan - Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst

That's really good. And while we're on wireless right before we go to fiber, you've had a promote, well not a promotion, but you have handset subsidies now for existing as well as new subscribers. I know your position has a little bit lower market share than the industry slightly a little higher ARPU, a little higher churn. It seemed like you're in a position to kind of take advantage and improve on all those metrics or will take advantage of the higher ARPU by offering a little bit more to customers. Are you kind of happy with what you've seen so far from offering handset subsidies existing subscribers? And do you think you'll retain this over the long term?

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

Yes. Look, the offers that we have out there are competitive and they're very profitable for us. So for the foreseeable future, I don't see any changes in that. They are working, consumers recognize the value, and we're recognizing that by doing that, we are keeping customers we know a lot about. We have a long history with. We know how they will perform, how they pay. So we feel this is really good business.

Timothy Kelly Horan - Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst

Yes. Well, it seems to be in your results and congratulations again. So just moving over to kind of fiber. I guess similar to wireless, it feels like you want to gain share now in broadband. And fiber is going to be a critical component to that. Can you talk about what has changed? I think you're at close to 15 million homes, you're going to double that in the next 5 years or so. What has changed that caused you to really accelerate investments in fiber?

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

Look, John Stankey has always been a believer in fiber. I think when he took over he identified that as a priority area because he understood from a technology standpoint, there is no better technology for connectivity. And therefore, in a world where the demands for symmetrical speed are increasing significantly, this is the technology to bet heavily in. And so we have a great position, and we are leaning into adding to that position. So it's really a function of when you -- and I think others are now recognizing it as a result of what you've seen in the last year in the pandemic, the need to do what we're doing now, 2-way communication can only happen with symmetrical speed. So I think everyone has had an aha moment, like we need to deploy fiber. And so we've long believed that. John has long believed that, and this is just really leading into that opportunity.

Timothy Kelly Horan - Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst

And a question here from the audience. Can you talk about what the market share looks like when you deploy fiber? What type of incremental gains do you get? And what type of competitive response do you see from the cable company?

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

Here's the way we think about it. As we deploy fiber, our goal is to get at least 40% penetration on homes passed. And we think in certain markets, we'll have an opportunity to do better than that. And the other thing that is great about is when you lay fiber, you lay fiber to a community where there is both homes and businesses. So it also helps boost returns in your enterprise business. And so that's why it is so critical that we roll this out because the ability to grow both your enterprise and your consumer business is attractive. And we think these investments will provide us with mid-teen returns over time.

Timothy Kelly Horan - Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst

Those are extremely high returns. Can you give us any color how much it costs for home pass to build out and how much it costs to connect are those metrics been improving? Or are they increasing? Just any color around that would be great.

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

I can't get into specifics because I don't believe we have disclosed that. But as a general matter, as you see in other things, the more scale you have, the better your economics. I think we have -- when I think about AT&T, we are probably -- I know we're largest fiber purchaser in the country. And we have prices that are at the best and most competitive among the industry. So we feel really good about the ability to secure inventory, fiber inventory and at attractive price points and the ability to execute and the build-out at scale, something that many others don't have.

Timothy Kelly Horan - Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst

Clearly. And the government looks like they want to give \$65 billion to promote broadband. Do you think that \$30 million can go to a higher number if you get the right types of subsidies from the government?

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

We think it is a great business, a great public policy for the government to invest in the infrastructure of the company and to incentivize private companies to invest with them. That's -- private companies like us have a long history of being able to deliver connectivity very reliably in difficult situations, including a pandemic the likes of which most people have never seen in their lifetime. So we showed the resiliency of our network during the pandemic. We provided the opportunity for low -- we expanded the opportunities for low-income offer. So we think it's a win-win for the government to provide for subsidies and the more subsidies, the more homes we can build.

Timothy Kelly Horan - Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst

And it seems like it is going to be technology neutral. I know you guys are believers in that. So I know some of the homes will be fixed wireless or mobile wireless or other forms of technologies. Do you think fixed wireless now can be a part of your broadband strategy going forward?

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

Clearly, there is a place for fixed wireless in certain rural communities where it's hard to make the economics work through a fiber build-out, then it may make sense to use a fixed wireless solution. But in urban communities that have wireless, oftentimes the issue is affordability. And I think what we have to -- what the government needs to do is to work with the private sector to figure out reasonable programs to provide us to provide economic rates, the fiber to the home -- because that is the best experience consumers can have.

Timothy Kelly Horan - Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst

And it looks like there will be for I think I saw 4 million households, will be able to get a \$30 million -- sorry, \$30 a month upside potentially. I know the details aren't totally worked out yet. So obviously, that's a good step also. But consumers, there are some subsidies now for rural areas and for low-income consumers also. Is that important to you guys, your customers take advantage of those subsidies now? Or do you ever...

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

Yes. No, look, we offer a very attractive low-income offer, and there are consumers who take advantage of it.

Timothy Kelly Horan - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Very good. And another question here from the audience. Can you talk about the attach rate when you sell fiber broadband, what percentage of your customers are also taking mobile? Like are you packaging that together to sell those together?

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

We are packaging it together. We haven't disclosed the percentage of customers taking it. What I can say is this once you bundle them together, the performance, the churn characteristics are very attractive and the NPS scores go up.

Timothy Kelly Horan - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Very good. So moving on to DISH. You have what I view as a potentially incredible opportunity here with DISH. Obviously, you're going to be selling them wholesale capacity. Are there ways to partner with them more extensively?

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

Look, we think the deal is a win-win for both us and for DISH. I mean there was -- there's been a lot written about it. You take a step back, wholesale deals have been part of the industry for since its infancy and this is no different. We have a great network. They recognize that, and we have the ability to serve their customers on our network without any disruption to our service and the deal provides us with attractive margins. And it's a win-win. I think we feel really good about the deal, and from everything they've said they do as well.

Timothy Kelly Horan - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

And obviously, they have a ton of spectrum, and you have a ton of infrastructure, tons of infrastructure. Does it make sense for them to light up that spectrum on a lot of your existing infrastructure? Would that be something attractive to both parties you think?

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

I'm not going to speculate on that. And it all -- I think the deal makes sense, and I think having a good relationship with DISH benefits us and it benefits them.

Timothy Kelly Horan - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Great. Well, I guess I think it could be a big opportunity. So hopefully, you guys come to an agreement on that, which would be really quite transformative. A bunch of other questions here that are coming in, but let me keep going through on some my own. I'll check these again here. So you've been cloudifying your network kind of quite a bit. Could you talk about where you are in that process? And I guess specifically, are we in a situation where we can see some major improvements in service quality or services that can be offered? And are you still in a position to lower expenses quite a bit as a result of cloudifying your network?

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

Absolutely. I mean if you think about our network, we have our core infrastructure, which really helps differentiate us. And on top of it, there is a software layer. Historically, big cloud providers haven't had the tools and the capabilities to appropriately serve it. With the evolution of the hyperscalers, now we think it is the right time to outsource portions of that software layer to third parties like Microsoft. And we think it is a good business. It allows us to focus on the things that really differentiate us in our core network. But at the same time, it provides a very economical way to drive innovation in the software layer without having to invest at the scale that the hyperscalers do.

Timothy Kelly Horan - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

And I know on the software layer, you had already been investing quite a bit yourselves and had obviously done huge amounts of R&D for years and years. And I think you're sharing some of that with Microsoft with the hopes, maybe, I think, to deploy that around the globe. Is that an accurate interpretation?

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

That is. That is, Tim. We did a lot of work ourselves because at the time that the hyperscalers, the cloud providers weren't in a position, didn't have the tools and capabilities. So we did a lot of that work. But as is the case with this, there's always evolutions and the need to continue to innovate. We felt this was the right time to help them benefit from the work that we've done but to adopt those capabilities and to continue to improve them over time. They make the investments, they're able to leverage over a much bigger customer base than us. And we get to benefit from that. So it's -- it really is a deal that makes sense and it's no different than a lot of other areas. We -- you go where there is more -- the most scale, the most -- the best economics, and that's what this is all about.

Timothy Kelly Horan - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

And will you -- if they -- let's say, they productize your software and improve upon it? Are the -- will you get some financial benefits from that longer term?

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

Yes, there are opportunities to share in some of those economics.

Timothy Kelly Horan - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Great. And just focusing a little bit more on kind of the incredible transformation you're undergoing. I think on the call, you basically said you had \$6 billion in transformation savings, and I think you've hit about \$2 billion of them?

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

Tim, one question. Before we -- actually, before we leave fiber, one thing I wanted to talk about, I know there's been a lot of questions out there about the -- what's happening with the supply chain. And I think it may be interesting for your audience to hear about some of that. As I mentioned earlier, we have a preferred place in the supply chain, and we also have committed pricing. So up through the second quarter, we haven't really experienced any impact from the supply chain disruptions that are happening across the industry. But since the start of the third quarter, we are seeing dislocation across the board, including in fiber supply. And as a result of those dislocations, we had previously provided guidance of 3 million homes past this year. We're probably going to come in a little bit in light of that, probably around 2.5 million. We don't think it's going to impact us long term. But I think it's really important context because if we're feeling the pain of this, I can only imagine what others in the industry are experiencing.

Timothy Kelly Horan - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Great color. Can you talk a little bit about where your supply comes from, I guess, both the fiber and the optical components or any other key suppliers? Is that U.S. sourced? Or is it a lot of it outsourced internationally?

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

It is a U.S. company who has locations both domestically and outside the U.S.

Timothy Kelly Horan - Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst

Got it. Got it. And it's one complete systems, fiber systems. Got it. Got it. That's really, really helpful. So back on to the \$6 billion of transformation savings, I think you're \$2 billion through that. So \$4 billion to go. How much of that \$4 billion is with the Remainco versus the companies you're selling and spinning out?

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

The entirety of it is really -- that \$6 billion is a Remainco number, they are above and beyond that, there are savings at WarnerMedia, the last few years between John and Jason, John Stankey, Jason Kilar. A lot of cost has been taken out of that business as the CFO over the course of the last 3 years, took a meaningful amount of cost out to provide for investment capacity in HBO Max.

Timothy Kelly Horan - Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst

Very, very helpful. What -- of the \$4 billion remaining, what percentage of that do you think you'll reinvest in growth versus kind of dropping to the bottom line?

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

We haven't disclosed that. I mean what I can tell you about our financial profile, we said look post the separation of WarnerMedia, we expect the Connectivity business to grow top line low single digits. And with operating leverage as a result of the transformation, we expect mid-single-digit EBITDA growth and mid-single-digit EPS growth. So that's really the extent of the guidance we've provided so far.

Timothy Kelly Horan - Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst

And I know you're going to be getting close to 2x debt-to-EBITDA in the 2 years or so. Do you plan on growing the dividend once you reset the dividend? Or will it remain stable, do you think?

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

Look, we haven't disclosed that or discussed that. And ultimately, the division -- the dividends are a board decision. Here is the way I think about it. I think what we need to do as an organization is we need to provide returns to our shareholders in a variety of ways. The dividend is one. Growing earnings is another. And there are other means to deliver value, including buybacks, which are not on the table for the foreseeable future until we get our leverage down to below 2.5x, and then we'll reconsider whether or not that makes sense.

Timothy Kelly Horan - Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst

Well, it seems like you're going to be below 2.5x pretty quickly and correct me if I'm wrong,

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

We expect to be 2.5x or lower by 2023.

Timothy Kelly Horan - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

So it sounds like the stock buybacks can kind of come here in a couple of years?

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

We will consider it. Look, sometimes reinvesting in your business because of the returns that it will provide long term may also be a more attractive option that needs to be weighed against buybacks.

Timothy Kelly Horan - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Great. I know you've guided to getting to \$20 billion of free cash flow for Remainco AT&T. I think that's a year out after the transaction. Can you give us a little bit more color how you get there? I mean, what you just described in terms of that revenue growth and EPS growth, will that get you to the \$20 billion? Or are there things you can do on CapEx or taxes or other areas to kind of drive that \$20 billion of working capital?

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

Yes. Look, a few things to keep in mind. This year, we expect free cash flows excluding DIRECTV for the last 5 months of the year at \$26 billion. Factors to keep in mind, one, post the separation of WarnerMedia, we're going to have between DTV and WarnerMedia proceeds of over \$50 billion to reduce net debt. And so think about our average interest rate on our debt is a touch less than 4%. So call that a \$2 billion dollars. Two, this guidance is for 1 year post the WarnerMedia transaction. So another consideration. So our EBITDA this year will benefit from growth in the next 2 years.

We don't assume any significant -- any changes in the tax regime that we have in place. And if that change -- if the tax regime changes, we're going to have to consider that in our guidance. We also are expecting to get some amount of proceeds annually from DIRECTV because we own 70% of the economics. So it's all those things together that have to be considered in order to get to our guidance of around \$20 billion.

Timothy Kelly Horan - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

And is there the 4% on the interest rate, I never thought we'd be talking about this, but we see some firms out there that are raising green euro bonds at 1% for billions and billions of dollars. I know you have a lot of debt out there, but is there a way to get that 4% rate down?

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

There is. But look, most of our debt if -- trades on the market. So we would have to pay a premium. And we look at that on a regular basis to see are there opportunities to pay a premium and still get an attractive return from taking down our debt. So -- and we look at that all the time, and it's something that is ongoing and you should expect us to continue to look at that.

Timothy Kelly Horan - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Great. I'll ask one more, then I got a couple more here from the audience, and I know we only have 4 or 5 minutes left. But so there's maybe some proposed tax changes out there. What are your thoughts on, should they happen, what do you kind of expect? And could you talk about maybe what you've been seeing for cash taxes lately and where do you expect that to go over the next few years?

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

Look, in any given year, the amount we pay for cash taxes will vary depending upon the investment profile of the company and timing differences between tax and book. The thing that I would say in terms of tax policy, we as a company, have invested more in U.S. infrastructure than any other company over the last 5 years. The way we've been able to afford to do that is in part related to the attractive incentives in place for R&D and for CapEx. And we think it is a very good public policy to extend those. And they have allowed us to invest and to really improve the infrastructure of the United States. And I think -- so that's one. Two, look, in the end, we've operated in higher tax regimes before, and we'll be fine operating in them again, but we think it would be shortsighted for the government to do that, and we would encourage better policy that supports investments in U.S. infrastructure.

Timothy Kelly Horan - Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst

Yes, that's really well put. I guess just lastly for me. In the -- is there any concern out there on broadband that we might see some more regulation, maybe price regulation or government forcing more on bundling or maybe municipal built networks? Are you seeing anything in the infrastructure plan or other plans that would get you worried about that?

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

The details, as you know, Tim, are still being worked through, and we haven't seen the final text. So until they- it's settled, we won't know for sure. But what is encouraging about this -- the infrastructure build that's about to be passed is the fact that it is a bipartisan bill that both sides came together, and they thought this was a good thing to do for the U.S. population at large as well as to provide the right incentives to continue to build out the broadband infrastructure of the United States. So, so far, there, obviously, there will be things in the proposal we like and things that we don't like. But so far, we haven't seen any clear evidence of price regulation, but we are always cautious about that.

Timothy Kelly Horan - Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst

We do have 2 more minutes, and I got a question here from the audience. Is the Latin America wireless network a strategic asset? Or I guess, broadly speaking, there are other assets you can sell still?

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

As you know, we're not going to speculate on future M&A opportunity. We think the Mexican operations are operating. They are in the early innings of a multiyear transformation and I'm really proud of the team. They have taken a lot of cost out of the business, and the business is growing nicely, and we expect profits this year for the first time. And over time, we expect that to continue.

Timothy Kelly Horan - Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst

And one other -- one last -- this will be the last question. The wireline business, any update on what the strategy is for the -- sorry, for the business side of the wireline business? Any potential to start to grow that business again or other changes you need to make?

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

The way we're thinking about the wireline business is that we're in -- if you think about historically, the wireline business has provided unique solutions for enterprises. Over time, I think what is -- we expect where there will be growth will be as companies look not only to provide solutions for themselves when they're in the office, but also when their employees are working remotely. So that's where the big opportunity is also there will be significant opportunities down market in small to midsized businesses, which has a lot of adjacencies to our consumer business. So the

growth factors in our business we see is really how do we provide total solution, unique solutions for our customers, our enterprise customers that allow them to serve in office needs as well as virtual needs. And we think the down market opportunities are extraordinary.

Timothy Kelly Horan - Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst

Well, Pascal, it all comes down to great networks, and you guys have that, and you're investing a lot, lot more on great networks and dramatically transforming the company, and it's great to see actually in many, many ways. And I really appreciate your time and hope to do this in-person next year.

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

Absolutely, Tim. Thank you very much.

Timothy Kelly Horan - Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst

Thanks, Pascal. Thanks, everybody. Have a good day.

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