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PRESENTATION

Operator

Thank you for standing by. Welcome to AT&T's Second Quarter 2023 Earnings Call. (Operator Instructions) And as a reminder, this conference is being recorded.

I would now like to turn the conference call over to our host, Amir Rozwadowski, Senior Vice President, Finance and Investor Relations. Please go ahead.

Amir Rozwadowski AT&T Inc. - Senior VP of Finance & IR

Thank you, and good morning, everyone. Welcome to our second quarter call. I'm Amir Rozwadowski, Head of Investor Relations for AT&T. Joining me on the call today are John Stankey, our 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're subject to risks and uncertainties described in AT&T's SEC filings. Results may differ materially. Additional information, including our earnings materials are available on the Investor Relations website.

With that, I'll turn the call over to John Stankey. John?

John T. Stankey AT&T Inc. - CEO, President & Director

Thanks, Amir. Good morning, everyone. I appreciate you joining us. I'd like to open our discussion today by sharing that at the halfway point of the year, our performance and results are tracking entirely consistent with the guidance we provided to you. In fact, this past call shares the specifics with you. I think you'll conclude that our performance continues to demonstrate our strategy is on track to achieve the objectives we outlined 3 years ago to drive consistent growth, simplify the company and reduce leverage. To that end, I'd like to spend a few moments today summarizing that progress and how we believe this positions our company for sustainable and profitable growth going forward.

Let's start by looking at our wireless business. For the last 3 years, our teams have executed on the strategy that enabled us to go from annually losing share to now delivering the right combination of continued postpaid phone adds, low postpaid churn, growing average revenue per user and profitability growth. Specifically, over the past 3 years, we've added 8.3 million postpaid phone net adds. That's up from fewer than 1 million in the 3 years prior to July 2020.

During the past 3 years, not only did we close the gap to the industry share leader for postpaid phones by about 350 basis points, but we also improved our wireless service revenue share versus the industry leader by roughly 250 basis points. On postpaid phone churn, we drove an improvement of 28 basis points since the beginning of 2020. We also achieved a record low quarterly postpaid phone churn in 2 of those 3 years.

In stark contrast, the wireless industry's leaders postpaid phone churn was relatively flat over the same time. Statistics aside from my seat are historically low levels of churn along with improved Mobility Net Promoter Scores shows me that our customers are very happy with the investments we've made in AT&T's customer experience and network quality and that our teams are delivering great value.

Ultimately, this means our customers are more likely to stay with AT&T over the long haul. And this is confirmed by external indicators like the American Customer Satisfaction Index, which recently named AT&T as the #1 in wireless customer satisfaction. So more customers are choosing AT&T and staying with AT&T. We're also more profitable as evidenced by our increasing postpaid phone ARPU and service revenues.

Over the past 3 years, our postpaid phone ARPU is up more than \$1. This shows that customers are voting with their wallets. We've achieved the right balance between the cost of our services and the value we provide. Lastly, let's look at wireless revenues and profitability. From 2Q 2018 to 2Q 2020, our wireless service revenues were essentially flat. Our profitability was up modestly over that time period. However, in the past 3 years, we've grown quarterly wireless service revenues by about \$2 billion, up roughly 15%, and we've materially increased profitability on an annual basis.

I should also call out the success we're seeing in our prepaid business, where Cricket has sustained growth by continuing to add prepaid voice customers to one of the highest value subscriber bases in the sector.

Now let's turn to our fiber business. Our investment thesis for building more fiber started with our understanding that people needed better and faster broadband connectivity than what was available, that those needs would only grow exponentially. We believe that by providing the best access technology on the planet, we could transform our Consumer Wireline business into a fiber fueled sustainable growth franchise.

Our results have only strengthened that confidence as returns continue to exceed our initial expectations. Over the past 3 years, we've had more than 3.4 million AT&T Fiber net adds boosting our subscriber base by roughly 80%. Everywhere we put fiber in the ground, we feel good about our ability to win with consumers. In fact, our average penetration rate is about 38%. Over the past 3 years, our fiber net additions outpaced the leading cable providers' broadband net additions. This is an impressive accomplishment given the size of their footprint. Since the second quarter of 2020, we've doubled our quarterly fiber broadband revenues, reaching more than \$1.5 billion this quarter. Over the past 3 years, the accretive mix shift to fiber has driven our broadband ARPU up more than \$10, an increase of 20%. This again shows that customers are voting with their dollars. We also have plenty of room to run as we're still less expensive than competitive offerings in the market.

So let me summarize. Our wireless business is growing share in ARPU with low churn and improving margins. And our fiber business is accelerating new build penetration, growing share in ARPU, while lowering churn and improving margins. This is the formula for sustainable top and bottom line results, and we're confident this success will be sustainable over the next 3 years. Here's why. As industry convergence accelerates, our owners' economics in both fiber and wireless provide AT&T with a strategic advantage that will be hard to match. The lifetime value of our mobile customer is significantly higher than that of a cable MVNO customer.

Cable is busy adding wireless customers at very low lifetime values just to protect customers they already have. We're not only keeping our current high-value customers happy, but also adding more of them. Moving to our next priority. I'm pleased with how we continue to simplify our business and improve our efficiency. Our cost savings initiative has achieved our \$6 billion run rate savings target, and we believe there is significant opportunity to build on this momentum with another \$2 billion plus over the next 3 years.

After a period of reinvestment, this work has been the foundation for our recent margin improvements, as shown in our adjusted EBITDA margin improvement this quarter of 210 basis points compared to the same quarter last year. These additional cost savings will be largely driven by the sunsetting of our legacy product portfolio and supporting infrastructure. As we ramp our execution on this work, we'll begin to enjoy the benefits of our simplified focus on wireless and fiber.

Turning to our final priority, we continue to allocate capital in a deliberate manner to create best-in-class experiences for customers, drive sustainable, profitable growth and deliver long-term value for shareholders. Over the past 3 years, we've reduced our net debt by

about \$20 billion. We also recently transferred \$8 billion of pension liabilities through the purchase of insurance annuities. As Pascal will discuss, we've addressed the number of onetime and discrete items and now expect to use an increasing amount of our free cash flows after dividends to accelerate our debt reduction efforts. We remain committed to achieving the 2.5x range for net debt to adjusted EBITDA in the first half of 2025. We feel good about our ability to accomplish this goal, while providing an attractive dividend with improving credit quality as we expect to increase cash generation over time. At the same time, we're investing in the future of our company and the future of our country's connectivity.

Since July 2020, our capital investment has totaled about \$65 billion. As one of the largest investors in America's broadband infrastructure, we're enhancing our 5G and fiber network at a historic pace. We're focused on connecting the most people, in the most places and with the best experience. Over the past 3 years, we've passed about 7 million new fiber locations, increasing our locations pass by about 40%. Over the same time, we've expanded our nationwide 5G network to cover approximately 290 million people, and we now reach more than 175 million with mid-band 5G spectrum. While some of our peers spend time trying to convince you why their services are good enough for now, we're investing billions to provide Americans access to the best Internet offering for decades to come.

I'll end my remarks by reiterating that the repositioning of our business can be credited to our team's belief in our strategy and ongoing commitment to delivering real value for our customers. We're focused on ensuring AT&T as the clear choice to serve our country's connectivity needs, not only today, but well into the future.

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

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

Thank you, John, and good morning, everyone. Let's move to our second quarter financial summary on the next slide. Consolidated revenues were up nearly 1% in the second quarter, largely driven by wireless service revenue and fiber revenues. Additionally, revenues in our Mexico operations were also higher due to increases in wholesale and equipment revenues, as well as favorable FX. These increases were partially offset by an expected decrease in low-margin Mobility equipment revenues and a decline in Business Wireline. Adjusted EBITDA was up 7% for the quarter with growth in Mobility, Consumer Wireline and Mexico. This was partially offset by an expected decline in Business Wireline. We are on track to deliver our full year adjusted EBITDA guidance. Given our momentum to date, we are confident in delivering adjusted EBITDA growth of better than 3%.

Adjusted EPS was \$0.63 compared to \$0.65 in the year ago quarter. This includes about \$0.07 of noncash aggregated EPS headwinds from lower pension credits, lower capitalized interest, lower DIRECTV equity income, all of which we expected. Cash from operating activities was \$9.9 billion versus \$7.7 billion last year and was up \$3.2 billion sequentially. The main factors driving this year-over-year increase were higher receipts driven by earnings growth, higher securitizations and lower device and interest payments.

Capital investment was \$5.9 billion in the quarter and \$12.4 billion year-to-date. This reflects continued historically high levels of investment in 5G and fiber. We expect to move past peak capital investment levels as we exit the year. We feel really good about free cash flow of \$4.2 billion in the quarter. For the first half of 2023 compared to the first half of 2022, free cash flow was up about \$1 billion, and we expect our cash generation to accelerate from here. We delivered this year-over-year growth in the first half despite about \$800 million lower DIRECTV cash distributions and roughly \$700 million in lower net impact of sales of receivables.

We expect free cash flow of about \$11 billion for the remainder of 2023, weighted towards the fourth quarter. Here are the factors driving this acceleration of free cash flow relative to the first half performance. One, we expect capital investments to be about \$1 billion lower in the second half of the year after peaking in the first half. Two, we anticipate device payments to be about \$4.5 billion lower than the first half of the year. Three, the first half of the year included more than \$1 billion of annual incentive compensation payments that won't repeat in the second half. Four, and as I mentioned earlier, we expect full year adjusted EBITDA growth of more than 3%. And lastly, we expect other working capital improvement of roughly \$1 billion in the second half of the year relative to the first half of the year, including higher noncash amortization of deferred acquisition costs.

These improvements are expected to be partially offset by lower cash distributions from DIRECTV of about \$500 million in the second half of the year relative to the first half. And cash taxes, about \$1 billion higher in the second half of the year versus the first half of the

year. As a result, we're on track to achieve full year free cash flow of \$16 billion or better. Now let's turn to our Mobility results on the next slide.

Looking at our Mobility results. Postpaid phone net adds were \$326,000. Total revenues and profits of our largest business unit are at an all-time second quarter highs. Revenues were up 2% and service revenues were up 4.9%. These gains were driven by subscriber growth and higher ARPU. Mobility EBITDA was up 8.3% in the quarter. Mobility postpaid phone ARPU was \$55.63, up 1.5% year-over-year. The primary drivers of ARPU growth are higher ARPU on legacy plans from last year's pricing actions, a continued mix shift to higher value rate plans with higher margins and continued improvements in consumer international roaming trends.

Postpaid phone churn remains low at 0.79% for the quarter. In prepaid, we had 123,000 phone net additions with total churn of 2.5%, primarily driven by Cricket. Let's move to the next slide and our wireline results. Our fiber investment is driving Consumer Wireline growth and strong returns. We added 251,000 fiber customers. This is strong growth against an industry that slowed in recent quarters due to significantly lower move activity. Strong fiber revenue growth of 28% drove broadband revenues up by 7% year-over-year. Our fiber revenues are outpacing our legacy revenues, and this separation will continue to grow over time.

Fiber ARPU was \$66.70, up 8%. Customers are increasingly choosing faster speed tiers, which is also supporting ARPU growth. Consumer Wireline EBITDA grew 10.2%. This reflects fiber revenue growth, and about \$35 million of discrete comparison items that helped EBITDA growth rates. Turning to Business Wireline. EBITDA was down about \$75 million year-over-year. This quarter included about \$75 million in discrete comparison item, including a onetime access cost benefit.

Ultimately, we still see the same underlying trend that went into our guidance and our full year expectations are unchanged. Our Business Solutions wireless service revenues grew 9.1%. FirstNet continues to be a driver of this growth. Connections grew by about \$350,000 sequentially with a little more than 1/3 of this growth from postpaid phones. What we've accomplished with FirstNet is truly remarkable. Not long ago, this was an underpenetrated segment of our customer base, but by committing to delivering a best-in-class network and tailored solutions for first responders, we've become the unquestioned industry leader by exclusively serving the public safety community with 5 million FirstNet connections in just 5 years. We believe there is runway to continue this growth.

Now I'd like to close by taking a moment to provide an update on our capital allocation on the next slide. We wanted to provide some added information around our expectations for reducing net debt. Our plan to reduce net debt and reach the 2.5x range in the first half of 2025 remains on track. Over the course of the past 12 months, we generated \$15.2 billion of free cash flow and paid out total dividends and other distributions of \$9.3 billion. This left us with \$5.9 billion of remaining cash. So why didn't net debt decline by a proportionate amount?

The short answer is that we had approximately \$4 billion of onetime items and discrete obligations to pay off. These included our WarnerMedia post closing adjustment payment, our final NHL Sunday ticket payment and redeeming in full the \$8 billion preferred interest in our Mobility 2 subsidiary. We partly funded this with \$7 billion of issuances for other preferred subsidiary shares. Additionally, net debt reflects about \$1.5 billion of mark-to-market impacts from foreign exchange. Keep in mind that our foreign denominated debt is fully hedged. So economically, we have an offsetting foreign currency gain in derivatives.

Looking forward, in the fourth quarter, we expect to make final clearance payment of about \$2 billion tied to our 2021 spectrum acquisitions. After this payment, we will be in a position in which we've satisfied all nonrecurring near-term financial obligations. The majority of our debt is fixed at very low rates, and we've refinanced or prefunded some of our near-term debt maturities at really attractive rates. At the same time, capital investment will be coming down from all-time peak levels. This will increase cash conversion and give us more cash to reduce net debt.

So going forward, from now until the first half of 2025, we expect to increasingly use our free cash flows after dividend to reduce debt, and at a faster pace. By the end of this year, we expect to reduce net debt by around \$4 billion, excluding any potential FX impacts, which will put us at about the 3x range for net debt to adjusted EBITDA. This puts us on our trajectory to achieve the targeted 2.5x range in the first half of 2025.

In summary, we feel good about our plans to delever and about our Q2 results, which demonstrate our ability to sustainably grow subscribers, service revenues and profits. Let me turn it back to John to close out our remarks.

John T. Stankey AT&T Inc. - CEO, President & Director

Before we open it up for Q&A, I'd like to briefly comment on the telecommunication industries handling of lead-clad cables in our networks. As background, it's well understood that lead-clad cables are used broadly in our nation's infrastructure today. From power cables to telecommunication cables, lead has been used to protect interior wires from exposure to the elements because lead is very stable and it doesn't rest. The practice has long been known and its risks of exposure to those in close contact to it, has been regulated by federal and state authorities for decades.

Generally, the telecommunications industry began to phase out placement of new lead-clad telecom cables in the 1950s. However, lead-clad cables are so durable that they continue to be used in our power grid, in our railway systems and in our industry, and some of these cables still provide important customer voice and data services, including connecting 911 service, fire alarms and other central monitoring stations.

We take the concerns raised very seriously as there is no higher priority than the health and safety of our employees and the communities where we live and work, period. We believe that a deliberate review in collaboration with the EPA and our industry partners with reliable science at the forefront is the responsible way to evaluate this issue. Independent experts, long-standing science have given us no reason to believe these cables pose a public health risk. And our own prior testing, which we shared publicly confirms the established science. Still to be responsive to any concerns raised by recent reporting, we're doing additional testing at selected sites, and we're working cooperatively with the Environmental Protection Agency to provide them the information needed to conduct a thorough assessment of the issue using the most up-to-date reliable science.

We're very proud of our track record, along with our union partners in addressing employee safety for those who perform maintenance and repair work on these cables. We fully comply with the established regulatory standards and science related to potential lead exposure for workers and meet or exceed state and federal (inaudible) requirements for our employees who work with lead.

In the abundance of caution, one extra measure we've taken is to expand our existing practice of providing testing for employees involved in cable removal and have added a voluntary testing program for any employee who works with or has worked with lead-clad cables. We're offering the testing on company time and at company expense. Rest assured that if there's new and reliable information for us to consider, we will constructively work with others in our industry, scientific experts and government agencies to do what we always endeavor to do, which is act responsibly.

I hope the information that we've been providing, including that lead-clad cables make up a small part of our network with the majority underground and cased and protective conduit serves as helpful background on the topic. We've always done the right thing related to lead cables. We're doing the right thing today based on current science and protocols, and we'll do the right thing should current scientific techniques develop new and reliable evidence that warrants a change in approach.

With that said, we're now ready for questions. Amir?

Amir Rozwadowski AT&T Inc. - Senior VP of Finance & IR

Thank you, John and Pascal. Operator, we're ready to take the first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from the line of Brett Feldman of Goldman Sachs.

Brett Joseph Feldman Goldman Sachs Group, Inc., Research Division - MD

You had given us some visibility into the net add trends you expected in your wireless business during the quarter. That was very helpful. I was hoping you could share with us what degree of visibility you have into the second half of the year. So for example, are there any unique headwinds that you have to manage through more broadly, what type of market environment are you managing the business around? And are things changing enough at a market level that you're beginning to tweak how you go to market relative to the simplified approach you've been using for a number of years now?

John T. Stankey AT&T Inc. - CEO, President & Director

Brett, look, I would tell you, I feel really comfortable with where things are to kind of tick through your questions. Given the second quarter issue we had with one account, I don't have another one of those sitting in front of us that I'm concerned about, I would say more broadly, the market demonstrates a bit more resiliency than probably what I would have expected in the fourth quarter of, say, last year.

We're certainly not seeing the kind of frothiness that was around in '20 and '21, but volumes and activity in the market is good. We do our own adjustments for some of the reported numbers. I don't know that every net add in the market is equivalent to the other. So we kind of look at the ones that are economic valuable. But even when we make those adjustments, I think demand has been pretty solid in the market.

To your point, there were lot of structural changes in people's offers in the second quarter, they came roughly at about the same time. When new messaging gets put into the market, we saw what we typically saw, which is a little bit of a freezing that occurs as consumers process what new offers are out there. And of course, like you, we sat and watched and wanted to know what the ultimate reaction was going to be and I would tell you, we've kind of moved through that freezing period, and I see a situation where we exited the quarter in a very, very good place that's consistent with what we would have expected given the value propositions and offers we've had in the markets over the past couple of years.

So I feel fine about where things are going. I think the consumer continues to show signs that they're pretty healthy right now. I don't see anything that gives me near-term concern about demand. I don't know what happens down the road. It's anybody's guess what the economy does. I've had a fairly conservative bent on that. I think it's served us well. I'll keep that conservative bet as we manage the business going through the balance of the year. But the market is certainly supporting I think a healthy growth and the industry is, I think, even better and is responding well to that growth. I see players investing, and I see them making moves to make sure that they can recover returns on those investments. And that's good for all of us. I think it's good for the industry overall, and it's good for consumers and the services that they're getting.

Operator

Our next question will come from the line of John Hodwick of UBS.

John Christopher Hodulik UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Maybe a follow-up to Brett's question. John, on wireless competition, it looks like gross adds are down sort of mid-teens, and I realize you said that a lot of the change in the sub growth is due to customer loss you had in the second quarter. But do you feel you need to respond from either a promotional standpoint to sort of drive gross adds back up? I mean -- and sort of anything you can point to for sort of why you're losing share in terms of those gross adds? And then along with that, a number of your competitors or both of your competitors have announced recent price increases. If you could just comment on the sort of broader pricing environment in wireless? And do you believe that you have room to take similar pricing action as we move through the year?

John T. Stankey AT&T Inc. - CEO, President & Director

So John, I don't see a need for us to -- it wasn't clear from my last comment. There was a little bit of shift that occurred in the second quarter. Part of it was re-account. Part of it was new offers in the market. We've seen a normalization, and we think what we have out in the market is performing very well, and I go back to comments I've made repetitively in previous quarters. We've been very focused segment-wise around where we're choosing to get our activity. And I don't know that broad promotions has necessarily been the primary or by any means, the exclusive means of us getting customers. We've been really deliberate. You look at some of our business results, we

just shared with you some of our FirstNet growth.

We know the channels in the consumer market that we can go to, to intercept the right kind of traffic. And we've seen really good results as we've kind of gotten into the early part of the second quarter relative to that. So I feel like the market is healthy. I feel like our tactics continue to be durable. and they're performing well. We have been very focused on ensuring that we're getting the right kind of growth. I don't want empty calorie growth. We want customers to come in and pay good recurring rates that are going to stay with us a long period of time.

We have opportunities where we can co-market multiple products into a customer, which makes them even stickier and drives up lifetime values. Those are all very right places for us to go spend time and energy, and we feel very comfortable about that. So I don't feel a need. When you say you need to respond, you're not going to see some dramatic shift in our approach or what we're messaging or how we're going about things.

On the pricing side, I think as you know, I've been very deliberate. We don't preannounce any pricing, and we don't really talk publicly about changes. But there have been, as I said earlier, I think a lot of efforts in the industry by everybody to ensure that they're getting returns on the level of investments that they're making back into their networks and their business. And you're well aware of what we've done in the past, and we've been really successful and really deliberate and really calculated in how we've done that. That's how we've managed to keep our churn at the levels that we have, while at the same time, continuing to get some ARPU accretion in our business.

I think you should expect that we're capable of managing the large subscriber base that we have and we look for opportunities to alter that value equation back to the customer where they perceive that they're getting a better value and better service and something more and it accretes into the business in terms of us being able to grow ARPUs. And we certainly have placed as we'll do that. We do that as a normal course. Sometimes those moves are a little bit more obvious to you. Sometimes they're a little less, but we'll continue to manage the business effectively moving forward and feel really comfortable about our growth characterizations that we've given you in our guidance and what we're going to see in accretion and service revenues. And as you can see, our profitability numbers have been really, really strong. And that all comes from managing the complete equation, and I think we're doing a pretty good job of that.

Operator

Our next question will come from the line of Simon Flannery of Morgan Stanley.

Simon William Flannery Morgan Stanley, Research Division - MD

I wanted to focus on CapEx, if I could. I think, Pascal, you said it would be about \$1 billion lower in the second half. I just want to make sure I had that. I think previously you said \$24 billion of CapEx, capital invested was \$12.3 billion I think, in the first half. So it looks like you might come in the \$23 billion, \$23.5 billion range. Is that right? And then \$24 billion would be lower than that number. Just want to get those in line. And just be interesting just getting your update on where you are on the wireless network. You talked about getting to \$200 million mid-band POPs. What's the plan after that? What's the plan on getting to \$250 million and beyond? And maybe any update on putting 3.45 into use and how the Internet Air or fixed wireless product is going?

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

Simon, yes, as we said, we gave pretty clear guidance that we would be around the same levels as we were last year. In the first half of the year, we spent \$12.3 billion to \$12.4 billion. And by definition, that is -- we're more than halfway through a roughly \$24 billion spend. So that's -- the guidance hasn't changed. And importantly, as we think about how efficient our deployment of spectrum has been, that's been one of the things that when we came into the year, we understood that the spectrum that we had acquired was deploying and propagating much more efficiently. And that was in the estimates that we provided. And we're seeing that continue and our -- all of our plans for the year, whether it be the level of coverage or -- and the level of homes passed in fiber, all those remain on track. So we feel really good about the progress.

John T. Stankey AT&T Inc. - CEO, President & Director

On Internet Air, Simon, look, it's performing well. It's got, as you know, in our view, certain segments that are most attractive to that. I like the product of the business segment, and we're certainly having some success with that. It's going to be key for us in certain parts of our

consumer segment as we move through the next phase of our cost reduction efforts. It is a means for us to begin finding a good catch to shut down other infrastructure and still serve customers. So we will use it surgically and selectively that will help us both on the cost side as well as retaining valuable customers where we think we can have the right kind of network capacity that will support the product going forward.

We still have a little bit of scaling to do. I'm not quite satisfied with the self-install rates yet on, it depends. That's not problematic stuff, that's typical when we're kind of scaling the product and putting it out there in the first way, and we'll work through those things as we always do. So the foundation is there to use it the right way. I'm excited about having that tool. It's certainly going to help us in managing some of our installed base and in particular, help us kind of make the transition out of some of our legacy infrastructure that we'll need over time.

Simon William Flannery Morgan Stanley, Research Division - MD

Great. And any thoughts on 2024 in terms of POP coverage and overall CapEx levels?

John T. Stankey AT&T Inc. - CEO, President & Director

We'll give you guidance on '24 as we typically do later part of this year, and we'll detail all that out. But as you can see, from all the progress we've made and what's going on right now, we're really satisfied that we've got the right kind of machine to build the way we want to build and the network is performing in a great way and all of our indicators back from our customers, they're very satisfied with the level of experience they have. So everything, I think, feels pretty good about that right now.

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

Yes. Simon, just to be clear, I said it in my commentary. We are past peak investment as we exit this year. And we'll give our guidance at the same time frame we usually do. But clearly, we don't expect to be at the levels of capital you've seen us invest in '22 and '23.

Operator

Our next question will come from the line of Phil Cusick of JPMorgan.

Philip A. Cusick JPMorgan Chase & Co, Research Division - MD and Senior Analyst

First just a little more direct one of Simon's questions. Where are you on the deployment of 3 gigahertz spectrum for 5G across your cell sites? And then a bigger question. Can you talk about the 2Q seasonality in the fiber business? Is this more gross add or churn driven? And do you now expect positive seasonality in the third quarter?

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

Phil, through the end of the second quarter, we are at around \$175 million POPs covered well on track to deliver on the \$200 million we had guided to earlier in the year.

John T. Stankey AT&T Inc. - CEO, President & Director

Look, I don't think I'd characterize second quarter's seasonality per se. I think I've been pretty clear, Phil, on one, we had a significant account migration issue; two, both of our significant competitors rejiggered their offers in the market which drove some shift in share. And I expect we'll probably see more normalized things now. As you know, there's device introductions that occur in the latter part of the year that certainly drives the seasonality of the upgrade cycle. And typically in 3Q, there's always that question of exactly what month that happens in. Does it happen in the end of 3Q or does it get pushed into 4Q?

And we'll all probably find out about the same time on that as to what happens in this year's cycle. That sometimes can move some numbers in 3Q and 4Q, but those are usually directly tailorable to the offer that's in the market. And on a year-over-year basis that could impact things that there's a difference of what happens in '23 versus '24 as well as how different the devices are that are offered if that spikes a little bit of activity.

Philip A. Cusick JPMorgan Chase & Co, Research Division - MD and Senior Analyst

Sorry, John, I wasn't clear. I was asking about the fiber little bit softer in the second quarter?

John T. Stankey AT&T Inc. - CEO, President & Director

I'm sorry Phil.

Philip A. Cusick JPMorgan Chase & Co, Research Division - MD and Senior Analyst

Seasonally stronger.

John T. Stankey AT&T Inc. - CEO, President & Director

Yes. So yes, there is that seasonal movement in fiber and broadband and I apologize for misunderstanding your question. There's probably 2 things driving it. One is, you probably heard from others in the industry, there is less move activity going on in general. And that has had a degree of impact. There is the seasonal dynamic that occurs in some of the out for college and university work as well. I expect that things are probably going to continue to be a bit softer in the market because I don't expect that we're going to see housing movement necessarily recover.

I don't -- I think it's a artifact of mortgage rates and people's ability to make those discretionary moves. But look, I feel really comfortable about our ability to continue to add along the clip that we're adding right now because we're more dependent on share take than we are on mover activity. And that's a little bit different for us than maybe others in the market that don't necessarily have the share take opportunity that we have.

So I don't think you're going to see further slowing on what we've kind of witnessed in the second quarter. And I think you will see a little bit of a seasonality uptick that's going to come with what typically happens in third quarter, but it will be a bit muted because I expect that there's going to be a little bit less movement activity in the housing market.

Operator

Our next question will come from the line of Michael Rollins of Citi.

Michael Ian Rollins Citigroup Inc., Research Division - MD & U.S. Telecoms Analyst

Just curious if you can give us an update on your longer-term thoughts of where you want to see your fiber and broadband footprint relative to your historic ILEC footprint? And how you're thinking about the programs such as BEAD and ACP influencing those longer-term aspirations?

John T. Stankey AT&T Inc. - CEO, President & Director

Michael. So look, we've done an awful lot of work, and we have a pretty good line of sight. And I've used this characterization before, and I don't think it's a whole lot different. It will vary state by state, but there is an easy business case to be made on reinvestment in infrastructure around, call it, 2/3 of the footprint. And typically, when you get into outside plan investment, the way the cycle typically starts is a new technology comes out or a new architecture, you see the first 1/3 as being attractive, and that kind of starts the process. And as you get up the learning curve and technology scales and prices come down and the market matures, you end up getting to a point where the second 1/3 starts to look very attractive and you end up investing and going through.

And then it really depends market by market. Sometimes it's the final 1/3 that becomes the question around whether or not there is merit for investment. And sometimes, it's the final 20%, somewhere in that range. And I think that's effectively where we're going to be into your question, that's where the issue of subsidy will play out.

We've been pretty specific in our analysis of looking at, I'll call it, that final 1/3. I'm generalizing grossly. But I'll call it that final 1/3 of saying where is it that we think we would like to try to be really competitive and build that infrastructure out because it's strategically injects to position the other areas that we serve or we think the growth characteristics of that market will be good over time or we have a good existing base of customers or it's complementary to our wireless business, there's a lot of different parameters we look at, but we have a point of view on where we think we'd like to compete for that.

And we intend to go into the process and lean into that and try to compete. That doesn't mean we're going to win it. I expect there'll be others that look at some markets and there'll be places where we're interested and somebody else is interested. We try to be informed in

thinking about how other competitors might think about those markets given how they line up to their footprint and where they have business interest and hopefully, we'll be an informed bidder and we'll be successful, and we'll be able to put a compelling case moving forward.

I feel like we have a lot of tools at our disposal to be very competitive in the process. And I've talked about what those are. We have a lot that we can do in terms of our presence in communities. We've got great labor constructs. We've been working with our vendors on a lot of U.S. and American-based content in our infrastructure and equipment. We're putting out a fantastic technology that people view as being superior and better.

So I think we're going to be very competitive in the places we want to be competitive, but it remains to be seen how much of that we win. I would then go ahead and tell you, my expectation is this process is going to unfold in '24, awards probably are going to be -- not the types of things that you're going to see impact '24's business. We'll be in the regulatory process and bidding. I would expect when we start thinking about what we win and where we have success, you will see us incorporate those conclusions into our '25 and beyond kind of view of the business. And I'd like to give through a couple of the larger states to see how successful we are before I start to frame and characterize that for you moving forward. Is that healthy enough?

Michael Ian Rollins *Citigroup Inc., Research Division - MD & U.S. Telecoms Analyst*

Yes, that's very helpful. And just maybe one other sub-question that does fixed wireless play a different role than you previously described in your broadband aspirations?

John T. Stankey *AT&T Inc. - CEO, President & Director*

No. I mean, as I previously described it as -- and I gave a characterization earlier is that, look, there will be some parts of the United States that are best served by fixed wireless, at least I believe that they will be best served by fixed wireless. As I move around different states, I think there are some states who believe that's the case and there are some states that are looking at how do you get as many people on the Internet as quickly as possible at the highest economic return. And those states that have that point of view, I think, will probably support fixed wireless awards.

Now I will tell you, not all 50 states necessarily have that viewpoint. In some cases, I think there are policymakers in certain states who are maybe biased more terrestrial infrastructure. And I don't know how that plays out. My guess is they run out of money before they serve everybody based on the amount of money that's available in subsidy and what's out there, but time will tell whether they stick to their guns on that or maybe slightly revise their approach as they start to see bids coming in. But I do expect there'll be places where economically fixed wireless is the optimum solution to get good solid Internet out as quickly as possible that will sustain things for a period of time. And I expect there'll be parts of our footprint where it will be a very good catch product for us, where we don't maybe see either subsidy coming in or the business case to invest in fiber for those customers for the next couple of decades.

And then thirdly, as I've said before, there are segments in the business market today that have very different use characteristics than a consumer in household that tends to be pretty bandwidth-intensive, doing a lot of entertainment streaming, growing consumption at 30% and 40% a year, you don't see those kind of dynamics showing up in some of the small business and lower end of the midsize market and fixed wireless as a solution for those customers that can use that kind of service, especially when they need to marry it with mobile services to complement their business is a very attractive place for us to be thinking about using the product and the infrastructure, and I like the yields on that.

Operator

Our next question will come from the line of David Barden of Bank of America.

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

I guess it has to be me that's going to ask this question, John, and I'm sure you have a bunch of talking points in front of you. So the lead situation. So in the last 50 or 70 years, has there been a federal state or municipal organization that's ever flagged to this issue to AT&T that put it on the radar screen in a way that maybe we all should have known about?

And then second, has there ever been a material amount of claims that somehow people were harmed by the existence of this lead in your network? And then people are throwing numbers around. When you talk to the credit rating agencies, what do they think? How do you talk about this issue to them and what it means to your leverage situation? And then finally, how does this issue affect how you think about capital allocation of the dividend?

John T. Stankey AT&T Inc. - CEO, President & Director

So Dave, thanks for asking the question that I guess, needed to be asked. I'm limited in how much I can say. I'll try to be somewhat responsive to share. But if you are unsatisfied with a little bit of the background I give you, I apologize, but you also have to understand we're in a unique position that we do have actual litigation pending right now on some of this out in Lake Tahoe, and that maybe puts us in a little bit different place. So I need to be somewhat sensitive around that.

So let me start at the back end, and then I'll try to tick through. I don't think it changes my point of view of how I think about the dividend. I don't -- that hasn't come into characterization right now. When I go through your questions, we've had relationships with federal state regulators on all safety issues for a very long time. Lead being one of them, we work with our workplace regulators. We work with external environmental regulators. And as you know, we are a big company and we do an awful lot. We work with a variety of different substances and materials are regulated, and we have infrastructure inside of our business of health and safety organizations that do this stuff professionally, and it's been part of the DNA of our business.

We have those relationships, we communicate, we share data. I think as you know, we provide health plans to an awful lot of employees, and we pay attention to whether or not our employees are doing well on a variety of things, and we care about whether or not they're healthy or if we're spending money fixing things, why are things broken in people's health that's been a virtuous cycle or something that we spend a lot of time and energy on is just part of the DNA of our business.

And I think to answer your question, and those normal cycles and those interactions as anybody come in and said, hey, we've got issues around what you're doing with lead tables or you're not handling this correctly. The answer is, no. Have we -- as part of that rigorous enforcement that goes on, have we had circumstances where compliance with a particular thing maybe has popped up, and we've had to go in and demonstrate compliance or do things, of course.

That's what regulators do, and that's what workplace safety people do. And I think we're proud of our track record and what we've been able to do. And I think the constructive relationship that we have with our labor union around workplace safety and the fact that we're constructively working through this issue with them right now is indicative of something that's been in place and has just been kind of the DNA of what we do.

We haven't disclosed anything out publicly about claims because there hasn't been anything material to disclose is what I would tell you. And I don't know that I would go any further than that. And the way we're talking to credit agencies around this issue is exactly how we're talking to you about it. So I don't think there's anything we've shared with them in context that we haven't given to them, it's any different than what we shared with you right now.

Operator

Our next question will come from the line of Peter Supino of Wolfe Research.

Peter Lawler Supino Wolfe Research, LLC - MD & Senior Analyst

I wanted to ask about Consumer Wireline segment margins. Thinking about the longer run, could you just update us on the time line for legacy network shutdowns? And are there permanent differences between the long-term heading of your margins in that business and those of pure-play broadband businesses?

John T. Stankey AT&T Inc. - CEO, President & Director

Peter, we haven't given, what I will call, a characterization of the "shutdown" because I don't think you should necessarily think about this shutdown as like a date certain that arrives, that date will arrive. But we think about it as kind of a rolling process. We think about it as a geography by geography or ZIP code by ZIP code process. And when you think about how our cost structure is aligned to that business as

you begin to modernize infrastructure and ultimately not have to support products or services of infrastructure of older legacy generations, then costs start to fall away.

We've done an awful lot of work separating out the variable and fixed cost structure in the, what I will call, semi-fixed cost structure to know what we need to do as we roll through geographies to ultimately get at the layers of fixed, semi-fixed and variable. And so I don't think it's as important about saying what is the date that you're no longer offering the entire totality of products and services as much as what is the progress you're making in working through the areas where those products and services still exist.

And as you heard in my opening remarks, we now have catch products showing up in the market that allows us to begin accelerating that work. That work is part and parcel of some of the recommitment of \$2 billion over 3 years that we expect we're going to be able to take out. I do believe that as we simplify given how we allocate costs in the business and our reporting the company and we start to shutter some of that square mileage, yes, that's going to help contribute to accretion back into the margin structure of the going-forward broadband business in our consumer markets.

And I believe the day that we arrive at ultimately exercising all those costs from the business, what I know about how our fiber infrastructure is performing on a stand-alone basis right now, it's all goodness. In fact, this week, I was out with our network operations team, and it was just such an uplifting day for somebody who's worked in the company as long as I have, to see the cost structure that's been put in place, the customer satisfaction that's occurring, the efficiency of the technician ranks, the durability of what's going into service. I mean it's all good and as a result of that, when you step back and say, should we be able to operate this business once we ultimately move our way out of some of the embedded cost structure in a perfectly competitive characterization of the rest of the industry? The answer is, yes, I have confidence we can get to that.

Amir Rozwadowski AT&T Inc. - Senior VP of Finance & IR

Operator, we have time for one last question.

Operator

Our last question will come from the line of Frank Louthan of Raymond James.

Frank Garrett Louthan Raymond James & Associates, Inc., Research Division - MD of Equity Research

Great. The fiber ARPU is up pretty nicely year-over-year. Still a little bit below market. Can you give us an idea of why that is just a higher number of customers on newer on promos? And where do you think that can go in the next 12 months? And of the 25 million locations you have passed with fiber, how many of those are included in this latest 15 million homes that you have passed? And where will that total be when that project is completed?

John T. Stankey AT&T Inc. - CEO, President & Director

I'm sorry, Frank, could you rephrase the second part of that question again so I just kind of -- you clipped a bit.

Frank Garrett Louthan Raymond James & Associates, Inc., Research Division - MD of Equity Research

Sorry, you disclosed -- I think you had 25 million locations passed with fiber. I assume some of that is the latest 15 million home push that you have. Can you give us an idea of where you are in building out to those 15 million locations? And what will that total number be when that final project is finished?

John T. Stankey AT&T Inc. - CEO, President & Director

Yes. So we haven't changed any of our guidance, Frank, on 30 million locations passed by 25 million. And I may be not understanding the subtlety of your question. I think we just told you we passed in the remarks, 20 million locations. So we're -- am I missing what you're asking there?

Frank Garrett Louthan Raymond James & Associates, Inc., Research Division - MD of Equity Research

Well, I'm just trying to figure out the 15 million homes that you've passed that last project, where are you today on that project? How many more do you have left in that 15 million of build?

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

Frank, I'm not sure what you're referring to when you say the 15 million. Just to be clear, right now, between business and consumer we are passing around 24 million homes and the vast majority of that obviously being consumers. And as John alluded to, our plans haven't changed. We feel really good about the pace at which we're building. And when we build, we feel really good about the take rates that we're seeing. So all in all, these things are pursuing according to our plan.

John T. Stankey AT&T Inc. - CEO, President & Director

On the ARPU side, Frank, we've historically been a bit under the industry. Part of it is the maturity of our base of customers. We have, what I would call, tenure-wise a little bit less established base than maybe the incumbent players. And so if you're a customer for a longer period of time and you move up a continuum, that obviously helps your ARPU.

But some of it is deliberate. We're, I think, priced in the market in a way, as you are probably aware, we're trying to do everyday simple pricing where we don't use promotions, and we tend to get a little bit more at the front end as a result of that and maybe a little bit less at the back end on the average side and the fact that when you're penetrating having a competitive price point is, I think, helpful in getting that faster penetration at the front end quicker, which is a driver of return in the overall investment.

And then finally, we're doing a lot of work where we're trying consolidated products and services and doubling up households on both wireless and fixed broadband and those are really attractive households to get. They're really attractive customers to get. And I think when we have a good high-quality product, we don't have to discount a lot, but we want an offer between both the wireless and the broadband product to make sure we're at a price point that we think holds that household. And that strategy has been working. And I think it plays into some of our pricing strategy as a result of that.

But you're really highlighting a point that is why we have so much confidence in this business. We continue to have an umbrella to work under and that's a good thing, and it allows us to make sure we can continue to grow ARPUs and grow with those customers. And as I said earlier, when you run a subscription business, you cherish those things and you use them very carefully, and we'll continue to use it very carefully as we move forward.

Amir Rozwadowski AT&T Inc. - Senior VP of Finance & IR

Thanks very much, Frank. Operator, that's all the time we have for questions.

Operator

And ladies and gentlemen, we'd like to thank you for your participation today in today's teleconference call. We'd like to thank you for using our service and have a wonderful day. You may now disconnect.

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