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EDITED TRANSCRIPT

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PRESENTATION

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

Well, good afternoon, and for those of you online, welcome back to Citi's 2023 Communication, Media and Entertainment Conference. For those of you I haven't met, I'm Mike Rollins, I cover communication services and infrastructure at Citi. Before we get started, I'd like to mention that we do have disclosures available at the registration desk, as well as on the Citi Velocity page from which you're streaming the audio. We'll also work to incorporate your questions during today's discussion. If you're here with us live, we'll have a microphone and try to get to some questions at the end of our time. And if you're streaming this connection, there should be a question box on the page and you could type questions into that. We're also continuing our tradition of live survey questions. And so for those of you in our audience, you've got the QR codes out here and on the tables. And for those online, the live survey will pop up on your screen and we look forward to getting your responses. With all those details now out of the way, I'd like to welcome Pascal Desroches, Senior Executive Vice President and Chief Financial Officer of AT&T, Pascal, thank you so much for being here today.

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

Mike, thank you for having me, and happy new year, everybody.

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

And yes, a happy new year. And I think you might also have something that you wanted to share with our audience.

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

Yes. Legal would not let me speak without reminding everybody of the safe harbor rules. Some of the statements that I will make are forward-looking and subject to risks and uncertainties. Refer to our website for more information.

QUESTIONS AND ANSWERS

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

Well, great. Well, it's been a busy few years for AT&T. And as we start this new year, maybe you could share with us how you're looking at the strategic and operating priorities for AT&T? And if there's any notable changes from what the focus was last year at this time.

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

Sure thing. I mean, if -- as you said, it's been a busy couple of years since John Stankey took over as CEO. During that time, I would characterize our strategy has been fairly consistent. We're focused on growing customers, making sure we're doing so in an effective and efficient way. And being very rigorous with our capital allocation approach. And the changes that you will see going forward are really more around the first part of John's tenure was focused on, let's get the asset portfolio, right? Let's focus the company on wireless and fiber, that's going to be the future of AT&T. And let's strengthen the balance sheet, delever and get ourselves to a point where we can continue to invest in our businesses because we think the secular dynamics around wireless and fiber are very strong. So I would say as you go into 2023, I would expect us to continue to invest to generate customer growth in a very disciplined way. You should expect us to continue to drive improvements in our operating leverage through disciplined cost management and continue to delever our balance sheet using all free cash flows after dividends to pay down debt. That -- so the playbook is, in the way is, they're very boring, but it's very important. Let's continue to drive earnings growth, pay an attractive dividend and strengthen our balance sheet.

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

Well, (inaudible) want to dig into all of that. Before we do, I'm going to queue up our first live survey question. And so we're going to ask our audience what do you expect for wireless industry postpaid phone net adds for 2023? And the choices are over 2 million to 4 million, 4 million to 6 million, 6 million to 8 million, 8 million to 10 million and over 10 million. And we'll let this brew for a few minutes. And maybe we'll just start talking about the postpaid market. So in 3Q, if I recall correctly, industry phone net adds showed some decline on a year-over-year basis. At an industry level, did you continue to see that in 4Q? And can you talk about the promotional environment and how you would describe AT&T's level of aggressiveness.

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

Sure thing. Maybe let's just start. I think for the last, call it, 2.5 years, the industry has been growing at a rate that we -- that caught everyone by surprise. It was growing much faster as we got into the second half of 2022. I would say we've seen more of a normalization of growth. And I would say that environment remains. It's very healthy. I would expect the industry to continue to grow net adds but probably at a more modest pace than what you've seen over the last 2 years, but that's no surprise. And I think what you should look for is an environment where there is competition, but it's going to be done so in a very disciplined way. And you should expect us to grow service revenues as we updated our guidance last quarter, you should expect us to grow ARPU. And really, it's a healthy business. Yes, there was -- there were the normal Black Friday promotions, but I'd say if you look at our actions relative to that of our peers, we were much less promotional around Black Friday than some of our peers. And that's the way we want to run this company as we move forward. We're going to -- it's going to be important for us to grow, but we're going to do so in a disciplined way.

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

And within that growth, do you still expect to drive significant postpaid phone volumes as part of that, too? You mentioned the ARPU earlier, but should investors continue to expect the volume growth as well?

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

Here's the way I'd characterize it. AT&T will no longer be the share donor in the industry. We're going to grow, commensurate with industry growth or better. I mean it's -- we feel really good about our ability to compete, and we have -- we provide great products and services, and we feel really good about it.

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

And you mentioned you were being less promotional. So what's changed for AT&T that's improved the effectiveness of your go-to-market?

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

I -- here's the thing, I think, that often gets lost is AT&T has a massive distribution footprint, whether you think about our enterprise relationships. That's a big source of our wireless net adds. FirstNet we've generated over the last several years, 4 million or so FirstNet subscribers. All subscribers that are not dependent upon the day-to-day promotions. These are relationships that we have. These are distribution channels that are very effective for us. And it's that coupled with -- I've mentioned this previously, we've -- go back 2 years ago, there was a management change that was done at the wireless business where we -- the new management team came in and provided a lot more decentralization of the sales team going to relying much more on the VPGMs in each of the regions to drive more accountability cross the country to generate new subscribers. So all those things, coupled with our distribution channels, have all helped really get us to the point where we are.

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

One other question that we've been getting over the last month, if there was some inventory constraints on high-end smartphones or any smartphones in the fourth quarter? And is that creating any spillover effect for AT&T from the fourth quarter into the first quarter?

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

Here's where I would characterize. There was clearly some dislocation. And yes, that probably did impact some volumes. But I would say, over the course of the quarter, things -- the inventories got -- situation got better. But there was clearly points in the quarter where there was some dislocation and the supply was constrained on some of our -- of the higher-end devices.

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

And just to close this off on just the environment on wireless postpaid, did you see any impact from DISH or incremental competition from cable?

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

The environment has been and remains competitive, but I would say it's really -- any changes really are a reflection of the fact that the market may not be as hot as it was in the latter part of '21 and early 2022. But it's still very healthy, and demand remains solid.

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

Are you ready for our first survey results?

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

Okay. Let's hear it.

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

All right. So the survey. So 33% expects industry growth postpaid phones for 2023 to be over 2 million to 4 million, 27% 4 million to 6 million, 30% 6 million to 8 million, 3% 8 million to 10 million, 7% over 10 million. So a distribution. I think going back, there were some management comments from AT&T about base case annual industry growth of 6 million phone net adds a year. Any thoughts on what investors should expect? Is that the expectation for '23 should be 6 million? Is that your expectation? Or how should investors think about that?

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

I think we've been pretty public about the fact that we would expect at some point to normalize that the phone net adds would normalize to overall population growth. And we've been expecting that. And we've been pleasantly surprised, it hasn't been. I'm not in the business of forecasting exactly where it's going to land. But look, so far, based on everything we've seen, the market remains healthy.

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

And in terms of ARPU opportunities, can you frame where AT&T is in terms of the penetration of higher-value plans? And how the mix of sales may inform where that can go over time?

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

Here I want to be careful not to share anything that we haven't disclosed publicly. Here's what I would say. One, our fastest-growing plans are our higher-tier plans. I think consumers are finding more value. And we remain really pleased with it to -- so last year, we put in pricing actions to try to move customers to our higher tier plan. And in fact, the uptake to the higher-tier plans was a little bit better than we anticipated. So clearly, subscribers are finding more value. Overall, we guided that we were going to start to see a stabilization of ARPU in the second half, and we saw ARPU actually grow, and we would expect that to continue. So all the things that you would expect for a healthy business, we're seeing that.

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

AT&T touches so many parts of the economy, the consumer businesses you have, the business segments. Are you seeing any change in behavior from your customers in terms of demands, payment behavior, the types of plans and consumption that they're subscribing to?

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

Here is the way I would characterize it, Mike. You go back to late 2020, 2021, we were in an unusual period where savings rates were really high, and customers were paying faster than they've ever had, delinquencies were really low. During 2022, we've gradually seen a normalization of that behavior back to pre-pandemic norms. And I've said publicly that our levels of bad debt are probably slightly worse than they were pre-pandemic. But nothing that I would say that is alarming. It is really more of a normalization of what had been an unusually buoyant economic environment. And obviously, with rising interest rates and the Fed's Hawkish posture, we're being very attentive to see whether we see any size. But so far, other than the normalization that I previously commented on, so far so good.

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

And just one quick follow-up on this. You mentioned it was a little worse than pre-pandemic levels. When things were starting to revert back to pre-pandemic levels back in the summer, the extension of the DSOs contributed to the reduction in free cash flow in 2022, at least for the guidance for 2022. Should investors consider that things getting maybe a little worse than pre-pandemic levels. Is that a risk to AT&T's free cash flow or a headwind that people should be mindful of?

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

We -- this is -- we saw 1.5 days extension of collection cycles. That has not gotten -- that has not gotten worse at all. It's remained the same. So really, there's nothing different from what I had characterized at the -- in our Q2 earnings forecast -- in our Q2 earnings conference call.

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

So I'm going to throw out the second survey question, and then we'll talk about a couple of other topics before we get to it. This is a little bit more of a complicated question, but I think it's a it's going to be a helpful question, which is, how should AT&T prioritize fiber investments in the future beyond what's been currently announced? So accelerate investment in the heritage footprint to get to more locations more quickly, divest local operations in markets where fiber deployments are just not prioritized. Employ outside capital to accelerate fiber deployments within its current footprint or expand the use of outside capital for out of reach in deployments, including for the BEAD program. And we'll come back to this, and I realize there was some announcements late December, so we'll get into that in a moment. But before we do, just wanted to stay on the macro for one more moment. What are you seeing from inflation? And how that could impact 2023 performance?

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

Look, clearly, inflation has been a headwind not only for us but for other companies, that's why we would took the pricing actions that we did. We've been on a transformation journey for several years and that has also helped between the pricing actions and the transformation, we are seeing we were able to offset the over $1 billion of inflation headwinds that we faced. And those were incremental to already pretty conservative inflation assumptions we had built into our forecast. So inflation did definitely impact us, but it's all been factored into the guidance we've previously given. And I feel really good about how the business is performing despite significant headwinds from inflation.

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

And in terms of just responses to inflation to the current cost structure, can you just give us an update on whether there's incremental opportunities to cut cost beyond the $6 billion program that you're on the journey of and maybe how that program is evolving in terms of the conversion of cost cuts to the actual EBITDA and free cash flow of the company.

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

Sure thing. We had said since late 2020 on that we were going to be -- we were reinvesting much of our transformation savings back into the business. And that we would begin to drop more and more of the savings to the bottom line beginning in the second half of 2022. You saw that in Q3, and I would expect that to continue for the balance of '22. And we're going to give guidance next year. But look, we have to make sure AT&T has a competitive cost structure. And in my mind, that is a journey, not a destination. We're not going to stop at $6 billion. There are plenty of opportunities, especially we have an enormous legacy footprint that is declining. As that declines, there is lots of infrastructure and costs that are related to it that have to come out of the company, and that is going to be part of the continued journey from [Keeronin]. Also, we're going to continue to use AI, machine learning, digital self-service to help improve customer service to drive efficiencies in customer service and field tech deployment, I would expect us to continue to look at our retail footprint. Are we at the optimal mix of authorized retailers versus self-owned stores, there are opportunities to generate efficiencies through third-party distributors in both our enterprise and our fiber business. So all things that we can do better, and I view those as opportunities that we're going to harvest over the next several years.

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

And maybe you talked about the legacy footprint, moving over to the fiber builds. Can you share where you ended up on locations passed for 2022? And how you're thinking about the opportunities to keep the program going forward and building more locations?

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

Here's -- through the end of Q3, we were at 18.5 million consumer locations pass and about 3.5 million or so of business locations passed. And we would expect that to grow each and every quarter. We're not providing quarterly or even annual guidance. What we have said and we remain steadfast on is that we expect to get to 30 million locations plus by 2025. And importantly, with the JV we announced just before Christmas, we expect that number to be incremental to that 30 million plus locations passed. So all in all, we feel really good about the pace of our build.

Our ability to build out we're doing it at rates that no one has ever done in the industry, and we're able to do it in a cost-efficient way because of our scale. And I feel really good about where we are. And through the JV. We have a unique opportunity in a capital-light way to experiment outside of our traditional footprint to see if there are opportunities between the scale that we bring, levered capital and bringing our wireless bundling relationships to bear whether the economics could make sense and whether we can potentially expand outside of our footprint. And we're really excited by the opportunity and the partnership with BlackRock. And look, I think this is an exciting time for the industry. And at a time where timing is of the essence, I think this is a great way to help us accelerate some of our plans.

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

It's a good segue into the survey results. So I realize this is a little bit of a complicated question on how AT&T should prioritize its fiber investments. Interesting results. So 22% want you to accelerate investment inside the Heritage footprint. Another 22% would like you to divest the local operations in markets that you're not investing or prioritizing for fiber. Another 22% wants you to deploy the outside capital to help the current footprint. And 1/3 of our audience wants to use outside capital for out-of-region deployments, including the BEAD program. And so maybe the first question from this is, given AT&T's balance sheet position, and financials, why use outside capital to fund fiber?

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

Clearly, we're not only using outside capital. We are deploying a lot of our own capital. But at the same time, we have a major wireless network. We need to make sure we are continuing to invest as the volume and capacity of that grows. And we've said this, we want to make sure that we're continuing to delever our balance sheet. I think we were really constrained as a result of the various acquisitions that we did. We've taken giant steps forward in delevering, and that has to continue, that it remains a priority and is one that we are committed to. So when timings of the essence, and you also want to make sure you're delevering, the outside use of capital or manage was a great way to start to experiment to see how can you garner additional returns by partnering with somebody. And -- so we're going to continue to prioritize delevering in addition to investments in our footprint. And the guidance we've given you is through 2025, it doesn't mean we're going to stop in 2025.

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

And when you think about investing inside your footprint and then the incremental opportunities for things like convergence that you can get with the wireless business? How do you think about the returns of going faster inside your footprint where you have some plan already relative to going outside the footprint into Wireline markets that you haven't traditionally been in? How do the returns look between those 2? And is -- you mentioned you're going really fast right now in the build. Is there an opportunity to take the inside faster, further than the current plans?

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

It's important that we go quickly, but it can't be at the expense of continuing to delever. And that's really from where John and I sit, it's really important how we do both we don't want to get the balance sheet to a point where it's back where it was months ago. And importantly, with the benefit of hindsight and the higher interest rate environment, we are really fortunate we've gotten to this point in the journey. And right now, with of our debt fixed. We are -- we have a clear path to continue to delever, build fiber faster than anyone else is doing it. And I think it's important that we do both, but we will look for opportunities, whether it be through the government stimulus money, whether it's through partnerships to see if we can go faster, but it cannot be and it will not be at the expense of strengthening the balance sheet.

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

And how do the returns compare inside the footprint versus the outside? Is inside the footprint just naturally a better return given you're already there?

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

I think we will share that information with you over time. Look, it is -- clearly, there are things that are in footprint that are very attractive returns we have kept for ourselves. That's a no-brainer. But this is an opportunity to potentially expand our bets, use both third-party equity and debt to create an attractive return for us, well in excess of our cost of capital. So...

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

And how are subscribers pacing in terms of the penetration goals that you're aspiring to hit for these fiber builds?

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

Relative to prior builds, the build over the last couple of years is penetrating at 2x the level of historical build in the first year. So it's really -- we have been surprised just how favorably fiber has been received. The long pole tent is getting fiber to the home. Once it's there, it's a product that sells itself. And I think back, I think, forward 5 years, what do you think consumers are going to demand. Fiber is going to be the only solution that is acceptable to consumers. So given the long lead time, the government stimulus money that's hitting the market, the infrastructure money market. Our actions here, if you -- I believe will be -- will prove to be very timely and produce meaningful returns for our shareholders.

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

What are you seeing in the business segment right now? And you've been trying to turn performance there. How is that progressing?

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

Business segment is one where it's a work in process. is the way I would characterize it. You are in the midst of a secular downturn for many of the historical Legacy communication products. That decline continues. This year, we were hit more significantly than we expected by higher access costs where we are using third-party carriers for some of our enterprise traffic and also some of the public sector business that we have done historically because of the timing of the budget cycle didn't come through in the timing we expected. So those 2 things caused an acceleration on top of what has been a secular declining business. Fast forward, I would expect this business -- the growth factor to be fiber deployment in small, medium-sized businesses. And over time, I think 3 years or so, you should see more and more advanced services coming out of 5G capabilities, whether it is through the relationships we have with connected cars. We have more connected cars than any other provider in the country. We have over 100 million IoT relationships. Over time, I would expect as new services are on lease those relationships will prove vital in driving incremental sources of growth. So growth factors, advanced services and fiber in small and medium-sized businesses. Also continued aggressive cost management in the portfolio.

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

I'm going to tease out our next survey question. And while we do that, if you're interested in the microphone to ask a question here in the audience, just raise your hand and we'll get 1 over to you. So the third and final survey question that we're going to ask is -- and we'll come back to this in a few minutes, how much free cash flow will AT&T generate in 2023? Less than or equal to $13 billion, $13 billion to $15 billion $15 billion to $17 billion, $17 billion and $19 billion or over $19 billion. So we're going to come back to this in a moment. While these results kind of come in, how is

AT&T viewing the opportunities to market converged home and mobile broadband bundles. And do you see these bundles creating more lifetime value than what you've traditionally used the family plans and home broadband and video packages.

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

Look, it's an opportunity we think is extraordinary. When we have fiber the customer is really, really pleased with the product. And if you're able to bundle wireless with it at an attractive economic terms. The churn profile is really attractive of that customer. The lifetime values are really attractive. And we've seen a meaningful uptick in wireless penetration, where you have fiber. So really, it goes back to what I said earlier, the long pole in the tent is getting fiber out since many locations as possible.

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

And -- as you've been deploying mid-band spectrum, any different feelings on the opportunity to market fixed wireless as part of a converged solution.

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

I feel like a little bit of a broken record. And we've been on record from the get-go that fixed wireless is not going to be a priority of ours. We're going to prioritize our investments in fiber, our investments in wireless, but we're not going to prioritize fixed wireless where it could make sense for us areas like some of the rural areas where we don't expect fiber to ever be deployed, and we don't believe it would interfere with our wireless services could make sense as a catch product in an area where we're trying to get fiber to. But outside of those 2 circumstances don't really think it's going to be a priority for us because once you start to factor in the tax on your network along with the customer acquisition cost, and the price point at which the product is being offered, you look up and you probably -- the returns on that product are just not that attractive.

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

And as part of the expanding fiber footprint you have the JV that we talked briefly about. Is there anything else about the joint venture that investors should be thinking about for AT&T as well as how the infrastructure money and BEAD program plays into expanding the fiber footprint.

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

I think it goes back to what we said. We really, really like fiber. We think when you look at the landscape and the consumption trends in the U.S., fiber is going to be the only technology that is acceptable. And given the amount of investment dollars going after it, our goal was let's see if there are ways we can go faster without sacrificing our deleveraging goals. And that's really what this is an attempt to look at is to prove that, hey, we can do this and with our wireless product with the scale contracts we bring to market, we're going to be able to do this even outside of our traditional footprint in a way that delivers attractive returns. And when we prove it, look, there's no reason why we should stop at 1.5 million.

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

So we'll get to the free cash flow survey. By the way, do you want to respond to it?

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

Yes, 2 weeks from now.

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

So ahead of that, let me share these results, and we'll talk a little bit about free cash flow. So 17% less than or equal to $13 billion, 30%, $13 billion to $15 billion, 30% $15 billion to $17 billion, 7% $17 billion and $19 billion and 17% was over $19 billion. Now the guidance for 2022 is $14 billion. So can you help investors think about some of the pluses and minuses as they try to work through what the free cash flow level is going to be in 2023?

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

First and foremost, we're going to grow earnings. We're going to grow earnings as a result of a bigger and more profitable wireless business. continued growth in our Consumer Wireline business based on the continued really strong fiber growth. You should expect us to continue to take out a meaningful amount of costs, including overall lower headcount across the company. And all those things coupled with lower interest should result in growth in earnings and free cash flow.

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

In 2023.

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

In 2023.

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

And are there any unusual taxes? I know you're deleveraging, but is there anything that people should be mindful of that are just sort of don't forget this element, whether it's a headwind or tailwind to free cash flow?

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

A couple of things that I probably didn't mention, but I have in the past one. Taxes, we would expect -- taxes to be up year-over-year. So that's a headwind. And we would expect less -- slightly less distributions from DTV than we are getting this year.

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

You mentioned the...

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

The other factor is we had pretty meaningful 3T and FirstNet cost this year that won't be aggressive next year. So that's also -- that's another tailwind. So those are the main factors that you should think about as you think about 2023.

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

And you mentioned a few times the focus on deleveraging the balance sheet. Can you remind us what the net debt leverage target is that AT&T wants to achieve and when you expect to arrive at that target?

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

Our goal is 2.5x net debt to EBITDA, we will use all free cash flows after dividend to reach that goal between now and the next -- and when we provide the updated guidance in terms of when we think we will get there. we haven't provided updated guidance on that. So stay tuned. You should expect that from us in a couple of weeks.

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

And in terms of free cash flow, can you remind us where you are in the capital cycle for the mid-band investments? And what the opportunity is to bring down CapEx over the next few years?

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

Here's the way I would characterize it. One, we came into this year, we expected to be -- to have 70 million's POPs covered by the end of 2022 and around 200 million by the end of 2023. We are well ahead of that -- the pace. And the last guidance we gave is we expected to end at almost twice the initial guidance of 70 million homes. 2022 and 2023 are peak investment cycles for us because of C-band deployment as well as investments in transformation. Those should begin to moderate as we get to 2024 and beyond. And importantly, we plan those peak investment cycles at a time where we knew we would have meaningful distributions from DIRECTV to help subsidize those. So it's 22 and '23 peak investment cycles that should moderate over time to the more normalized around $20 billion of capital spend.

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

And we have a question from our audience. The joint venture that you announced during the holidays, will that focus on just builds or could that also include acquisitions of fiber in the future?

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

And obviously, as a policy, we never comment on acquisitions. It is a vehicle whose priority right now is to build out in regions that we think are economically really attractive that we may have potentially be underpenetrated in wireless. And could it provide us with an uplift in wireless, also provide us with attractive returns and to reach a group of customers that we otherwise may not have reached and generate meaningful returns. So it's -- that's all I will say about the JV.

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

And just lastly, as you think about the addressable market for revenue across the products that you offer, how are you thinking about the expansion of that opportunity over time? Do you expect B2B IoT 5G applications to contribute substantially? Are there other areas that investors should be thinking about in terms of just growth prospects for the addressable market that may be underappreciated.

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

Here's the way I think about it. I think we are a company that is great at providing -- at building connectivity networks. And there are a whole class of connectivity services that I think we can unleash through the power of 5G and through the continued evolution of fiber. I wouldn't expect us to run far afield of that. But there is within that, if you think about the number of scale players that have the ability that have owners' economics that could deliver those services, there aren't that many of them. So I think if you look at it in that context, there's plenty of opportunity when you look at the consumption trends, you look at who can provide those services. there is plenty of opportunity in the road ahead without running far field of our core capabilities.

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

Pascal, thank you so much for joining us today.

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

Thank you, Mike. And again, Happy New Year to all. All the best of 2023.

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

Thank you.