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EDITED TRANSCRIPT

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PRESENTATION

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

All right. Thanks for joining us. Welcome to the 51st Annual JPMorgan TMC Conference. I'm Phil Cusick. I follow the communications and media space here at JPMorgan. I want to welcome John Stankey, Chairman and CEO of AT&T.

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

It's good to be here.

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

John, you finished selling assets about a year ago...

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

Before you get in, can everybody get their drink order in for the cocktail hour?

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

Yes, the cart is going to come around.

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

I probably ought to do the safe harbor statement, too. As you know, we have a website that you can go to look at all of our Investor Relations material. And some of the things I say today are forward-looking in nature and may not ultimately be the reality that sets in, so please understand that as you move forward here today. Thank you.

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

There you go. Did you hear I had to read that for [Disney]...

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

Did you?

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

Yes, 90 seconds of it. I did it in my best Mickey voice.

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

That's what I've got the legal department down to. We're changing a lot at AT&T.

QUESTIONS AND ANSWERS

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

Yes. All right, good. So a year ago, changing a lot. You spun off WarnerMedia. And talk about what's happened in the business in the last year in terms of efficiency and a more sort of streamlined organization.

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

So it is -- it's actually a year, I guess, last month so it's not been that long. But I'd say what's happened at the macro level is the business is a more focused business. One of the ways I described it, the people ask me is I think there's more days where we come into work and we're calling the plays rather than the plays being called for us, which is a good thing.

We have -- when you think about all the things we set out to do, which is start the process of delevering, we made good progress on that last year, have more work to do as we drive to 2.5x in 2025 and still committed that our excess cash moves toward that. Our market momentum, both in the consumer fixed space and in wireless, has been strong. We've been much more efficient in how we've attacked the market. You've seen our margin expansion occur in both those spaces as we've gotten more efficient.

Our customer service levels have been improving across the board, which has helped us achieve best-in-class churn in both our postpaid wireless space and our consumer broadband space. For the first time in our history, we surpassed both T-Mobile and Verizon in ACSI customer satisfaction scores. Our own polling that we do and research shows that we're making progress in a lot of key areas of how customers view the business. Very, very strong progress in the reliability of our broadband product and the consistency of use on the wireless network, not maybe the fastest but the consistency of use scores, which we know is one of the major determiners of customer's choice on wireless networks has improved dramatically. So that's helped.

And frankly, when you start to look at what we've been doing on the cost side, some of the basic blocking and tackling where we started to close some of the gaps between ourselves and other industry players, but also we've done a lot of work around how we start to migrate out of our embedded legacy infrastructure in the business and put a lot of plans in place. We've built some specialized products and enabled that to happen. We've been aggressively working the regulatory stance on those things.

And we are now poised and in a position where we can start working through that and executing that. And that will be kind of the next chapter in our ultimate cost takeout in this business. So I would say, by and large, over the course of the year, we kind of set out what we intended to do, which is be a great communications company, take the asset base, get better returns off of it and start maturing our operations and our expertise on it. And we're not done with that journey, but we're in a far better place.

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

You started with cost cutting, and I want to go back to that because you're in the middle of a pretty substantial cost-cutting program. Where are you in that? And where are you in terms of starting -- that starting to come through in margins rather than being reinvested?

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

Well, it's -- I think you're actually starting to see it come through in margins. You've been seeing some margin accretion work into parts of the business right now. And I would tell you, when you look at kind of where we are, we set out an initial target of $6 billion. We just passed the $5 billion of the $6 billion. We'll finish the balance of that over the course of this year. I don't expect we're stopping, to my point. I think our next chapter is to move into some of the legacy infrastructure on the copper base and what we're going to do to start sunsetting and retiring a lot of those legacy products and services that we have. I fully expect that, that's going to be something that will be a multiyear effort.

When I look at kind of where we are relative to our gaps against some of our most storied competitors, we're probably about halfway in the journey of getting to parity of what we expect. So we've got about another half to go, that when I look at the initiatives we have on the plate and the things that we're doing, feel comfortable that we can get that done. And look, I think you're going to start seeing that accretion come in the form of improved cash flows, as we said, $16 billion this year. Some of that is coming on the backs of our improved cost management. And as we move into the subsequent years, we're going to be doing the same thing.

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

Okay. There was some very precise net add numbers thrown around in the industry recently that I don't know how anybody can be that precise on where we're headed. But as you look at the industry and the customers that you can go after in the last year, has that customer base slowed in terms of growth? And what do you think is driving that?

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

Yes. I think I'm probably sinking with you on what some comments were maybe a week or 2 ago by some in the industry. And I think the characterization of the industry, I would generally agree with. I don't know that I agree with each of the precise allocations of the buckets within it. I would say in aggregate, the industry slowed a bit. And I think we've been saying since last year that it was going to slow a bit. And I expect that, that was kind of the foundation on which we built our plan on.

Everybody kind of looks at it a little bit differently. We don't count prepaid to postpaid conversions as a gross add in the industry. Others do. There are free line giveaways, which get counted as net adds. But if they're not accreting into revenue, is that the same as one that's a new customer that's paying full tilt for a monthly service fee? So there's a little bit of de-rating that goes on. I think the point is that we're going to see an industry that no matter how you count it is suppressed probably in every category from last year a bit.

And I think that's just an artifact in the post-COVID environment of, in some cases, businesses rationalizing the infrastructure they need to support their business as they moved out of COVID. Sometimes, there were multiple devices. Sometimes, there were data pucks. Sometimes there was backup systems for temporary offices being put in place. Some of that's being worked out. And as a result of that, you see a little bit of thinning. I think you had, as you would normally in the early parts of the new entrant coming in, cable can look at the credit profile of certain customers differently than the embedded wireless players can look at them.

They have a relationship. They sell broadband to a customer, somebody that we may have viewed -- looked at as being credit-unworthy, they may have a relationship with and say they are worthy because we have -- we know what they do, and we can treat them to a different type of product or service. You work through kind of the front end on those things. The easy stuff comes on and then it suppresses a bit. And I think we're going to see that as we move through the balance of this year, probably also gated by a little bit of a more tepid economic environment is my guess.

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

I was surprised that one of your peers sat right here a couple of hours ago and told us that his net adds would be better year-over-year in the second quarter. A pleasant surprise. Do you want to give us where you're coming in?

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

Who was here earlier?

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

Mike Sievert.

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

Okay. I could have guessed.

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

I wasn't going to say it.

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

Yes, just checking, I want to make sure. Probably doesn't surprise me. I would think a couple of things. One is they just did a major price increase and rejiggered their plans and threw a bunch of promotional constructs and try to trigger some of that. I think you've also seen, at least I've seen, some stuff floating around the industry of internal documents that they're also targeting that with maybe some additional free lines on certain accounts to incent some movement on that. And so with that, I would expect that there's probably a little bit of pent-up demand in the front end of that new construct that you're going to see some customers move in.

And then it will, as it typically does, if it doesn't gain traction and the data that I've seen, at least in porting ratios and what we see in the market suggests there was a bit of a spike in the first couple of weeks, and we're now kind of moving back to stasis and normalization. So I think that will probably contribute a bit. Secondly, I know, and it's been in the public domain, there was a large government account that changed hands, it left AT&T and it went to a particular company. It's probably 75,000-ish postpaid subscribers that are part of that government account. It was business that was a breakeven business for us.

I [whacked] it because I didn't want it at the prices that were required to take it. And I felt like kind of preserving profitability was an appropriate thing. I'm sure that's going to move through the numbers in the second quarter. That will help, and that's a big chunk. And sometimes you see those lumpy dynamics roll through. So it didn't surprise me that maybe they have a more flattish quarter to last year. But I think, overall, I still stand by my notion that I think the industry, in general, is going to be down. And I think we are seeing numbers that are very similar to what I saw in the first quarter. We're ratably -- we're generally holding our share, notwithstanding a couple of those comments I just made that I think are probably going to be one-off dynamics.

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

How do you think about tuning the business? That's very helpful. Tuning the business in a slower environment. You let that one go, maybe you fight for this one. Sort of judging that, you want to grow, you want to maintain your share but also very sort of rationally.

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

I wouldn't -- the context of your question, I wouldn't have made a different decision on that a year ago or 2 years ago. It would have been the same decision whether the environment was fast growth or slow growth. We do business that is accretive to the company, and that's kind of how we're tuned all the time. Now I can't tell you that we're perfect in a large business and somehow somewhere or somebody doesn't get something through that didn't have the right eyes on it. And maybe if John Stankey had looked at it, he might have said no and somebody else said yes.

But by and large, the constructs that we try to run the business by and what we do is to ensure that we're bringing in business that's accretive. And because of the breadth of our relationships, for example, with many large business accounts that we have, we have to look at that broadly. And sometimes in a particular contract change or a particular construct that we're selling, we may be balancing that out against the entire book of business with the account and thinking about what holds and what allows us to stay in a prime position. But those kind of decisions have always been the way that we've looked at things and made sure that, in aggregate, we're delivering acceptable returns back.

Now to get to the point of your question, what do we do in a slower growth business? Well, look, I think it's really important that you have low churn in a slower growth market. And it's good to be sitting here at the lowest postpaid churn, voice churn in the industry right now. It's good to be sitting here with the lowest broadband churn in the industry. The best way to manage costs and manage profitability and slower growth is to not have to retrade customers. And we start that in a very strong position in that regard and propensity to switch numbers that we look at within our customer base are incredibly robust right now in terms of our ability to hang on to the base and manage through things. So that's one.

Two, you have to be very careful about which channels are bringing in the right profitable growth. We've been talking for multiple quarters about we're not really just kind of running one play. We've been working our distribution very carefully across a variety of different channels. Some of those channels are more profitable than others. Some of them are better at bringing in new gross, new to AT&T than others. And so we are tuning that to ensure that we're prioritizing those channels and maybe backing off some of the channels that were neutral to slightly positive with the expectation that in this environment that they may move to being less than positive. And so that's probably the second biggest move we do.

Third, we're, of course, playing through where we have an opportunity to start gaining up on multiple products in a household, wireless but no broadband, broadband but no wireless. Those are easy accretive wins early on. We've done some good work in that regard over the last couple of years, but we still have more to do where we can be a bit more refined right now, and we're doubling down in those areas.

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

You mentioned broadband wireless, wireless broadband. I said earlier today that I've been doing this a long time, and I've never seen where there wasn't a lot of fear about competition. And yet today, the focus of fear is on cable and this convergence and just a general deflation in both industries as wireless goes into broadband and broadband goes into wireless. Is that a concern of yours or is that just overblown by investors?

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

I'm always mindful of competition. I think there's -- you don't ever want to take your eye off the ball, but I'd step back before I'd look at any specific issue. And I'd say, look at what's just happened in the wireless space over the last 2 months in the restructuring of rate plans across our 2 largest competitors. You want to get that?

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

I'm just going to leave it.

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

So our 2 largest competitors just made some pretty significant changes, and I think in most instances, are trying to price in more value by taking rates up and sometimes restructuring how the fringes come with it. But they're effectively, I think, suggesting that because of their large investments in their business, they should be able to get more from a customer. Boy, if you're worried about competitive intensity, typically, you wouldn't see the [core] going this way, right?

And so I'm just -- I'm a simpleton but I don't do market structure for a living, but I think most of the books used to say that, that was an indication of a healthy structure in the market. So I kind of look at that and I say, "All right, well, cable is down pricing to a segment of the base at aggressive pricing." The segment that they seem to be able to attach are the 1- and 2-line customers. It's much harder on an MVNO construct at 3 and 4 lines when you get into cost of devices, you get into the breakage dynamics that occur at the lower price point, on the average lower price points that we sell at on a 4- or 5-, 6-line...

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

Yes, just to clarify, I've heard this and people ask me what this means. And I think what it means is you sell a single customer at $70, $80, $90 and you sell family lines at $40 to $50.

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

Yes. And I always love the good comparison that comes out is everybody says, "Oh, rates are so much lower in Europe." Well, what they're comparing is the 1-line price in the United States to the 1-line price in Europe. What is the comparison is the family plan price in the United States, which over 65% of our customers are on greater than 2-line family plans. And you compare those numbers and they start to look comparative, right? And it's exactly right. And that's how most of the market in the U.S. is sold.

So I would tell you that while there's some near-term numbers, I don't know that, that scales necessarily to the broad base, given the constructs of affinity plans. I would also say that when you kind of look at what we've got going on is I'm not surprised that the aggressive stance right now, if you have the most vulnerable broadband product in the market, which if you do customer research, least satisfied fixed broadband customers, the large players in the market, tend to be -- assuming our fiber product, tend to be spectrum Charter customers. I think going and pairing them with another product is a good defensive move to keep them on your broadband product.

And I'm not surprised that they're being competitive and aggressive with that. But at some point in time, being on a variable cost product where the usage element is increasing 40% a year, and we're likely to start seeing some new applications start to pop up in the end of this year where customers start buying devices that are mobile usage-intensive, that require high bandwidth capabilities to use them and avail themselves of them, there are going to be incremental add-ons to existing accounts, that play just feels like it's going to get stressed to be a low-price leader when you don't -- you're not the low-priced infrastructure provider.

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

So you've hinted about this, I think it was on the earnings call, the things that could come at the end of the year. So I think of what to come at the end of the year is the 5G networks will be much more complete than they are today, yours and your peers. And there's some AR/VR devices that are big headlines coming from some big manufacturers. Is that what you're referring to?

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

I think we'll probably see some first-generation consumer electronics devices starting to show up. And I think they're going to get progressively better and progressively more mobile over time would be my guess.

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

I had assumed that those would start as WiFi rather than 5G.

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

I would think you're probably -- I think -- when we think about how the first smartphones emerged and what the utility was mobile versus fixed, I think we should assume that there's probably going to be a migration of that where largely the scaled infrastructure in the home and some mobile and then moving to more mobile.

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

Yes. But as you look at the -- I imagine you walked through the skunk works in Korea or in Cupertino and sort of see what might be coming someday, is it 1, 2, 3, 4 years from now when those things are mobile and really dragging a lot of data through your network?

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

Well, look, I think I said this. I think you're going to start to see, to your point, as 5G networks with the capabilities that were instantiated in 5G to do things like network slicing, unique characteristics of performance start to actually become more ubiquitous and capable, the applications will start to show up. So as we get into next year, I think you're going to start seeing those things occur. You're going to see usage -- start seeing usage being driven not only in the consumer space but probably more prevalent in the business space.

When I'm visiting large enterprise customers that we deal with, more often than not, that conversation gets back to some degree of private infrastructure that they need within their operation. But it's not just about the private infrastructure. It's how to take the private infrastructure and marry it with the wide area network so that it works as soon as you leave the office park or you leave the building out to the tarmac and you need that consistency.

So I think you're going to start seeing that emerge. And I think those kind of capabilities over time are the type of thing that having high-performance mobile compute and making sure that your bandwidth and infrastructure is tuned to do that, it's going to be really important.

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

I think those things will come. They've just suffered from overhype by some of your peers.

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

Usually. But remember, early on in LTE, everybody said, "Well, why the hell is everybody deploying 4G LTE? Why all this investment?" And then suddenly, it's like, hey, when you have consistent streaming and you can actually watch video all the time, we can build some different applications. And then boom, it goes, right?

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

Right. Well, speaking of broadband, the in-home portion, getting this fiber network up and running, I think, is going to be really interesting as you roughly double the size of your network over a few years. What have you seen in terms of the return on this process, both the input costs but also the performance of the business in terms of what people are taking and how many of them?

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

Well, the business is performing well. If it was not performing well, we wouldn't have had the conviction to start the GigaPower venture with BlackRock. I think what we saw within our region, actually, we were so impressed by what we saw, we said, is there an extension of this outside of our region that we should be thinking of variance that we should understand that we're at a different moment in time?

Within our footprint and that which is owned and operated by exclusively AT&T, we've talked about the fact that when we did the original business case on 30 million customer passings 2025, we looked at a variety of different things. But the big sensitivities in the business case are the rate of penetration, how fast you get customers on the network after you build it, the ARPU, and in particular, what the terminal ARPU is on the customer at its steady state. And then third, it's the build costs. Those are your biggest impact around the financial return characteristics of it. So on the rate of penetration, I've shared publicly that our rate of penetration in the first year after a build is twice as much as what we expected when we did the original business case on this stuff to get to the 30 million customer passings.

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

Can you quantify that for us at all?

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

We haven't got any further than that, but it's substantial.

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

Bar cart. We need the bar cart.

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

It's twice is a lot, and I'll just leave it at that. The second, we're operating right now in what we assume to be the terminal ARPU. So where we stand in the business right now, we're actually at what would have been the terminal ARPU out at year 10. So the market...

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

When was this business case written?

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

This was right before we announced the 30 million homes, which is about 30 million passings, which was right about when I came into the job, so 3 years ago. The third part, cost to build, there has been a little bit of pressure on build. Two parts of a build. There's what you pay for the electronics and the fiber. That part, less volatile, more governed by long-term supply relationships. We have scale. This is something, by the way, that we've imparted to the JV. Our procurement and supply contracts are availed to the JV to be able to buy fiber and electronics under that.

The second part are the civils. After you have the electronics, you got to dig trenches and all the sexy things that you do to get stuff out in the neighborhood. That part has been more prone to inflation dynamics because it's a wage-intensive dynamic of hiring people to dig trenches and do work. But in the aggregate, you're talking about 5% and 10% increases in cost to build on something that is amortized over 30 years. So if you pick a number, just as an example, if you said it was $1,000 per location passed and you go to $1,100 or $1,050 and you amortize that over 30 years, and then you weigh that against far faster penetration, higher ARPU, you're doing better on returns, not worse than what we assumed back in 2020.

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

Okay. And as you look at the -- selling that broadband business and the wireless together, how is broadband sort of pulling wireless along or is wireless pulling broadband along in new markets?

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

So we pull when we have a new customer addition in broadband and when we penetrate broadband. We've gotten pretty good now around starting to farm that base to move wireless customers that are not AT&T wireless customers. And it's really not rocket science. It really helps when somebody buys a product and they're happy. So they buy fiber. It's got very high customer acceptance levels. You're talking 10, 12 points of difference of NPS than other products in the market. It's viewed when a customer starts to use it. They notice the quality and the difference. And so they're receptive to listen into something at that point. And so that helps a lot.

Now as you know, we're adding maybe -- I mean you guys can all go do the math, call it, 300,000-ish customers on fiber a quarter. You rate that then for market share based on the markets we sell in. So that gives you a pool of customers to go after, but it's not as impactful as mass market advertising to the national U.S. The flip side, we go to the inverse of that share, those people who have AT&T wireless that don't have broadband. We've been a little less effective on that, but we're now starting to get our groove. We have a little bit more we need to do. But I would say there's no reason that can't be as productive as the inverse, but it hasn't yet. We are getting there.

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

Okay. I want to spend a few minutes, just to change gears a little bit, and free cash flow is the thing that has always been a focus for AT&T management and investors to the good and the bad. And in a business where operational metrics were all in line to better in the first quarter, the stock was down 10%.

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

I didn't notice.

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

I imagine that was a tough day. So help us think about the pieces of free cash flow where there is variability and where investors have risk and how you think about managing that going forward.

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

So maybe I'll back up one step since you -- we just went through the emotional event. Probably some things I'd do differently coming, I don't know, that would have changed the outcome. The numbers are the numbers. I'm not suggesting that you changed the numbers. Thought we had communicated effectively that we expected it was going to be a down cash quarter and why. Apparently not effectively enough or the conclusion -- one of the other conclusions I've drawn is just got an investor base that doesn't like $1 billion, period, no matter what you communicate.

So how did we get there? Probably a lot of reasons over a number of years. Got a lot going on in the business. We're changing a lot. We're investing at record levels. We shifted our position in the market. Our supply base is different. We started new construction things that we haven't done before. So the cash flow characteristics of the business with that many moving parts and changes dramatically changed. And where we used to be a little bit more ratable quarter-to-quarter, first quarter was always a little bit soft but never to this level. We've now engineered a business on working capital in a variety of other things that resulted in a plan that had us doing what we did.

And clearly, our investor base is not enamored with that lumpiness, even though we've kind of engineered it for relatively ratable and equivalent profitability quarter-to-quarter, the cash flow dynamics were not that way. And so as a management team, got to step back and ask ourselves, what do we need to do to start architecting the business a little bit differently to accept the fact that investors would like to see a little bit more predictability and ratability around it? What are the things we can do operationally and structurally to smooth that out moving forward? And that's one of the things that I think is a takeaway that we need to do.

And probably if I was doing my job right, probably should have stumbled to that earlier and probably should have immediately understood that given what took place in 2022, that people would, without listening to what's being said or whatever data was put out there, go to a déjà vu all over again moment, say, here we are again, we're just going through this process that occurred in the early part of '22 to guide down on cash.

And I'd hoped, maybe I hadn't processed that credibility had moved along and that people had all the visibility to be able to look at it differently, and I was wrong. So what do I think is different this time? I'll point to 3 things. One, you just hit one of them right on the head, profitability, customer metrics, customer growth, ARPU growth, EBITDA growth, the profitability of our largest business, the guide that we've given on EBITDA growth of 3% or better, those are all going to drive real improvements in cash flow as we move through the year. Customers are paying us. We have every reason to believe they're going to continue paying us. That's going to result in money in the coffers and improve the performance of the business in '23 versus '22.

Second, handset payments and handset expenditures. First quarter was a peak. It's the peak because we sell more in the fourth quarter than we do it in the other time of the year. And based on the payment structures with the vendors we deal with, that bill all comes due in the first quarter. We also have some onetime dynamics that occur in the first quarter of compensation structures for bonus payouts. That goes away. We know handsets will be lower. And I just shared with you, look, if the industry is down in aggregate on gross adds, that's going to mean the demand on handsets are going to be down. If we see dynamics of customers choosing in some segments of the market to extend the use of their handsets a bit longer, that will drive it down. We have a pretty good line of sight to know that our handset commitments for the course of the year are going to be down.

Third, the capital program and where we are. We did a lot of work in the fourth quarter of last year. A lot of that rolls into payments that get made in the first quarter. First quarter was a bit hotter than what it will be for us to kind of ultimately come in at the guide that we've given you on capital investment. So you should expect that, that's going to be a delta as we move through the course of the year. These are things, handsets, capital, we're not talking about 30-day visibility into these. Decisions that we're making right now are for the balance of the year on capital. It's got long lead times. You don't just wake up in November and say, "Gee, I think I'm going to go spend money in December." You're making money decisions in May for money that you're going to spend in November and December.

On handsets, you're 120 days out plus on ordering so you know what you're ordering and you have your forecast and what you're doing. So we have good visibility on this stuff. And when you roll it all through the numbers, that's why we're confident in our $16 billion or better guide.

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

The only other thing I wanted to hit was last year, there was a working capital drag in the second quarter that we talked about. And is there anything going on in sort of working capital drag or bad debt that we should be thinking about in the business today?

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

I see nothing that is going to be out of pattern. Our debt levels, our bad debt levels and our collection levels are all perfectly consistent with what we'd expect. They're all moving in a ratable fashion to our customer growth. So yes, there can be a little bit more bad debt, but it's totally ratable to you bring on more customers, and there's going to be a little bit more bad debt. Nothing out of pattern to historic levels. Nothing that we've done in changing credit quality. We've always had a high-quality postpaid customer base. It's one reason why we have the industry-best postpaid churn on voice. And so I see nothing that is any different about that nor have customer dynamics around payment changed in any way, shape or form.

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

Okay. I'll leave you alone on that one. So let's finish it up with...

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

You just come back again at 60 days.

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

Or 360 at least. Let's finish up with, you're 3 years into being CEO of AT&T. What are you excited about for the next 3 years?

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

It's interesting you'd characterize it that way because actually, I've gotten to this habit of kind of thinking about this as 3-year chapters. And you started -- where you started this conversation is we restructured the asset base of the business. We spent a year now trying to get that asset base moving in the direction you want it to move. And I think that's -- it's kind of been a block of things that we've had to do.

I think the next 3 years is really about perfecting that set of plays. It's about getting that asset base to industry-best return characteristics, customer best metrics, brand best support in the market. So it is about getting all those things that I think we've put a lot of time and effort in and how we needed to reposition and restructure the business and refining the plays to excellence. And in addition to having to do it that way, part of refining the plays to excellence is getting the next level of distraction out, which is backing away from those legacy historic products and the legacy captive infrastructure that served us well, has been great for the business, but adds a degree of complexity and drag into the business that as we start to sunset square mileage, central offices, products, we become a lot more agile in what we can do because a lot of the stuff that comes along with maintaining that and operating that and having to worry about that drops away and you get a more and more focused business moving forward.

So this doesn't sound really sexy, but I want capital allocation to get our balance sheet in order and make sure that we get the flexibility back that we need to have to operate in this industry. It's about continuing to invest in those growth platforms, and it's about refining our execution and operation to literally get to the point that we're best in industry. When those things happen, you then have an opportunity to go look at what other things you want to do with the business and where you want to go. But as I talk about with the management team, let's not overdrive our headlights. Let's earn what we need to earn first, which is to run this business well.

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

It's a good place to stop. Thanks, John.

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

Thanks for having me on, Phil.

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

Thanks, everybody. Thanks for sticking around.
