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PRESENTATION

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

All right. Welcome. We're going to get started with our second session this morning. It's a great pleasure to welcome back to the Communacopia + Technology Conference, John Stankey, the CEO of AT&T. John, thank you so much for being here.

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

Thanks for having me. And it's always great to be here.

QUESTIONS AND ANSWERS

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

All right. Well, let's jump into it. You've been CEO now for just over 3 years. Where are you in the process of repositioning AT&T as a communications-focused company? And what are the key steps that you think you still need to take, whether those are strategic or just operational?

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

Before I jump in, Brett, let me just quickly call everybody's attention to the safe harbor statement up on the screen if I could. And it effectively tells you that we're going to talk about the future a little bit. And there's risks and uncertainties and results may differ as a result of that. And you're welcome to go to the AT&T Investor Relations website for more details.

So look, I think over the course of the 3 years, we have repositioned company. And that's the most important thing to understand for the asset base that we have right now and what we're doing. Our strategy is clear, which is to be the best broadband connectivity provider that's out there. And we're not arrived -- we haven't arrived yet in that journey. But we've made tremendous progress over the 3-year period.

I think back of what the team has been able to accomplish after doing some of the asset restructuring in 8 million postpaid net adds in the wireless business, over 3 million broadband fiber net adds. We've seen all of our service indexes improve, including lowering our churn, at some points in time, running industry best churn in both broadband and wireless and then looking at what we've been able to do in different indexes like ACSI and our J.D. Power improvements and our own internal Net Promoter Score. So we've seen improvements in our service dynamics around that.

Our cash generation and cash conversion yields are starting to improve. And you're seeing that manifest itself in our quarterly results. So not only have we repositioned the business, I think we've made really solid steps toward executing better as well. We're not where we need to be. We still want to see some improvement in our business segment. And we've got the right strategies in place to do that, are going to take a little bit of time to take root and move in.

We have some things we'd like to do to be a little bit more agile in our technology infrastructure. And that comes with shedding some of the older products in the portfolio in order to do that. We're not done with that work as well. But the team is incredibly focused. Our days are very consistent. The business comes in each week and knows what it needs to spend its time and attention on. And I feel really good about having done that.

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

All right. Let's talk about some of the aspects of your business. And we'll start with the Mobility business. Your postpaid phone net adds have moderated from record levels in 2021 and 2022. But we've seen a very strong service revenue growth, record EBITDA margins in the business even as the units have decelerated a bit. What's your outlook for postpaid phone subscriber growth both at an industry level and the opportunity for AT&T?

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

So I think you touched on the key parts of how we think about this. And if you step back over the 3-year period, the team actually as a -- if you adjust out equipment revenues and you just look at service revenues, we're growing share of service revenues in the industry at a faster rate than T-Mobile is. And we're doing it when we're not selling a fixed wireless product. And that should give you insight into how we're thinking about going to market.

We are using our investment in the wireless network to find good, high-value, profitable customers. And so our growth in the second quarter was a little bit lower than what you saw second quarter a year ago, a little bit of moderation. We gave indications to that and explained the reasons behind it. I think there were two drivers.

One, it was a large account, government account that we chose not to bid on and renew because of profitability. And second, both of our major competitors in the quarter completely restructured the rate plans that were in the market. And every time that occurs, there's a little bit of a freezing that goes on and customers who will make, at the front end, some decisions, understanding the value proposition that's moved in the market.

We saw that normalize. And we walked into the third quarter of this year back to what I consider to be very reasonable and equitable share dynamics occurring. So we saw some momentum come back into the market, which tells me the value proposition to go after the segments that we think are the most profitable and the most stable is, in fact, still holding in the market. And it's doing it in a way that we feel very comfortable with.

And we're doing it at a cost per subscriber that's no different than what we were seeing before. So we're continuing to run the same plays, make the same levels of investment and get the same attractive customers because of what we've been able to do to broaden our distribution in areas of the market that have been underpenetrated, whether it's in public safety and what we've been able to do with public entities, what we've been able to do to find the right channels to intercept in underpenetrated demographics like the Hispanic market. Those strategies have worked for us and they continue to work for us.

And look, all-in, what we see going on in the business, what's happening in volumes, how we're able to acquire customers, how the rest of the business is performing, we feel really good about our guidance for the balance of this year and what we said, the economy is supporting that. We just feel that the business is performing well. We generated over $1 billion more cash in the first half of the year that just came out of operating performance of the business than what we did last year. That means we're executing well.

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

All right. And just to circle back to the comment you made, you had identified some unique headwinds you faced on your phone net adds in the second quarter. Your expectation was that you would see some improvement in 3Q. And it sounds like from your comments that you are seeing that expected improvement.

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

I feel very comfortable with where the business is right now. And we're comfortable that those volumes and what we're seeing are going to be supportive of what we've guided to.

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

Okay. I'd like to talk a little bit about ARPU, the other side of the service revenue equation. Over the past year or so, you've implemented various price increases that have really been very effective tools of offsetting some of the inflationary pressures that you and all businesses had been experiencing.

At this point, you've touched a lot of your customers with these rate adjustments. Inflationary pressures seem to be easing. Our economists don't think there's really any meaningful probability of a recession at this point. How are you thinking about the drivers of your phone ARPU growth and your pricing strategy from here?

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

Well, first of all, inflation was a real thing. And I think it's one of the interesting indications of how the business is executing better. It wasn't just by driving revenue changes, it was we did a lot of things to manage the expense line as well. And I want to give the team props for that. Because as the economy changed around us, we adjusted and did some things differently in the business. They kept the margin equation in check.

In fact, over this 3-year period, if you kind of look at the benchmark performances of the wireless business versus our competitors, there was some white space between us and others in terms of how we were returning and operating. Most of that white space is gone now. And that's indicative of what's occurred. When you look at what we expect to do going forward, when you invest at the level we've invested at, $100 billion since I came into the seat in the wireless and in infrastructure for fiber in this business and spectrum, that's a lot of money.

It's driving a lot more value back to the customer. They're using more of the product. They're relying more on it. And it performs better. It's not just dealing with inflationary dynamics that are occurring. There's more value being given to the customer. And I think when you have a satisfied customer who gets more utility out of the service they use, you do have the opportunity to take price in places. And you should because you're investing at higher levels and you require a return.

When I step back and look at how the industry is functioning right now, I see it as being very rational. I've been saying this for well over a year, when I think the narrative has been a little bit different from some corners. But when every player is investing at the level they're investing, everybody steps back and says, "What do you need to do to drive return?" It's your capital-intensive businesses.

I see very rational behavior coming back from the other competitors that we were involved with. It's competitive. But they also know that if they're going to put that kind of infrastructure out, put that much spectrum out, deliver those kinds of speeds, allow for customers to use services wherever they go, there's going to need to be a recovery. And you appropriately look for opportunities to take pricing that goes beyond just inflationary dynamics. And I think we will continue to have those moments and those opportunities to do that.

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

I think the pushback we get from investors sometimes about the extent to which the wireless market is behaving rationally is they look at what you're doing and some of your bigger facilities-based peers, and they would agree. But then they say we've got cable companies in the market that are doing first line free. DISH now has a $25 unlimited plan that's available through Amazon. What gives you confidence that you can maintain a premium brand identity and that the market, in general, will remain rational going forward against that backdrop?

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

At AT&T, ARPUs are going up, churn is down, or at what I would call historically low levels. Customer satisfaction is up. And our share on a pro rata basis, as I said earlier, when you look at our revenue share of what's occurring on non-equipment revenues, we're growing at a faster rate in the industry.

To me, that's like when you run a subscription business, that's the home run, right? That's what you're looking for. And that's what we've managed to do over the next 3 years. I think when you look at how cable plays into this space, boy, I'll tell you, when you're in a business where consumption is growing 35%, 40% a year and you're on a variable cost structure for that and you're not at the lowest marginal cost in the industry, it's tough to be a price leader forever.

And I look at kind of what customers that they're picking up and how they're picking it up. I think you're getting a situation where just giving away a line for free isn't necessarily going to be sustainable as the customers come up with the new things that they can do with mobile devices that are truly mobile, that require high-value mobile content that I don't think are going to be subject to offloading.

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

All right. Well, that's actually a great transition into the next topic I wanted to bring up. We've been talking about convergence through iterations for 20-plus years. And most recently, when people talk about it, they're talking about the converged product bundles. The cable companies have really leaned into that. How does AT&T see convergence? Is it a product strategy? Or is it a network strategy?

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

It's both because the product is the network. And you can't be in a position in a business like ours where your marginal cost structure is out of whack, especially when you're seeing the kind of growth that we're seeing. And if you want to manage your marginal cost structure and if you want to manage what a customer ultimately needs for access to the Internet, I think you're going to need to be able to control your assets and the services that you deliver over time.

First version of convergence, to your point, typically ends up being some kind of a bundling dynamic. But ultimately, it morphs into product evolution. And I think we're about ready to start seeing that dynamic occur. Networks, when they're managed on a cohesive level, meaning both fixed and wireless come together, allow you to do things around security and privacy that you can't do when you don't own and operate your own network.

And as a product emphasis in our company and as what we think is a customer value proposition that research suggests is not only important today but is going to be more important in the future, being able to manage your asset base to do those things on behalf of the customer are going to be important, making sure the customer has the kind of security that they need to transact business, giving them the privacy tools that they need to be able to manage their capabilities, taking unwanted traffic in calls and removing it from their daily lives, you have to own and operate assets to do that.

And you have to own and operate assets to keep your marginal cost structure low so that as consumption is growing 40% a year, you can still give the value back to the customer and what they need. So I see it as part and parcel. I've said many times and I've said it publicly, there's a fallacy that there's fixed networks and wireless networks. There are only fiber networks with different access technologies on the end of it. That's where this is all going.

So having robust fiber infrastructure, the right capillaries in the right place that are very defensible, right of ways where that fiber is and then being able to put different types of access technology on the end of it, maybe it's a broadband router, maybe it's a cell site, maybe it's something unique in a managed router in a business, but you need to be able to do all those things in a scaled network business. And that's where I believe the domestic U.S. market is moving over time.

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

You already have, obviously, a national wireless business. You have a regional landline business. You have the biggest regional fiber business out there. You have started the process of positioning fiber outside your traditional footprint through your GigaPower JV. How do we think about -- or what's the right expectation for how you're going to proceed to have more fiber across the country?

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

I think it's a race. I think it's a race to scale. And we've already stated we'll have 30 million passings by '25 on fiber. What we have shared with you is we really like how our fiber business is performing and the economics that are coming in. When I looked at the original business case back in 2014, we dramatically undershot what the ARPUs are that are actually being driven.

We're seeing the cost structure perform better than what we expected. We're seeing in-service life longer than what we expected. We're getting the penetration rates when we build faster than what we expected. And for all of you in the room that do modeling, you know when you touch those things, that's going to drive better returns. And therefore, it opens up a footprint that's beyond what we ever expected, could be smart investments in fiber.

And I think we need to think about what you can do organically. But we've also stated what we're going to do with partnerships. And the GigaPower dynamic allows us to go out and bring in partners and get owned and operated, so to speak, fiber, where we can put our brand, our product set and our ability to bundle and bring the service together in a way that we do in-region, out of region with a partner.

I would say the third leg of that stool that we should be looking at are what are the other partnerships that we can do for people who own fiber infrastructure around the United States that need a great wireless product to go on top of it or maybe even need back-office capabilities to put on top of that infrastructure or where there's open-access capabilities that start to emerge under some of the BEAD builds, where we can leverage that footprint to move in and do things?

So I think all three of those things allow us to build scale in the fixed business beyond our traditional footprint. And it's a race to have owned and operated both in fixed and mobile spaces to make sure that we can evolve the way the market is evolving. And the person who wins that race will ultimately probably be the one that is able to set the standards of how the assets get rejiggered in the industry for integrated and scaled network providers. And that's what I think over the next decade all of us should be thinking about and managing toward.

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

And when can investors expect to start getting some insight into how the JV is performing?

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

I would expect, given where we are right now, as I think I shared last time I was at one of these conferences, we're live with real service in our first markets. We're now doing what I said we would do, which is we're, of course, tracking our ARPUs, our penetration rates, all those things that we should do.

And we'll get into the early part of next year, and I think we'll be in a position to come back and say, "Look, we entered these markets. This was our rate to penetration. These are the ARPUs we're getting. This is what we think the terminal shares are," and build the confidence that, that model is equally as effective as what we do in our organic builds in our traditional footprint.

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

All right. Let's talk a little bit more specifically about your Consumer Wireline segment. We have seen some deceleration in the pace of the fiber build-out. But you've kind of given us an update as to where you're trying to get. Some of the typical drivers of activity in the market, like household moves, are like record-lows for the last decade-plus. How should we be thinking about what the environment is right now? And do you have any update on your fiber broadband trends through the quarter?

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

They're all really solid. And yes, you're right, there's been a little bit of suppression in kind of the mover and the growth dynamics in the market. And that's impacted us a little bit on volume. But look, we're still a share taker. And when you think about what's occurring, while organic growth in the market would be great and would be nice, at the end of the day, when we go build fiber, the game is about taking share in those footprints that we build fiber. And we're successfully doing that.

I've shared that our rate of penetration has dramatically improved. If you go back to 2014/2015, when we built our first markets, we're penetrating in the first year twice as many customers as what we did back then. And we were doing just fine back then. And that's indicative of, one, the product has got word of mouth in places where we're now starting to have density. We're building enough where the community talks about it and people know about it.

And two, we're getting better tactically in what we do to bring customers on. And that's a big doggone deal. If you can get that rate of penetration twice as fast in the first year, that dramatically advances payback in the business case. It takes almost a year off of payback as a result of that faster rate of penetration. That's all good. And we're continuing to see that in the markets that we're building.

And I would tell you the other thing that we're seeing is we're seeing the goodness that comes with having fiber in the market and how it helps our wireless business. We're now at the early days of being able to find the places where we can consolidate the two products in one household. We drive up LTVs for those customers. We lower churn on both products. And we see brand perception and satisfaction improve as a result of it.

So I think we've got a lot of runway on that particular play to move through as we continue to expand the footprint and go into the footprint that we build -- built and now start to mine it. And that's where we get those high-value customers that drive the kind of revenue share numbers that I talked about earlier. So everything has been good in it. You've been seeing the margins improve in that consumer business every quarter. A lot of that is coming on the backs of the efficiency of getting more of our business moved over to fiber.

I was with the operating team a couple of months ago going through kind of the operating review. And I've been -- I'm an old guy. I've been around the business too long. I remember, at times in my career, running outside plant operations and jobs. And I'm looking at what they're bringing back in, in terms of how frequently they're visiting the customer's house, how frequently the service is breaking, their success rate on new installations when they visit the customer.

All these things that for years we've been chasing for a more effective and less labor-intensive business are manifesting themselves on these fiber networks. And that's a really good thing. They don't mind the rain, they don't break, they work. Customers perceive them to be flawless. They don't call in as a result of that. And that's what's starting to show that margin dynamic improvement as we're scaling the business and getting operations stabilized.

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

And how should we be thinking about the trajectory of margins in that segment from here? Because right now, you have a little bit better than a 30% EBITDA margin in the Consumer Wireline segment. Your more scaled businesses that aren't burdened by legacy technologies, like your wireless business, has margins north of 55%. So it seems like the upside potential is significant. But a lot of investors aren't sure what the shape of moving up the margin curve is going to look like.

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

Yes. So I think there's two ways to look at it. One, if you just took the fiber business, approaching 30 million passings here by the time we get to '25, and you looked at it as a stand-alone basis, we're going to start to have scale at that point. And I think you should expect that, that business, based on what it performs, the best technology, the highest rate of customer satisfaction, the lowest churn, good ARPUs. That should look like other scaled broadband providers in the market. And we should be able to make that happen.

Now to your point, we still will be working through some legacy dynamics in the business. And we are making good progress at shuttering some of those products. We're making good progress at moving our remaining broadband customers over. We now have introduced AT&T Internet Air, which allows us to go in places where maybe we're not going to be building fiber in the long term or in the near term and move those customers over to hold them or replace a high-cost copper DSL service.

Those things are going to take a little bit longer. And they'll probably put a little bit of a drag on that margin while we're moving through that over a 3-, 4-, 5-year period. But the core business itself of fiber, one should look back at it and say, "It should perform just like any other broadband business out there."

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

All right. So you mentioned legacy networks. We sort of got surprised by some headlines this summer out of The Wall Street Journal about some risks that they were -- they see...

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

That wasn't intended to be a segue for you?

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

No, I used it there, in the lead sheathing that's in portions of your older network. I think the EPA had some comments on this. Are there any notable updates here for investors?

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

I don't know that there's notable updates, given that -- look, when the story came out, it causes one to take note. It can certainly cause us to take note. We care about our employees. We care about the communities we operate in. If somebody believed that they had some indication to say the laws that we had been following and the practices we had been using, which are consistent with those laws and how we operate our businesses maybe fell short, we should pay attention to those things and we should take them seriously. And we did, and we do.

And immediately, we started trying to understand, "Well, what is it that The Wall Street Journal said? And what do they know?" We really don't know a lot of that yet. They haven't disclosed any of the detailed testing results that were the foundation of their story. But we did know that some of the conclusions that they drew were inconsistent with what the experts in the field felt was the case and the best practices of how to deal with lead-clad infrastructure, not just telecom cables but power cables and railway control cables and all kinds of other things that lead has been used in throughout time.

So we immediately started looking at these things, even had information in our hands of what our results in the exact same area they had been testing. Our results were different, and tried to explain to the journal, "We think you're doing something differently." Since the article has come out, we have more data points that have come forward. We certainly have been able to characterize for you exactly how much infrastructure -- about how much infrastructure is in our network. But more importantly, the state of New York goes and tests one of The Wall Street Journal's sites.

They do it independently. They do it thoroughly, using the best science and practices that have been the norm that we've all been using for many years and come back and say there's no public health crisis at that site.

We've gone back, and for the second time recently, retested Lake Tahoe, which was another site that was in the article. And the independent third party that did that work comes back and says there's no public health crisis or risk. We, yesterday, get results back from the EPA, who has tested another site that was in the article. They conclude there's no public health crisis or risk at that site. We've turned in additional testing at sites that were in the article in Michigan and filed them with the EPA. And our conclusion from that test using independent third parties doing it, doing full scientific analysis, says there is no public health crisis or risk to human life.

So, so far, we have a lot of data coming back in that said what I said early on when the article came out that we felt like The Wall Street Journal was overdriving their headlights by declaring a public health crisis associated with lead-clad infrastructure. We're going to continue to be responsive and understand what's going on. We're going to continue to look at results. We're going to continue to work with our regulators who are the authority on these areas, like the EPA, share information and data just like we're doing to make sure that we understand what's occurring.

We'll make adjustments if something suggests that we need to make an adjustment. But as I said early on in this and I'll still say it today, we don't believe that there's a public health crisis right now. We believe we've been responsible in applying the laws in how we operate our business. And we're going to continue to do that and work collaboratively to make sure that not only our communities are safe, but our employees remain safe.

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

Earlier in the discussion, you had noted that your Business Wireline segment was an area where you're still looking to drive some improvements. Recently, macro hasn't been helpful. But the macro indicators seem to be getting better. What's it going to take to get this business to be more stable and maybe even grow over time?

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

Well, look, there's a variety of things that are going on in the business. Part of it is just there's a secular technology change that's occurring. And technology is a wonderful thing. And we've managed to deliver more bandwidth to a customer with more features for less money. And certainly, we're seeing the very largest customers take advantage of that dynamic as well as take advantage of self-performance. When you have businesses that are largely built on data centers that don't have distributed assets, there's certainly an opportunity to self-perform.

But the good news is there is a demand for more connectivity. And I think one of the things that we should all step back and realize is businesses today are getting more innovation on mobile than they are in fixed. Their fixed networks are important for them to get to the cloud. They understand how to do these things. But we're now seeing large businesses come in and say, "I can really innovate my business when I think about mobile differently." So when you think about how we do in the business segment, I think it's probably shortsighted to say, "Well, the wireline business is declining at this rate."

One should ask, "How much networking our business is buying?" And we're still growing in the wireless space. And we're seeing new applications emerge. And when you look at the two together, we're actually kind of seeing more stable EBITDA dynamics between those two. Because when you go in and you call on a Bank of America or you call on a Target, you don't want to just be in there selling fixed infrastructure. You want to sell fixed and mobile. And that's what we're able to do on a consolidated basis and have very efficient distribution.

Where we need to make some of the shifts and where we are now starting to see the green shoots is the distribution of AT&T, in my opinion, was not well suited to the mid-part and the low end of the market based on how customers are buying today, which is largely using the vestiges of cloud-based services and SDN. Those customers buy in different ways. They don't all buy in direct relationships with the provider. Sometimes they use integrators. Sometimes they buy from online communities. We've been retooling the business to make sure we're present in those areas to win to build the right distribution partnerships.

Candidly, cable has done this very well. It wasn't a place that we were hunting because we were working in the more complex upmarket, high-performance networking business. The shift that's occurred now within the business is a reorientation to balance our business, to maintain a relevance high end, but also begin to penetrate more aggressively in the mid-part of the market with the combined offer we have, both fixed and wireless, through partners and through direct. We're now starting to see that turn.

It's going to take a little bit more time to get there. But I'm absolutely confident that when we get the distribution right and the product connection between fixed and wireless right, we can be a winner in this space and take back TAM that we were not addressing very effectively. And this can be a good, healthy business moving forward. And look, getting people back into the office, that helps a little bit, too. And I think that dynamic is starting to occur and probably is going to continue, absent some other new pandemic coming into play in the next year or 2.

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

Let's hope not.

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

Yes, let's hope not.

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

All right. So you've given us free cash flow guidance this year for $16 billion or higher. And you actually provided a very helpful bridge for the second half of the year with your most recent report. So of course, naturally, investors are now asking about the go-forward.

What do you see as the key drivers of your cash flow over the long term? And two areas I'd be interested in hearing you specifically weigh in on: one, capital intensity because you're wrapping up some fairly significant capital projects this year; and then where does cost transformation factor into all of this?

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

Well, first of all, I think there's a variety of things. First, let's start at the business is operating better from what I discussed earlier, $1 billion more cash in the first half of this year just from the fact that we have more customers and margins have improved and all those things that have occurred. So let's not lose sight of the fact that when the business is growing and it's operating more effectively, it's going to generate more cash.

Second, we did $6 billion of cost transformation, some of that during a very inflationary time. We last quarter shared that we've got another $2 billion of target out there right now. That cost transformation is very important to that equation of driving additional cash yield in the business. It's going to come on the backs of what I mentioned earlier, which is we still have some legacy products and services and the cost structure that goes along with that, that we need to manage our way out of. And as we do that, that's going to improve the cost structure of the business and support those growing new products and services and segments where we've been investing heavily. And so that's a major element important about ultimately achieving that objective moving forward.

Third, to your point, we've been investing at a record clip. It's $24 billion roughly in the last 2 years, $100 billion both in spectrum and investment in capital infrastructure over a 3-year period. When you think about what went on during that period, we deployed a massive amount of spectrum. In the old days, back when I was young and coming into the wireless business, we used to deploy spectrum 5 and 10 megahertz at a time. And we'd go up and we'd climb a cell tower and put a radio up and we'd get 10 more megahertz of spectrum.

We put 150 megahertz out all at one time in a market, put all the infrastructure in place to do that. And we've kind of gotten through the biggest part of that bubble. We'll be over 200 million POPs by the end of this year of mid-band 5G spectrum covered in those markets. That's a big tranche of capacity. And we're going to be through that. And we will be able to temper down some of our capital deployment as a result of that while continuing on the fiber pace that we've articulated. That's going to help. In addition, we're going to get some benefits from how we're operating in our development space where we do spend a lot of money on software development and our infrastructure to support it.

AI and some of the efficiencies that we're getting out of that from a code development perspective and removing labor in how we operate certain parts of our network, driving better customer service back, where we're able to anticipate and do things that prevent customers from calling in or assist them online or through other means rather than talking to a service rep. Those things are going to help us on the cost structure moving forward in some of our capital efficiency when we invest in software development. So all those things will kind of compound together to see us continuing to get better cash yields out of this business as we move forward.

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

And then what's ultimately going to drive the capital decision going forward? If you see a real opportunity to more aggressively expand fiber, could that put upward pressure? How does the leverage of the balance sheet factor into those decisions?

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

Well, look, we're improving credit quality in this. And we've been really clear, we're going to wind up with this year with cash surpluses, are going to start the process of us paying down debt, moving to 2.5x. And we're committed to doing that. And we are going to do that first and foremost. And that only improves the credit quality of the dividend. And it allows us to sustain that dividend when we set it. We set it at what we thought was a comfortable level that we could carry forward. Those are the two most important things to do.

And then the third thing I do as a CEO is I step back and say, "I want to build a sustainable franchise that I hand off to my successor, whoever that might be, that they look at and have the ability to drive recurring revenues in a stable and predictable way." That's what drives the investment cycle. And we have plenty of capital to invest to do that. And we have been doing that. And we've been doing it with some pain to the stock of late.

Because we're making these long-term investments, building this fiber infrastructure. I believe that's going to be a fantastic annuity stream moving forward, very hard to replicate and very defensible for the business and allow us to have a networking business that is going to work at a marginal cost structure that will be unmatched in the industry.

I know that there's short-term pain in doing that because it's consuming cash that some people might like to see return either in the form of a buyback or a dividend. But I do believe it's the right thing for the sustainability of the business. And I think over time, we'll get through that. People will look at it and say, "That's a sustainable business with predictable cash flows, and I want a part of that."

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

That's a great place to end. John, thanks for being here.

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

Thanks for having me on, Brett.

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