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# EDITED TRANSCRIPT

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## CORPORATE PARTICIPANTS

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

## CONFERENCE CALL PARTICIPANTS

**David William Barden** *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

## PRESENTATION

**David William Barden** - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

All right. So guys, good morning. Thank you for joining us again for day 2 of the 2023 Bank of America Media, Communications and Entertainment Conference. I'm Dave Barden. I head up telecommunications and comm infrastructure research for the Bank for the U.S. and Canada, based here in New York. We're very thrilled to start off day 2 with AT&T and their Chief Financial Officer, Pascal Desroches, joining us on stage. Pascal, thank you for being here.

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

Good morning, everybody. It's a pleasure to be here.

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**David William Barden** - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

Before we begin, do you want to do any safe harbor?

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

Yes. Just as you know, some of the comments I'm going to make are forward-looking and are subject to risks and uncertainties. Please refer to our website for more information.

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**David William Barden** - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

That was awesome. Why don't we get rid of that.

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

Yes. That -- it sure looked better than...

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**David William Barden** - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

I don't know, man. You're a pretty handsome guy.

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## QUESTIONS AND ANSWERS

**David William Barden** - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

So let's kind of -- I want to kick it off before we kind of get into the core business. Do you want to give any kind of forward-looking guidance on the third quarter subscribers, cash flow, anything like that?

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

Yes. Let's get into it.

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**David William Barden** - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

Okay. Let's go -- I'll work on that. Let's talk about some of the things that are in the headlines, though, first. I think something that we should talk about just to kind of get out of the way is the kind of lead situation. I don't know if you saw, Verizon was here on stage yesterday. They put out some public -- they made some information public about what New York State and EPA have been doing on their website, which I think is supportive of a position that says that this thing is maybe a little -- gone a little too far. Do you want to make any comments about kind of AT&T's evolved position on kind of lead exposure and what it means to the business and what we should expect from AT&T on a go-forward basis?

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

Sure thing. Look, I'm going to be fairly brief. As you know, in all likelihood, there would be litigation here at some point. So I want to make sure that I'm pretty measured in what I say. But let me try to break it down for you. But first and foremost, when the journal made allegations of a public health crisis, clearly that got our attention because we are really proud of our long history of employee safety protocols and the health and welfare of our employees and the communities we operate in is always forefront in terms of what we're trying to make sure we never compromise.

With that said, we tested some of the sites that the journal alleged were problematic and didn't find that there were any issues, perfectly safe. Third-party experts, who are reputable, went out and did this. New York State has gone out and done this in one of the sites. West Orange, New Jersey, another site. So -- so far, you have, we and Verizon who have tested sites independently and have found that those are not problematic. You have the EPA, New York State also finding it not problematic. And the journal has refused to share their testing results with us.

So could we all be wrong? I don't think so. And so look, this is going to play out over time. And -- but feel really good about our safety record, and we'll see how this unfolds over time.

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**David William Barden** - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

So just 2 quick follow-ups. One, are you proactively working with the EPA on a large-scale basis to make sure that everything's cool?

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

Absolutely. We are providing the EPA with all our testing results and the -- and so this is something that we take really seriously. And so we are providing them with all of our test results.

**David William Barden** - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

And would you -- is there a plan to maybe make any of this more public, any of these third-party findings, to kind of share where you stand at least your position as Verizon has done?

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

We have. It's in the public venue. If you go -- we have -- if you go to our website, we've been very clear about what we've tested, what we found. So -- and so it's out there in the public venue. I'm sure our IR team could point you to the right portion of our website to go to. But it's all out there in a public venue. And our commitment is that as we learn more things, we are going to put it out.

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**David William Barden** - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

Good. Okay. So second, in the last couple of days, we saw a transaction between Comcast and T-Mobile for 600 megahertz spectrum. So T-Mobile is going to be leasing that spectrum and deploying it relatively quickly with the eye towards purchasing it out in 2028. Is that something that you got to look at? Or did you kind of wake up and read the news like the rest of us?

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

We read it last night, and we're going to have to talk to T-Mobile about how they feel -- why they thought they needed to do this. But we feel really good about our spectrum position. One of the things I don't think that gets said nearly enough is the quality of our network gets better each and every day and has improved significantly. And that's a big part of the success that you've seen in wireless over the last few years. It's the quality of our network. And we feel really good about our spectrum position, and it's not an asset we've had all looked at, and I don't think we missed out on anything.

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**David William Barden** - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

Okay. And then the last one is obviously the iPhone launched this week. The press seems to have a short memory about how this industry works. And so we saw a lot of articles about \$1,000 off a phone and all that sort of thing. So I think that there's a tendency to kind of make mountains out of molehills perhaps, but...

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

You think?

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**David William Barden** - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

I think -- that's my 30 years of comm experience speaking. But the -- how would you kind of react to everyone's iPhone promotions? How would you characterize how you see the landscape this week and its impact on competitive intensity potentially?

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

Look, here is -- when you take a step back, Apple has raised the prices. But the level of the promotions across the industry, I'd say, are unchanged. And if you -- every carrier is going to approach it slightly differently. And -- but all in all, I would characterize the environment as really healthy. The competitive dynamics is very, very healthy, very rational. And we feel really good about our approach, and the plays we've been running, and that's -- one of the keys has been that we've been consistent quarter after quarter in our approach, and I wouldn't expect any change to that.

**David William Barden** - BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst

Okay. All right. So I want to zoom out a little bit. The people who have been here for the last couple of days have heard me kind of make this kind of argument. But we've -- coming off a couple of years, '21, '22, where we had record postpaid phone net adds around \$9 million a year. We've had higher prices in the industry for the last 18 months. We have the fewest number of real competitors in the industry that we've ever had. And everyone hates the industry.

And so -- and I've kind of tried to dissect why it is. And I think that there's kind of 3 elements to it. One element is that we're coming off the best we could do. So the pool of postpaid phone, that adds shrinking, cables coming in -- number two is cables coming in and taking a larger share of that. And number three is that the pool of opportunity for the telcos is shrinking. And then one of you will end up having to do something irrational to kind of move the needle at the margin. And so that kind of anxiety just permeates the sentiment around the space.

So I've been trying to dissect that a little bit as we've kind of gone through the sector, and you're battling cleanup for the sector right now. And I want to talk a little bit about the kind of total pool of postpaid phone nets in the year. It seems like we're zooming in on probably something like with a 7 handle on it in terms of millions of postpaid phone [nets].

At the beginning of the year, I asked John on the fourth quarter call, I said the world seems to think that the postpaid phone net number is going to shrink 2023, and it is. And the world thinks that AT&T, who is one of the largest beneficiaries of the increase in postpaid phone nets in 2021, 2022 was going to be the guy that gave back the most amount of share. And he said, "No way, not going to happen." In fact, it did happen. And in the second quarter, you went from 700,000 postpaid phone nets last year to 300,000 this year. How does that make AT&T feel?

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

Here -- let's take a step back. We understood whether it's '21, '22 that, that environment was not going to be sustainable. We're not going to be operating at those levels. But overall, the industry is growing, and we are getting our fair share. I'll talk a little bit more about what that means. The industry is raising prices and each of the competitors has different tactics that they're using, but the dynamics are really healthy.

You have 3 players largely who are focused on sensible competition. And so you have growing industry, growing pricing, higher service revenues, higher earnings and improving cash production. Check, check, check. Yet ever since I started in this role, which was over 2 years ago, this industry is going to hell in the handbasket. And yet every quarter, this industry continues to grow and you have a really healthy competitive dynamics. So look, in terms of our performance in the second quarter, remember, we said that we were impacted by a decision we made to step away from the unprofitable contract. And that cost us around [75,000]. You normalize for that. You should get a clear sense of when we -- that we've gotten our fair share in Q2, and we will continue to get our fair share as you make your way through the year.

In terms of cable, I actually think they're running a different play than we are. I think cable, largely, many of the subscribers that they are adding are who paid the postpaid migration, there are free lines being given. It's a discounting mechanism. Wireless is a discounting mechanism for cable. And so I view that -- look, in the end, if you look at cable, the average number of lines for their subscribers, 1, maybe 2 lines. We have 2/3 of our base come with more than 2 lines. So we are playing a whole different game than they are.

And look, cable's been part of the competition for the last several years, and I dare say, we've competed pretty well during that time frame. We've grown service revenues more than anybody in the space. And so I take a step back. It's almost -- I'm trying to disprove some -- disprove that this is

a bad business when all the facts are that it's a great business and people would be -- would die to be in this business and there aren't a lot of people who could do that. There aren't a lot of companies that can do that. So let me take a step back and say, okay, growing revenues, growing earnings, growing cash. Only 3 players can provide this at scale. I kind of like that business, and it's something not a lot of businesses have that characteristic.

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**David William Barden** - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

Okay. I got to dig into a little bit of that. So just in terms of -- so I think you kind of addressed the -- high level, I think, going from 9 million to 7-something million postpaid phone nets. Everyone can grow still. It's all good. You've talked -- for some time, you guys were one of the first to talk about anticipating normalization. Do you agree that maybe what normal looks like is a world where maybe it's a 5 million to 6 million type of postpaid phone net world? Or do you think 7 million is the new normal because cable has kind of created a new definition of what postpaid phone nets are?

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

See, here is the thing I would tell you. Like everyone in the industry count subscribers differently. So it's always hard for me to tell you exactly where it's going to land. But do I think 7 million is probably what we're going to see based on the way the industry counts? Yes. But I look at what's the revenue growth in the sector over the last few years, the service revenue growth. And judge us on that because that really, when it's all said and done, that's what pays the bills. That's what generates free cash flow. And I really like our track record here.

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**David William Barden** - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

Okay. And I agree. I mean, I hear you. I think that you could make the argument that the whole industry is judged on one single number, which is this postpaid phone nets, which is not really how people make money. I think that -- but more than simply a barometer of business health, I think it's also a leading indicator of how people perceive companies may behave in the future. And that when faced with the threat of going from 300,000 a quarter to 0 net adds a quarter, companies might react and do things to impact that and do things that are unnatural to preserve that. But if service revenue growth is the North Star, then volume is only one potentially a small piece of that.

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

Yes. And look, don't get me wrong. Volumes are important, but real volumes, real business. And so we always said that the 9 million clip that we were seeing in '21 was not going to be -- it was not sustainable. It was probably -- there were certain idiosyncratic reasons coming out of the pandemic that were driving that. We have normalized now. But in that normalized environment, we are getting our fair share of the growth. And I love the quality of the subscribers we're seeing.

I love the fact that even within the existing base, we're able to move people up to ARPU stack to garner more economics out of the base, all things that are going to drive long-term value for the firm. All that is happening. We're getting our fair share. And we -- and across the industry, you're seeing pricing movements. Dave, I don't know. It's -- so like it's really hard to just move all the [boogeyman] around the corner, whether it's Amazon or DISH taking over the entire wireless industry...

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**David William Barden** - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

That wouldn't happen.

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

Yes. It's just -- it's irrational. And as I said, look at the facts. Look at what's happening. Look at the offers across the industry. Do you see irrational competition? I don't think so.

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**David William Barden** - BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst

So let me just go back to the cable dynamic real quick. John has said a few things about the likely limits of cable's ability to make long-term headway in the mobile industry. One of the things he said is that he believes that the cable MVNO is a variable cost model that will eventually get unprofitable for the cable industry. And then the second is that Eddy believes that the relationship between cable and Verizon as it exists today could easily change at some future time. Why does he believe those 2 things?

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

Okay. Here is what I would tell you. The demand for bandwidth goes up each and every year, call it 30% to 40%. And in that environment, if you are riding on a variable consumption model that you're paying more, it becomes incredibly expensive. As I said at the outset, cable is using this as a discounting mechanism.

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**David William Barden** - BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst

But why do you believe that they have a variable cost model?

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

We understand the construct of MVNO agreements. But we -- as you would expect, when that agreement (inaudible) to, they looked at us along with Verizon and ultimately Verizon got the business. But the terms that we think they ultimately got were -- we understand...

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**David William Barden** - BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst

Okay. So you're on the other side of the table, you were the second best option to the cable industry who chose Verizon. You kind of have a sense as to what maybe Verizon was offering, and that informs a view...

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

I wouldn't say we were the second best option because a negotiation goes two ways, It may have been we weren't willing to go to where ultimately Verizon went. And so that's how -- ultimately, what I could tell you is the economics, I'd be surprised if they were not a variable model because that is typical of an MVNO agreement. And so look, you're going to have to talk to Verizon for specifics.

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**David William Barden** - BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst

We tried. It doesn't work. Okay. So okay, that's the cable element. So then let's talk about the kind of internecine battle between the telecom companies. Round numbers, we've got an industry per quarter where T-Mobile is getting 700, AT&T is getting 300, Verizon is getting 0. And 0

doesn't seem to be where Verizon is very happy. Verizon wants more than 0, which says that all things being equal, it probably has to look more like a 600, 250, 150 world. Can AT&T live in that world? Is that a failure for AT&T? Does that mean that something bad has to happen in the industry for that to occur? Or do you think that that's not going to happen because Verizon just can't do it?

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

We've been operating under this construct in the last 2 years, and we've seen what has happened. And even though T-Mo is taking the majority of the sub-growth, I'd like us and when you look at our service revenue growth versus theirs, that's how you can judge real performance during that time period.

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**David William Barden** - BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst

That's backward looking. What about forward-looking? What makes you believe that things are going to change? What are you seeing in the market place to make you believe that things are going to change significantly?

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

There is nothing in the offers that would suggest that, that is happening.

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**David William Barden** - BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst

What are you prepared to do to stop things from changing?

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

I'm not going to speculate on, well, how the market may evolve. It is to say, no one has an incentive to degrade this market. There is enough really profitable growth to go around. Verizon has decided to take it in part through an MVNO agreement. That was their judgment and that's how they're getting their profit share. We're doing it in the good old-fashioned way.

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**David William Barden** - BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst

Okay. So that's -- the good old fashion way for the last 18 months has been...

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

I'd say for the last 3 years have been really, really good.

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**David William Barden** - BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst

True. And -- but specifically in the last 18 months, we've been raising prices in the industry. And I think that, that's got to be the biggest barometer of industry health out there. I think that the question then becomes is -- I would make the assertion that most industry street models out there



don't have price increases in 2024, 2025, 2026. But companies like AT&T and others have made the argument that, yes, it all started maybe with this idea that inflation was informing price hikes.

But now there's a sense that the industry is seeing the market absorb these price hikes and is starting to appreciate that there's a lot of value that the wireless industry brings to be both daily lives, to businesses and that maybe you're entitled to some of that value for yourselves. So is price increases a part of the industry fabric now? Do we -- should we be looking at our models and going, yes, this is going up.

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

Why wouldn't they? In your average life, prices go up. And this is about as critical a service as anything right now given how we all live. And so why wouldn't prices go up. Especially, we are providing more bandwidth each and every year. So it's not like the consumer is not getting a great deal because we are giving them more each year, and we should be able to price up for that.

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**David William Barden** - BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst

So now that being said, the cable industry being, as you mentioned earlier, such a discounter. Does that represent some sort of gravity where there's a limit to what we can do with price? Like have we reached a plateau for the time being until we see how the whole industry digests what we've done? Is there a risk that if we keep pushing that price lever, cable will kind of take more and more share and churn starts to go up, and then that's like a warning sign?

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

I think it's fair to say cable has grown subs the last several years, right? I look at our porting ratio versus cable. Hasn't moved. So it's not like anything that is happening out there is new. We've been operating in this way largely for the last 3 years. So again, it's sort of like trying to disprove something that -- when the facts are very clear that, that's not what's happening. So I know you're trying here, but it's like look at the facts, look at the offers, look at the market dynamics. And I think that will give you the answer in terms of what you can expect as we move forward.

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**David William Barden** - BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst

Great. So in the -- subsequent to John's kind of streamlining of the business, wireless, obviously, kind of the key. I think the business seems to be doing pretty well. Let's shift gears then to the broadband -- the wireline broadband business. So kind of give us an update as to what's happening there. Because I guess what's been happening is that there's been -- cables also had this issue, like there doesn't seem to be a lot of home movement, so the switcher pool hasn't been as high. So there hasn't been as much opportunity to win market share, and the fiber business has been mostly cannibalizing your copper business, not in a bad way. But is there some -- is there -- is that a fair kind of assessment of what's going on in the Consumer Wireline business?

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

Here's what I would say, fiber is an incredible product. And where we have fiber, we love our chances of competing, and we will get more than our fair share of the market that's available. Now clearly, when I look at Q2's numbers, Q2's numbers were impacted by seasonality. We expect this a seasonal uptick as you typically see in Q3. With that said, we are operating in a move environment that is suppressed. So that's impacting some of the dynamics. But all in all, where we have fiber, we take share, and it's an incredible business. You put -- you make the investment upfront, and it's an annuity for a very, very long time.

**David William Barden** - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

I made a mistake and asked you about fiber when I really meant to ask you one more question about wireless.

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

All right.

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**David William Barden** - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

Which is in June, you came to our London conference, thank you very much, and you made -- you noted that in that quarter, in the third -- sorry, in the second quarter that you would probably do something in the low 300s postpaid phone nets. And that, that number would be impacted 75,000, as you said, by the loss of the VA contract. And also, there was about a month or so where there was some disruption related to the new launch of T-Mobile and Verizon plans. But you said at the time, this was the third week of June, that by the end of June, things had normalized.

And so I did some math. And I said, okay, well, if we're going to do low 300s in postpaid phone nets and 75,000 is kind of a onetime event and the Verizon -- T-Mobile thing is kind of a onetime event, maybe 25,000, 30,000. So I should add 100,000 to that number and that would be a normal number. I said, should the third quarter number have a 4 handle on it? And you said, well, that math holds up. And I'm going to ask you again, does that math hold up?

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

Look, you've got the fact is appropriate, and I will leave it at that. I can't give you -- I can't break news every time I'm with you...

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**David William Barden** - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

You said -- let's go there at the beginning. I'm just -- I'm trying to lead you down the path...

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

Given new factors, I mean you....

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**David William Barden** - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

As long as we agree that math is math, Okay. So let's go back to that fiber thing. So you've got kind of a couple of different strategies in the fiber business. You've been -- so primarily what we've been doing is we've been growing the fiber business to kind of overbuilding the copper business. And I think last year actually, we talked about this, and that there was kind of a maybe a 15% to 20% uplift in ARPU when you move from a copper business to a fiber, and that's kind of the opportunity. Is that still true?

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

Yes. Absolutely. Absolutely.

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**David William Barden** - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

Okay. There you go. There's another number. That's 2. So then we've got -- so then there's this other kind of strategy, which is you're kind of partnering and working out of region, and you've been talking about this partnership and kind of seeing it through to the year-end and making bigger decisions. What are you learning in that Phoenix area with this, I think is called -- is it called GigaPower?

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

GigaPower. GigaPower is our JV with BlackRock. And it is -- I would call it -- what we're trying to do there is -- we know how great fiber is in our footprint. We're testing to see how attractive it could be outside of our footprint. And GigaPower, we couldn't be more pleased with how things are going. But it's really early days. I mean, I think we -- the deal with BlackRock closed in May. So it's still early days. But look, there's nothing that we are seeing that would suggest that our theory of the case is not so. So it's -- things -- all in all, you're pleased, but it's early.

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**David William Barden** - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

I think another thing that we're early on, but I'm just interested in your views is where the BEAD funding is going to land. Is this something that needs to be informed by your partnership with BlackRock? Or is this an independent thing that you're going to evaluate separately and distinct?

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

I think it's fair to say both GigaPower and us will be bidding on BEAD funding. But even -- look, it's a great opportunity to really help bridge the digital divide. The way we're thinking about it is no different than we think about overhaul business. It's about trying to make sure that we are bidding and winning bids in the areas that make sense for us, that really drive long-term economic value to the firm. We are not getting dollars for the sake of getting dollars. We want to make sure that we can get an appropriate return on those.

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**David William Barden** - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

A kind of the intersection between the 2 businesses is the fixed wireless access, attempting to kind of do kind of a wireline broadband with the wireless opportunity. You guys have kind of definitely been more conservative in terms of your thought process on this. But it appears like we're seeing more conversation coming out of AT&T with respect to, what is it called, Internet Air or something like that. Kind of -- can you kind of refresh where is AT&T landing on fixed wireless access as an opportunity?

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

Yes. Look, if you go back a few years ago, everybody was saying, "Wow, this is going to be a major, major opportunity." And we were the only ones at the time said, look, this is long term. This is -- the cost of providing bandwidth is going to be much higher through that product than a traditional fixed line given all the demand trends that we were seeing. So I think as you've seen it evolve the last 2 years, we were right in that regard, and everybody is being much more -- our competitors are being much more measured than they have -- than they were a couple of years ago.

With that said, we've said we're going to -- there are places where it makes a lot of sense. There are homes that we're going to ultimately get to with fiber that fixed wireless may be a perfectly fine catch product. And that is the logic behind the introduction of our new product. And in areas where we don't have the population density, again, it may be -- and we have our capacity, it may be a fine option. But our priority -- let's make sure, our priority is fiber.

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**David William Barden** - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

So no change?

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

No change.

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**David William Barden** - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

So I got to try to get all the free cash flow guidance out of you now. So are we reiterating again \$16 billion or better for free cash flow for 2023?

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

Yes, yes, yes.

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**David William Barden** - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

Good to hear. So just -- I'm not going fast forward. So let's start there. Of that \$16 billion, we only got \$5 billion in the first half. How do we get the other \$11 billion plus?

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

Look, first -- remember, the first half of the year, you had a peak level of device spend, we had peak levels of capital, and we had our annual compensation bonus. If you normalize for those items, you can really get a sense for why we are so confident about the back part of the year. We said at the very start of the year, first quarter was going to be the lowest followed by second quarter, followed by third quarter and fourth quarter. It is playing out exactly as we thought.

And this quarter, Q3, as an example, when you look at the fact that we're going to have low -- significantly low device spend than we did in Q2, lower capital spend, higher receipts from the growth that we saw in the first half of the year, all those things you put them together and also probably expect a little bit more from DIRECTV, you put all that together. It should put you in the \$4.5 billion to \$5 billion range of free cash flow for Q3.

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**David William Barden** - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

You're welcome. That's awesome. I knew I'd get it. So that's awesome. So now 2024, the moving parts. So...

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

You are never satisfied, aren't you?

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**David William Barden** - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

No, I was very satisfied with that issue. I just -- I'm a little greedy. So this is something that -- this is the debate we're having on our side. So we're -- both AT&T and Verizon kind of said that when they were done with their C-band kind of baseline spending, that they would return to a kind of business as usual CapEx spend. So Verizon has guided that they're going to go from 22 to 19-something to 17-something in 2024. And that, that 17-something in 2024 looks an awful lot like what CapEx looked like in 2019 for the C-band spending began.

AT&T has been spending around \$24 billion last year, \$24 billion this year. But the problem is we're not sure what businesses usually looks like for AT&T anymore. Because if I look at what you guys used to spend, which was kind of \$19 billion to \$20 billion, but then I figure you're now in the fiber business in a way that you really weren't back then, I got to add something for that. What is business as usual CapEx for AT&T as a target coming off the '24 peak?

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

Here's what we have said, and we've been very clear about. We expect over time to get to a mid-teens capital intensity. That's what we've said. And John has been very clear about that, that we are at peak levels in 2022 and 2023, that we will -- as we exit 2023, you will begin to see moderation in our cash and with the goal of getting to mid-teens. And...

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**David William Barden** - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

Something like 2- or 3- or 4-year time frame type of thing? Like a glide path -- like for Verizon's kind of glide path down to BAU?

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

Yes. Look, I think it's fair to say we may not get there overnight, but it's one that we are committed to.

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**David William Barden** - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

If I put -- like just for the sake of argument, if I put like a \$22 billion CapEx number in my model for '24, it would be like, Dave, that's stupid.

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

You are greedy. I'm not...

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**David William Barden** - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

Okay. So just -- but again, so that's like a big tailwind. Obviously, I think we know that DIRECTV cash flows inbound are going to be a headwind.

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

They are. But look, the thing I would say is since we separated, we've got -- we've pulled out over \$15 billion by the end of this year from DIRECTV. So those cash flows are much more resilient than many believe. And look, we're really happy with the way the business is being managed. So yes, we do expect it to moderate over time, but it's still going to be a fairly meaningful portion of our cash.

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**David William Barden** - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

And just on that, I mean, we've -- talking about the DISH-DIRECTV merger for a long time, DISH is in no position to do an acquisition. DISH could well become a target. You're only a 50% controlling shareholders. So you don't really control the DTV, you can't tell them what to do. But...

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

We can't tell them what to do, but we get 70% of the economics. So...

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**David William Barden** - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

Would you hate it if DIRECTV bought DISH?

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

Here is the way I think about this very simply. We know -- we have really good visibility in terms of the cash production over the next several years. The trends, you can -- we can trend it out based on the information that we have about the business, and we feel really good about what the cash production on an ongoing basis. And so if we have an opportunity to improve upon that cash reduction, we will absolutely do that. But absent an objective transaction that will improve that position. We're not going to do anything. There's no reason to.

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**David William Barden** - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

All right. And then just touching on the other item out there, U.S. cellular appetite, interest.

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

Look, as you would expect, every time an asset comes (inaudible), we have a responsibility to look at it. But we really like our wireless business. And I don't think that particular asset would change anything demonstrable for our business because we already have a nationwide footprint, and we feel really good about the assets.

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**David William Barden** - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

I think that's a great place to leave it. Pascal, thank you so much for being here. I really appreciate it.

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

Thank you.

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**David William Barden** - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

That was amazing. Thank you, man. That's awesome.

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

Thank you.

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