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OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

Sebastiano Carmine Petti *JPMorgan Chase & Co, Research Division - Analyst*

PRESENTATION

Sebastiano Carmine Petti - *JPMorgan Chase & Co, Research Division - Analyst*

(technical difficulty)

QUESTIONS AND ANSWERS

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

It feels like just yesterday. Look, we've done a lot. If I step back and think about the early part of 2020, we've taken debt down by about $36 billion during that period of time. We've invested over $80 billion in our networks. I think we've repositioned the business relative to the product set that we have in the market and the quality of those products has improved. The customer receptivity to those products has improved.

As straightforward it is to talk about it, there's a lot of work that goes on behind it, and I think the team has done a really good job of that. We've demonstrated that we can bring momentum back into our wireless business. We've got a burgeoning consumer broadband business. It's now back to positive growth, certainly generating a lot of EBITDA growth in the business. And we continue to be midstream right now on how we reposition the business market segment, what we do there.

But all in, I think it's been a good start. We have a few things that we ultimately need to do. We want to continue to be a great communications company. We're focused right now on ensuring that our unique asset base, which is both wireless and pervasive fiber footprint, can bring the best value relative to how customers buy converged solutions from their providers, and I think that's the next chapter we're moving into.

It's not only a distribution issue, but it's how do you make the products work better together, and there's a lot going on within the business to ensure that it's not just about buying a bundle, it's about buying a better service experience and a better product value proposition. We have work still to do on getting our cost structure right. We've made great progress in kind of cleaning out the cabinet of some of the older products and services that have seen their better days and have done incredibly well for us over time. But we've got to finish that work.

And as we finish that work, it means changes to the cost structure and improvements in the cost structure. And we've got a little bit more to do on that front. It's important that we carry it through. We still have investment to drive into the business. We are still midway in what we're doing around getting fiber infrastructure in place. We still have some work to do in our wireless network to get us to the right position we want. I'm confident the team can make those things happen, and we're going to continue to push on those. So all in all, I'd say it's do more of what we've been doing, continue to carry it forward, and then be very diligent as we start to approach the end of this year and have some choices on our capital allocation strategies as to what we do with it.

Sebastiano Carmine Petti - *JPMorgan Chase & Co, Research Division - Analyst*

Great. Definitely want to come back to that last point here. But starting out with mobility. While normalizing the postpaid ecosystem still remains strong, what are you seeing in the ecosystem today? And can you help touch on maybe the health of the consumer as well?

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

Sure. I think what we're seeing is probably what we indicated last year we would expect to start to see, which is a little bit of a tempering of growth in the postpaid segment. It's still growing, maybe not at the clip it was as we came out of the pandemic. We've all along had a strategy in the business to make sure that we were focused on what we consider to be high-value good growth.

And as a result of that, I think we've been able to kind of move through this transition period of tempered growth just fine, because we're still finding the right customers from my point of view, trying to make sure we're going after those that are actually generating the right kind of ARPUs, have the right kind of longevity. And I feel like we're doing a very effective job in that part of the market. To your point, if you look at where we are on service revenue growth, we're not only keeping pace in many instances, if you adjust for fixed wireless in the postpaid business, we're taking service revenue share.

And that's really kind of the benchmark I use within the business if we're doing things the right way and investing in the right way. And I feel like we're making progress on that, and I feel pretty good about it. I think we could probably be a little bit more effective at some of the more value-oriented segments of the market. We started pushing that direction. We're not as far along as I'd like to see as a business. We still have some room to grow there. We are hitting some of the ethnic segments better than we have before. But we've got a little bit more work to do there and in the value space.

And I think as we progress through the year, the kind of tuning of our offers in the market, how we do distribution, we should be able to kind of knock that out. That will be a nice complement to what I think has been exceptional work up to this point in time and diversifying our distribution, getting to places where we know we can cost effectively intercept switchers. I would also say, if you step back and look, the business has changed quite a bit.

We've locked down our base. We've seen record churn. I'd love every quarter to be record churn. I don't know that, that's practical, but it's going to be continued low and efficient. And as a result of that, part of our fundamental strategy, you've seen the margin expansion that's come with the approach that we've used and our customers are resonating with a very simple approach to staying with a carrier that meets their needs. And I think that's been strong.

In terms of what we're seeing with the consumer base, consumer has been pretty resilient. I expect that's going to continue through this year. Low end of the market clearly shows, as it typically does. As gas prices move up and down or fast food prices move up and down, you see stress showing up in certain parts of the low end of the market. We see it where customers are still paying. They're still buying their services. They may move to credit card payment as opposed to cash payment. We see that ebb and flow a little bit since probably Christmas of last year, but nothing that concerns me. I think the path for this year looks pretty stable right now. What comes next year, too early to tell, we'll see. We've got to keep an eye on. A lot of it will probably hinge on inflation and how well the administration does in kind of tempering things moving forward.

Sebastiano Carmine Petti - *JPMorgan Chase & Co, Research Division - Analyst*

So you touched on your churn and the strategy of deals for everyone. But if we see an acceleration in the normalization within the ecosystem over a more rapid slowdown in subscriber growth, how are you thinking about maybe evolving the go-to-market at that point or wait-and-see kind of approach?

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

Look, I think we have a lot of places we can go from where we are. First of all, it's kind of a fundamental ethos, which is you want to treat all your customers fairly and the same I don't think that foundation is going to change. I'm not going to suddenly wake up and say, we kind of had that wrong. We should maybe go a different direction. Fundamental ethos, similar to what we've been doing on the broadband side, is to simplify. And we've done a really good job.

I think it's one of the reasons we've been as successful as we have in the fixed broadband business is it's a very straightforward go-to-market approach. It's very simple for the customer to understand. And we're deliberately trying to take steps in our wireless business to simplify the portfolio in a way that we can get that lined up correctly. And those directions I don't believe are going to change. And I think they resonate frankly with how the consumer wants to do business with the companies that they choose to do business with.

We have, as I said earlier, the distribution in the right places, and it's diversified enough that I think we can intercept opportunities and tailor what we're putting out in the market and the message in a way that makes sense for that particular channel. And that balance that we see right now in our business between the consumer side of the company and the business side of the company is really healthy.

And it's a unique place that we can play, given that in the business segment, we're present with every Fortune 1000 company just about out there. We're strengthening our distribution in the mid-market and the low end of the market of business. We've managed to establish ourselves in government, in the first responder space, in a way that I think has been a really strong accomplishment for the team over the last several years. We have INTERCEPT channels and consumer because of the nature of our business that are unique and different to us, that have allowed us to find the right high-value customers there.

I feel fine about where we are around that. I feel that we can tweak and adjust as we go through to make sure that we continue to get our fair share of growth in the business. And I think as we get better on the marketing side and fine-tune some of these things in the value segment, there's no reason to assume we're not going to continue to do better in that regard. I'm excited, frankly, if I think about the next generation of what our messaging is to the market, it's centered around convergence. We still have -- while we don't cover the entire United States with a fixed footprint, we have a significant portion that's growing, and we have opportunity within that footprint to address customers that don't subscribe to one side of the house or the other. And when we see the brand appreciation that's occurred over the last couple of years, that is a far more compelling approach to that customer than it might have been 5 years ago with the quality of both products.

Sebastiano Carmine Petti - *JPMorgan Chase & Co, Research Division - Analyst*

Well, shifting to fiber. AT&T is on track to reach its goal of 30 million fiber locations by the end of '25. You're also seeing better-than-expected returns on your build. Can you help us unpack the drivers of the upside across penetration curves, ARPU bundling capabilities?

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

So I think like anything else that we do, it's never one thing. You don't walk in and just go, we just did that one thing well, and that's why there's a secret to it. That's the nature of our business, and it's really why I wanted to get the company back focused on we just do communications, because when you do these hard things, you get a lot better at them in total. And I think the fiber business is a classic example of when you look at how the company has been focused and what it's been doing, it just progressively is getting better every year across all aspects of what we're doing.

So we're building better. We have good control of our costs and how we choose to go about executing the build. And we're doing that during a period of time when, frankly, it's been a challenge with inflationary dynamics that have been going on. But because we're building at the level and the scale that we're in, given the consistency of which we've been building, we've been able to work within the vendor communities and our supplier communities in a preferred position to mitigate some of those things.

When you go in and you look at the strategies we've been using to penetrate, we first learned how to penetrate from 0% to 20%. We then figured out how to get from 20% to 30%. We're now in the mode where we're figuring out the 30% to 40% part. And you've seen those numbers progress, and we've given you some insight to the cohorts to show you that we have a pretty clear path around how we cost efficiently and effectively move to 40% penetration.

We are now working the science on the 40% to 50%. And I will tell you, we're going to figure that part out, too, and it's going to end up being better than what we had assumed in the original business case, where we kind of figured that last 10% was going to occur over years and years and years.

So when you're building effectively, when you're getting better at penetrating, you're penetrating faster. A big driver in the business case, it's taken a year off of payback as a rate to penetration.

So rate of penetration is much faster than we are. If you go back and you looked at the first cases we did in 2014, 2013, we're a full year better on payback just rate of penetration and we're still not done getting better on that. ARPUs are coming in stronger. So that's going to be the gift that keeps on giving over time. If ultimately, you get to a terminal penetration rate that's higher sooner in the cycle, that's going to be better than the original assumptions in the case.

Churn is now -- as we start to see scale occurring in metropolitan areas, we have markets where we're over the 65% built area. And that market behaves and performs much different than a 20% built market. It's more effective to get customers in on it. Churn goes down because you start to pick up the moving dynamics as you keep the customer. Word of mouth makes you more efficient there. We still have goodness to go on that as we continue to build and get the kind of density and penetration.

So I've shared this, I remember being fairly young in the business and we used to sit around and talk about life cycle costs of serving customers and fiber was a relatively new technology. And we, as young individuals said, boy, if we could just figure out how to economically get fiber out there, our lives would be really good, rainstorms wouldn't be bad, this, that and the other. Well, we are seeing that now, and it's what I only dreamed of 30 years ago when I was young in the business doing network planning and thinking about what technology might do for us.

Sebastiano Carmine Petti - *JPMorgan Chase & Co, Research Division - Analyst*

And you talked about better figuring out how to get to 30% to 40%, 40% to 50%. What is it helping drive that 40% to 50%? Is that because of more focus now on converged bundles? Or is that potentially additive to the longer-term kind of penetration opportunity?

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

Well, first of all, at face, a great product will help you get from 40% to 50%, and we shouldn't forget that it's a great product. It has great performance. Customers are really happy with it. The service construct around it is fantastic. That helps. But second, converged is now the opportunity. That's going to be one of the key areas where I think for us to get to 40% to 50%, it will be about what we know about the customers that we have on one side versus the other, and what we can do to put them on both.

And then third, when you get to that 40% level, usually, you're starting to show up in a market that I just referenced, which is a market that's typically more dense and better built. And so it's a lot easier to get that last 10% in a market where you have scale and heft, and you can do things like instead of very targeted advertising, you can use mass vehicles to do it. You can get your messaging out differently. Word of mouth helps you. I think that will be probably the final area that pushes it over the hump.

Sebastiano Carmine Petti - *JPMorgan Chase & Co, Research Division - Analyst*

So speaking of convergence, there's some debate in the ecosystem around the merit to that. I mean, why do you think that is the case? Why is there the debate out there? And AT&T, I guess, is a little bit unique given your wireline scale vis-a-vis your mobility peers, but do you think the U.S. is on its way to European levels of convergence long term?

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

Long term, I think -- my point of view long term is we ought not to lose sight of the customer and we ought not to lose sight of what consumer behavior would be absent what we've put in place in regulatory structures, and I would say that most customers don't wake up in the morning and say, "Gee, I relish having some relationship with some company that handles all my access to the Internet issues when I'm in my home; and I relish having a relationship with a company when I'm out in my car, that's different; and I relish having a relationship when I get on an airplane, that's another company; and I relish having to think about when I'm going to take the raft trip down the Grand Canyon, that I've got to do something else if I want to stay in touch."

I actually think if you walked in and said, "Hey, my job is to keep you on the Internet wherever you go," that's a fairly compelling value proposition. And that for most average consumers, folks would say, "I'm good with that if somebody can actually live up to that promise."

Certainly, when we go out into the business community and you look at the mid-market and down, most people need to run their business. They don't have large staffs to deal with this stuff and they want somebody who's going to say, I can deal with your connectivity needs moving forward. So my fundamental point of view is, once the economics and the regulatory structure starts to move out of the way, the customer is going to go that direction. And it's not going to happen overnight, but we are on that march, and we're starting to see those trends.

And to your point, in places where that dynamic has occurred sooner, you're seeing customer acceptance move sooner. And so I just think we're now on a foot race as to who's going to be the best to make that happen. So why last week do we announce and do what we're doing in the satellite space? Because I think customers don't want to drive off a network, and they want to be able to have a relationship to say that when I'm out on that interstate highway on my trip, that I can be confident if something is going on at home, that I'm going to know about it.

And if I'm on that unique vacation where I'm in some place that typically is a bit off the grid, that I'm confident I'm going to be able to at least get the kind of communications done with my work and my office in a way that I feel like I'm not entirely disconnected, or more importantly, post that very, very special picture that sums the day of my experiences up and feel like I can continue to push my brand forward.

Those are, I think, really important things moving forward. And I think we're going to be in a unique position to do that, and that's part of the value proposition, but it's not just about converging in the price and the bundle, it's about making the products work better together. It's about giving the customer something for doing that.

This seamless connectivity is making the product work better together, offering the ability for you to be aware of the customers' presence and security concerns and privacy needs across whatever device they're on and whatever location. It is about making the product work better together. Giving them easy ways to administer and service it is about making the product work better together. I think you need to own and operate in order to do those things.

Sebastiano Carmine Petti - *JPMorgan Chase & Co, Research Division - Analyst*

So we've seen several other open access deals get announced since you've formed GigaPower, including one of your wireless peers. Do you think open access networks will continue to proliferate? And how do you think that will impact the competitive dynamics?

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

I think we're going to continue to see more open access networks show up in the United States for a variety of reasons. Obviously, as you just mentioned, Sebastiano, there's individuals who are building in places, that they have adopted that as their business model and they're going to get some footprint and they're going to build over time. I think there'll be some states under the BEAD structure that are probably going to have conditions or expectations for the government subsidized portion of those networks maybe need to be built with an open access condition on it.

I don't think that will be universal, but I think it will pop up in certain places. So will there be more 5 years from now than there are today? Yes, I think there'll be more. Do I think it's necessarily going to become the exclusive or dominant model in the United States?

Right now, I'd say probably not. I think some depends on what happens over time. Do I think wholesaling has historically been a part of scaled communications infrastructure? Wholesaling has traditionally been a part of scaled communications infrastructure. So I think there'll be elements of wholesale and partnership that occur on these networks. They can take a variety of different flavors. I think when you get into these networks and you're an owner operator of infrastructure, you want to run yourself as close to max capacity as you possibly can. That's how you maximize returns.

And I think when you start to think about what's out there when you build a fiber network and the amount of capacity that's there, it opens up some new models as you move forward. And those models ultimately could be accretive in a converged dynamic. So I think we'll see some evolution, but I don't think we're going to immediately see everybody move to an open access model moving forward, and that's kind of the direction, unless there's a regulatory pivot in the United States that's been different than what we've seen over the last 10 or 15 years.

Sebastiano Carmine Petti - *JPMorgan Chase & Co, Research Division - Analyst*

As it relates to the 10 million to 15 million incremental locations, is that something that -- if AT&T did decide to build that out, is that more of a go-to-loan strategy? Or would you entertain perhaps open access in footprint?

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

Well, so when I talk about this direction about convergence being ultimately kind of the end game that we should all keep in mind and what the customer ultimately wants and we can debate whether this will take place over 5 years or 10 years or 15 years, it's the march. And now the question is who effectively navigates the march?

My point of view is, if that's the march, you do everything you can to stay ahead of everybody else, so that if you've got more scale and you're better at it than somebody else, ultimately, you get to dictate some of the rules as to how the industry structures, the market structure and what you do. I mean it's not more complicated than that. Therefore, I want to use every tool I have in the toolbox.

I want to be able to go out and evaluate if I've been at a region and my brand is in a different position, where there's a possibility to get to faster penetration because you run an open access structure. Possibly that's a better way to get more wireless penetration in a low share market if you have multiple partners selling on the broadband infrastructure with the resale agreement for wireless. I want to use that tool if it makes sense to do that tool. If there's a way that I can go and offload risk in markets that I may not be as successful in, and I have a partner who's willing to take on some of that risk, I want to do that.

If there's another open access provider out there who wants to build the base infrastructure and get into a collaborative marketing partnership that allows me to bring my wireless service at the top of it and I can give them back office on how to run or use my brand to accelerate penetration on their network, I want to sign a deal like that.

And if there's places that I can confidently deploy the shareholders' capital and get the kind of economics that I talked about earlier, that we're experiencing in owned and operated structures, where we're the sole owner, I want to do more of that, too. And all of it is the sum total of which how do you ensure that you have the premier underlying infrastructure that allows you to win that race to converge, and we'll use whatever tool we can that's economical.

Sebastiano Carmine Petti - *JPMorgan Chase & Co, Research Division - Analyst*

So I think we touched on yesterday, but it's a portfolio at the end of the day.

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

It's a portfolio. And then look, it's a portfolio that over time, what we've seen, I do believe that history repeats itself. Fragmented aspects of communications infrastructure tends to get kind of rolled up. It tends to get put into a place where if it's fragmented and in a subscale, it can be managed with scale and structure. So yes, I think there's going to be just like there had been when wireless networks were built.

There are small regional players that build certain portions of the network and they work well for a period of time. And then when the business model becomes more defined, it makes more sense to operate it as a larger whole. We will go through a similar cycle like this over time. It's just a question of how long that maturation occurs.

Sebastiano Carmine Petti - *JPMorgan Chase & Co, Research Division - Analyst*

So in Business Wireline, there were some legacy headwinds. There was a little bit of an acceleration and declines. And I think we've seen throughout North America legacy services kind of had a little bit more rapid deterioration in the first quarter. But if we zoom out for a second, we think about SMB enterprise fiber growth, mobility bundling in business as well, is that offsetting the legacy decline? Is business in aggregate, if you kind of include mobility, is that growing at this point?

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

If you look at business and you include mobility services, it's basically -- it's very close to flat. Some quarters, there's a little bit of growth. Some quarters, it's a little negative, but it's roughly in the flat range. I think we can be, first of all, better in the wireless space and business. We've made progress. I mentioned some of it earlier in some of our underpenetrated segments. Public sector is a good example of that.

But I still believe really across the board, we've got probably Fortune 1000 firms that we do direct support for, that we still have juice to squeeze out of a lemon there. We've done well, but we can do a little bit better. And then in the mid-market and the small segment, I just don't think we're getting our fair share, and really that's indicative of our wireline problem. For whatever reason, our distribution over the last decade-or-so probably wasn't as well tuned to those segments. Our product offers and how we thought about those segments wasn't as well tuned as it needed to be. And then certainly, our converged offerings aren't as well structured as they needed to be.

I would say that's probably because we enjoyed a lot of success in the upper portion of the market. And I think as many businesses can do, you go to the path of least resistance for your success. And if you're doing reasonably well in a segment, you don't pay attention to the other. I would say the management team is much more focused on being more balanced in the entire business ecosystem today. Building that muscle in the mid and low part of the market is hard. We've been at it, in earnest, probably for about 3 years. There's green shoots, but it's not anything near the maturation I'd like to see. That's probably not surprising.

Historically, this is a momentum business. It takes a little bit of time to get the flywheel going. And then once the flywheel starts going, you see goodness come from it. We haven't quite gotten to that point yet, but we're going to. The brand plays well. We're starting to get to a product offering that allows us to be relevant in the mid and small portion of the market. Certainly, Internet Air allows us to have a more ubiquitous message now as to what we do in that segment that we didn't have before, which I think will help both our wireless business, our handset business, as well as our data connectivity business.

We're getting the right structure around our information systems. We're building the right partners in distribution. So I'm optimistic that we will get that back to aggregate growth over time. But it's going to take a little bit of time to do that. And our job is to continue to balance that growth in the new areas with pulling costs out of the old. The good news is we've been very successful in business. The bad news is that means we have a bigger base of products that people have to migrate on. And that's a good problem and a bad problem, but it's one we know how to operate and manage and we'll continue to do that going forward.

Sebastiano Carmine Petti - *JPMorgan Chase & Co, Research Division - Analyst*

And you touched on the cost savings program. And so you posted very strong mobility and consumer wireline EBITDA growth in the first quarter and upgraded EBITDA expectations in each of those segments for a full year. But you're also in the middle of a longer cost-cutting program through mid-2026 of about $2 billion. Can you maybe contextualize that program for us and maybe provide some color on milestones or things we should be considering along the way?

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

Yes. I mean, contextualizing the program, as you started out by talking about it's been 4 years. And yes, it has been 4 years and when you think about the cash flow accretion that's been coming into the business, the improvement ratability of it, what you've seen within the context of us improving our balance sheet structure between short- and long-term obligations, the margin accretion that's come into the business that has occurred, you kind of go at all that, that's coming on, what I would call modest revenue growth, but it's got cost discipline aligned to the other side of it.

So we pulled out over $6 billion in this business over that 4-year period of time and that's what's given us the ability to retire $36 billion of debt. Since I've come in here, we've bought $37 billion of spectrum early on in the cycle. You saw the momentum picking up. I think first quarter '24 to first quarter '23, down $6 billion in debt. We'll be at 2.5x first half of next year. Cost cutting has been really, really important on that, and it will continue to be.

What are we doing? One, as I just said, we've got opportunities in the legacy part of the business to restructure how we operate. And we're down that path, but shrinking the footprint of this business, so that we're operating in concentrated markets is really important. We have eliminated a lot of square miles in our footprint and what we're supporting. We have a lot more left to do. The next round of this allows us to start getting more fixed cost structure out, start to shed real estate and infrastructure and support systems that support those older products and services that have served us very well, but are now being replaced by 5G and fiber.

So that's a key part of what we have to do. And you see us running the regulatory plays. You see us managing that aggressively. That will be part of it, too. We have a lot of things going our way right now in technology. I mentioned one earlier. We're putting technologies out that are easier to operate and run. That allows us to be more efficient from how many times a customer calls us, to how many times we need to put a technician out there. As we get more scale and put more of that out there, we get more goodness associated. When we simplify the product set, it allows us to streamline operating systems, which makes us more effective at doing digital support, managing things through call centers.

We are a company that collects a lot of data day in and day out about our customers, about our business, about the performance of the network. AI will help our business. It's going to help our business in engineering. It's going to help our business in customer service. It's going to help our business in how we price and go to market. When you're moving through and you think about going into a particular building, location, customer segment, the dynamics that can occur with more agile pricing approach is a great opportunity for us to be a more effective and efficient operation moving forward. And as you move that through your distribution channels, there's great opportunity there.

There is all kinds of lift we're getting in our information technology organizations in how we code and write software. The more efficient we are at writing code, the more effective our business can be and operated. It means we can do more projects that we couldn't do before. We can port software to close down older systems. We can do that next marginal project that ultimately improves labor costs or customer support that we weren't able to do. We're seeing improvements in our coding efficiency in the 30% to 40% range. That's phenomenal. I've not seen anything like that in my career. So we've got plenty of places we can run right now, that we can still run the business better to pull the next $2 billion of cost out, and it's an equally important part of what the management team focuses on.

Sebastiano Carmine Petti - *JPMorgan Chase & Co, Research Division - Analyst*

Well, John, I think that's a great place to end it. Thank you.

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

Thank you. Appreciate you being here, Sebastiano.