LSEG STREETEVENTS

EDITED TRANSCRIPT

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OVERVIEW:

Company Summary

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Michael Funk *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

PRESENTATION

Michael Funk - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Thank you all for attending the last presentation of the 2026 Bank of America Telecom and Media Conference. Really happy to have AT&T helping us wrap up this year and excited to have Pascal and Jen join us here this afternoon. So thank you both for being here.

Pascal Desroches - *AT&T Inc. - Chief Financial Officer, Senior Executive Vice President*

Thank you for having us.

Jenifer Robertson - *AT&T Inc. - Executive Vice President & General Manager*

Thank you.

Michael Funk - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

And I think you might have a safe harbor that you wanted to show, Pascal?

Pascal Desroches - *AT&T Inc. - Chief Financial Officer, Senior Executive Vice President*

Yes, indeed. Can we pull our safe harbor? Some of the comments today will be forward-looking and are subject to risks and uncertainties. Please refer to our website for more information.

QUESTIONS AND ANSWERS

Michael Funk - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Great. Pascal, so I want to kind of cover a broad range of topics, but I want to start with priorities and momentum in the business. And going back to the second quarter. So big picture in the second quarter, AT&T reported faster growth in service revenue, adjusted EBITDA and adjusted EPS than in the first quarter. And you also reiterated your full year outlook.

So I'd love to hear from you, Pascal, what has improved most meaningfully in the underlying business? And what gives you confidence in that momentum carrying through to the second half and even longer-term guidance period?

Pascal Desroches - *AT&T Inc. - Chief Financial Officer, Senior Executive Vice President*

Yes. Look I think we are -- I think we reached the tipping point in the second quarter. And we expected that -- I mean, I'll take you back the last several years, we've been investing against priorities that we have deep conviction as it is our belief, if you want to be the best connectivity company, you need to have the very best technology. That is, for us, fiber and 5G. We've made enormous investments in both bolstering our spectrum position, modernizing our wireless network and deploying fiber.

Last year, we significantly increase -- enhance our position by acquiring -- by announcing the acquisition of the Lumen consumer assets and the EchoStar spectrum. Together, those assets position us for accelerated growth. We said it at the time we did those deals. Those deals have both closed now, and we expect to see an acceleration in broadband revenue growth, both fiber and fixed wireless.

When we acquired EchoStar spectrum, it allowed us to open up more areas with its wireless. So the combination of those two acquisitions plus our organic build that -- fiber that we have been at for several years now really has increased the opportunity set for us to drive converged relationships.

Our consumers have told us very clearly, they want to buy from one provider. And if we can provide them the very best services at a compelling price point, where we have owners economics on both sides, we believe that is a critical advantage. Ironically, in many ways, we are insurgent in broadband in that for years, our cable peers have enjoyed a virtual monopoly. And we are overbuilding in their areas. We're able to bring a better product at an attractive price point, knowing that we have -- we can trade economics between wireless and fiber.

And so it's a great play and a great position to be at, and we think there's a lot of room to run. As you know, we continue to build out significant fiber locations, both in our legacy -- in our historical footprint plus in the footprint that we acquired for Lumen. And that's going to continue to give us a nice runway. So we sit here today, we have guided for the next three years to grow earnings double digits -- EPS double digits. We said this year that we are returning $18 billion back to our owners in the form of dividends and buybacks. Over the next three years, we expect to deliver $45 billion back to owners, plus double-digit EPS growth and accelerated the EBITDA growth from here. So, oh -- no I am so incredibly proud of the organization and the position we find ourselves in.

Michael Funk - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

And you touched on convergence earlier, and I want to come back to that in a minute that it is all central to the story and even the evolving debate, right, around telecom versus LEO and that entire thing. But I would have focus on maybe wireless and competition for a second because we entered '26 with expectation for elevated competition, right?

I think in part because in 4Q, you did see some carriers out with relatively aggressive promotions, not AT&T, but others. In the second quarter, combined what 432,000 postpaid phone net adds, higher ARPU, lower year-over-year postpaid phone churn. So maybe contrary to some of the expectations that the market had entering the year, I'd love to hear what changed during the quarter?

And how much of that performance reflects AT&T specific execution versus moderation industry switching activity, and it's kind of a long question. And if you look kind of beneath the headline numbers, what customer behavior has changed? Switch less frequently, what's changed in their behavior or their activity?

Pascal Desroches - *AT&T Inc. - Chief Financial Officer, Senior Executive Vice President*

Let me start, and then I'll have Jen jump in. There were several things we knew was going to accelerate our momentum. Remember, we acquired the Lumen assets in February. That first quarter, we knew we were going to have to invest significantly to ramp up our distribution. So that was a headwind we had called out and we expected that.

Two, we only had two months of looming operations in the second quarter. So mechanically -- in the first quarter, mechanically in the second quarter when you having a full quarter would also add to our growth rate. One, we also have pricing actions planned for the second quarter. And on top of that, we knew as we scale the Lumen assets.

As we manage those assets and put more marketing muscle behind it. that those assets were going to produce more than they have historically and all things that we are seeing and we are benefiting from that have really helped the momentum. And all those plays has a lot of room to run on top of a great performance by our business segment which has also reached the tipping point that for years, we've been saying we're going to achieve service revenue growth.

We grew search revenues 1.8% last quarter, and we are guiding to our growth for the foreseeable future over the next three years, low single digits. So a lot of things are working well. And as we scale our fiber footprint as we scale the Lumen acquisition, we have a lot of them to run.

Michael Funk - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

And you touched on execution of AT&T strategy and things that you're actively doing? I'm also curious so if you're seeing the consumers are switching less frequently holding devices longer, maybe emphasis on network quality, service, what you're seeing with customer behavior and how that's affecting the metrics that you posted?

Jenifer Robertson - *AT&T Inc. - Executive Vice President & General Manager*

Yes, I'll build from where Pascal just was, which is we certainly are seeing behavior that is similar to last year with respect to switching. We are seeing same levels. I'd say the industry is very healthy with respect to competition. It is as competitive out there as it has been. Switching levels we've said they're on par.

I wouldn't say they're higher, they're lower. They have held steady as we've gone through the year. What we're very proud of is that our thesis is holding across three fronts. One, the converged strategy is working, anchoring the home with Converged absolutely gives us the opportunity in areas where we are underpenetrated in fiber, such as the new Lumen assets. We can go build off the home, pick up the fiber and then grow wireless, where we have not historically had as strong of wireless share like in the lemon footprint. That thesis is holding out. We also hold on to our wireless subscribers in fiber areas. So that grows the value of the household.

The second thing that we've done, and we did exceptionally well in the second quarter is the team has executed very, very well and consistently on our pricing. We rolled out new pricing constructs earlier this year. Customers have been very receptive to that. We refreshed our plans, and we've gone out there and listened to customers on their pain points and where AT&T is uniquely positioned is that we are listening to customers who want choice. Customers don't want to pay for more than what they need.

And in our traditional plans of unlimited your way, we are leaning into the mix and match view that we uniquely do. So customers truly can go into their family plans where we have large share and makes them match uniquely to the lines they have. With our build to plan, they can uniquely go in at $15 a line and only add the features they want.

And so we look at that and say we will build to the household only the plans and features they want. And it's been very receptive. You mentioned it and Pascal mentioned it, we grew ARPU. We lowered churn at a time when we added all of those lines. We actually had the highest account growth in the second quarter than we've had in over three years with postpaid voice accounts. And so that is demonstrating the value of CONVERGE. It's demonstrating our execution on price.

The third thing I would say is that we are absolutely leaning into the value proposition of the guarantee. Customers are saying and showing us with that growth that the guarantee value proposition makes sense. Staying consistent with leaning into choice, staying consistent with showing them that our network assets and the fact that we're willing to back up our network assets and our service with the AT&T guarantee is building trust.

And that shows that customers value that trust, they value choice, they value the price equation that we're giving them. So those things are working and they're positioning us better as we look forward.

Michael Funk - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Can I build on that for one second -- because one of your competitors actually called out expectation for higher churn in third quarter, I think, in part because they had made some planned changes, some pricing changes.

And I think it speaks to maybe difference in execution, very deliberate choices that are made by AT& and how you touch the customer and how you make those changes. So can you just walk me through briefly how you think about making those changes interacting with the customer to make it a lower friction, less churn inducing event because obviously, there's is a good way and is a bad way to do it, and it seems as if you're doing it in a good way.

Jenifer Robertson - *AT&T Inc. - Executive Vice President & General Manager*

Right. When we look at our pricing actions with customers, we have three pillars that we have stayed very consistent with for the last several years. The first is that if we take a pricing action, we ensure that any pricing action adds value for the customer. That is, first and foremost, what we start with. The second is that we are going to be very transparent with the action so that customers understand what's happening. They know it's happening in advance and what value is being presented to them. And then the third is that we come back to choice.

And so we will always present it in a way to the customer that says, here's the value that is coming to you. Here are the choices you have within those plans to either stay with the plan you have at the new price point, Here's what you have available to you that might be a higher price point to fit you better or the lower.

And what we've been able to do over the last several years as we've executed these pricing plans is learn that customers often stay with the plan there on. Some choose to move up and some choose to move down, and we're able to model that with a lot of confidence and able to build that trust with customers, and we're able to then look at and model the churn that we anticipate. And our business cases for these pricing actions tend to be much more conservative with the churn we would expect and that is we model higher churn to make sure that we're willing on the sensitivities to take the actions.

Michael Funk - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

So you can accept the contemplation of the action.

Jenifer Robertson - *AT&T Inc. - Executive Vice President & General Manager*

Exactly. And then we tend to come in lower than our expectation on churn.

Michael Funk - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

That's great. So Pascal, on choice, right? Big choice to make in fourth quarter this year. New iPhones announced yesterday, the long-anticipated foldable iPhone, but I think even the lower-end devices average MSRP went up like $100, something like that. And that's not inconsequential when you're thinking about profitability, and we've run the math on it, right?

I think you and others have said that we are not going to keep on increasing subsidies or the consumer needs to be reduced, right? So heading into the holiday season, what is your thought process strategy around devices, around device promotion, I can tell me exactly, but how are you thinking about subsidy, especially with the higher device prices?

Pascal Desroches - *AT&T Inc. - Chief Financial Officer, Senior Executive Vice President*

I'm going to phone a friend next to me since she is the one making those decisions. But you made a point that's an important one. We are living within a subsidy budget. Just because manufacturer has decided to increase prices for a variety of reasons. It doesn't mean that, that change is a subsidy budget.

And so we have to figure out how to live within budget envelope and the team does a really good job of looking at various things in making sure, on the one hand, we're competitive, but on the other, that we are living within that subsidy budget and Jen can take you through some of the considerations.

Michael Funk - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Yes, I'd love to hear more detail on the subsidy budget and how you can struck that.

Jenifer Robertson - *AT&T Inc. - Executive Vice President & General Manager*

Absolutely. Well, you're getting a front row seat to our regular meetings here -- this is -- look, the customers are going to set their demand with the new devices. And we are there to serve customers first. And then we look at it and say, okay, how do we make sure that the AT&T value proposition of network and guarantee is first and foremost, why a customer would choose to come to us.

And then let's make sure you have the portfolio of devices you want to choose from and that we're competitive in the market. But within that, we're doing it profitably. We're not chasing volume for volume's sake. Our goalpost is to win in service revenue. That is how we measure success. So with higher cost devices, we would anticipate, as with anything else, there could be some suppressed demand. We'll see how customers take us.

Where we look at it with offers is that we are going to match and produce our offers relative to the customers' value. And we use, you'll see high-level marketing messages as many do high-level marketing messages, grab attention, they drive traffic and then we construct the offers underneath that to ensure that our total cost fits within the envelope.

And so you'll see a strong message that competitive at the highest level will generate traffic, and the levers we have below that tend to come from these avenues. First, we can look at the value of the device that gets traded in. And we can tweak that, the newer the device that's traded in the higher the value. I mean that's intuitive.

The second thing we can do is use rate plans. The service rate plan customers purchase from can gate the eligibility of the higher tiered offers. So if you're on one of our higher tiered rate plans, you then get a higher trade ineligibility of your device for the higher-end offer. And then the third thing we have at scale that our competitors don't have is a converged scaled base, and the ability then to use these offers to drive scaled converged growth. And so the more value on the household account itself, the more value we're willing to give on the offer because the long-term value of the account rose.

Michael Funk - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

So you're solving for CLV?

Jenifer Robertson - *AT&T Inc. - Executive Vice President & General Manager*

Absolutely.

Michael Funk - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

That's it's solving for, right?

Jenifer Robertson - *AT&T Inc. - Executive Vice President & General Manager*

At the end of the day.

Michael Funk - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

That's all the right. You're not solving for that adds. You don't happen to add target anyway. So you don't have to worry about hitting at that target.

Jenifer Robertson - *AT&T Inc. - Executive Vice President & General Manager*

That's right.

Pascal Desroches - *AT&T Inc. - Chief Financial Officer, Senior Executive Vice President*

We are very deliberate in that regard.

Michael Funk - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Very deliberate yes. That's clear. So just on the consumer growth and share gains, you added about 147,000 consumer postpaid wireless accounts in 2Q. From where those new relationships coming and if AT&T sustainably gained market share among 1 line, 2 line and even value-oriented households where historically, I think you actually been under penetrated in those different segments of the market. So I guess the question is from where are you seeing growth? And is it primarily from historically underpenetrated?

Jenifer Robertson - *AT&T Inc. - Executive Vice President & General Manager*

The growth that we are seeing is from our value segment. We've been open about that is where our under-penetrated segment is. It's where our opportunity is. I would say it is still an opportunity. So that is a runway in front of us where we're still under index. But absolutely, the accounts you're referencing and our highest in three years, as I mentioned, is where we are seeing the majority of that growth.

What I would tell you is the growth that we look at is in this formula, the right product at the right price and the right offer to the right customer at the right time. And so making sure that we take our converged formula of fiber and Internet Air, our fixed wireless product plus wireless, targeted at the right price construct and offer construct towards 1- and 2-line accounts versus our very valuable base that has multiline accounts and then mirror that against our pricing constructs of unlimited your way, build a plan of our new OneConnect plan that we're testing.

And mirroring those out across the segments such that we get the highest, what we would call LTV, CLV such that we are growing converged households at the end of the day, that is the formula we're solving for. So yes, we're seeing growth here. We also see growth from protecting the base.

Michael Funk - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Okay. That makes a lot of sense. And you mentioned FWA a few times, both of you have. And I want to go back to second quarter and make sure I understood some comments because I'm an analyst to always interpreting things probably incorrectly a lot of times. And I think John Stankey said in a paraphrase because you'll probably correct me, that you'd be prioritizing fiber in markets, which is not surprising, right, where you have fiber in those markets.

And maybe less emphasis on FWA in the markets where when you have fiber, right? I wanted to interpret that, I thought maybe that meant less emphasis, less building out of FWA and an even greater focus or acceleration in fiber given this potential competitive threat that we've all been talking about. Am I reading too much into that comment? Or is there some greater emphasis focus on fiber deployment, maybe less emphasis in FWA?

Pascal Desroches - *AT&T Inc. - Chief Financial Officer, Senior Executive Vice President*

Let me give you our logic, and it's fairly straightforward. Our belief is this when we invest in fiber and we're successful in deploying it, it is the very best product that drives the best consumer experience. You couple that with -- it's our lowest cost to serve. The incremental cost of delivering a bit in fiber is lower than any other technology. So it stands to reason that we would prioritize putting as much traffic as possible where we've invested to build fiber.

And in turn, where we don't have it, we think fixed wireless is a fine solution. especially in those areas where we don't have fiber, we tend to be underpenetrated in wireless. If we can bring a combined offer of wireless to get a share of the population that we otherwise would not have a relationship with -- it makes all the sense in the world. But we are doing it very deliberately recognizing that -- it's long term, it's expensive to support a growing fixed wireless base. We don't ever anticipate having the size of base that some of our peers have.

Do we have a lot of room to still run? Yes, absolutely. But we don't anticipate because we're being very surgical, and we're trying to build a business that we believe is going to be sustainable long term, one with a great cost profile, one that allows us to increase our share of the connectivity budget in each household, but one that we could make a really nice return on it. And so it's balancing a lot of things when we're trying to do that.

Michael Funk - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Okay. And I'm inching towards the questions about convergence because we're kind of getting there in the conversation. But I wanted to talk a little bit about ARPU trends in the quarter because the discussion point. I think it at 2Q. And an area of focus was the divergence between the improving ARPU for wireless and then the pressure on fiber ARPU, and that be a lot of questions on and then even after the call on this topic.

And historically, investors look at these trends independently, right? But your comments suggest actually economics are becoming more interconnected, especially as convergence grows across your portfolio, so how should investors think about these ARPU trends together, maybe more interconnected going forward? And what would give you confidence that the overall customer relationship becomes more valuable over time?

Jenifer Robertson - *AT&T Inc. - Executive Vice President & General Manager*

That's my favorite question.

Michael Funk - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Is that?

Jenifer Robertson - *AT&T Inc. - Executive Vice President & General Manager*

It is.

Michael Funk - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

That one year's?

Jenifer Robertson - *AT&T Inc. - Executive Vice President & General Manager*

Well, we'll tag team it because it really does. It highlights the value of convergence, and it highlights the value or the potential for growth. I think of it this way. First, from a fiber perspective, when we look at this, the ability to anchor the home and come in as Pascal said earlier, we're an insurgent or the disruptor in the broadband space going after cable that has enjoyed 80% or still market share.

And so when we go head-to-head with a better product, we win. And so if we can go in quickly as the disruptor, anchor homes, and we take a little bit of fiber ARPU dilution to do so because those homes come in, and we have a higher likelihood to converge we're going to do it. And the reason that makes sense is a converged household has a higher lifetime value. We experienced lower churn with those customers, and we are more likely to pull wireless with it, either because we're protecting wireless that's there or we're growing wireless, especially in areas where we've had historically lower wireless share like the LIM footprint.

And so from a fiber perspective, we anchor the home low, and we give ourselves an opportunity to grow that value over time, knowing the household value grows. From a wireless perspective, we're protecting our growing wireless as well and getting converged. For our business, the model makes sense because we have both of those individual ARPU or P&Ls to work from at the household level. We are moving away from thinking about these as individual products because a scaled owners' economics of the networks allows us to say we'll take a little bit of fiber ARPU dilution over here, grow the total value of the household now and over time. And that's the benefit we have sitting in this seat. And if it's more competitive to do so right now with the fiber dilution, we'll do that. If we need to make other trades, we can do it and still grow total value of the household.

Michael Funk - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

And that makes a lot sense. But I think some investors are counting around it as well and how that was impacting the ARPU.

Pascal Desroches - *AT&T Inc. - Chief Financial Officer, Senior Executive Vice President*

The other thing is I think we have shown a history of being effective at pricing up the back book for both wireless and fiber, and it's something that we do we do periodically. But we are in a unique position where we are an insurgent and we are using -- the investments that we've made in both fiber and spectrum to really allow us to take share from competitors that have benefited from a virtual monopoly over last several years. So it really is a great position to be in, especially when you have fiber, you have a better product that you can offer to consumers at a more competitive price point.

Michael Funk - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Now, that was great. I want to focus even more squarely on convergence for a minute and some of the penetration rates, and there's some numbers out here that end of 2Q, I think 42.5% of Internet customers had postpaid wireless and 45% ex alumin footprint, right? So obviously, a large portion of your base is now converged. And how far can that penetration ultimately go? And as you think about driving that penetration, what are some of the key operational constraints on moving it higher? And I guess, even how do you address those operational constraints.

Jenifer Robertson - *AT&T Inc. - Executive Vice President & General Manager*

We have said -- I think our last Investor Day, we said publicly, look, our target is 50%. And I believe that John Stankey has put an even bolder target out there and said, why wouldn't every wireless customer every fiber customer have our wireless. And so I would say we publicly stated 50% as a target. We've been given a stretch goal publicly as well higher than 50%. It will land, I'm sure, somewhere in between. But I've committed to 50%.

Pascal Desroches - *AT&T Inc. - Chief Financial Officer, Senior Executive Vice President*

Okay. And Mike, I think what's a bit is we're in a period where the denominator of that ratio is increasing significantly.

Michael Funk - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

That was my question.

Pascal Desroches - *AT&T Inc. - Chief Financial Officer, Senior Executive Vice President*

Yeah. All right.

Jenifer Robertson - *AT&T Inc. - Executive Vice President & General Manager*

That will vary over time.

Pascal Desroches - *AT&T Inc. - Chief Financial Officer, Senior Executive Vice President*

Yes. And so even though it may not appear that we're making significant progress, as you are expanding the denominator and you're increasing the percentage at the same time, it implies a more and more converged customers coming on board.

Michael Funk - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Acceleration of the absolute number, like as you ramp up your fiber builds, right? So there could be some quarter-to-quarter choppiness in that percent number maybe you had more or less fiber comes past each quarter, but it should continue to ramp in March higher over time.

Pascal Desroches - *AT&T Inc. - Chief Financial Officer, Senior Executive Vice President*

Yes. And importantly, we don't talk about nearly enough. We're over 50% already on fixed wireless. So -- and the play is working, and it's been proven, and our customer research supports that's how they want to buy.

Michael Funk - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

And have you seen any differences in the churn rate of converge customers over time as you've grown the converge base? I know you've thrown some statistics out historically about kind of roughly in of a 50% reduction in churn or may be seen changes in the churn rate as you've expanded that base?

Pascal Desroches - *AT&T Inc. - Chief Financial Officer, Senior Executive Vice President*

Jen, that's something you comment on? Yes. I don't remember precisely what we have said. So why don't you talk a little bit qualitatively about what you see when we have a converged relationship in terms of churn and overall value.

Jenifer Robertson - *AT&T Inc. - Executive Vice President & General Manager*

Right. What I'll tell you that converged customers do is this. They have stayed consistent in that they do stay longer whether that is a fiber plus wireless customer or a fixed wireless plus wireless customer, fiber customers being stickier with the wireless because the fiber customer stays in their home longer. The converged customers tend to buy more. Those customers have more wireless lines with us.

They tend to have a higher-value account from the perspective of the add-on, they have, whether that's on the wireless side or the fiber side. So the total value of the account is higher growth in survivability, but also in the value of the service plans and add-ons.

Michael Funk - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Okay. And I think you already answered this in part earlier, so I apologize. But you've mentioned a number of times higher value for converged households. So it's a natural extension of that to think that you really focus your promotional dollars, right, and the promotional dollars on the converged offerings and maybe we did see less promotional in dollars towards wireless only accounts over time. Is that a logical way of thinking about this?

Jenifer Robertson - *AT&T Inc. - Executive Vice President & General Manager*

Yes, I think you should absolutely equate our offer spend with the higher value of customer.

Michael Funk - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Okay. So maybe less directly in kind of the wireless only marketplace competing there around the holidays in much more focused in areas, you do have converged fiber and wireless to attack and lock down that base with a longer-term focus on customer value.

Jenifer Robertson - *AT&T Inc. - Executive Vice President & General Manager*

Yes. I mean you should expect we flex that on and off depending on buying season and elsewhere. But the general modeling I would do is absolutely the highest value customer, highest offer we give. And that we lean into our value proposition of the network service and connectivity is what we offer and moving away from device subsidies as much as we can.

Michael Funk - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Yes. And then that's very consistent with what John and Pascal entire team have said for the last several quarters moving away from the device subsidies. So it will be interesting to see this holiday season given the new device introduction I just mentioned in the -- especially the price tag for the foldable iPhone being actively 2 times the regular iPhones. So I'm curious to see the volumes for this holiday. I wanted to hop over to the Lumen integration for a moment.

Pascal, you had mentioned Lumen acquisition earlier. And that acquisition does seem to be an important test of the convergence playbook that you've both laid out here. And those territories traditionally had much lower fiber penetration than legacy AT&T and obviously, also lower wireless convergence. What have you learned so far? I know it's probably been a little while since the deal closed, so much you can learn. And how quickly can those markets approach the penetration and convergence of legacy AT&T territory?

Pascal Desroches - *AT&T Inc. - Chief Financial Officer, Senior Executive Vice President*

I'll start, and Jen could provide a lot more texture. I think the point -- embedded in your question is the right points and part of the theory of the case, we acquired about 4.5 million locations in similar locations from Lumen. They were about 25% penetrated as compared to 40% in our owned and operated. So we view that as a significant opportunity to increase penetration with our distribution, with our brand. What have we done so far?

The first quarter, we had the asset for two months. We had to start to invest to really be in a position to meet the demand that we knew was going to be there. So what does that mean? Lumen is not -- the Lumen historically hadn't had the level of subscriber demand that we were anticipating. The long behold, as we started to market, it was a lot of demand we had to -- we're still catching up somewhat to be in a position to service that demand to do the installations to go out and make sure that the consumers get the experience they deserve.

And that is still a work in process. We started in Q1, a little bit better in Q2, and we continue to make progress. That's one. Two, we have what -- in order to put an AT&T brand on that -- on those services, we have to ensure that the customer is going to get the same exact experience as our footprint. So that means the same customer equipment in the home, all things that they didn't have that you have to go off and do -- so you can't turn it on a switch.

It is -- what I expect, there will be gradual improvements over the next several quarters as we get more and more of that in place and building in addition to our retail stores, building feet on the ground to be in a position to drive further penetration and to service customers the way they want.

Jen could probably add a little bit more. But like there's a lot of work to get this right. And I feel the other case, it's early days, but we're really pleased with the reception and the demand for the brand. in those territories.

Michael Funk - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

I'd love to hear more details, Jen. Specifically, what you and your team are doing just to build out the capability, I guess, smooth out things that weren't work in the way that AT&T traditionally does them. I'd love to hear more details on that.

Jenifer Robertson - *AT&T Inc. - Executive Vice President & General Manager*

Yes, you bet. So we think of it -- I would put it in these work streams. As the network team comes in and does exactly what Pascal is talking about, they had their plans. We had essentially three of our own. One is get the brand out there and then get the marketing and awareness going and then also get the distribution in place.

And we have that in two parallel efforts. There was pent-up demand that we could simply go take existing AT&T assets and apply to the Lumen, Quantum Fiber brand, and just say, let us just take our distribution assets and see what kind of lift we can get. That's essentially what we've done so far. And so that's the first set of improvements that you're seeing ramp.

And that is taking our retail presence, it's taking our extended third-party sales channels and applying it to the Quantum Fiber brand, and then saying, now let us go reach out with marketing to our existing wireless space and add quantum fiber to it. So that's simply applying plays we know how to do at scale play 1. Work Stream 2 or play 2 is then say, as the network team works through their efforts and we know we can apply the AT&T brand and the AT&T guarantee to an AT&T fiber product, then we'll come in and we'll execute a full scale brand launch, marketing launch of AT&T fiber plus AT&T wireless into a market.

That will take time to scale brand awareness and get the halo list. But we'll apply our same playbook that we do in all of our other territories that we know work. And we'll be able to get the additional lift from that effort as well. And we'll see the full power of AT&T fiber at that point. But we're not waiting.

Michael Funk - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

And when do you think we get to that full PowerPoint where you're executing the same velocity where you have in legacy AT&T territory?

Jenifer Robertson - *AT&T Inc. - Executive Vice President & General Manager*

Several quarters to get the network efforts going at scale. I mean I wouldn't --

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Michael Funk - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

So more back half '27. Is that roughly the way about it. I'm not trying to nail you down exact timing, but --

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Jenifer Robertson - *AT&T Inc. - Executive Vice President & General Manager*

We've probably put a time frame on that. I'm going to let our network partners get through the right.

Pascal Desroches - *AT&T Inc. - Chief Financial Officer, Senior Executive Vice President*

Mike, it's also -- it's happening market by market. It's not one big -- so there are markets where we've done that, but it's going to take us a long time to get through the entire footprint that was acquired.

Jenifer Robertson - *AT&T Inc. - Executive Vice President & General Manager*

Yes. And then let the marketing soak in and move.

Michael Funk - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Okay. Makes sense. I think I might have time for maybe one or two more if I read fast. So I'll try to get to a couple more here. I wanted to maybe just try to close it with the fiber build and rising costs associated with that.

So as you accelerate the construction and progress towards your goal of 60 million, I think, plus fiber locations. Are you seeing any inflation in cost per passing. We've heard a lot about, obviously, labor cost inflation, equipment cost inflation. Any change in pretty material anything that would be increasing causing that cost per passing to increase?

Pascal Desroches - *AT&T Inc. - Chief Financial Officer, Senior Executive Vice President*

We've said this before, and I think it's worth underscoring. There are several things that are involved in terms of the overall profitability of the fiber business. One is the cost to pass. Two, it's the cost to connect. The cost of pass, we have long-term commitments for fiber, and we've had them for a long time.

We have a great relationship with our fiber provider and the costs there are quite reasonable given the broader dynamics. Two, we also have agreements with our contracting partners along with our labor unions that allow us to have great visibility to our overall cost profile.

In terms of cost to connect, as more and more homes are already connected, the second, third and fourth connection can be done via self-service, which reduces our overall cost profile. And then to maintain is the third piece of it. This is an incredible technology in that the maintenance profile is so much better than what we see with copper and the energy that it consumes is significantly less. So we're seeing those benefits. All told, like we're very comfortable we can continue to build that scale and manage within the budget portfolio of capital that we have highlighted to you.

Michael Funk - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

And I would love to -- I would love to see a metric over time, and I know maybe you're not going to give it to us, but even the percentage --

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Pascal Desroches - *AT&T Inc. - Chief Financial Officer, Senior Executive Vice President*

My successor will.

Michael Funk - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Exactly, even the percentage of fiber growth ads that are first-time connections versus second because that at least help us on Wall Street put some math behind the cost per gross add. But just something to think about over time.

Pascal, Jen, thank you all so much for coming out today and thank all the investors who showed up.

Pascal Desroches - *AT&T Inc. - Chief Financial Officer, Senior Executive Vice President*

Thank you very much.

Jenifer Robertson - *AT&T Inc. - Executive Vice President & General Manager*

Thank you.

Michael Funk - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Thank you.