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# EDITED TRANSCRIPT

T.N - AT&T Inc at Bank of America Media, Communications and Entertainment Conference

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## CORPORATE PARTICIPANTS

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

## CONFERENCE CALL PARTICIPANTS

**David Barden** *BofA Securities, Inc. - Analyst*

## PRESENTATION

**David Barden** - *BofA Securities, Inc. - Analyst*

All right, everybody. Thank you for joining us. I'm Dave Barden, Head of US and Canada Telecommunications and Communications Infrastructure Research for Bank of America. Thank you for joining us for the official beginning of day two. I'm really happy to have Pascal Desroches, join us again, the Chief Financial Officer of AT&T for our conversation at this year's conference. Thank you, Pascal, for joining.

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

It's a pleasure to be here. And welcome, everybody, and looking forward to our discussion.

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**David Barden** - *BofA Securities, Inc. - Analyst*

Pascal, do you have any Safe Harbor stuff you need to address?

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

Yes. I just want to refer everyone to our Safe Harbor statement on our Investor Relations website. Some of the information we may discuss here is forward looking and subject to risks and uncertainties.

## QUESTIONS AND ANSWERS

**David Barden** - *BofA Securities, Inc. - Analyst*

Awesome. Thank you so much. So there's a little bit of news out this morning that might be distracting some of our audience. And I'd like to get your hot take on the announcement that Verizon is going to buy Frontier for an 8.4 times EBITDA multiple before synergies expected to close in 18 months. Conference call is ongoing. What is your kind of thought on what's happened here?

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

Look, I think this underscores the strategy that we laid out four years ago and that we've been pursuing. When you look at bandwidth consumption trends in the US, they are going in one direction. They're going up significantly and ultimately, the provider who can have networks at scale at both wireless and fiber will be the ones who succeed. They're going to be more competitive, they will have the best networks, the best cost structure.

And our CEO, John Stankey, set out that course for the organization four years ago. And we've been -- we've invested significantly in spectrum and fiber, and we are now that nearly 28 million locations passed well on our way to 30 million-plus by the end of next year, and we have identified 10 million to 15 million incremental locations beyond that in our footprint, and that's all before our GigaPower investment in -- which is a JV with BlackRock. So you can see our ambitions are -- regarding fiber are pretty significant, and we are well on our way.

And the good news is this, we don't need to do a transaction in order to gain scale. We are -- when I think about our all-in cost to pass a home, I'd much rather build and generate the returns through building as opposed to going out and acquiring and paying a premium. So all in all, look, this just affirms the strategy we laid out four years ago. And just happy others are following along.

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**David Barden** - *BofA Securities, Inc. - Analyst*

So that's not an over-the-top bit for coming for Frontier.

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

There was an announcement -- we're good.

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**David Barden** - *BofA Securities, Inc. - Analyst*

You're good. Okay.

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

We have lots of opportunity in front of us, no need to be distracted.

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**David Barden** - *BofA Securities, Inc. - Analyst*

So I want to kind of just dig in a little bit more on this whole topic, which kind of goes to this idea of convergence a little bit, which is, I think, for a long time the wireless industry said, okay, cables, merging broadband and wireless over the Verizon MVNO and they're having a little success with onesie-twosie customers, but there's a limit. We can be successful in wireless without a broadband solution.

But yet, here we are, all the wireless companies seem to be adding broadband to it. So it might not be a need to have, but it's obviously a nice to have, right? So can you talk a little bit about the difference in opportunity when you have a wireless only part of the market as opposed to where you have fiber and wireless together. What's the difference between those two?

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

One, I think fiber is a product that is beloved by customers. Having fiber paired with our wireless, we see considerable churn reduction, not only in fiber, but in wireless as well.

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**David Barden** - *BofA Securities, Inc. - Analyst*

I think you want to put some numbers around that. Verizon said 50% reduction in wireless churn and 40% reduction in fiber churn. Can you do better?

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

I'm not going to put any numbers out there, perhaps one day I will, but right now, we're not going to make news.

**David Barden** - *BofA Securities, Inc. - Analyst*

I was hoping today, it was that day.

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

No, it won't be today. So we do see considerable churn benefits resulting in larger lifetime values. Also, where we have fiber, we penetrate wireless better. In our fiber footprint, we have a 500-basis point advantage in terms of penetration, relative to our overall nationwide penetration by having both.

So the benefits are considerable. And look, it doesn't mean that you can't sell wireless by itself or fiber by itself, but the benefits of convergence are very, very strong. And the good news is this, we have plenty of runway to add more converged subscribers, and we're building fiber every day.

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**David Barden** - *BofA Securities, Inc. - Analyst*

So that leads me to my question about, if this is true that maybe they don't need to be together, but when they are together, they're stronger together, wireless and fiber or broadband. And what we're watching happen is, Verizon now is kind of going to have maybe 28 million homes passed within a couple of years, you're going to have 30 million-plus. T-Mobile has got something going on. We'll probably learn more about their strategy at their Analyst Day and I think the 18th coming up.

So does this mean that we're balkanizing the US wireless market, where you're going to have this weirdly larger share where you have fiber, but a weirdly smaller share where Verizon is fiber. And is this now a land grab. And if it is, why are you not then grabbing land faster, even if it's a little bit more expensive than it could be to be in your region.

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

Here is -- I think it's important to look at the progress we have made in the last several years in terms of our wireless, not we have gained share, but importantly, we've gained share of service revenues. When you strip out fixed wireless and you look at the wireless relationships that we have garnered, we have grown share of wireless revenue more than our peers.

So we -- that is -- the growth that has happened in the industry [isn't] we have gotten the largest share in the last several years. And it is in part due to our fiber strategy. But it's also in part due to the various plays that we are running as an organization.

The head of our mass market business is here with me today. And her and her team have done an extraordinary job of simplifying our offers to customers, making the process easy for our customers to stay with us versus leave. And as a result, you see an enormous churn reduction across our footprint in the last several years.

And so, you're seeing the benefits of convergence, but it goes beyond that. It is comprehensively the different things that we are doing. We're targeting -- we're doing a much better job of segmenting than we have done historically targeting underrepresented portions of our base.

You look at FirstNet as an example. We've also -- our network has gotten considerably better. All those things have been part of the formula to get us to a point where we have taken more of a wireless service revenue growth the last few years than our peers.

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**David Barden** - *BofA Securities, Inc. - Analyst*

So if I hear you, it's not binary. It's not you have fiber, you win; you don't have fiber, you lose. It's a multivariant combination of go-to-market, retail, care, fiber might be a home field advantage, but it's not a guarantee and it's not a guarantee that you lose if you don't have fiber, but it's not a guarantee you win, you got to do a lot of things right, right?

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

Absolutely.

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**David Barden** - BofA Securities, Inc. - Analyst

I'm going to ask a weird question, which is, what are people going to do in your territory when you have fiber to win?

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

Well, look, we compete very well where we have fiber in our territory. And I have every confidence in our team and our ability to deliver attractive returns in our footprint and we're used to competing. We've competed for a while. And I don't anticipate anything changing.

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**David Barden** - BofA Securities, Inc. - Analyst

So I want to get -- I'll go back to the business in one second. I just have to ask this question, which is the other thing in the news, which is the -- I think it's 15,000 workers have gone on strike, and I think the question people have is, it's probably not going to be hugely disruptive, but should we be tempering expectations for like net adds or either in the wireline business or the wireless business? What should we expect in that regard?

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

Here is what we said. Yesterday, we released -- we had a press release that basically says, look, it will impact the levels of installation in the Southeast, but we don't expect this to have a material impact on our financial results for Q3.

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**David Barden** - BofA Securities, Inc. - Analyst

Round numbers, in a given quarter, what percentage does the Southeast represent of net adds?

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

We are not providing that information.

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**David Barden** - BofA Securities, Inc. - Analyst

Pascal, man. Okay. So all right, let's get back to the industry equation. So yesterday, we had Sampath, CEO of Verizon Wireless Consumer, and he told us about the formula for growth that they foresee, 40% straight up price increases. 40% kind of value ups, whatever the word for that is when people kind of take a bigger price plan for whatever reason, and then 20% volume growth. Is there -- what is the formula at AT&T for growth that we should project into the future?

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

We're not giving any guidance beyond what we have given already. We said for 2024 as an example. The growth is going to come from subscriber growth and to a lesser extent, modest ARPU growth. I think if you look back the last several years, that's probably reflective of what has happened.

And look, there's always migration of customers to higher-value plans because those plans do deliver more value. So that is a constant dynamic. And over time, that shows up in ARPU. And so look, I'm really comfortable with the plays we're running. They work. It's really trying to make sure we are providing customers with a plan that makes sense for them.

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**David Barden** - *BofA Securities, Inc. - Analyst*

So if the bulk of your revenue growth is volume driven, I think that one concern would be that the expectation rightly or wrongly is that industry volume at this mature state of the industry has to slow down. So do you agree with that?

And if you do agree with that, and recognizing that Verizon has an intention of kind of taking more share and cable is desperately trying to grow mobile, is the pool of opportunity shrinking for AT&T? Do you have to lean more on the pricing lever as you look ahead.

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

Just look back relative to '21 and '22, the market has normalized. And we are operating in a normalized market right now. We operate in a normalized market in the first half. So look, overall, I described the industry as being very healthy. And our play is not necessarily taking share of subscribers. It is how do you optimize overall revenue and deliver value to the bottom line.

And how you do that is through a combination of, one, reducing your churn as low as you can; two, if there are opportunities to migrate customers up to higher price plans, you do that; and three, it's really about looking at the different portions of your customer base. Are there places where you are underrepresented, you are underpenetrated? What are the specific plays you can run to try to optimize?

For example, we understood several years ago that we were underpenetrated in first responders. Then we did the deal with FirstNet, and that has resulted in significant share gains in that segment of the market. And we've run different segmentation plays to really try to understand, are there opportunities to offer something unique to portions of our customer base in order to have them come to AT&T as customers.

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**David Barden** - *BofA Securities, Inc. - Analyst*

So I think a lot of people run that playbook going after -- we've heard this, the first responders, enterprise, 65 and older, affinity group, armed forces, where do you over-index and how do you defend against those incursions? You knew, I was going to ask that.

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

And I think you can very well expect what I would -- look, we are very comfortable that we offer our customers a really good product at a fair value. And as long as we keep doing that, we are confident we can continue to win. With that, I'm not going to tell you where we are over index.

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**David Barden** - *BofA Securities, Inc. - Analyst*

Your competitors already know. You can just say it.

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

We're good.

**David Barden** - *BofA Securities, Inc. - Analyst*

Okay. So one of the things that has kind of, I don't know, bubbled up and bifurcated the market a little bit is there's this universe of Apple bulls that are convinced that the iPhone is the best thing since slice bread because that has AI in it, and that all the carriers are going to get their knives out and use this as a switching opportunity, and you guys are going to murder each other.

And then there's all the carriers, which are like, no, that's not going to happen. And my theory is that, you look backwards, you look at the 5G cycle, right? In 5G, there is a real benefit to the carriers to push 5G phones into the marketplace. Even though they really didn't do much that was new for the consumer for the carrier, they did a lot.

And now we've got this phone that's going to do next to nothing for the carrier. And the question is, is it going to do something for the consumer that makes them want to do something on their side? How do you respond to that? And how does AT&T prepare for what's going to happen next week when the new iPhone comes.

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

Look, we are in the business of providing phone service. We don't make profits on the phones as we all know. It's really.

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**David Barden** - *BofA Securities, Inc. - Analyst*

Big losses. I would talk about too.

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

Look, we do have discounts. But overall, we look at what is for the discounts we're providing, what is the value that ultimately accrues to us. And what you have seen and what we have done is, we have spent promotional dollars and securing customers. But in turn, those customers have stayed with us longer and the churn benefits to us has far surpassed what we see -- at the cost of those promotions.

And that is the state of the industry today. That's how -- that's a point of competition that you have to participate in order to secure customers. But in the end, we're confident we can do that in a fiscally responsible way and deliver attractive returns.

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**David Barden** - *BofA Securities, Inc. - Analyst*

So what percentage of your base has an iPhone?

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

I don't think we'll disclose that.

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**David Barden** - *BofA Securities, Inc. - Analyst*

I'm pretty sure you have. Just remind me. So I think that the theory though is -- so there's been a couple of stories, right? One story would be that this could be a minimum an elevated switching event, it's always a switching event, but it's an elevated switching event. And if it's not an elevated switching event this year, more likely than it's an elevated switching event a year from now.

So one theory is that, Verizon might use this as a way to get the net add growth that they haven't been able to get for the last 1.5 years or so. And where they would go get that is where most of the switches are, which is probably the company that had the iPhone, the longest, which is AT&T.

And so AT&T is going to be back into a corner to defend itself and that there will be an escalation of promotions and kind of just net losses across the industry as a function of this. Are you concerned about that?

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

No. I'm really not because we've lived through iPhone launches before. And we are prepared. We're going to be competitive in the market, but disciplined. We always have, and we will continue to be disciplined. This is an overall value play in terms of looking at what do we think the relationship will bring us and making the appropriate investment to secure it.

The other thing I would remind everybody is that oftentimes, in order to get a discounted phone, you need to trade in a phone. That brings significant value and reduces the overall cost meaningfully. So all that is part of the equation when we decide how to tackle the market, how to be competitive. But we also have to make sure that we are competitive and that we're being -- we have our market sensing in place, and we're able to respond to the marketplace, but we've always done so in a very disciplined way.

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**David Barden** - BofA Securities, Inc. - Analyst

Okay. So I want to ask the other question, which is that there's a -- every dollar that you discount an iPhone is a deadweight loss to you and a windfall to Apple. And if you multiply those discounts, times the tens of millions of customers that upgrade per year, and then you take that across the industry and it gets you to even multiples of tens of millions of customers a year. And then you discount that back into the future, it's hundreds of billions of dollars of value that's being transferred out of wireless into Apple.

Why -- how do we fix it? When do we stop doing this? Because the US is not necessarily normal. Like you go to Canada, north of the border, they don't discount phones, people pay for their phone. They want a phone. It doesn't have to be done. And it maybe doesn't go from something to nothing, but it could go from something to a little less than something is directionally signal to everybody, hey -- not going to free forever.

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

Look, in focusing on the phones, you're focusing on one side of the equation. When you look at the overall value of a subscriber, wireless subscribers here in the US versus in other parts of the world, the investments we're making make a lot of sense. And so would I love to find ways to have lower promotional costs? Yeah, absolutely. But I'm also very grateful for the very valuable relationships we have and the healthy industry dynamics that exist.

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**David Barden** - BofA Securities, Inc. - Analyst

All right. So I'm going to do something which I'm very happy to be able to do, we just talk about free cash flow in the second half of our conversation.

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

All right.

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**David Barden** - BofA Securities, Inc. - Analyst

So I think in the press release that you put out ahead of our conversation, you kind of stated something about you're happy with where the cash flow is going. Maybe just revisit for us what the cash flow picture is for 2024.



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

Pascal Desroches

Yeah. The guidance of free cash flow of \$17 billion to \$18 billion on capital investments of \$21 billion to \$22 billion for the year. And --

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**David Barden** - BofA Securities, Inc. - Analyst

With a 40-60 split versus the second half.

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

That's right.

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**David Barden** - BofA Securities, Inc. - Analyst

Which you're on track.

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

Yeah, we are on track to do that.

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**David Barden** - BofA Securities, Inc. - Analyst

So one of the things that has been a burden for the AT&T stock starting to get past that now was, in 2022, there was working capital stuff, there was phone stuff, and you had to lower your free cash flow guidance. And then in 2023, the first quarter cash flow was super low relative to the guidance.

You ultimately beat your guidance in 2023, but there's a lot of question marks and doubt and that I remember coming down to visit, and John Stankey, he was like, look, we're going to fix this. We're going to smooth out our free cash flow for the market. How have you done that? And have you -- are you done or is there more to do?

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

Last year, as an example, we delivered \$16.8 billion of free cash flow. In reality, organically, the business produce nearly \$2 billion more of free cash that we used to pay down some of our short-term financing. How do we do that? It is basically driving efficiencies across our business and improving the organic conversion.

And look, '21 and '22 were big growth years in terms of subscribers and as well as CapEx. So as those investments moderated some, I think the combination of the moderation of those investments plus the more efficient organization overall, we were able to drive higher organic free cash flow conversion that allowed us to pay down some of our short-term financing.

So coming into this year, there was less obligations related to 2023 to pay down and you're seeing the benefits of that. And we've continued to make progress in 2024 continuing to lower those. You will get to a point where those balances are kind of at a steady run rate. We're not there yet, but we're getting much closer. And so more of the free cash flow can go to -- can fall to the bottom line.

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**David Barden** - *BofA Securities, Inc. - Analyst*

So in the kind of olden days, the kind of the pre-C-band, pre-pandemic days, I would say AT&T probably run a business-as-usual CapEx rate of probably around \$19 billion. This was before we had a term called capital investment, which was CapEx plus the vendor financing and other stuff. So does that \$21 million, \$22 million, is that the new run rate? Given fiber, given other things? Or can that \$21 million and \$22 million come down to \$20 million, \$21 million or \$19 million to \$20 million, like or should it come down?

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

So you want me to break some news.

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**David Barden** - *BofA Securities, Inc. - Analyst*

Yeah, absolutely.

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

No, I'm not going to. Look, here is -- here's the way I think about capital investments in general. We have to continue to invest where we think there is opportunities for growth. Fiber is a very attractive opportunity. We have been building at a fairly consistent clip, call it between 2 million and 3 million each year. And at that level, we feel like we can invest in our business and ultimately, once we get to our leverage target, be in a position to return value to shareholders. As we look ahead, I would anticipate we're going to balance both continued investments and looking at opportunities to return share -- value to shareholders.

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**David Barden** - *BofA Securities, Inc. - Analyst*

So one of the things that I think is interesting about the kind of the AT&T conversation is that the business seems to be the least complicated part of it now, which is kind of great. You got the wireless business, volumes seem to be pretty good. Industry discipline seems to be pretty good. Pricing is moving in the right direction, if you choose to use it.

Customers are moving up the value chain. The iPhone doesn't seem like it's going to be disruptive. If it creates disruption, I think the mutually assured destruction that exists between three players in a three-player market, we'll keep things contained. What about cost structure? What opportunities do we have on that?

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

You look at the last several years, we've done a really good job of rationalizing our cost. And as I look ahead, the areas where I think there's still lots of opportunities. Let's start with our call volumes and our call centers. We have, through the use of AI, through the use of machine learning --

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**David Barden** - *BofA Securities, Inc. - Analyst*

That was 29 minutes and 30 seconds for the first mention of AI just for the record.

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

We've managed to really reduce our call volumes significantly. And there's no reason why that shouldn't continue as technology improves and as our experience with it improves. I think you will -- you can expect us to continue to find ways to rationalize our technical footprint. We have a massive network, a lot of it is legacy copper.

And over time, as legacy copper revenues decline, the space that we -- the technical space that we have will reduce that comes with lower power costs and lower software costs for legacy billing systems. So there are a lot of things that fall out as we retire parts of our legacy footprint. Look, overall, our force has come down considerably, and we will continue to look ways to drive efficiencies, whether it's in G&A and other non-revenue dependent expenses.

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**David Barden** - *BofA Securities, Inc. - Analyst*

So probably the only kind of variable that seems, I don't know, I would say troublesome is enterprise. So I got two questions on that. But the first one is what is the game plan for enterprise?

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

Here is -- let's zoom out for a second. We are in the business of serving both consumers and businesses for connectivity solutions. Enterprises need wireless. They need fiber connectivity. Some of them small and medium-sized businesses will need a fixed wireless. Construction locations may need fixed wireless. And we were a company that is experienced in complex networking. So it's especially when you start to get into the small and medium-sized businesses, there is a need for all those services. And if you look inside our enterprise business, there are lots of things that are growing.

But there is more dollars that are in legacy decline. And so we are earlier in the transition for our enterprise business than we are in our consumer business. It's only a matter of time before you reach that inflection point. And then the growth products that we have, I have every confidence they will continue to grow. And so, it's part of a transition we are working through. The good news is this we can work through that transition and still grow the overall company, still invest in the future, still expand our fiber footprint that will benefit enterprise.

And so all told, look, we are in the midst of a transition, but we've gone through those before. And every confidence, we're going to be able to navigate it.

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**David Barden** - *BofA Securities, Inc. - Analyst*

So you're the largest business services, wireline connectivity provider in the US. The next largest player recently announced a \$5 billion series of transactions to build AI network connectivity for the hyperscaler community is suggesting that this is a new opportunity, untapped, and they won it because of their network capabilities, why did AT&T lose that deal?

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

Who said we lost the deal.

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**David Barden** - *BofA Securities, Inc. - Analyst*

You didn't win it. There's only two kinds. Winners or losers.

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

Here's what I would say, like, look, I'm not going to comment on what they did. But rest assured, we are in a position to provide all solution sets. Some of them more profitable than others. And we tend to focus our efforts on the ones that are more profitable and bring us more returns.

**David Barden** - *BofA Securities, Inc. - Analyst*

Okay. So I guess I wanted to go back to one of the -- to the cash flow side. So we've got an understanding, we're working on enterprise. We got the cost structure. We talked about wireless revenue, fiber revenue is good. Cost structure is improving. CapEx is kind of where it is, maybe -- I think maybe could go down a little bit.

So there's kind of -- two more parts that people are trying to figure out. One is the working capital part. Are we at a point now where the working capital is kind of run rate. Obviously, this Apple iPhone situation is something that creates a little anxiety. But other than that, we're kind of good on working capital flattish.

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

Yeah. And even -- I would submit even whatever the iPhone launch brings, we are in a better position to deal with that today than we were a couple of years ago because we've paid down many of our vendor financing balances. So we have more capacity there, and that won't be as much of a drag as it had been historically when we were growing.

Look, working capital, I would imagine should be -- shouldn't be a significant factor as you look ahead, absent some abnormal growth which would be a good problem to deal with. So look, we are at a real good place.

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**David Barden** - *BofA Securities, Inc. - Analyst*

It's a high-class problem, I guess, is what you're saying.

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

Absolutely.

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**David Barden** - *BofA Securities, Inc. - Analyst*

And then taxes, right? John Stephens was the Obi-Wan Kenobi of taxes, and I think people think like you're always underpaying taxes. And we always have to assume taxes are going to keep going up for you guys. What do you think is a good base case for people to assume about taxes and AT&T?

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

Look, I think it's no secret. As the largest infrastructure investor in the US, the tax incentives that were put in place in 2017 benefited us enormously. And those are expiring. They fully expire after next year.

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**David Barden** - *BofA Securities, Inc. - Analyst*

After next year. So 2026 is when they expire.

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

Yeah. But they've been gradually phasing down. And as you saw last year, we paid more taxes than the previous. This year, we'll pay more taxes than last year. And I would expect our taxes to continue to increase. I will -- as we always do when we give our financial guidance for 2025, we will

provide you a view of how we're paying taxes will evolve based on the current tax code, assuming there's expiration where if there are changes in the tax cohort, a new administration then, we'll provide you the appropriate update at the time.

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**David Barden** - *BofA Securities, Inc. - Analyst*

So that's kind of where maybe we kind of wind it up a little bit, which is, okay, we're going to get to target leverage ratios in the first half of next year. And it was interesting because Verizon was also getting to the target leverage ratio in the first half of next year. And we were asking, what are you going to do when you get there? And now we know, which is buy a company, right?

So for AT&T, given historically the sensitivities around free cash flow, you've got some choices to make. One would be grow the dividend or buyback stock or both. When you think about that choice, which of the two is better?

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

Look, our Board is in the midst of making that determination right now. I've spent last several months meeting with our Board to go through the various options and considerations. And I would expect, as we exit the year, we'll have some news to share regarding how we plan to approach this.

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**David Barden** - *BofA Securities, Inc. - Analyst*

As you exit the year. Before the exit of the year or after the exit of the year?

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

As we exit the year.

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**David Barden** - *BofA Securities, Inc. - Analyst*

So -- because here's my thought, right, is because in 2026, if we've got this potential, I mean, again, everything just -- everything could change in another month. But as we sit here today, 2026, we're going to lose all the tax deductions from CapEx.

I mean cash taxes could go up meaningfully, which means that a stock buyback announcement would give you more flexibility, you would appear larger to the market, and that might be a better path given the unknowns. A dividend increase, though, would put you back on that historical path. It's a smaller number. It kind of increases the aperture of investors that look at dividend growth. Which of those two look better?

(laughter)

Okay. So then the other option is investment and M&A. It kind of feels to me like what you've been saying is that there's just a huge opportunity internally. You've been run rating it 2 million to 3 million homes passed in fiber that seems to be the big opportunity you've talked most about. Can that materially improve? Is it even possible to go from 2 million to 3 million to 3 million to 4 million. I mean I've seen how hard it is to do this work in person. It's -- I can't. I mean -- it's hard.

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

Yeah. But look, I dare say, we have a core competency that's unmatched anywhere in the world. And I'm really proud of our team. We're getting -- not only do we do it well. We're getting more efficient each and every day that we do it. So look, the returns were really promising. The good news is this, we are in a position that we can keep leaning into that opportunity, get to our leverage target and deliver value to shareholders.

We can do all of it because of the hard work that's been done in the last several years. I'm incredibly grateful that the organization leaned in behind John and his strategy for and painting a future that will create enormous value for AT&T shareholders and employees. And look, unlike other companies, we don't have to do a transaction in order to be able to realize that benefit.

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**David Barden** - BofA Securities, Inc. - Analyst

That's a perfect place to leave it, Pascal. Thank you so much for coming. I really appreciate the time.

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

Thank you, everybody.

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