REFINITIV STREETEVENTS

EDITED TRANSCRIPT

T.N - AT&T Inc at Goldman Sachs Communacopia & Technology Conference

EVENT DATE/TIME: SEPTEMBER 10, 2024 / 3:10PM GMT

REFINITIV

CORPORATE PARTICIPANTS

John Stankey *AT&T Inc - Chief Executive Officer*

CONFERENCE CALL PARTICIPANTS

Jim Schneider *The Goldman Sachs Group, Inc. - Analyst*

PRESENTATION

Jim Schneider - *The Goldman Sachs Group, Inc. - Analyst*

So welcome, everybody to this session of the Goldman Sachs Communacopia & Technology Conference. My name is Jim Schneider. I'm the Telecom Analyst here at Goldman Sachs. It's my pleasure to welcome AT&T. We're really thrilled to have CEO, John Stankey, with us today. Welcome, John.

John Stankey - *AT&T Inc - Chief Executive Officer*

It's good to be with you, Jim.

Maybe before we get started, can I call your attention to our Safe Harbor statement, please, which suggests that some of the things I say may change. We may not notify you if they do change. You can go to our website to see a lot more information in detail.

QUESTIONS AND ANSWERS

Jim Schneider - *The Goldman Sachs Group, Inc. - Analyst*

Great. And then I just want to start with a very high-level our question. You've been CEO for just over four years now, I believe and --

---

John Stankey - *AT&T Inc - Chief Executive Officer*

You sound surprised?

Jim Schneider - *The Goldman Sachs Group, Inc. - Analyst*

(laughter) Just help us understand, you know, if you think about your tenure, what do you think is the biggest accomplishment you've made thus far as CEO? What's perhaps the one action that's going to have a lasting impact on the company that maybe investors don't see or appreciate?

John Stankey - *AT&T Inc - Chief Executive Officer*

Well, I think the company has accomplished a lot during the four year period of time. It was a pretty substantial repositioning that was laid out four years ago when I came into the job, took us a year to diverse media assets and kind of get refocused on what we're doing, the communications industry and I'm incredibly proud of the team and what it's accomplished in terms of delivering very consistent results.

We're on the cusp of getting our balance sheet where it needs to be to make sure that we can sustain this business for the long term and do it effectively. And we made some bets and we've been investing at a level that's higher than others in the industry and we're bullish that we're going to see a structural change in the need for high-quality, high improvement, high fidelity, high capability networks.

And that fiber was going to be the backbone of that, and I think the team has executed incredibly well during that period of time, balancing all the balls in the air, moving the balance sheet through exchanges, all the work we've been doing to migrate away from legacy capabilities to build new, getting the cost structure in line. And we've arrived at this point where as we exit this year, we'll be at 2.5 times net debt to EBITDA. And we'll be asking ourselves some questions about what do we want to do with capital allocation.

That's even beyond what we've been doing the last four years. And I think that's -- show that I'd like to have gotten here sooner. Every CEO would like to get some place center. But I'm really proud of what we've been able to accomplish on that.

In terms of what I think may be, I don't know that it's missed, I'm pleased to now see that there is a recognition that this shift I'm talking about in the industry, which is of the communications infrastructure that's built on the best technology and what's happening in software revolution, what will happen with AI in terms of workloads and what's required associated with them is a seminal change. And I view it as being as significant as if you go back to the 1999-1998 timeframe, Is that what's this thing the Internet going to do? Is it going to be big?

And yeah, we have these cycles and maybe there was a boom bust cycle. And but at the end of the day, we look back and say 20, 25 years later, yeah, it was pretty big and it kind of changed a lot of things. I think we're at the front end of another one of those cycles. They won't take 25 years this time. It will be probably a little bit more compressed, and I believe high performance networking underneath that is going to be absolutely critical.

And I think we've set the pace. We're the leader. We have the largest fiber infrastructure in the United States. This is not a let's look at the numbers today. It's a question of what the numbers are going to be five years from today. And we are going to lead.

Jim Schneider - *The Goldman Sachs Group, Inc. - Analyst*

And I won't get into that in detail because I think it's very good story to tell there. But maybe just starting to dive in with the wireless market for a second. I think if you look at that market, it's one where gross subscriber additions have continued to sort of outpace and defy expectations for a slowdown for a while now. In terms of normalization, I think we've seen net adds about 4 million in the first half of the year alone. Maybe just give us an update on what you've seen before this quarter in terms of kind of market activity, growth additions in the market? And are you still expecting to see relatively healthy market momentum heading into year-end?

John Stankey - *AT&T Inc - Chief Executive Officer*

I don't see a substantial change from what we've been seeing in the first part of the year. I think it's been pretty consistent. I've made comments previously that not all net adds are created equal and there are some that are higher value than others. And we've been very deliberate at AT&T, making sure we stay in the high value net add space. And I want to continue to do that.

And I kind of measure our success by looking at our share of service revenues adjusted for fixed wireless because I'm not playing in the same way in that space. That's not why I'm allocating capital and then asking myself relative to our share of service revenues, are we getting adequate returns on top of those? And that's kind of the framework I use within the business and how you work with the management team around it.

And I'm very pleased when you see our share of service revenues and what it's doing in the industry in total and how we're returning against that. And if we're off a little bit on a net add number, maybe not performing the same way, the question is are we growing effectively? And I think we are.

And so, I don't see that changing. And I think there's still healthy service revenue growth to be gained in the market. I'm pleased with what we're doing. I think there are some things we could do better. I could do a little bit better, maybe down a little bit lower on the market on where we are in the value segment. We're making some progress, not as much as I'd like, but generally speaking, I don't see a sea change coming right now.

Jim Schneider - *The Goldman Sachs Group, Inc. - Analyst*

Yeah. Good to hear. I mean I think it's fair to say also to your point, over the past few years, the mobility performance has improved pretty substantially for the company. In the past, you said that's because of a focus on the consumer, things like the next step upgrade plans and others. Maybe just kind of articulate some of the other biggest drivers of that? And like what do you think those continue to be sustainable?

John Stankey - *AT&T Inc - Chief Executive Officer*

Yes. It's actually, I think, missing some of it is if you say it's consumer, then you've missed kind of the point of what's going on at, AT&T over the last couple of years. We're certainly doing better in the consumer market, and we're doing a much better job of managing our base. That's why we have industry-leading churn. And we've hit numbers that I think three years ago, many were skeptical that we could actually do, and they're going -- what are they doing? Why are they doing it this way?

Well, this is why we're doing it this way. That's worth a lot of money to the business in terms of efficiency. And that's not just efficiency in what we do on device management, efficiency and promotion and how we communicate with customers. So yes, we've done a really nice job in consumer intercepting the switcher channels more effectively than we've historically done.

So we know where to go get the movers and we don't necessarily have to do it by shouting loudly through TV with a price point that looks like this. And that's been our strategy and our approach, and that's helped us tremendously in consumer.

However, we've done much better in business, and we've moved share in some key segments. We probably don't talk enough about what we've been able to do through a combination of FirstNet and what we've been able to do in the public sector and then stretching to Affinity once you get a first responder on the network, how do you then go attack their household and bring them back into the AT&T fold because that device for the significant individual in the household becomes their work device, their lifeline, so to speak, why not bring the rest of the family with them, we've been pretty successful with that.

And secondly, there's a lot paid attention paid to our business wireline segment, which rightfully so, I'd like to see it perform a bit better, but what we miss is we use our presence in our wireline business with our business accounts to sell a lot of wireless. And we've seen tremendous improvement in that, and we still have more to do. We still have more in the mid-market we can do there. So by and large, I think it's good execution across a portfolio of initiatives, not any one thing that has made it work.

Jim Schneider - *The Goldman Sachs Group, Inc. - Analyst*

One of the things I think is notable about the industry structure right now is pricing dynamics because they seem to have finally started to move in the right direction again, a pretty healthy spot for the industry. It seems not only just for you, but for your competitors as well. As you think prospectively about the sustainability of ability to kind of take price for value over time, structurally, do you think that's sustainable?

John Stankey - *AT&T Inc - Chief Executive Officer*

My belief where the industry is what's sustainable as investment is made, people will drive returns on that investment. If investment falls off and people don't have to invest, then pricing probably won't have lift in it. And people will think differently about things.

There is another dynamic in wireless. It's really important. It's a supply-demand equation. And there's a lot of ways supply can come in, but the most significant and efficient way for supply to come into the wireless industry is spectrum. Demand has pretty consistently been going up 30%, 30%-plus a year. Unfortunately, supply on spectrum is staying like this right now. Demand continues to do this.

If that -- if those curves don't change, go back to your basic economics class, at some point, there's going to have to be a move in price. So there's a couple of variables that play it. Right now, investment has been higher. People are rational. They want returns on the investment, they're pricing to value, as you indicated.

I think the next two years, what is going to be more of the issue is how much supply is available and at what cost that supply comes and what does that do to pricing? And that will probably be as much a driver of pricing dynamics as anything we've seen over the last two years.

Jim Schneider - *The Goldman Sachs Group, Inc. - Analyst*

One question about competition in the wireless space. I mean I think your cable competitors continue to add wireless subscribers in marketplace. I think you've been somewhat skeptical of their ability to kind of compete over the long term given their lack of owners economics. But maybe just refresh our -- your view on how cable companies, you see them as competitors? And whether you expect them to sort of behave as aggressively as they have in the past in terms of price subsidy levels and so on?

John Stankey - *AT&T Inc - Chief Executive Officer*

I might quibble with your characterization a bit. I think I've been optimistic and supportive of the approach that we're taking, what we're able to do. And my point to you is this, we have now the best fixed broadband product in the market, bar none, flat out, it's the best. Customers will tell you it's the best. The performance of every metric you look at from churn to technical aspects of it, it is the best.

We own the nation's largest wireless network. It's getting better by the day, and it's doing more. We are now starting the innovation cycle of how the two work better together. That's a good place to compete from. Competing from not having the best and not owning is a harder place to compete from.

Jim Schneider - *The Goldman Sachs Group, Inc. - Analyst*

Sure. maybe kind of moving on to the AI smartphone cycle, which has been the headlines recently. We all see the upgrade rates for the industry are about as low as they've been. And I think there's some excitement about the new phones that are out there, that incorporate the AI, specifically the next iPhone got then launched yesterday, we got your offers this morning, with respect to that.

Maybe just kind of think about what this means for AT&T in terms of how compelling this project is going to be for consumers? How much you're willing to subsidize that and whether we should be at all worried about elevated churn rates over the next few quarters as a result?

John Stankey - *AT&T Inc - Chief Executive Officer*

Well, so the announcement came out yesterday. I think you're starting to see the industry post what their offers are. I've looked at them, they look about like last year, for the most part. Couple of tweaks here and there, but it's tweaks around the edges for the most part at this juncture. I don't know what two weeks from now brings, but that's kind of the starting position. It doesn't look like it's out of skewed to anything we've seen in the past. It certainly doesn't look like it's a -- the kind of dynamic I see where you're moving from a 4G air interface to a 5G or interface. That's at least the initial signs of it.

I think if I were to pull a corollary, if you went back to the history of the PC, you didn't suddenly see inflection points where upgrade cycles on PCs fundamentally changed 180 degrees as the product started getting more mature. Every year, you kind of saw a continuum that occurred. I think we're in that with handsets right now. They're more like PCs. They're certainly priced like PCs are. They do as much as PCs used to do for people during the day of the PC. And the industry is -- because of the significance of the investment innovated around how do you make that device last longer for somebody.

They've provided capabilities like insurance and brake fix and those types of things where it's no longer a disposable dynamic and customers, I know this sounds strange, but were animals. Our dexterity has learned to deal with the form factor. We dropped them less. We're smarter about how we protect them. And so I think this extension is just natural you charge more for something, demand will go down. You do these things to innovate around it where you can find a more economic way to extend the life of something, people will extend the life.

So I don't think we're going to go back to 24 months is my point. I think we're going to see things that cause people to hold on to devices longer over a period of time. Certainly, the platform themselves are more capable, and the innovation is now coming in software. And so when it comes to software, the need to change hardware becomes less.

You might even argue whether or not everything that Apple is offering right now on this device really requires hardware change or if somebody will figure out how to write software that does the same thing on the previous generation of processor. It's entirely possible. Other software and other apps show up on the device. It does many of the same things that they're offering in Apple intelligence. They can be done somewhere else on the deck.

So my point right now is I don't think you're going to see a dramatic change in that. I think you obviously are going to get people that have pent-up demand, and they look at something and say, the feature interesting and do I want to go in. But software is iterative; device form factor is not. It comes out all at once and somebody says, I need that color or I need that size.

Software is going to be iterative. It's not going to be the big bang on day one. It's going to be first release, second release, third release. And I think you'll see that sea change kind of grow over time is my guess.

Jim Schneider - *The Goldman Sachs Group, Inc. - Analyst*

I wanted to kind of pivot and sort of talk about fiber and broadband in a little bit more detail. You alluded to in your opening. I think you've just generally talked about the -- how you see your reordering of assets at the industry level large kind of fiber backbone, different access technologies sort of hanging off of them. And maybe just kind of talk about the implications for AT&T and the rest of the industry.

I think you've been very clear about kind of building more fiber in your footprint and that being a strategic priority for you. So you've also talked about the notion of convergence and getting synergy between those different parts of your business. You've also alluded to higher market share in wireless where you have fiber. So maybe talk about where you think the industry is headed over the long term from a structural perspective and maybe go from there.

John Stankey - *AT&T Inc - Chief Executive Officer*

So let's start kind of where the customer is on this and then work back. And where the customer is the customer churns less when they have both products. Customer has higher brand affinity for AT&T when they have both products. When we do it right, the customer has an easier experience for their support, all the things that they have to do, payment, their perceived value when they have both products.

We're just getting into the early innings of how the products work together. Lo and behold, customers like the dynamic, for example, when the primary fixed infrastructure goes out and we can keep them up and running at some level with a wireless backup and when that can be done either through a router or through connecting into the phone and having that activated on the house land, that's a big deal to them.

And those kinds of innovations are just starting. And so I think there's a drive that there's going to be a good percentage of the market that's going to want to have both products together. And what we see in places where we offer them together, we obviously have better market share only got 40% of our base right now combined, 500 basis points of market share difference in those markets. We're still able to go and farm that and get more out of that over time.

Now when I think about what's going to happen moving forward, this is infrastructure. Some will say, well, yes, but you don't have half the country yet. We don't, but it's infrastructure. And this is a long-term multi-decade play. That kind of infrastructure doesn't get built in a year. It gets built over a period of time. You have to use every tool in the book to make that happen.

Just like when wireless started all too young in this room. You used to have to put in an access code when you went to a different territory to make a phone call, you remember those days, no, none of you do. You literally had to go into a different city and you would put an access code in to be able to get on the network before you could dial a phone call because everything started out as small regional builds and there were multiple partners in those builds.

We are going through that same cycle on fiber right now. Infrastructure is being deployed. In some cases, it's a little bit patchy. There are partnerships that are being structured around that. But when it's all said and done, that critical infrastructure that will be out there that will be the best-performing asset will ultimately probably come together over common branding, common operations, common management and product set. It will just take some time for the industry to order those assets to make that happen.

So we're using every tool in the box to make that occur. We're investing directly, 100% owned and operated in places where we know we can do that. We're using partners to extend our build with BlackRock, who is a fairly sophisticated investment firm that looks at it and says, well, we did our first $1.5 billion with you. It's going really well. We'll go in again and we'll stay with you on your next tranche because we like what we're seeing.

We will use Open Access third parties where somebody else builds it, we put our brand on top of it. We put our marketing know-how we go out there and we do both products together because that drives up their penetration of what they have.

And that allows us to do things like if you want to use our gateway, you want to buy under our contracts, we make you more effective. And we may even do some public private partnership stuff with the government. All those things have to happen in the race to be first, and that's what we're doing.

Jim Schneider - *The Goldman Sachs Group, Inc. - Analyst*

And so you've talked already about in footprint getting to $40 million, $45 million by the end of the decade. You just alluded to the BlackRock partnership. You just alluded to some of the open access partnerships you just announced. Maybe just talk about kind of the ambitions for out of footprint? And is it a combination of all those tools we just talked about, which ones do you think are going to be likely most effective? And I guess a bigger question is, what is your scale ambition out of footprint as well as in?

John Stankey - *AT&T Inc - Chief Executive Officer*

My scale ambition is to be first and biggest as we go through this cycle because being first and biggest and being the best at executing on it, driving the best returns allows us to call more shots as the industry forms in place over time. That's the strategy. And it's worked over time. These are momentum businesses and to ensure that we remain in that position. And we will find the right balance of what we do in region and what we do out of region to make sure that we maintain that lead.

Jim Schneider - *The Goldman Sachs Group, Inc. - Analyst*

Got it. And in terms of the mix of partnerships you go to do that, do you have a sense of what you prefer?

John Stankey - *AT&T Inc - Chief Executive Officer*

I think we have the right models. We kind of framed the JV model, and we've set it up over months ago. We walked out of this will work really well. It's a great way to scale and to scale greater, and you see us taking the next step to do that. We can increase the capacity in that area, and we will increase the capacity and then we saw some copycats pop up on that. And I think we will be the best tenant on other smaller fragmented companies that are building in areas.

Because, one, I'm not directly competing over the top of them with fixed wireless. And two, we know the model because we did it with GigaPower. We got a back office; we've got a brand. We have an approach that works. We are able to go put it all in our stores and all of our distribution channels and we can do better for them because of that. They want us as an anchor tenant, and that will be a model.

Organic internal fully controlled build will be the number one source of the base. Two, JV will be the second. Three, partnerships will be the third.

Jim Schneider - *The Goldman Sachs Group, Inc. - Analyst*

Got it. And then in many cases, you're going into markets where cable is incumbent. Maybe give us a sense about -- I mean, this has been happening for a while now, but obviously, it seems to be intensifying to some extent. So maybe give us a sense of what you anticipate the competitive response to be? And what do you think is going to change at all?

John Stankey - *AT&T Inc - Chief Executive Officer*

Look, we're playing in a segment of the market that I think prefers quality that views these as being worthy investments because of how they either run their work life or their personal life at home. We see a lot of consolidation when we have the 40% of the base that have both. These are high-value accounts. These are multi handset accounts.

That's different than selling one or two lines to the value segment. And so, I think we're well aligned to be able to work the top part of the market and make sure that we can get those high-value customers on a consolidated basis, and they're incredibly attractive. And those customers are relatively savvy. And what I've noticed when we get density in a market, they just understand that the product we're selling is a better product than the other one.

And when -- if you go back, I've shared this before, Jim, when you go back and look at our initial business case and what we expected in rate of penetration and ultimate terminal penetration, we're beating those numbers. And we're beating it because the product is better. And when you start to get scale and people talk about it, then it's not just about what we're doing. It's just kind of what people begin to accept as the norm.

And I use -- it's a kind of a hokey thing to describe it. But I knew there was a change going on when I used to go to cocktail parties, it was, can I get a cell tower in my neighborhood. Can you do something to fix this? That was -- everybody would come out and ask me that. And no longer they do that, they all come out and say, can I get fiber. What can you do to get me fiber?

Because they've heard and they know that it's better. And so, I think it's -- the question should be, how are they responding to us, not how are we responding to them. We're going in and we're talking about we're the best, and customers know it's the best. And we have the simplest offer, and we're not using promotional rates and customers like that. And we've got a great, great customer experience over the life cycle. It breaks less, it's quicker to -- it isn't affected by weather in the way that other infrastructures are. It's good.

Jim Schneider - *The Goldman Sachs Group, Inc. - Analyst*

Yeah. I want to -- a quick macro question for you. I mean, say the US consumer has been the big topic of debate among investors. You touch a lot of them. You also see the business roundtable, you see what business is, both in terms of your own business and also through that venue. So maybe give us a sense about how do you see the state of the US consumer and the US business right now? Any signs of a slowdown or any signs of distress on the consumer side? And in terms of businesses propensity to spend more or less or the same, how do you see it?

REFINITIV

John Stankey - *AT&T Inc - Chief Executive Officer*

I do speak with my peers outside of my industry frequently, and I'm well aware that in some industries, if you're selling snacks or groceries or running a credit card business, they are seeing signs of consumer behavior shifts that would suggest that people are watching their money a little bit more carefully than what they have been in the past, and they're doing things to cope, maybe trading down from a premium brand to a generic, maybe foregoing a particular category of discretionary food consumption than what they might do.

I am aware those things are going on. I'm seeing none of that in my business right now. I'm not seeing anybody come in and say that they don't want to buy the product or service, and they want to trade down that's economically driven at this juncture. Maybe I'd like to see a little bit more of it because that might suggest that I'm doing a little bit better in the value segment where those things tend to manifest themselves a little first. So I may ideally would maybe two years from now like to have a little bit of that pain.

And I think that would be good and successful for the business over the long haul. But right now, I don't see that dynamic moving through our business. I feel pretty good about where the consumer is. All the discussion around the iPhone launch is not a question of whether or not consumers are going to buy. It's how much they're going to buy. And I think that's indicative of how instrumental product service we sell is to everybody's life.

Jim Schneider - *The Goldman Sachs Group, Inc. - Analyst*

Very fair. Capital allocation, something you alluded to earlier, you've said that you'll be at your target leverage rate of 2.5 times by the first half of next year. So how are you thinking about the decision coming up in terms of the different options available to you, debt paydown, increasing dividend versus buybacks and kind of maybe help us understand what the Board is thinking about?

John Stankey - *AT&T Inc - Chief Executive Officer*

We've been spending a significant amount of time on the topic with the Board, and we've gone through it from a lot of different angles. We talked about some of the dynamics that we've been discussing with the Board around rate and pace of competitive change, how fast infrastructure is going to be deployed, how much you need to invest to make sure you stay ahead in that race that I talked about and that you win it.

And we've gone through all kinds of analytics around it approaches and thoughts and what level of investment is necessary to make the business successful. And I would tell you, I think it's been -- it's been deliberate, and it's been incredibly thoughtful. There's some really wise people that sit on my Board that have interesting insights to think about those things. There's folks that are very smart about how to manage a portfolio effectively and position it.

And so I think we're going to be in a place as we exit this year, where we know exactly what we're going to do, and there's going to be unanimity and uniformity across the board on the right thing. The nice part is we have choices. And those choices, it's not one choice. It's multiple choices. And I think I don't want to front-run the board, I don't want to drive the headlights.

But I don't think there's one play to run. I think there's a couple of things we can do, and we have enough capital and enough latitude to do that. And that deliberation will come to a head later this month in our annual off-site, which is kind of the main topic of discussion and how we want to drive toward this.

And the management team has lined up behind it. Everything in our plan is lined up behind it. And I would expect probably late this year, you'll have us out talking to you about what we're effectively going to do to allocate that capital as we move into next year and how we're going to approach it. But I don't think it will be one conversation. I think it will be a conversation across a couple of different options that are in front of us.

Jim Schneider - *The Goldman Sachs Group, Inc. - Analyst*

Yeah, yeah. And we feel, I mean, broadly okay with kind of the level of kind of CapEx and other investment envelope you have today, given all the activities you've been doing and kind of keeping that pace of -- over there.

John Stankey - *AT&T Inc - Chief Executive Officer*

Yes. I feel good at where we're going to run from a balance sheet structure perspective. And I'd point this out because, one, we did a really good job several years back when we had the opportunity of extending maturities on the balance sheet, getting great interest rates. And that balance sheet is -- it's just like your home mortgage.

You look at it and say, it's really good to have 16 years of money at that rate. And so, 2.5 times, I feel really good about that. And I also feel good about it because we're thinking about our opportunities organic. It's about investing back in the business.

And yes, we may run at a bit of an accelerated higher than maybe traditional levels of capital investment in the business. It's come down from peak and it will continue to drop down. We may run a little bit higher than where we've traditionally been because it's mostly organic. And we're focused on organic play as opposed to inorganic work outside that kind of comes in big chunks.

Where you go when you call on the balance sheet all at one time and then you're working through three or five years of transition. So I feel really good about where we are in that. I've never been in this business where I've seen as much organic opportunity in front of us to run the business better. I like that because doing things organically, you don't have to go and show up at a regulator and you don't have to thread the needle on legal issues, and you don't have to show up in 25 states to get approval to do something and everyone wants to collect their toll when you show up and every special interest wants to have their back scratched around something.

The management team is focused on executing what we have in front of us and what we've consistently had as the place for the last four years, and we're getting better and better and better at doing it, and that's what we need to do. And I think we're set up very well to do that. And I think we're going to have a good equation of capital allocation moving forward.

Jim Schneider - *The Goldman Sachs Group, Inc. - Analyst*

Excellent. Last place I want to end, I think is just on the topic you mentioned before, which is supply and specifically spectrum and specifically kind of federal policy around that. Maybe talk about kind of how you're thinking about your overall kind of supply in the wireless business over time, what you think needs to get at the federal level in terms of making more spectrum available and how high is the urgency level as you see it today?

John Stankey - *AT&T Inc - Chief Executive Officer*

The urgency level is high. The United States -- Robert McDonald did a nice piece in the Wall Street Journal, I think last week or over the weekend, and he makes the point that's exactly on spot. The United States is now like 12th or 13th of developed countries and allocation of mid-band spectrum into their wireless infrastructure. You're not going to lead in the technology race being 12, 13, we're dropping further.

Point blank. It's a policy miss. And it's so extreme, we don't even have an FCC that has authority to auction right now. I mean, how much can you mess it up? I think there has to be a fundamental shift. And what are we doing? We're studying and we're studying with long cycles on this stuff. And we all know technology moves pretty quick.

Studying and coming to an answer of what we're going to do on spectrum in two years is like saying we'll get around to it in six years because even if there was action taken in two years by the time it's normalized, it's brought into standards. Chips are built. (technical difficulty) are built. Stuff gets deployed on base stations, your (technical difficulty) and that's not competitive.

In the United States is a basis of one economic competitiveness and innovation should care about that. The only way you get universal access built everywhere in the country is when there's an investment incentive on licensed spectrum to do that. That's the only way it happens. Unlicensed room gets deployed in little pockets here and there.

Secondly, it's a national security issue. The first place an adversary will go if there is a conflict is they will try to take down communications infrastructure of some sort. We see it all over the place. Therefore, you need depth in your networks because if network A gets come down, traffic has to be picked on network B and network C. The only way you do that is with debt.

And so, we have an issue in this country that we need to get more aggressive about. We need to think about it that way. And I'm worried about where we are right now.

Jim Schneider - *The Goldman Sachs Group, Inc. - Analyst*

I guess, a topic of national importance. It's a great place to leave it. So thank you very much for being with us today.

John Stankey - *AT&T Inc - Chief Executive Officer*

Thank you for having me and I appreciate it.

Jim Schneider - *The Goldman Sachs Group, Inc. - Analyst*

Thank you, John.
