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OVERVIEW:

T reported 4Q20 adjusted EPS of \$0.75. Co. expects 2021 consolidated revenue growth of about 1%.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the AT&T 4Q '20 Earnings Call. (Operator Instructions) And as a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Amir Rozwadowski, Senior Vice President, Finance and Investor Relations. Please go ahead.

Amir Rozwadowski - AT&T Inc. - Senior VP of Finance & IR

Thank you, and good morning, everyone. Welcome to our fourth quarter call. I'm Amir Rozwadowski, Head of Investor Relations for AT&T. Joining me on the call today are John Stankey, our CEO; and John Stephens, our Chief Financial Officer.

Before we begin, I need to call your attention to our safe harbor statement, which says that some of our comments today may be forward-looking. As such, they're subject to risks and uncertainties. Results may differ materially, and additional information is available on the Investor Relations website. And as always, our earnings materials are on our website.

I also want to remind you that we continue to be in the quiet period for the FCC Spectrum Auction 107. So unfortunately, we can't answer your questions about that today.

With that, I'll turn the call over to John Stankey. John?

John T. Stankey - AT&T Inc. - CEO & Director

Good morning, everyone. Happy New Year to all of you, and I hope this moment finds you all in good health.

With that, let's go ahead and get started on Slide 3. There are a lot of words to describe 2020, most of which wouldn't be nice to say in public. But when I look at how we executed on our priorities in the midst of this pandemic, I keep coming back to one word, and that's resilient.

We added 1.5 million postpaid phones during the year, our most net adds in a decade and our highest-value subscribers. We reduced churn, streamlined operations and have the nation's fastest wireless network.

For the second year in a row, we added more than 1 million fiber subscribers as customers move to our higher-speed services. And perhaps most remarkable during this pandemic, we launched HBO Max. And about 7 months later, we had more than 41 million HBO Max and HBO domestic subscribers, 2 years ahead of the plan we shared with you in October of 2019.

Our resilient portfolio of subscription businesses continued to generate strong cash flows, more than \$27 billion, to support our ability to invest in our growth areas and sustain the dividend. In fact, we finished the year with our total dividend payout ratio at a very comfortable level. And on debt management, we made material progress in 2020 by reducing debt maturities over the next 5 years by about 50% and lowering our weighted average interest rate on debt to about 4%.

We continue to transform the business to drive efficiencies. Our cost-cutting initiatives generated about \$2 billion in savings in 2020, dollars we invested back into the business to drive subscriber growth and move our transformation initiatives forward.

In mobility, we streamlined distribution, shifted some stores to third-party dealers and closed others. Total calls into our call centers are down by 30 million as we saw a dramatic shift to online transactions by our customer base. We retired more than 30 products in our portfolio and consolidated operations to capitalize on reduced complexity.

We took our first steps and reduced our real estate footprint by more than 9 million square feet with more work underway in our longer-term operating model. We also realigned and streamlined our WarnerMedia operations to better deliver on HBO Max and the future of how consumers want to view content.

Those are a few of our 2020 highlights. Let's talk about our 2021 priorities on Slide 4. We have 3 priorities this year. Number one is straightforward: grow our direct customer relationships. That begins with the vital connectivity services we provide and the strength of our network. We've had the overall fastest wireless network in the nation every quarter for the last 2 years according to Ookla and the fastest nationwide 5G network in the second half of 2020 after our nationwide 5G launch. It shows the strength of our low-band spectrum portfolio.

Our fiber Net Promoter Scores continue to be materially better than cables and are helping drive strong subscriber trends and higher penetration rates. There is strong demand for the reliability and speeds our fiber product provides.

Beyond our core connectivity services, we're focused on our goal to establish relationships with most U.S. households, and HBO Max is the key here. Through our software-based entertainment platforms, we can learn more about our customers and create long-lasting emotional connections with our award-winning storytelling capabilities.

Our second priority is the same as last year, and that's continuing to transform our operations to be more effective and efficient. We're restructuring businesses, sunseting legacy networks, reducing corporate staffing levels and overall benefit costs. As a result, we're positioned to enter the post-pandemic world as a more agile and efficient company.

Our third priority is about continuing to be deliberate and strategic with how we allocate capital. We plan to use free cash flow after dividends for the next couple of years to pay down debt. We remain focused on monetizing noncore assets and using those funds for debt reduction as well. We're committed to sustaining our dividend at current levels, and we'll give top priority to debt reduction at this time.

In summary, I'm pleased with the progress we've made the last 2 quarters. Despite COVID-19 challenges, we're seeing growth where we want to see growth, and we're successfully redirecting our investments to support those areas. We have more work to do, but I'm confident we're on the right path.

Before I hand it over to John, I want to acknowledge that I'm sensitive to the reality that there's much going on in and around the business. I know inside AT&T, we're working hard to reposition the company. So I can imagine you're working equally hard to keep up with us. To that end, I want to let you know we plan to host a virtual investor event in the second half of the quarter, where our leadership team will provide more insight into our business plans, and we'll have a lot of time for discussion and your questions. Look for more to come on that soon.

With that, I'll turn it over to John to discuss the more detailed results from the quarter. John?

John Joseph Stephens - AT&T Inc. - Senior Executive VP & CFO

Thanks, John, and good morning, everyone. Let me start on Slide 6 with a quick look at our fourth quarter subscriber metrics. Wireless subscriber growth was the best it's been in years. We had 1.2 million postpaid net adds, including 800,000 postpaid phones. Postpaid phone churn was the second lowest quarter on record, coming in at 0.76%.

Our fiber momentum also continues. We added more than 270,000 fiber subscribers in the quarter. HBO Max subscriber growth continues to outpace original estimates. We added nearly 7 million total subscribers for HBO Max and HBO in 2020 alone. The trend of premium video declines continues to improve. If you exclude the impact of Keep America Connected on third quarter net adds, our premium video net adds improved sequentially for the fifth quarter in a row.

Let's now look at our consolidated and segment results, starting with our financial summary on Slide 7. Adjusted EPS for the quarter was \$0.75. That included COVID impacts to revenues from lower television licensing and production, changes to the theatrical release slate and lower international roaming. Combined, COVID had an estimated \$0.08 of EPS impact to fourth quarter, which we did include in our adjusted results.

We've made the decision to operate our broadband and legacy voice operations separate from our video business unit and have recast our Entertainment Group results accordingly. In conjunction with this change in operations, we have reassessed the book values of our video assets, including goodwill and other long-lived assets. As a result, we recorded a pretax noncash impairment of \$15.5 billion.

Additionally, we adjusted for an actuarial loss to our benefit plans and a write-off of production and other content inventory at WarnerMedia, stemming from the continued shutdown of theaters and film releases going on HBO Max. We'll provide more information in our SEC filings and on our website and in our annual report.

Revenues were down from a year ago, with gains in mobility partially offsetting pressure from WarnerMedia and video, but revenues were up sequentially. Foreign exchange had a negative impact of about \$200 million in revenue primarily in our Latin America segment.

Cash flows for the quarter and the year underscore our resilient customer base and liquidity. Cash from operations came in at \$10.1 billion for the quarter and \$43.1 billion for the year. Free cash flow was \$7.7 billion for the quarter and \$27.5 billion for 2020.

For the full year, our total dividend payout ratio was just under 55%. Gross capital investment was about \$20 billion in 2020, and we continue to invest heavily in our growth areas even during a pandemic. In addition, we invested about \$800 million in HBO Max in the fourth quarter and about \$2.1 billion for the full year.

Let's now look at our segment operating results, starting with our Communications segment on Slide 8. Our Communications business showed revenue growth this quarter, thanks to a strong performance in mobility. We told you we intended to give our best customers our best prices and offers, and you are seeing the benefits of that logic. Strong subscriber gains and people moving to unlimited plans help drive service revenue growth in the quarter, even with continuing pressure in international roaming. More than 60% of our postpaid phone base is on an unlimited plan.

Churn has been impressive. The last 2 quarters have been our lowest postpaid phone churn quarters on record. And for the full year, a remarkable 16 basis point improvement in postpaid phone churn. Our successful retention approach does require some upfront investment, but the lower churn levels and improved subscriber counts make this the right economic trade.

As I mentioned, we have split the Entertainment Group into 2 reporting units, broadband and video, and a full reconciliation of the 2 units is in our support documents. But for comparative purposes, here are the trends in Entertainment Group the way you have been used to seeing them. We had our best AT&T Fiber fourth quarter net adds, even with more challenges associated with the pandemic. And penetration continues to grow. It's now at 34%. In our video unit, premium video losses were improved year-over-year, thanks to lower churn and our focus on high-value customers. We continue to drive ARPU growth in both video and IP broadband. In fact, premium video ARPU was up more than 5%.

Our business wireline team continues to effectively manage the transition of the business and deliver solid results amidst the pandemic. Solid cost management is the key to delivering solid EBITDA all year long.

Let's move to WarnerMedia and Latin America results, which are on Slide 9. WarnerMedia continues to be impacted by the pandemic as we've seen across that entire industry. We did see solid gains in subscription revenues, thanks to the rapid growth of HBO Max. We now have 41 million domestic HBO Max and HBO subscribers and about 61 million worldwide as we prepare for the international launch of HBO Max later this year. And we now have more than 10 million customers who combine 1 or more of our connectivity products with HBO Max or HBO.

Advertising revenues also grew, driven by political advertising and CNN, which was #1 in all of cable viewership, not just news in the fourth quarter. Because of the pandemic, we introduced a unique 1-year plan in which Warner Bros. will continue to exhibit films theatrically worldwide while adding an exclusive 1-month access period on HBO Max, simultaneous with the film's domestic release. Our goal is to make the best of a very challenging situation for all involved. That includes filmmakers and talent, theater owners and most importantly, the moviegoing public.

Our Latin American operations continue to work to recover from the pandemic. We added more than 500,000 subscribers in Mexico and almost 50,000 subscribers in Vrio, helped in part by our over-the-top offering in Brazil. Latin America revenues continue to be challenged by FX, slow economies and COVID. Even with this, Mexico EBITDA improved year-over-year for the second quarter in a row, and Vrio continues to generate positive EBITDA and cash flow on a constant currency basis.

Now let's go to Slide 11 for our 2021 guidance. Last year was a difficult year for us to forecast for obvious reasons. There remain uncertainties in 2021 with the rate and pace of recovery from the pandemic around the globe impacting media, travel and employment.

Against that backdrop, our current outlook for 2021 is as follows. We expect consolidated revenue growth of about 1% with wireless service revenue growth of 2% and a gradual improvement in WarnerMedia's top line. As noted previously, we plan to reinvest all our savings from our transformation efforts to support our customer count momentum in our growth businesses. Combined with ongoing declines in our premium video segment, this could lead to adjusted EBITDA declining slightly in 2021 versus this year.

Adjusted EPS is expected to be stable with 2020. We expect gross capital investment in the \$21 billion range and net CapEx of about \$18 billion. The primary difference between the 2 is from vendor financing initiatives we have in place and anticipated FirstNet reimbursements.

Free cash flow has been resilient for us even during the pandemic, and we expect that resiliency to continue in 2021 with a \$26 billion range target for free cash flow.

We'll also continue to focus on bringing down debt. As John mentioned, we expect to use free cash flow dollars after dividends to pay down debt. We continue to look for opportunities to monetize assets and apply those proceeds to paying down debt, including Crunchyroll, which we expect to close later this year. We do plan to provide an update on our leverage outlook and longer-term debt ratio target once the auction quiet period ends.

As 2020 showed us, things can change quickly. However, we are encouraged by our ability to adapt to those changes while driving increased customer counts, generating strong cash flows, investing in areas of strategic focus, all while maintaining a disciplined approach to our capital allocation and shareholder return strategies. As John mentioned, we plan to have a virtual analyst event later in the quarter to talk about this more.

Amir, that's our presentation. We're now ready for Q&A.

Amir Rozwadowski - AT&T Inc. - Senior VP of Finance & IR

Operator, we're ready to take the first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Simon Flannery from Morgan Stanley.

Simon William Flannery - Morgan Stanley, Research Division - MD

Okay. So looking forward to the Analyst Day. Perhaps you could start with the macro environment. What are you assuming in terms of the backdrop is? Are you really assuming things continue to be much as they are? Or do you have a pickup in the second half on things like roaming and advertising? Any comments just about trends with what CIOs are seeing, et cetera, that underscores that?

And then within the CapEx budget, are there any material changes within your priorities there, for example, your fiber build-out? I know that's a big priority. Is there an opportunity to ramp that up or additional spend on 5G rollout? Any color there would be great.

John Joseph Stephens - AT&T Inc. - Senior Executive VP & CFO

So Simon, this -- John, let me take that. On the macro side, the one thing we saw at the end of last year was the customers' willingness to pay. Our bad debts were really quite solid, quite positive trends, both on the consumer and the corporate side. So while we're not getting overly excited, it was a positive sense.

What we have built into our plans are, if you will, more of the kind of current environment for the next 6 months with some second half and really close to the fourth quarter pickup in pandemic relief activities. So we'll see more theatergoing probably in the fourth quarter than we did this year. We'll see some more travel, but in no way did we envision a hockey stick or any kind of dramatic increase. It's really much more of a general staying the course. There is some slight improvement but staying the course.

Secondly, with -- the one thing I'd add though is the cash collections have been strong and have been resilient, feel really good about that. So that gives us some comfort.

Secondly, with regard to the CapEx, I'd say it this way. As you look at the kind of the gross capital being put in the ground, it's up \$1 billion. There will be some changes in what we spent last year, i.e., I continue to expect the -- a little bit lighter on the video satellite-type side of the business because of the success of AT&T TV and our focus on churn reduction as opposed to gross heads. So there'll be some more money there.

I think you'll see us -- we've continued to spend money on wireless, but we're well into and well completed with the FirstNet build. So we'll have some ability to manage there.

The next piece though is we will see an increase in the fiber build and the opportunity to add some more sales opportunities to that inventory. I don't know, John, did I miss anything from your perspective?

John T. Stankey - AT&T Inc. - CEO & Director

Yes, I'll be more precise than John. We'll be building somewhere around 2 million fiber residential locations, in that neighborhood. That's kind of what we've got the team tasked to do to give you a sense of what that increase will be.

And I think the only other thing I would comment on relative to the wireless spend overall, the shift that's occurring, we put a tremendous amount of capacity out over the last several years in combination with a lot of the work we spoke to you about with the FirstNet upgrades. And there's a kind of a shift in mix going on within the wireless building.

We're now moving away from what I would call capacity that's on existing spectrum bands and starting to see ourselves prepped for possibly using other spectrum that may come into service at some point in time, et cetera. So we got a little bit of a dynamic going on in the shift that's in the overall wireless program.

John Joseph Stephens - AT&T Inc. - Senior Executive VP & CFO

Thanks for your question, Simon.

Simon William Flannery - Morgan Stanley, Research Division - MD

Okay. So would that suggest CapEx -- okay. Is CapEx second-half loaded then?

John T. Stankey - AT&T Inc. - CEO & Director

We don't have anything that I would tell you is any different than what you've seen. We're actually -- we started doing engineering. If you're worried about fiber, Simon, we started doing engineering on the fiber build this year. I told you we were getting ready to go, and it was my intent to get going. And the teams are already out turning things up.

We had the conversation last quarter. I don't want to repeat myself, but we shared with you that this build is a little bit different than when we initially started because we have wire centers that are already fiber-capable. The infrastructure is in place. We're going back in and picking up the next adjacent neighborhood or the next successive area. And as a result of that, the speed to get up and moving is not the lift that it was the first time we started ramping up on this. So we've got a little bit smoother dynamic around it than what you might think because of the increase in the fiber dynamic.

Amir Rozwadowski - AT&T Inc. - Senior VP of Finance & IR

Thanks very much for the questions, Simon.

Operator

Your next question comes from the line of John Hodulik from UBS.

John Christopher Hodulik - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Great. First, unrelated question. What's driving the 22% decline in the broadband segment? Are there additional costs associated with splitting it out from video? And sort of how do you expect that to progress through the year, especially with the increased fiber build you expect as we go on? And then secondly, any update on the timing of the AVOD launch? Or anything you can tell us on new content or reliance on sports and news.

John Joseph Stephens - AT&T Inc. - Senior Executive VP & CFO

John, let me take the first one. With regard to the broadband piece, quite frankly, it's really the efforts we've had to increase our sales capabilities, add new customers, the amounts that we built out in the prior years. It also has to do with the recognition that we are providing HBO Max for all of our gig customers, and so there's an intercompany charge there. It's within the umbrella of AT&T, and the economics are there, so we feel good about it. But that's also in there.

I would tell you, as you all know, the network infrastructure customer service like fiber is a long-term game, and we've gone through the process many times, feel very good about the long-term returns and the efforts. But yes, we're going to be spending some money as we did last year, to invest in that customer growth.

You saw the 600,000 plus, 650,000-or-so net adds last 6 months. And we feel very good about that particularly when we look at the churn numbers, particularly when we look at the customer satisfaction, the NPS scores so completely or complete support the fact. But yes, there is some investment there.

With regard to the AVOD, we are expecting to launch our international version of the HBO Max later this year as well as the AVOD. I'm not ready to give any dates. John, I don't know if you want to say anything more specific.

John T. Stankey - AT&T Inc. - CEO & Director

We're still shooting for a second quarter launch on AVOD. And I think I would point out equally as important is the Latin America launch of HBO Max that we've been working really hard on and will be an important driver for us on future growth and getting ourselves embedded into the international front on a unified platform and approach to things. So you should expect, as we get into the second quarter, there's going to be a lot of activity and change going on here.

One of the reasons we're kind of trying to pinpoint the exact date on it is, as you know, we've been working through pandemic-related production issues. And ramping that back up has been a pretty significant path. The team has done a remarkable job getting ourselves back into that business and working through the dynamics safely.

It puts a little bit of overhead on things in terms of speed of production and what we're able to do. And there's a bit of rework that goes on with trying to work around the limitations of a pandemic-based environment. As a result of that, we're still fighting through getting the pipeline, dropping the content at the right rate and pace that we wanted to. And the first quarter this year continues to be a bit of a stretch in that regard as we cycle back into production.

Our expectations are that we start to hit our stride as we get into the second quarter, and it's really important as we put these new iterations of the product now that we have ourselves in a good position in terms of the content inventory. And so as we're kind of going hand-to-mouth on these right now, John, we'll be a little bit more discrete on when we announce what's coming out in exactly what month simply because it's just that tough and that much of a battle, literally show by show, to get this stuff done and get it into the funnel, and we're working hard to do that.

And we hope we're past any of the unexpected dynamics, like the California closures that went on over the last several weeks that put a couple of twists and turns in the road, and we've got the worst behind us. But yes, I'm a little chased right now with everything on the pandemic. So I don't want to overpromise anything.

Operator

Your next question comes from the line of Phil Cusick from JPMorgan.

Philip A. Cusick - JPMorgan Chase & Co, Research Division - MD and Senior Analyst

So much to ask. So in wireless, John, you talked about growing customer relationships overall as a priority for the company. Should we assume that means the current level of promotion and upgrades, that effort continues?

And then second, to follow up for John Stephens. Just really quick. You mentioned an updated leverage target that you had talked about in an Analyst Day. I know you can't really talk about where leverage goes around an auction. But do you anticipate changing the target from the current 2.5 turns?

John T. Stankey - AT&T Inc. - CEO & Director

So Phil, the -- look, we're in a dynamic market. Things change all the time. We're going to look at our promotion strategies and adjust them accordingly and determine what we need to do to continue to be in a position to maintain and grow share. And it's -- I think it's really important that we continue to have a growing business.

There's -- the management team is focused on 2 things. We like the momentum. I think we'd like to be a little bit more efficient with the momentum. We've done some really good stuff and had some really good progress on self-funding a lot of what we've been doing in the market. But we're not self-funding all of it yet.

And so our continued work on trying to manage the efficiency and effectiveness of this business so that we can be in a more aggressive posture in the market is something that this team is working on every quarter. And we've tried to be diligent and reasonable in our guidance to you and make sure that we have high confidence in what we share.

But what I'm turning back to the management team is a task that I'd say is more aggressive. And to the extent that this management team delivers, and they have been doing a remarkable job of doing that over the last several quarters, does that mean that, that's going to give us more room to do more in the market and continue to maintain a posture that I think is totally appropriate? Bringing in high-value customers, the right kind of customers we want. Going down the swim lanes that we set up for ourselves that we think we have a unique place to be, which is winning in the public sector with our FirstNet abilities, using our deep enterprise customer relationships to go deeper into the customer base with affinity programs, ensuring that we're getting the mass market with attractive offers like HBO Max and what's associated with that, that is -- it brought in a really attractive gross add pool and treating our embedded base well, that is the strategy. And we're going to continue to do that.

I think you're seeing it, to be the industry leader in churn this quarter, I think we called it right. We said that we don't have customers that are upset about our network. They like it. We don't have customers that are upset about our service. They're satisfied with our service.

We have customers who are interested in finding new devices. We shared with you that we had a little bit more aging population on device longevity than the rest of the industry. We've been targeting how we do that. I think getting the new 30-year lease on life -- the 30-month lease on life with these customers -- I wish it was 30 years, it's in a very appropriate exchange for the franchise right now given everything we have in front of us.

John Joseph Stephens - AT&T Inc. - Senior Executive VP & CFO

Phil, with regard to the update at the analyst conference. First and foremost, what we've said and will continue to say is free cash flow in excess of dividends is going to go to pay down debt. Proceeds from the sale of assets is going to pay down debt.

The reality of it is we would prefer to be able to give you more information about a leverage target. We can't do that at this time because of the status of the C-band auction and our inability to comment on. That's all we're trying to tell you is that we understand that we would normally give that to you, that it would be appropriate. But because of the FCC rules, we can't. So we will commit that we will update it when it's past then. That's the story.

I think the one thing that I'd repeat, though, is \$27.5 billion last year, \$26 billion we're guiding for next year, \$15 billion dividend, a lot of money to use to pay down debt. That's what -- the message we want to give you, and the proceeds from things like Crunchyroll going to use to pay down debt.

So we feel good about what we've done over the last 3 years with regard to managing the debt, and we feel really good about our ability going forward. But the comment about leverage is just -- it's appropriate for us to give it to you. We can't because of the rules around the C-band auction.

Philip A. Cusick - *JPMorgan Chase & Co, Research Division - MD and Senior Analyst*

Okay. So that's a maybe this year leverage target, not a permanent changing the 2.5 leverage target.

John Joseph Stephens - *AT&T Inc. - Senior Executive VP & CFO*

I'd say we'll give you all that at the analyst conference when we can talk about it, quite frankly. I just got to be really careful. We'll go from there and move forward.

But our guidance on this, the real piece is cash flow in excess of dividends and proceeds from asset sales go to pay down debt. And if you look at our net debt at the end of the year, I think we've shown a -- we've got a good record to prove that we're doing what we said we're going to do.

Operator

Your next question comes from the line of Michael Rollins from Citi.

Michael Ian Rollins - *Citigroup Inc., Research Division - MD & U.S. Telecoms Analyst*

Just want to follow up on the wireless business, just with a couple of questions. So with the guidance to grow service revenues at about 2%, can you frame the opportunity to improve ARPU for your wireless customers over the next 12 to 24 months? And then also with that target and given where the fourth quarter service revenue growth was, does that mean that AT&T may be exiting the fourth quarter of '21 with service revenue growth above that 2% for the whole year and relative to maybe where you're starting earlier in the year from?

John Joseph Stephens - *AT&T Inc. - Senior Executive VP & CFO*

Michael, let me take a quick -- just to point out I think you're aware, but the first quarter of 2021, this quarter we're in now, last year, we still had international roaming. And so that compare is going to be compared to, if you will, 2.5 months of international roaming. So that will be one set.

The next 3 quarters will presumably be without the international roaming. So the numbers will be different. That's one, and I'd just say that to you. So I don't want to get into quarterly analysis. Because I just don't want to confuse things, we talk about the full year.

Secondly, the real story on the service revenue is customer growth. And quite frankly, we talk about the 1.2 million of postpaid net adds, the 1.5 million of -- 1.2 million postpaid net adds last quarter, the 1.5 million of voice net adds mostly in the last 6 months, all of that.

But the reality is, too, we have close to 16 million total wireless connection net adds during the quarter -- during the year when you include all connections. And we're seeing -- and we believe that our strategies, the ones John just talked about with treating our best customers with the best offers and things like that have the opportunity to win for us the best network and so forth. And so we're optimistic about the ability to continue to grow that customer base. That's what's driving the service revenues.

With regard to the ARPU growth, the continued opportunities go into the upscaling of these packages with a great opportunity to offer HBO Max, which has certainly got tailwinds behind it and the success of it. You saw the 7 million HBO adds, best we've had in not only 10 years, but the best in the total 10 years, better than the total last 10 years. That is going to -- we believe that, that kind of packaging with wireless is going to help and such that we're going to be able to grow it and then grow the ARPU from getting people to buy up not just from the mobile share plans into unlimited, but to buy up for the basic unlimited all the way up to the Elite.

That's the story. We're not giving specific percentages, dollars, but that's what builds that confidence in wireless service revenue growth, which really drives the overall growth of the company's 1% guidance on revenue growth, that and some tailwinds from the comeback of WarnerMedia.

Operator

Your next question comes from the line of David Barden from Bank of America.

David William Barden - *BofA Merrill Lynch, Research Division - MD*

And John, I guess, this is going to be your last quarterly conference call. So we'll see you at the Analyst Day, but congrats on everything you've gotten done.

John Joseph Stephens - *AT&T Inc. - Senior Executive VP & CFO*

Thanks, David.

David William Barden - *BofA Merrill Lynch, Research Division - MD*

I just wanted to -- 2 questions. One is separating out the video business, taking the \$15.5 billion write-down is going to fan the flames of the conversation around divesting that satellite business. Could you kind of, either John or John, could you elaborate a little bit on kind of what that might look like? And what in the \$26 billion of free cash flow guidance is coming from the satellite video business today?

And then the second conversation, we've just finished the first month of the HBO Max experience with Wonder Woman commensurate with the theatrical release. And this is obviously going to happen like 11 more times over the course of 2021 as you kind of do the day, date thing with the movie slate. If we multiply what happened with Wonder Woman times 11 over the course of 2021, what does that look like for Warner Bros. from a revenue and profit standpoint relative to what maybe 2019 would have looked like in a more normal year?

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

So let me try to deal with the front end of that, David, and then John can give you a little bit of context on the cash flow. Obviously, what I'll say on that is we assume that we're running the business as we portrayed it to you. And we have been debating how we wanted to set up our operations for video for some time. And I think part of this, when we step back and think about why we made this change is we figure we're at a life cycle change in these products, that getting management teams focused in this way will be the best way to maximize value in the discrete product lines.

And so in the video case, we've seen a pretty dramatic change in what's occurring in the market. And there's a variety of things driving it. You all know about the declines in the pay TV life cycle. But we also have the dynamic that's starting to occur, which I think is a really important one to understand where we're starting to see pay TV disconnect a little bit from broadband as virtual MVPDs start up. Our own product itself, in many respects, has a virtual characteristic to it, and it's a fairly mature offering.

And so getting the management team really focused on what to do in the latter stages of the life cycle of a mature product and ensuring that we manage it effectively, I think, is a wise thing to do for that product on a stand-alone basis. And that's one driver behind why we made that decision.

The second driver behind why we made this decision is I believe we're at the front end of a dynamic of customers wanting to ensure that they have connectivity and broadband access no matter where they go, and they want a simpler model around that. And I think about our business being in a very unique position for both businesses and consumers to deliver on that promise, and the innovation that's going to be necessary from a product perspective. And then pairing that with what are the new complementary products and services that customers might want to bundle or use with that connectivity I think is a new play, and that's a new growth for us.

And to get another part of the management team really focused on that aspect of our business is how we simplify unified connectivity for our customer base, whether a consumer or a business, whether fixed or mobile, starting to think about what those virtual-type add-ons are to that product that come with a very different delivery mechanism than what we've historically seen when we've been bundling what I would call these high overhead, premise-intensive visit-type services that we've traditionally had in the bundle. And playing to that is the strength and position for growth is the second part of why we want the management team set up the way we have it right now and focused on that going forward.

And that just makes sense for how we're operating the business because of the time and place and where we are. And we are absolutely comfortable that that's the right call for how to operate our business moving forward. And I will tell you, I'm not going to speculate on anything structural or M&A-oriented. We never do, and I'm not going to now. But I believe that what we're doing here is if the goal is to always run an asset for maximum value creation, this is the right strategy to run the asset for maximum value creation. John?

John Joseph Stephens - AT&T Inc. - Senior Executive VP & CFO

Yes. Both the asset of video and both the asset of broadband is so critical going forward. It just had...

John T. Stankey - AT&T Inc. - CEO & Director

Let me just quickly touch on the HBO Max and theatrical piece, if I could. So I think where we are is that there's a difference between a -- what I'll call a tentpole release and a nontentpole release. And Wonder Woman and the nature of that production value and what occurs in it is different than the balance of many of the other movies in our slate. We have other tentpole releases that occur throughout the 2021 release schedule. They are going to be equally as buzzworthy as Wonder Woman. And we have in between those other high-quality offerings that fill that in, that cater to maybe sometimes a less broad audience. And that's the power of doing what we did in bringing the entire slate out to our end user base.

So we're going to see a little bit of spikiness in what occurs. And I don't think it's fair to say if we're going to put, call it, 17, 18, whatever, movies we ultimately settle on in the release structure for the year, we're not going to see the kind of subscriber spikes that maybe we saw in December and early January every time we put a movie out, but that really isn't the design and intent of the plan.

We have -- but we do have an opportunity to build marketing and promotion opportunities around those bigger releases that have broader buzz and broader application across the customer base. And we're going to take every advantage of doing that, and we're going to work filling in the niche between it.

This -- I think I want to stress. This is a unique year, and we did this as a unique year. And probably appropriate to make a comment that in some cases, I'll say maybe the dynamic of the media and the press was a little oversold or a little intense on both ends of the spectrum around this from my point of view.

We told you when the team decided to make this move that we thought it was appropriate for this moment in time. And the team made the call, and I think it was a bold and aggressive swing. It was done with a lot of thought as to what needed to occur in the subscriber base and the balance of the value of the franchises between our theatrical and our streaming business.

It was certainly nice to have a streaming business to present us this option of how we use this content. But part of that call was just built on the dynamic of what we thought the theatrical moviegoing audiences were going to look like in 2021. And since we articulated that, I would say the data points have come in that have been very consistent with the set of assumptions that we had at the front end of that.

I mean just the last several weeks, you've seen other studios continuing to snowplow releases, moving them out of the first half of the year, moving them into the second half of the year, which further cements our point of view that we're going to see a very crowded theatrical field as we get into late 2021 and early 2022. And we don't believe that magically just because there's more content showing up in theaters all at the same time that, that's going to dramatically increase the size of the moviegoing population at that time.

And so as we indicated by making the write-off, we felt like we had a little bit of a spoiling asset here that needed to be moved -- used more effectively. And this was the right economic call to balance this across both sides. And we think using it to balance out long-lived subscribers to build out a scaled platform that allow us to have options in our distribution and using this unfortunate set of circumstances around the pandemic for an opportunity, make lemonade out of lemons, was the right call in this case.

And I think we all have to understand, we step back and think about the theatrical business. I mean nobody went to theaters in 2020 for the most part. It was a pandemic. Just like nobody got on airplanes, and nobody went to hotels, and nobody goes to restaurants. And all of those businesses had a little bit of dislocation because of that, and the theatrical business had a little bit of dislocation. And I applaud the team for the move they made and trying to make the best of this circumstance, for our circumstance around having a really strong theatrical slate that can help our streaming product.

Could we have maybe done some things a little bit differently in how we got through the front end of it? Any time you're first in something, there's no map. You're a trailblazer. There's nothing perfect for you to read. And I think that there's -- there were some things on the margin that maybe we'd do a little bit differently.

But at the end of the day, it's going to get down to making sure people are fairly compensated and treated well. And I think we know how to do that. I think we've been good to the theater owners in the perspective that the exhibitors now have a planned and routine set of releases coming to them at a time when they really, as we've talked about, have other studios snowplowing.

I think in the end, this will ultimately shape up to be a good thing across the board as we get through the emotional aspects that are bound to be there in a high anxiety environment like the pandemic. And all things having been said with what we've seen in the front end of the numbers, what our experience has been, we are delivering on this in a way that we expected. It's pretty consistent with the value shifts that we expected and feel pretty good about where we are in the early innings of this. So John, why don't you go ahead and...

John Joseph Stephens - AT&T Inc. - Senior Executive VP & CFO

Yes. You can take a couple of things. One, I'd point out -- first and foremost from my perspective, 7 million net adds is pretty stout, and the strategy worked. And secondly, it's still early. We're 31 days out from Wonder Woman's release, I think. And so we'll continue to follow it.

More importantly, for everybody on the call, I think at the Analyst Day, we'll get the team. Jason and his team will get the opportunity to talk to you about some of the further plans and go through that.

Dave, your other question, I think, was with regard to the planning process. The guidance we've given here today, but for the exclusion of any commentary on C-band, is what we have as assets in our portfolio as of January 1 and owning them for the full year other than Crunchyroll, other than the already held-for-sale termination of Crunchyroll.

And so yes, there is free cash flow in here from the video business. I won't give you a specific number on that, Dave. But you can assume based on the results of the business last year, it's probably going to be a lower number inclusive next year than it is this year for the changes in customer base and so forth. But it is a business as usual, what I would call kind of business planning approach.

All that being said, feel really good about the free cash flow position. And particularly, as I mentioned in an earlier question, cash came in strong at the end of the year with regard to the fourth quarter, with regard to customer activity, both on the corporate business side as well as the consumer side. And you guys can see it in our bad debt, which are remarkably low.

Team did a really great job of weeding out fraud and weeding out -- and focusing on the best customers, and it's showing up in our numbers. So I think -- hopefully, that answers your question, David. Thanks for the earlier comment about my retirement. It will be a change, but it will be interesting.

David William Barden - *BofA Merrill Lynch, Research Division - MD*

Good luck.

John Joseph Stephens - *AT&T Inc. - Senior Executive VP & CFO*

Thank you.

Operator

Your next question comes from the line of Brett Feldman from Goldman Sachs.

Brett Joseph Feldman - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

And if you don't mind, like to follow up on some of the fiber commentary. It's obviously encouraging to see that you're going to be picking up the pace of the build-out this year. But even after building out 2 million additional homes passed, that would still be a small subset of the number of customer locations in your total wireline footprint.

How do you think about what portion of that footprint, which I think has 60 million households in it, is potentially attractive in terms of being a great demo and having economics to reach them that generate a compelling return for you? In other words, for how long can you keep adding 2 million homes a year to your footprint?

And am I even asking this question correctly because as you build out your 5G footprint, which is really a national 5G network using layers of spectrum across multiple bands, it would seem like wireless will increasingly be a viable technology for reaching households beyond your traditional footprint. How do you think about the fixed wireless opportunity? And maybe how do you just think about the ability to be a provider of high-speed residential broadband across the country?

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

So Brett, the -- I'm going to sound like a broken record, but it's really important on these long-lived investments that we be pretty consistent internally, so that the management team can get to a consistent level of execution year-over-year. If I think about what has traditionally happened in outside plant access technology upgrades, I've been through a series of them over my career. And I don't think this one is going to be a whole lot different.

There's always the first 1/3 of the customer base that's kind of the low-hanging fruit, slam dunk, that is the part of the customer base that you cut your teeth on, get your processes squared away on, get the vendor community up the first part of the cost curve. And it's like the no-brainer economically, and you kind of make your decision that, that's where you're going to start. And I would say we went through that largely through that first 1/3 in the investment we've made over the last several years.

Then what happens is as you get your -- up the learning curve, and the vendors start to scale and you start to gain confidence in your economics and your business processes start to improve, and you start to see the marginal economics improve on the subscriber, which is what you're going to start to see happen on some of those broadband numbers on the fiber base that we've broken out for you. As we move forward here over time,

the next 1/3 becomes the opportunity. And we're into that -- the middle innings of the game, if you want. It's the next 30% to 60% of the customer base that we can work our way through, and you look at the economics around it, it makes sense.

Then you get into that last 1/3, and it's always the hardest part. And I mean in many instances, you're still sitting with the last 1/3 that, in parts of the rural America, that still really don't have effective broadband options. And oftentimes, it's policy. Sometimes it's a technology breakthrough that gets that last 1/3.

And I would tell you right now, if you wanted me to prognosticate, are you going to build fiber to that last 1/3? I don't think I'd want to prognosticate that, that's a place that we're likely to go in the near term, absent some kind of major subsidy construct that comes into place. I actually believe, candidly, even if there was subsidy put in, it would be a better use of taxpayer money to do something that was more hybrid-oriented than the technologies that are applied and not exclusively lean on fiber in that space.

But we're several innings out from that actually coming to pass, and we'll have time to work through it. Right now, we're working in the middle innings of the game, and the next 30% of the customer base is where our focus is at. And as I shared with you on the previous call, it's 2 million this year. If the team executes well, we can do more than 2 million and start to ramp that up.

And when we demonstrate to the investor base that we're getting the kind of returns that you all like, then you should cheer us on to do that and be very supportive of us moving down that path. And it's my intent to characterize that and show that to you.

In terms of how I think about the wireless and fixed base, I've got maybe a little different view on this, and I'll maybe step back and think about it from a macro level. If you go back and you look at consumption that's occurred in customer bases, whether it be wireless-centric, data use or fixed-centric data use, they've all been growing. And they grow at a pretty consistent level.

And if you go and you talk to experts around consumer behavior over the next 10 years and you look at what's going on inside the household of -- for example, just one major trend of people moving away from what used to be broadcast or multicast streams efficiently delivered to unicast streams, discrete streams to one device. And you just look at what's happening in consumer behavior over that, there is a substantial amount of video traffic to be moved to unicast. It's going to drive up a massive amount of consumption.

And this ratio between mobile and fixed consumption has been about 10:1 for many years. This is not new. And I got to -- I believe that, that ratio, it may not be perfectly 10:1, but there's still going to be a pretty consistent gap between mobile and fixed consumption. In other words, there's still a lot of traffic to be moved, given consumer shifts and how they're using products and services.

And so as I sit back and think about things, I think about hybrid access technologies as being important. But I don't know that the most ideal way to build a network is going to be to use fixed wireless to take on the bulk of what occurs in the 4 walls of a business or a home, given the consumer behavior trends we're going to see over the next 10 years. And I think still having a very dense and rich fiber infrastructure is going to be necessary to be an effective network provider over time.

Now it doesn't mean there won't be some segments of the population -- and my son, who lives on his own in an apartment in a metro urban area that might actually be an individual that could work on an all-wireless portion of his life in his 20s when he's independent and single and in a single-dwelling unit household. And maybe that's a little bit different surrogate arrangement that has a wireless tail on it or is a robust wireless LAN inside of a managed dwelling unit. But I still think reach and penetration of fiber is going to be important as we move forward.

John Joseph Stephens - AT&T Inc. - Senior Executive VP & CFO

John, the only thing I'd add in your putting a fence around this issue, John made this comment earlier, it's really important. We have fiber to the neighborhood in many, many locations, and taking fiber-to-the-home is the second step. We haven't done that yet. So if you think about our VDSL, if you think about our new greenfield builds, if you think about the neighborhoods next to the VDSL or in respect to where we've got fiber the prem, those are the opportunities. And that VDSL footprint is 35 million. And when you add the fiber to it, it's greater than that. That will give you

kind of a framework for something that we could efficiently do. Just what John said about building out the 2 million this year, that's where a lot of the focus is going to be.

So I think of that as the way to think about the opportunity for us. And yes, we have that ability. We need to continue the sales momentum. That's going to be really critically important to make it work. But in line with that, that's, I think, a focus of easy capability for us.

Operator

Your next question comes from the line of Frank Louthan from Raymond James.

Frank Garrett Louthan - *Raymond James & Associates, Inc., Research Division - MD of Equity Research*

Great. Can you comment on any potential regulatory changes with Title II potentially coming back over the next 12 months? And can you give us a little bit more detail on -- as far as the fiber-to-the-home, you say you're doing another 2 million homes this year. To what extent can we expect that to continue at that sort of pace? Or is that just sort of a year-by-year kind of a decision?

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

So I said in the neighborhood of 2 million homes. I would tell you that, as I just said, Frank, I want to be able to demonstrate to you that, that 2 million pace is a no-brainer and a slam dunk and a great value driver for our business and a great subscriber count driver for our business. And I think this business can build more than 2 million a year in a very profitable fashion. But we're going to demonstrate to you we can do that, and then we'll come back to you and tell you about what that rate is.

So if we execute well, when the management team execute well, do I expect that I'll be back talking to you about a '22 build that maybe leans in heavily to that? That's what I'd like to see the management team step up to and be able to work its way through. The -- where I think -- I'm sorry, the first part of your question?

John Joseph Stephens - *AT&T Inc. - Senior Executive VP & CFO*

Title II.

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

Oh, Title II. How can I forget? Look, I think it's inevitable that we're now back into the wood-saw approach of a new administration. And a new belief that despite 4 years of not a single data point to suggest that we have a problem to solve, nobody blocking anybody, nobody throttling anybody, nobody bought -- doing anything inappropriate in terms of use of service and disclosing how they're offering services to customers, we're going to go through another regulatory bloodletting over this. I expect it to happen, and we're going to watch the cycle repeat itself.

And one would hope at some point that there's a recent discussion around a policy that gets us away from this web sign and allows everybody to kind of have a more consistent and stable approach. I don't know that, that's going to happen, but we're certainly going to try and push and discuss it.

Where I think the third rail is on this issue is the dynamic around what happens to the freedom of people who invest in competitive markets to price their products and services appropriately. And if we stay away from that third rail, if the kind of latitude is in there to be able to price and do the right things in the market where competitive markets exist, then I think everything will probably, at the end of the day, be okay.

But if for some reason, policy goes down a path where that isn't the case -- it hasn't in the past even when Title II is in place. We had the latitude to do what I felt like we needed to do. But if, for some reason, policy went further to try to solve a problem that doesn't exist, I have to step back and ask ourselves how we're allocating capital around that and evaluate where that comes out and ask if it's the right place for us to go for our shareholders based on that dynamic and that very important lever for us being taken away so -- or variable, I'd say, in the market, not lever.

So that's how I think about it right now. I actually step back and -- from a policy perspective, ironically, think about what's happened over the course of the last year or 2 and the dynamics that are going on right now where the issue is looking at metering and monitoring speech and what's occurring for people to access the platforms, that -- there are more real and significant data points in how that's affecting society than anything to do with how Internet service providers are delivering bandwidth in the homes. But I'll leave it to smarter people to meet and figure that one out.

John Joseph Stephens - AT&T Inc. - Senior Executive VP & CFO

Frank, I think, we're -- the industry is real proud of what's happening in the course of the pandemic and the way we've allowed people to continue to work from home. I'm sure many of you are taking this call from home. And the industries, the investments they've made under the prior regime is working.

We're, as a company, more focused on broadband, not just to the availability because it's out there, but people is actually taking advantage of it for the home work situation, for others. And we're working on those aspects as well as following all the other aspects of a infrastructure bill, another stimulus bill, tax legislation. We're following all those things, right? So we'll continue to follow as closely as you can imagine. Maybe Amir, we've got time for one more question.

Amir Rozwadowski - AT&T Inc. - Senior VP of Finance & IR

Yes, we've got time for one last question, operator.

Operator

Okay. That question comes from the line of Tim Horan from Oppenheimer.

Timothy Kelly Horan - Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst

John, I know you said the move to virtualization of content is kind of accelerating, and that seems to be happening with gaming, compute, even communications with Microsoft Teams and Zoom. How are you positioned to take advantage of that? Are you better positioned as a company that owns the pipes and some of the content? Or do you think it makes more sense to separate these assets? Or you're in a really unique seat. I mean how do you really take advantage of this accelerating move at this point?

John T. Stankey - AT&T Inc. - CEO & Director

Tim, our biggest and single-most important bet in that regard is HBO Max. And I think about that broadly as, while today, we talk about it as an SVOD evolving to an AVOD offer. I've mentioned this before, I view it as a really important foundation for broader customer relationships. I mean this is the first big foray of maybe legacy AT&T thinking about having broader relationships with the customer base at a relatively low price point SKU that isn't exclusively dependent on infrastructure.

And to the extent we are successful at having that relationship with most U.S. households, if we don't use that as an opportunity, as a springboard for us to start thinking about how we extend those customer relationships across other opportunities either to own and operate content or engagement with a customer or to use the platform as a means for others to distribute, we'd be losing a huge opportunity.

And so I think, well, there's all kinds of things we want to do around the edge and making sure that we work with the right hyperscalers to virtualize and give our customers the opportunity to gain access into infrastructure so that they can run their compute environments and their application environments effectively. That's all important, and that's all meat-and-potato stuff we need to do on a network.

But I think about owning some degree of engagement with the customer, a relationship, a means to build with them, having them interact with your service so that you have insights as to who they are, what they like, what they do, what their proclivities are, being able to emotionally attach with them, having a software platform that allows you to build the next building block of a product that extends into engagement, that talks about dynamics of changing consumption in social and interactive, I think this is a really important dynamic for the health of our business. And I know it's longer term in nature. And I'm well aware of the folks who have maybe a tighter orientation to the financial return question. Why would you be pushing as hard as you are in this area? It's because I feel pretty strongly about that.

And I think building large subscription bases of customers that pay us every month for something has been kind of the hallmark of this business. We have a really attractive dynamic in that in our overall revenues and profitability today. We need to evolve that into what the next step is, and this is just one of those steps in making that happen.

Amir Rozwadowski - AT&T Inc. - Senior VP of Finance & IR

Thanks very much, Tim. That's all the time for questions that we have. And with that, I want to turn it over to John Stankey for final comments.

John T. Stankey - AT&T Inc. - CEO & Director

I have one last order of business before I let you go, and Dave kind of hinted at it with his compliment to John. I do want to point out that it's with very mixed emotions that we recognize that this is, I believe, John's 40th and last earnings call that he'll be doing with all of us. And he's been a very valued and long-time coworker of mine.

I think if you think about the fact that he sat in this role as CFO of this company for 9 years, that speaks volumes in and of itself about his character and abilities. That's a tremendous level of longevity for somebody who occupies a role as significant, as pressured and as dynamic as the one that he's had.

I've worked with John for 23 years of his career, which has been a long time, and it's been a pleasure all along the way. I could say a lot of things. Obviously, high integrity, high impact, high functioning and incredibly high regard as a person. We're going to miss him at AT&T. I know you're going to miss him in support of all of you, but we're delighted about what lies ahead for him and his family and Michele in his next chapter and as you would expect, the professionalism in navigating the handoff to what's going to be a very capable successor. I'm just delighted to have Pascal coming in, and look forward to all of you getting to know him. It's gone incredibly smoothly. It's been first rate. And I think as we join you a quarter from now and Pascal takes the reins, you'll see what a nice, smooth and even-keeled transition that's been when we reconvene.

So I hope you join me in giving best wishes to John in his next chapter, and thank him for everything you've done for us. Thank you, John.

John Joseph Stephens - AT&T Inc. - Senior Executive VP & CFO

Thanks, John, and thanks for the kind words. Thanks to all the other members of the management team here who've been a family for me. Specifically thanks to my team, the finance team, just remarkable people across the board.

Pascal is going to do a great job, and you guys are going to be thrilled. We're upgrading. And I would tell you, I just want to wish everybody on the call good luck, God speed, stay safe. And remember, don't text and drive. Thank you all.

Operator

Ladies and gentlemen, that does conclude your conference for today. Thank you for your participation and for using AT&T Teleconference. You may now disconnect.

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