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# EDITED TRANSCRIPT

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

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## CORPORATE PARTICIPANTS

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

## CONFERENCE CALL PARTICIPANTS

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

## PRESENTATION

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

All right. Welcome, everyone. If you could all please find a seat. We're going to go ahead and get started here with the next session in our keynote track. It is a pleasure to welcome to the first-ever Communacopia + Technology Conference, John Stankey, the CEO of AT&T. John, thanks for being with us today.

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

Thanks for having us in, Brett. Before we get started, can I do the safe harbor statement?

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

Absolutely.

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

All right. We're going to talk about some things that may be subject to uncertainty in the future. As a result of that, the results may differ materially. If you go to our Investor Relations website, you can see the full disclosure on the safe harbor and read it in its entirety, if you feel the need to do that. And I'll remind everybody, we're still in the quiet period for Spectrum Auction 108.

## QUESTIONS AND ANSWERS

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

All right. Well, let's jump into it. You spent a significant part of the beginning of your tenure as CEO taking steps to reposition AT&T. I think a year ago, one of the topics was where were you in that process. Earlier this year, you substantially wrapped it up through your transactions, some adjustments to your capital allocation policies. So the question is, what's the priority now? What's the management team focused on? What are the real things you're trying to get accomplished?

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

So the priority now is to run the business better and to make sure that we position AT&T to be the best connectivity provider in the United States. And we took the business up to be able to do that, to your point, readjusting some of our capital allocation approaches. We understand that we've got to sustain a consistent level of investment to make that happen.

And we're probably a little over 18 months into that cycle, that typically in our business, given the capital intensity and the significance of what you need to do to move infrastructure, it takes about a 3-year process to get the flywheel moving in the right direction. And I feel like we're making really good progress in that regard.

I think there are areas of the market that our progress and receptivity from the customer and the products we have in the market have been really strong, but we know there's still room to go. And the management team is working very hard in ensuring that we actually achieve that.

And as you know, that's also relevant to how we're going to do capital allocation, get the balance sheet in order as we get to 2.5x debt-to-EBITDA and ensure that by the end of 2025, we're in a much better place in that regard and continue to invest at the levels we're investing to get the growth cycle out of the business that we'd like to get and feel really good about that progress.

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

Right. So before we get into some of the things that are a little bit more on the blocking and tackling, you're obviously one of the biggest communications companies in the U.S. You have significant exposure to both consumers and businesses from small to large. We're obviously in a very difficult or a changing economic backdrop.

From your vantage point, how would you frame the way the economy is affecting AT&T's business? I know, in the past, you talked about inflationary pressures. In what other ways is the economic backdrop impacting the way you operate and plan for AT&T?

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

It is the inflationary pressures, I mean, first and foremost, and I've been pretty vocal about this and it's not a good place for this country to be in. It's not a good place from a policy perspective. And I'm pleased to see that we finally have come to grips with the fact that this is broad and deep-seated in the economy and not something that's transient and isolated.

It appears that the right policy approach is being taken right now to deal with that. But we're not done. It looks like maybe we've seen a peak level right now, getting helped by certain small areas of the economy that are seeing some -- a little bit more temporary in effect on it, but how we work out the balance of the inflationary impacts in the coming quarters, given how broad scale they are, remains to be seen. And there's a pretty reasonable degree of uncertainty around that.

As a result of that, the best thing that we can do is we continue to work really aggressively on the cost side of the equation. The economy, from a volumes perspective and our customers' willingness to use our products and services, still remains really strong. However, we are seeing input rising -- cost of inputs rising literally at every portion of the business and having to work really aggressively to carry that through.

So we had a real aggressive approach on costs in place before. We're working even harder now looking for other opportunities to move through that because I think that will be the best way to give us the runway we need as the policy effects start to work their way into the economy and maybe get things back at some point to a little bit more predictable level of inflation.

But that's basically where I put it. And as I've said before, if this goes on for too long, it's not going to be good for any socioeconomic group in the economy. But we've definitely seen it hit more in the lower socioeconomic strata right now.

But generally speaking, I mean, they're holding their own. I haven't seen any further deterioration of what we saw earlier in the year and some extension on payment cycles. But generally speaking, it seems that people who want to work can work and they're able to pay the bills.

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

And to what extent is AT&T exposed to that lower-end customer demo?

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

Probably less than some of our peer companies in the segment. We've typically over-indexed on quality, even our prepaid business, which tends to line up well with that particular segment of the economy, tends to have a higher-quality customer, lower churn characteristic.

When you look at our postpaid business as we started to move into the smartphone era, we over-indexed at what I would call a little higher socioeconomic stratas. A lot of that was built by the exclusivity of the iPhone period. So I think we're less-indexed toward it. But as I said, this is pretty broad scale in the economy and everybody is having to deal with these rising input costs.

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

All right. You talked about costs. I'm going to come back to that in a few minutes. But you also just alluded to the postpaid business. That's where I wanted to spend a little more time on right now. If we just look at the last year, and that's probably too short of a period, you've added over 3 million postpaid phone customers in the past 12 months. I think that's the highest rate of growth we've seen in your business -- your postpaid phone business over any 12-month period.

And really, it's been over 2 years where the business has seen much greater momentum than you'd had prior to that. And the question we keep getting is, what's working? And for how long do you think you can sustain this improved level of momentum?

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

There's a lot of things working well. And I've been pretty clear and consistent about this from the start. I think I'll continue to repeat it, which is we are actually gaining customers in a lot of different places and a lot of different ways. And there isn't any single answer to it. And I know folks want to continue to go back and say, well, it's a high level of promotion that's doing it, and that's factually not correct.

We've had great share shifts that have occurred in certain segments of the market. Public sector is a good example. That's not based on promotion. That's based on sustained investment and building the best public safety network that this country has seen. And it's allowed us to penetrate into a segment that we were previously grossly under-penetrated in. And we've seen that same dynamic move into the upper end and mid-part of the business market, where our share performance has improved.

Those are not typically places where the promotional dynamics are driving anything. It's about distribution and having a better product. When I go and I sort of think about how I've heard others in the industry talk about, well, we've got this great opportunity to cross-sell products, I absolutely agree with that.

We've been doing that for a couple of years, and we've been doing it really effectively. And when we're growing 300,000-plus fiber customers a month, it gives us a very unique opportunity to talk to customers about other products and services. That's not promotion. That's about a customer interaction and being able to sell a bundle of service to them -- to that particular customer that makes sense for them.

When I look at the conversion rate that while we may advertise particular opportunities in the market, once we work with a customer in a retail store and move them into a different offer, we've been very effective at doing that. And I would tell you, that I think we can sustain that momentum, and we are going to get our fair share, plus some, in the market as it stands today.

And look, if the market slows down, the market slows down. Frankly, from a cash perspective, when you run at the kind of margin structure we run at and we're as effective and efficient as we are today, that's a good thing for our business if the rate of growth is a little bit more moderated.

I think we've got a winning combination on distribution. I think we've seen our network improve dramatically. I think we've got a better-performing workforce than we've ever had right now, getting better. And so I feel really good about our ability to manage that momentum.

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

You talked about the strength of the market. And obviously, you don't have control over the full market, but we're 20 consecutive quarters of the postpaid phone subscriber base in this country growing faster than population, so it feels like that has to inevitably slow. As we sit here today, what's your best take as to why the industry has been performing so well?

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

Well, I think there's a variety of things going on. One is, look, there is some conversion occurring of folks out of the prepaid segment into the postpaid segment, which helps a little bit of that. I would say our level of participation in that dynamic maybe has been more muted than others in the industry, frankly.

But I think there is some growth that's occurring as a result of that. And I think when you have folks starting to look at the dynamic of I have a known relationship maybe on a fixed connection or an entertainment connection and I want to bolt-on a wireless product or service, that's an opportunity for conversion into a postpaid dynamic that maybe didn't exist before.

You have a little better viewpoint of the credit dynamic with the customer and can maybe make decisions on the margin. So I would say that's probably one attribute. Second, look, there's a lot of utility in these devices. The types of devices that people are moving into the postpaid segment is increasing.

The age dynamic of who gets a device when tends to shift a little bit. That increases the pool. Third, there's been government subsidy that's come in and made it more affordable for some people, that maybe previously could not afford to be in that space. And that's added a device in a household that maybe before would have been discretionary without that government subsidy coming in. So I think those things have helped the market up to this point in time, but whether or not they sustain themselves moving forward remains to be seen.

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

When I asked you earlier what's working, you made a point of saying it's not just device promos, and you walked through some of the areas where you've had success outside the scope of where those promos are available. But one of the elements of the more simplified go-to-market strategy you've been executing for over 2 years now has been attractive device promos, or really, the same promo available to an existing customer is you're making available to a new customer.

And a question we get a lot from investors is they say, okay, it's clearly working. It's working in an environment where aggregate industry demand is very strong. And so what happens when we inevitably see the sector decelerate? Are we just going to be left in a very promotional environment? Or do you see a path to having a go-to-market strategy for AT&T that maybe begins to overweight some other attributes that you offer to your customers beyond what you've been offering them right now?

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

Well, I think I just gave a partial answer to that question earlier, where I talked about the fact that we're gaining share in segments that have nothing to do with that dynamic of promotionality. It's not the dynamic that we are winning with the value proposition. We are, and we're moving those numbers.

And I would tell you, I hear others talking about wanting to, for example, move into the business segment and gain share and grow. We are and we have them, and we're relevant there. And we have great positioning with business customers, and we're doing better than we've ever done. So I would tell you that's part of the answer.

The other part of the answer I would say is when -- if you look at maybe some tempering of demand, I don't view that as having been a bad thing. We look at the total bundle of what it costs us to ultimately bring a customer in or maintain a customer. And what we do on the device level subsidy is only one element of that.

So when you think about what AT&T is doing, we've managed to come up with a formula that customers like, that they understand. It's driven churn down in the business, which has been healthy. It allows us to spend less money communicating the message, and you can go out and quantitatively look at it relative to others in the market and how much mass media we buy, how we're working in the media today.

We are getting probably the best yields in our promotional advertising that we've ever done, but we're not spending nearly at the levels we've historically spent. And I will tell you, we're not spending at the top of the industry right now.

So when somebody focuses on only one element of the total cost of customer acquisition or cost of customer maintenance, they're not looking at the complete picture. And I would tell you, our equation very much hangs together when you look at the overall aggregate view of this.

We've given you guidance of what you should expect to see in the latter half of this year, which is accelerating EBITDA in our wireless business. You're going to see that because customer counts have increased, and we're now seeing that start to move its way into the bottom line.

You are actually going to see that occur, and that is by artifact of what I just described. So I don't subscribe to the notion that a slower growth environment is necessarily any worse or different for us than any other element or any other player in the industry.

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

Your competitors are beginning to copy this go-to-market strategy though. So how do you think about staying a step ahead of them?

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

That's pretty flattering, I guess, the fact that they're now using the same wording that we're using. And I think the way we stay a step ahead is taking the next step in our brand evolution. Over the last 2 years, our customer sentiment in the wireless space has improved. We have a leading customer sentiment in the fixed space, of which, as I indicated before, we are working that really hard when we bring on a new fixed customer, how do we move it into wireless.

I want the brand to expand a bit. I don't want it to just be about a square deal for a customer of ours. I want them to think about attributes of the brand that are more flattering to AT&T, and we're doing a lot of work on how we back that up, that we balance that out.

I'm really pleased that we've now been able to start turning up our mid-band spectrum. We were a little bit later to that dynamic than some in the industry because of where we were in the auction and equipment availability. It is now up and starting to make its appearance.

In metropolitan areas, the performance we're getting out of it is really, really good. I think that will be a big lift on what is already a strong network. We have, in my view, the best-performing 4G LTE network in the country. Now paired with what we can do in 5G mid-band spectrum, I think that's only going to be a positive for customers as we move through this. So balancing out the attributes of how customers see our company over time beyond just a square deal is really what my next goal will be.

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

All right. With your last quarterly report, you increased your outlook for service revenue guidance. You're now expecting faster growth this year than you initially anticipated. The strong growth in the subscriber base is a piece of that. The ARPU trend had been a bit better through the first half of the year than you expected.

And then you implemented some selective price adjustments across the base. Can you give us an update how have those price increases been received relative to what you would have anticipated?

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

The plan, as we anticipated, it has gone exactly as we kind of panned it out. And I'll give a lot of credit to the team. Look, one thing I think we do well in our company is we know how to manage a subscription base reasonably well, and we've done it across a variety of different product segments and have some good understanding of how we use data to inform actions that we take and what's likely going to occur. And we're, I think, pretty good at communicating with customers around how to make it a win-win circumstance for them.

And I would tell you, as we mapped out what we did on that set of price increases, and we have run it through the base and we've got a couple of months now worth of data, it has played out exactly as we expected it to play out. It will be an accretive move for the business. It will be part of why you see that accelerating dynamic occurring at the end of the year as we expected at the beginning of the year, of course, helping offset some of the inflationary costs we talked about earlier.

We've had a lot of customer contact from it, which we expected. That customer contact has resulted in customers making decisions, to find plans that are best-tailored to their current needs. And I view that as a good long-term investment. It's partly why some of our promotional dynamics were a little bit higher in the second quarter because we moved customers into re-upping them on longer contracts as they make those choices to move into different plans.

So I think we've managed it really well. I feel pretty good about where we stand on it. And I think we're going to see the results of that move in the latter part of the year.

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

You had stated when you first started talking about adjusting price, that if you needed to, meaning if the inflationary environment were to continue to remain more difficult than you expected, you could potentially look at adjusting price on other products.

There's mostly a few legacy plans that you had targeted for the last price adjustments. How are you thinking about that? Do you think that there is an opportunity or need to continue to do more of the space than where you sit right now?

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

Well, I'll be a little general in how I answer that. I'm not going to tell you exactly how I'm thinking. I try not to telegraph pricing changes out to our competitors. But we're in the middle of 3-year planning right now, and we're making assumptions as to what our expectations are going to be for next year in the economy.

And naturally, we're going to allow us to have our choices that we can go to, depending on what ultimately evolves. Is it a higher inflation environment than what we expected? Or is it going to be lower? And part of that is to build the optionality of where we go on some of the pricing changes we need to -- we may need to make if, in fact, costs remain elevated for an extended period of time. So we do have other approaches to use. We have other tactics we would use.

We like to be careful how frequently we're hitting the base with those things. We don't like to do them every 30, 60 or 90 days because part of doing them well is to have very crisp communication. But we will trigger those at some point during the business cycle next year if we see inflation stay at its current levels.

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

All right. Well, you mentioned costs again, so I want to come back and ask about that. You have a \$6 billion cost reduction program. I think the way you framed it was at the front end of that program, a lot of those savings were being reinvested into some of your growth initiatives. You're now transitioning to a point where more of those cost savings should be flowing through to the bottom line. I believe that's contemplated in your outlook.

But of course, there's more inflationary pressure now than you probably would have guessed when you were designing this program. So can you just give us an update here? What gives you confidence? Or do you remain confident that we are going to actually see all the cost savings flow through? I mean can you give us some tangible examples of some incremental steps you've taken as you fight inflation on the cost side?

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

Sure. The reason I think that we have opportunity to do more is because we have opportunity. Our business is a little bit different than some in our peer group. I'd probably say our business is a little bit different than all in our peer group.

We have a legacy cost structure on parts of our business that performed very well for many years, that now has seen its best days and ultimately needs to be terminated and shut down. And the costs that go along with that need to come out of the business. So we're working really hard on that front.

So specifically, as we look at embedded copper infrastructure that spread broadly geographically around our operating territory, that we're now seeing density levels get to a point where either we can replace with fiber, if it's in a metropolitan or suburban area that warrants investment, or replace with a robust wireless network that has broader coverage than anybody else in the industry today and that we've been able to make more bulletproof and stronger with our FirstNet investments than have ever been there before.

We now have the opportunity to reengineer that part of our business, remove customers from that infrastructure and restructure costs as a result of that. And I think that is, when you think about our cost structure as an aggregate reporting company, is very different than many people in our peer group. And those costs are real and they're significant and they're broadly distributed. So I have a lot of confidence that we now have the tools, and we're making the progress on the regulatory front.

We've got the programs internally in the business that have us starting to ramp up our ability to do that, to literally go square mile by square mile and either pivot to fiber or ultimately turn down embedded infrastructure, that we will see that cost momentum come out. And I think that is executed well, something that outstrips inflation because it's so inherent as to what our business was for so many years, that it's all opportunity for us to seize.

And when you start to think about the tentacles that come off of that breadth, the information technology systems that used to support those products and services that have been around for, dare I say, when I started to come into the business, some of those things now have an opportunity to be shuttered and sunset and brought down, those are the kind of things that we're working and carrying through, that I get a lot of confidence that we can manage effectively.

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

So a lot of those legacy costs that you talked about, we see in your Consumer Wireline business, and maybe this is a great opportunity to pivot over and start talking about that. And let's start with the fiber piece of it. As of the end of last quarter, your fiber network passed about 18 million customer locations.

You had over 6.5 million fiber customers. And you've said the intent is to continue to expand this footprint by about 3.5 million to 4 million locations a year until you get to 30 million. And I guess, that's not the end of the conversation. That's just the target that you have established for us. And so the question at the end of that long-winded statement is...



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

I'm glad you're listening. You've caught it very good. Thank you.

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

That's good. That's why I wrote it down. The confidence you have in the fiber investment, when we talk to investors about the broadband market, we hear a lot about escalating competition, saturation in fixed wireless. And what gives you confidence that the penetration curve that you designed this investment around is, in fact, the penetration curve you think you can achieve?

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

2 things. One is results. And two is it's the best product in the market. It's a lot easier to sell the best product in the market. So on the results side, we're pretty disciplined. And when I started working on the business case for fiber back in 2013, 2012, late '12, we started building theories around what you can do.

And we've had a lot of market tests since we launched our first product in Austin in 2014, made our first \$15 million build commitment coming out of 2015, into 2018. And we've been able to pick up a lot of data points from that experience.

It's not a small footprint at 15 million households passed. More importantly, for the last 18 months, we've been investing. And we gave you numbers. As you said, there's -- we're now up to 18 million. So there's been 3 million as of the end of second quarter, 3 million new households that were added in.

And when you look at the results on what we penetrated, it's been really strong. In fact, from when we did our first tranche of fiber in the '15 to '18 period, to what we're doing right now, we're over double our rate of penetration in the same time frames. And that's because the product is better, our techniques are better, our approach to building and picking build areas is better.

So the results are really strong. ARPU's are growing. You're seeing the subscriber momentum that's occurring each quarter, and I see nothing that's changing that in the dynamic that's occurring in the market right now.

I had a bit of a quiet moment of celebration last quarter when for the first time after over a decade of trying, we actually saw cable will have fewer broadband customers in a quarter than what they had before, which I don't think we're the only reason because of that, but I think our progress and success is one of the reasons as a result of that.

And then finally, customers love the product. And I've said this before, over 10 points higher in customer NPS than any other product in the market, really strong. They love it. It works. It works well. And it's working at a time where people are putting more workloads in their home every day.

And the dynamics of what fiber brings, a symmetrical bandwidth connection, the consistency during weather events and storms and issues associated with it, being largely a passive network, those are all really good things from a customer value perspective and we're marketing and selling it in a very transparent way. No gimmicks, no promotional pricing, all-in pricing included. All of that is making for an exceptional customer experience.

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

So as you think about getting to \$30 million, and it certainly seems like you're on pace to get to \$30 million, that would be maybe half your footprint. It kind of depends on how you define your footprint. The point would be there's a lot more opportunity that you could potentially pursue deploying fiber. How are you thinking about what your footprint ultimately should look like?

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

I think we're seeing every day, if the results remain as strong as they are, first of all, the business case changes. So when we did the original point of view of where we were going to go invest right now, as I just told you, our rate of penetration is actually twice as good as what we expected.

There are 3 major sensitivities in a fiber business case. One is the rate of penetration, one is the ARPU, and one is the cost to build. Cost to build isn't going to move dramatically, typically speaking. Nobody is going to come out with a new way to put fiber out, that takes 30% out of the cost of building fiber. It uses relatively mature technologies, like digging trenches, that aren't going to see that kind of rapid change.

ARPU's are not only strong, they're stronger than what we expected. We're seeing higher uptakes when we offer 5-gig in the market than what we would have expected when we put a 5-gig product out there. And if the rate of penetration is twice as fast as we expected, that will tell you that there are homes, that in previously, 2 years ago, when we did this, we said maybe weren't economical, then now, because of our execution in the market and we sustain that, become economical.

Second point, government has brought in a pretty substantial amount of public subsidy, \$45 billion-ish. And remember, that's just the public portion of the subsidy. What people miss is nobody expects that when one of those locations get built, that it's going to be done on a 100% public financing. It's going to be done on a public-private partnership.

And right now, on public monies that are coming in, for example, when we're participating, oftentimes, \$3 of private capital come in to match \$1 of public capital. I don't expect that, that ratio will probably hold as we get to some of these more difficult areas to build. But \$45 billion, if it's 1:1, could be \$90 billion, right?

And when you start thinking about that dynamic of how that opens up an opportunity in the market, at previously uneconomic areas to build, if that starts to work its way through the process next year, I would expect that AT&T is going to be an active participant in that process.

And we're going to look at it based on what I described earlier is we're looking at places where we're turning down existing copper infrastructure, where we have opportunity to keep scale and go in and fill in holes, that's going to naturally cause us to lean in to doing some of that stuff going forward. And I would expect, that will probably alter the number.

And then finally, Brett, I think we're in a place in the market right now where I believe all the fundamentals are that customers need more scaled connectivity in their home. And if I look out over 5 years, and I think about building a durable and sustainable franchise at AT&T, I think fiber is the key element to that.

And it's the key element for getting the kind of dense infrastructure that's necessary for the next generation of wireless technology as well. And having that owned and operated economics where you've got that backhaul and that transport densely out on a network is going to be a key determiner being a successful wireless business over time.

And so when I step back and I think about that opportunity right now, are there other markets maybe outside of our operating footprint, given our success and what we're seeing in rate of penetration, receptivity of the product, our ability to cross-sell both fixed and wireless, we should understand whether or not there's something there.

We announced Phoenix a couple of weeks ago. We did that for a reason. That's a test case for us to understand. Are there attractive markets for us to build as the first fiber provider into a particular area that might make sense for our business. And we'll look at the data and we'll look at the results, and we're going to look at our performance.

And if we see the same kind of returns we're seeing than what we've been building over the last couple of years, that's a possibility that I'd come back and say, there's another approach to this that makes sense for our business that maybe should make that 30 million number different.

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

What's interesting about the way you answer that question, or one of the things that's interesting about it, is that this is a year where I think we've all been surprised by the success of the fixed wireless products that some of your competitors have put in the market.

And you didn't answer that question by saying, "You know, based on what we've seen out there, fixed wireless is looking more attractive than we thought." Why are you continuing to have this preference for doing fiber or just not doing anything?

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

I have a preference for building scalable and sustainable franchises. And I have to think in my job about what I'm going to hand off to my successor that ultimately is the engine that can continue to grow this business for the next decade to come.

And I just gave you the reasons why I think deploying fiber is not just about the end user who wants to pay you for a fixed service today, it is the capital area that makes this business effective as a connectivity business, whether it's a wireless access point hanging off the end of it or an Ethernet jack. They're both really important moving forward.

I would also tell you, look, I think there's places where fixed wireless is a great technology, and it will make sense. There are going to be places where I want to deploy fixed wireless to clean up my copper infrastructure, to be able to move customers and get them onto the wireless network to take that cost out that you referred to.

There are going to be places where because there isn't going to be the right economic dynamic of government subsidy with private funding and the density is so low that fixed wireless may be the right way to serve a particular segment over the next 10 years. And we will actively use the technology to do that.

However, in urban and suburban areas, with the high level of MDU and single-family housing, looking at the dynamics of usage and consumption, looking at the shifts that are occurring in upstream bandwidth, looking at the growth that we're seeing in mobile consumption of services, using spectrum to serve fixed data consumption in the home has a finite shelf life, in my view.

And I would rather spend my shareholders' money investing in the durable, sustainable fiber franchise than acquiring customers right now that might only have a 2-, 3-, 4-year shelf life and ultimately gets supplanted by the best product in the market.

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

I want to spend a few moments asking you about the business segment that you're in. There have been secular pressures on that business for you and for your peers for a period. Obviously, the economy can create some headwinds as we go through cycles.

You have a target of getting to stable EBITDA from your Business Wireline segment as you move into the back half of '24. What's the path to getting us there? And what gives you confidence you can do it if the economy remains difficult?

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

The path to getting there is, one, make sure that the segment of the market, the segment that we serve there, is focused on selling the products and services that AT&T makes money on, which is the foundation of our connectivity-based services. I no longer want to be focused on being the aggregator of other peoples' products and services, that ultimately, at the end of the day, the benefit to me is I drag along connectivity and core infrastructure and transport.

I want to stay in the core infrastructure and transport business, but I'm not going to spend a lot of time doing what I think the hyperscalers have won, which is largely the aggregation of software and services in the cloud. I'll be the on-ramp and the access to the cloud.

Second, I need to change some of my distribution. I do very, very well in making sure those core transport services are in place at the top end of the market. I don't do as well in the middle part of the market. And a lot of that is a distribution issue, and I have an opportunity to penetrate more broadly and deeply in that segment of the market with a retooling of my distribution and a restructuring of some of the product around it.

We have a, what I would call, a preferred access footprint in the United States. That's what's made us as strong as we are in the Fortune 500 category and why we are still a relevant part of people's data networks and infrastructure. We haven't parlayed that advantage as well in some of our more midsized- and regional-oriented businesses that we serve.

So not only does that help me on the transport side, we're underpenetrated there as well in the wireless space. And as we've seen with our success in gaining share in the larger business segment, in both fixed and wireless, we can run that same play in the mid-part of the market. The brand plays very well. We have a lot of credibility there. We have the wherewithal and the know-how to move it into that segment of the market.

So one, managing costs down by eliminating the products and services that don't contribute to EBITDA; two, making sure the business is focused on penetrating owned and operated infrastructure, not only upmarket, but in the middle part of the market as well, which is a retuning of distribution. That's what gets that back to what I consider to be an important and sustainable franchise.

The final point I'll make on that, Brett, we maybe do a little bit of a disservice in how we report. And this has been a conscious choice. We report Wireline only for business. We report our wireless as a combined segment of both consumer and business. And we've done it and kept it that way largely out of respect for folks like yourself because I'm highly sensitive to the reality that we've been through a little bit of change in this company.

And we've had discontinued operations and segments that have disappeared, and we've got equity changes in how we're taking revenues in or cash flows in that we used to report on a consolidated basis. And it felt like a little too much to do everything all at once and allow everybody to make sense of how the business was performing.

But look, if you examined our business segment on a consolidated basis, both Wireline and wireless. And I talk about the fact that we are gaining share, there are some businesses -- the reason we're gaining share in wireless is wireless is the best way for them to run. And that's not a bad thing. That's a good thing.

And we do very, very well in those customers, and we sell off the same account teams. And I think as we go down the road, we can probably give you a little bit of insight as to -- our consolidated business segment is a really good business segment. We just need to stabilize the Wireline component of that a little bit.

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

I got time to squeeze in one more question. You had established some cash flow guidance for this year as well as for next year. You ultimately made an adjustment to this year's cash flow guidance with your last conference call, though you continue to have confidence you'll do \$10 billion of cash flow in the back half. That is technically the run rate you would need to be on to hit the target you set for next year.

The real question I have is, as you think about all the changes you've made at AT&T, including the stepped-up levels of investment, what gives you confidence in the cash generation of this company and the confidence that you can generate the amount that you need to invest in the business, to service your dividend, to pay down debt.

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

Look, I think I started at that point early on, which is we're investing at a record clip, and I'm investing at a record clip to create a durable and sustainable franchise. And I've been around this business long enough to know that, unfortunately, as much as I have CEO disease just like anybody else and I'd like to declare a direction and 12 months later, see results, that when you're in a capital-intensive business, sometimes that result takes 36 months to be able to get infrastructure in the ground and ultimately get the flywheel going.

I made a concerted decision early on in my tenure, in restructuring the business and shedding certain assets, getting ourselves in a position where I felt like I could manage the cash dynamics of the business to do a concerted 3-month -- 3-year investment cycle in the business to be able to get to that sustainable flywheel and that durable outcome.

And I think we've given examples in our conversation here today, is the early signs of those investments are yielding the kind of returns we'd expect, both in fixed and what we're seeing in a reenergizing of our wireless business and restructuring of our wireless business.

And if I step back from that, I fully acknowledged at the front end that there's going to be a balancing act during that 3-year period. And when you're doing \$24 billion of investment a year, sometimes there's new speed bumps here and there, supply chains have been stressed, we don't know exactly how a particular customer volume is going to come in. A lot of the impacts we've had this year have been things that are under our control, and we can control them.

So I'm in a period of time where, yes, we are investing heavily and we're using discretionary money to get the balance sheet back in order and invest heavily. The dividend is well covered. We shouldn't really be worried about that dynamic. We've got \$14 billion of cash flow this year against an \$8 billion commitment, and we will manage our way through that and balance that.

I am confident you're seeing the early results from our investment that are going to yield that flywheel cash after 36 months. And this is going to be a sustainable and durable set of investments that somebody should look at and say we've created a great franchise for the next decade.

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

John, thanks for being here. I really appreciate it.

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

Thanks for having me, Brett. I appreciate it.

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