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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Thank you for standing by. Welcome to AT&T's second-quarter 2024 earnings call. (Operator Instructions) And as a reminder, this conference is being recorded.

I would now like to turn the conference call over to your host, Brett Feldman, Senior Vice President of Finance and Investor Relations. Please go ahead.

Brett Feldman *- AT&T Inc - Senior Vice President, Finance and Investor Relations*

Thank you, and good morning, everyone. Welcome to our second quarter call. I'm Brett Feldman, Head of Investor Relations for AT&T. Joining me on the call today are John Stankey, our CEO; and Pascal Desroches, our CFO.

Before we begin, I need to call your attention to our Safe Harbor statement. It says that some of our comments today may be forward-looking, as such they're subject to risks and uncertainties described in AT&T's SEC filings. Results may differ materially. Additional information as well as our earnings materials are available in the Investor Relations website.

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

John Stankey *- AT&T Inc - President, Chief Executive Officer, Director*

Thank you, Brett. I appreciate you joining the call. Hard to believe we are already halfway through the year, but we are and our team delivered solid second quarter results as we continued to grow the right way by efficiently adding high-value wireless and broadband subscribers.

Our strong start to the year is built on the foundation of what our team has accomplished over the past four years. As a result of this hard work, we're now repositioned around our connectivity strengths. This puts us on a clear path to becoming the leading provider of converged 5G and fiber services.

Since Pascal will go through the quarter in detail, I'd like to spend some time highlighting how our team's execution of our investment-led strategy is driving consistent results. In mobility, we delivered 419,000 postpaid phone net adds in the second quarter and 768,000 during the first half of the year. This put us modestly ahead of last year's pace despite ongoing wireless market normalization, and we're not just growing customers.

Our mobility EBITDA grew by more than 5% in the second quarter, driven by more than 3% growth in service revenue and 100 basis points of service margin expansion. We're delivering consistent results by keeping the customer, the center of everything we do. It's a winning play that we continue to run.

The efficient first half growth we achieved in our mobility business positions us well for the back half of the year when we expect higher activity levels driven by the availability of new devices and features, seasonal purchasing activity and promotional cycles.

In consumer wireline, we added broadband subscribers for the fourth consecutive quarter, driven by consistent growth in AT&T Fiber and early success with AT&T Internet Air. Once again, this story is about growing both customers and profitability as our consumer wireline business delivered more than 7% EBITDA growth during the second quarter. This was driven by approximately 18% growth in fiber revenues and improved operating leverage as we transition from legacy networks to advanced broadband infrastructure.

While some portions of our business are still being pressured as customers transition off legacy voice and data services, our significant investment in 5G and fiber and consistent execution is driving durable growth across the large majority of our business. I expect this performance to continue putting this on track to deliver on our full year financial guidance.

Durable trends in 5G and fiber are being driven by more than the solid individual execution within each business. We believe the success of our fiber business is driving growth in mobility and vice versa as consumers increasingly prefer to purchase mobility and broadband together as a converged service. For example, today, nearly 4 out of every 10. AT&T fiber households also choose AT&T as their wireless provider. As a result, our share of postpaid phone subscribers within the AT&T Fiber footprint is about 500 basis points higher than our national average.

In our Fiber business, we continue to achieve key penetration milestones faster than we anticipated and considerably faster than the fiber providers that do not operate wireless networks based on publicly available data. A key reason for this strong performance is our ability to sell fiber to our mobile customers.

Additionally, we're able to reach new broadband customers through our substantial mobile distribution channel. The key point here is that our proven ability to drive higher share in both mobility and broadband through converged service penetration is the true benefit of owning and operating both 5G and fiber networks at scale.

Over time, we expect this to drive greater returns on invested capital in both our mobility and broadband businesses than either would be expected to achieve as stand-alone operations. While our convergence strategy began with a focus on our own fiber footprint, we also see attractive opportunities to expand the availability of AT&T Fiber in our converged offers outside of it.

This includes the continued scaling of our Gigapower joint venture and through capital light arrangements with other providers of commercial open access fiber networks. We expect the continued expansion of AT&T's fiber, both in footprint and outside of it will enable us to drive significant growth with converged customers.

Ultimately, our convergence strategy closely aligns with our primary focus over the last four years, growing in a durable, sustainable and efficient way. We still have a lot to accomplish as we execute the strategy, but I am encouraged by our momentum and see a long runway of growth with 5G and Fiber together.

More importantly, I like the distance between us and our competitive set with respect to our positioning to organically address more customers more profitably.

Our commitment to our investment-led strategy has played a pivotal role in our success and made AT&T, the largest capital investor in the US connectivity infrastructure since 2019. In addition to our ongoing network investment, we continue to reduce our net debt leverage due to a combination of higher EBITDA and growing free cash flow.

We expect these trends to continue and remain on pace to meet our target of net debt to adjusted EBITDA in the 2.5 times range in the first half of next year. This should provide us with greater financial flexibility to support sustained investment and growth as well as enhanced shareholder returns. We're excited about what all this means for the future of AT&T.

And given that our direction remains constant and our performance consistent, I'm going to avoid belaboring what we've been discussing for a number of quarters now and turn it over to Pascal. Pascal?

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

Thank you, John, and good morning, everyone. Let's start by reviewing our second quarter financial summary on slide 7. Second quarter results were in line with our expectations with revenues down slightly as the decline in Business Wireline Service revenue and low margin mobility equipment revenues offset growth in higher margin wireless service revenues and fiber.

Adjusted EBITDA was up 2.6% for the quarter as growth in mobility, consumer wireline and Mexico, which collectively drove more than 80% of our total revenue in the quarter were partially offset by continued declines in business wireline.

In the first half, adjusted EBITDA grew 3.4%, and we continue to expect adjusted EBITDA growth in the 3% range for the full year. Adjusted EPS was $0.57 compared to $0.63 in the year ago quarter. Consistent with 1Q the quarter include about $0.09 of aggregated EPS headwinds from the four items we discussed earlier this year.

For the full year, our expectations remain for adjusted EPS in the range of $2.15 to $2.25. We generated second quarter free cash flow of $4.6 billion, up nearly $400 million year-over-year. This is the result of sustained growth in adjusted EBITDA improved conversion of EBITDA to free cash flow and lower capital investment.

Capital investment for the quarter was $4.9 billion, down $1 billion compared to the prior year, primarily as a result of lower payments for vendor financing. Capital expenditures were $4.4 billion, up approximately $100 million compared to the prior year. We remain on track for capital investments in the $21 billion to $22 billion range for the year with higher spending in the back half of the year as we ramp our wireless network monetization. The quarter also included lower net impact from securitization of $1.5 billion relative to last year's second quarter.

Now let's look at our Mobility operating results on slide 8. For the quarter, we delivered 419,000 postpaid phone net adds, up from 326,000 a year ago. This improvement was driven by a 9 basis points decline in churn to 0.70%. We grew mobility service revenues by 3.4%, driven by strong execution and our balanced go-to-market strategy.

Postpaid phone ARPU was $56.42, up 1.4% year-over-year, largely driven by higher RPU on legacy plans. As expected, service revenue growth was partially offset by lower equipment revenues with a postpaid upgrade rate of 2.9%, which was down slightly from 3.1% last year.

For the year, we continue to expect modest postpaid phone RPU growth and mobility service revenue growth in the 3% range. Mobility EBITDA of $9.2 billion grew 5.3% or by more than $450 million year-over-year as we converted over 85% of our service revenue growth into EBITDA.

During the first half of 2024, Mobility EBITDA grew 6.1%, and we continue to expect mobility EBITDA growth in the higher end, the mid single digit range for the full year. As John noted during his remarks, our Mobility outlook anticipates higher activity levels in the back half, consistent with seasonal trends.

In particular, we anticipate higher marketing spend in the third quarter compared to last year. We also expect to see greater benefits from our announced pricing actions in 4Q versus 3Q. Based on our strong subscriber and EBITDA growth through the first half of the year, we believe our mobility business is well-positioned to capitalize on a more dynamic wireless market in the back half while achieving our financial targets.

Now let's move to consumer wireline on slide 9. Our growth in consumer wireline was once again led by fiber subscriber growth, which has consistently yielded strong returns. Overall, we added 52,000 total broadband subscribers in the quarter. This is the fourth consecutive quarter of positive broadband net gains. And we expect this trend to continue.

Where we have fiber, we win and we added 239,000 AT&T fiber subscribers in the quarter. Our 2Q AT&T Fiber net adds are consistent with the three primary drivers of quarterly net adds variability that we've previously shared. These are the pace at which we put new fiber locations into service, which is the largest variable in any given quarter as new inventory we're able to serve can fluctuate.

Second, overall broadband market dynamics, which have remained fairly stable. And finally, typical seasonality. We expect these to remain the primary drivers of quarterly trends in AT&T's fiber net adds in the back half of the year.

And as a reminder, the third quarter typically has favorable seasonality relative to the second quarter. We now passed nearly 28 million consumer and business locations with fiber. And remain on track to surpass 30 million-plus fiber locations by the end of 2025.

As we've stated before, the better than expected returns we're seeing on our fiber investments potentially expands the opportunity to go beyond our initial build targets by roughly 10 to 15 million additional locations.

This assumes similar growth parameters and a regulatory environment that remains attractive to building infrastructure. We are also encouraged by the early performance of AT&T Internet Air and our success in proactively migrating customers with legacy copper-based Internet connections onto this fixed wireless service.

We now have AT&T in that area parts of 137 markets with nearly 350,000 total consumer subscribers, including 139,000 added during the quarter. Second quarter broadband revenues grew 7% due to strong fiber revenue growth of approximately 18%.

For the full year, we continue to expect broadband revenue growth of 7%-plus. Fiber RPU of $69 was up $2.30 year-over-year, with intake RPU remaining above $70. Consumer Wireline EBITDA grew 7.1% as growth in broadband revenues and ongoing cost transformation continued to improve profitability. We still expect Consumer Wireline EBITDA to grow in the mid to high single digit range this year.

Now let's cover business wireline on slide 10. Business Wireline EBITDA was down 13.9% due to continued industry-wide secular declines in legacy voice services, consistent with the trends we discussed last quarter. The reported decline in EBITDA slightly improved in 2Q versus the first quarter. This primarily represents benefits from favorable timing of anticipated items and early traction on cost-saving initiatives.

Looking into the back half of the year. I want to remind you that we benefited from approximately $100 million of IP sales in the third quarter of last year that are not expected to recur next quarter. So the year-on-year trend in Business Wireline EBITDA is likely to see some pressure in 3Q before improving in 4Q as comparisons ease.

Also, I'd like to note that 2Q results include less than one month of revenues from our cyber security business prior to deconsolidating its operations into a joint venture. On average this low margin business contributed about $100 million in quarterly revenue.

The key point is that business wireline is performing in line with the outlook we provided last quarter. So for the full year, we still expect Business Wireline EBITDA declines in the mid-teens range. While near term declines in legacy voice revenues are likely to [weigh] on Business Wireline EBITDA trends for the remainder of the year.

Our 5G and fiber expansion continue to present attractive growth opportunities in Business Solutions. This includes sustained growth in FirstNet, which now has more than 6 million total connections. Similarly, we're excited about the potential we have with emerging growth products like AT&T Internet Air for business, which we launched nationwide and dynamic defense.

Now let's move to slide 11 for an update on our capital allocation strategy. Our approach to capital allocation remains consistent and deliberate. We're successfully balancing efficient growth with long-term investments in delivering converged network services to more customers, paying down debt and returning value to shareholders, remains focused on deleveraging and have reduced our net debt by about $2 billion year-to-date.

At the end of June, net debt to adjusted EBITDA was below 2.9 times, and we're making steady progress on achieving our target in the 2.5 times range in the first half of 2025. We continue to address near-term maturities with cash on hand. And this quarter, we repaid $2.2 billion of long-term debt maturities.

Looking forward, our debt maturities are very manageable, and we are in a great position with more than 95% of our long-term debt fixed with a weighted average rate of 4.2%. In addition to paying down debt we reduced direct supplier and vendor financing obligations by about $700 million versus the first quarter.

Additionally, the second quarter net impact from securitization facilities was a $700 million use of cash. These efforts highlight the improving quality of free cash flow we're delivering. We expect to continue reducing our aggregate net balance of direct supplier and vendor financing on a year-over-year basis, which should lower our interest expense and continue to improve cash flow ratability over time.

DIRECTV distributions in the quarter were about 740 million and we continue to expect DIRECTV cash distributions to decline at a similar rate to 2023 or by about 20% annually. We generated $4.6 billion of free cash flow in the quarter and $7.7 billion in the first half of the year. Free cash flow was up $2.5 billion compared to the first half of last year, which is consistent with our goal of driving more ratable free cash flow.

Looking into the second half of the year, we expect cash taxes to be about $1 billion higher compared to the second half of last year. We also expect to incur a one-time payment of $480 million in the third quarter related to our wireless network transformation. Overall, we're on pace to deliver on our full year free cash flow guidance in the $17 billion to $18 billion range.

To close. I'm very pleased with our team's performance in the first half of the year, and we're on pace to deliver on all of our full year financial guidance.

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

QUESTIONS AND ANSWERS

Brett Feldman - *AT&T Inc - Senior Vice President, Finance and Investor Relations*

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

Operator

John Hodulik, UBS.

John Christopher Hodulik - *UBS Investment Bank - Analyst*

Great. Thanks, guys. A couple of I could. First, John, you talked about higher activity levels in the second half in wireless. And obviously, there's a lot of concern about upgrade rates with the new iPhone. I mean, are the comments you made just a function of sort of typical seasonality? Are you expecting a sort of a new upgrade sort of initiate? And what does that mean, for the levels of churn? We've been saying and profitability and sort of overall competition in the sense, that's number one.

And then number two you had some comments about Gigapower and the potential open access relationships. As it relates to Gigapower, any color you can give us on how that relationship or partnership is doing in terms of rollout and customer uptake? And then is there room for more of these relationships, since other third party open access providers? Are you talking to anyone else and how could they have that opportunities?

John Stankey - *AT&T Inc - President, Chief Executive Officer, Director*

Good morning, John, how are you? So on your first question, -- first, I would start out by saying whatever happens going forward, we've been focused on ensuring that we tried to set up the business to respond to what the customer wants to do with their accounts and keep that a focus of what we think our strategy ought to be and how we go to market.

And I think it's important to understand that whatever happens going forward is going to be a factor of how customers decide to do things. And I think we'll be positioned as a company to deal with that either way. There is seasonality. First of all, as you know, when we get into a new device cycle coming out from typically one of the handset providers. There's a little bit of a suppression effect that occurs a month or two before they go to market and then there's a increase in acceleration that occurs. And as you heard both Pascal and I talk about, we've expected that cycle is going to continue. And I think we're in a good position with our guidance to, be able to adjust it whichever way it goes.

I've looked at some of the notes that have been written recently about sizing and looking at this particular dynamic. And I think that they're directionally consistent. When you start thinking about the reality of it, we have accounts that have discrete handsets that mature in their cycles at different times.

You typically don't have an entire account list and how we built our customer base that gets to a upgrade cycle all at the same time. So we're able to kind of look at history and understand a little bit about it. And if the customer decides that there's meaningful features on the new devices, we're going to respond to it. We're going to deal with it, but I feel like we're in pretty good shape to make that happen one way or another.

Now whether or not, there is something more compelling in this cycle. Frankly, none of us know exactly what's going to kind of. We do have some reference points. There have been other AI devices that have come into the handset ecosystem over the last couple of months. I haven't seen anything in them that suggests to me it's going to cause customers to immediately say this is world changing for them. But it doesn't mean that somebody doesn't unlock the key at some point. Typically these feature enhancements take one or two cycles to get them right and ultimately bring them forward. But time will tell remains to be seen.

I would also say that there's a lot of ways you can experience AI without having to necessarily change out hardware per se. I mean, we're already seeing that in ways that AI is implemented into search and browsers and things like that.

So how customers get comfortable with it? And start to adopt it. We'll watch and I think we'll go through the cycle on that. There's a little bit of spike at the front end and then it slows down a little bit later. We've been through those cycles before and we'll do fine. Pascal, I don't know if you want to add anything to that,

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

John, I would just add one thing. When you look at our performance for the overall company as well as mobility, we are running ahead halfway through the year, the full year guidance that we gave. And so whatever the environment is, I feel like we are incredibly well positioned for it.

John Stankey - *AT&T Inc - President, Chief Executive Officer, Director*

On your question about where we are with Gigapower, I'm going to defer the answer to your question. I planned, I think I told you when we started this, -- I mean, -- good insight and transparency on the data to the investment community around how we perform and I kind of put a benchmark out there and we did that. That said, we needed 18 months to go through what I consider to be a reasonable cycle of investment.

Turning the product up getting into markets and penetrating and giving an data to understand how we're performing. And we will be at that point, right about it [communi Copia] And I expect they'll probably spend a little bit of my time at that session giving you the kind of insight you'd like. And I would tell you I'm looking forward to that opportunity to have that conversation.

And my belief is we have a lot of opportunity to grow profitably on Fiber and convergence in a variety of different models, and it's go back to the remarks, I just made. We understand how to sell both products together, number one. And I think as I move around the industry, one of the things I pick up I'm being shared with those that we can partner with is I think people notice that we seem to have a formula that's different in its capabilities and its effectiveness then maybe what they see occurring in other pockets around the United States.

And so I think we are acknowledged as being pretty confident in this area. And I'd like to press my bets in that regard. And we've done things such as you as you would expect, we do. One, we're not selling fixed wireless broadly across the footprint. So I think our competitive positioning with partners looks a little bit different than some.

Two, because we did Gigapower. We built a back office for Gigapower that already has a wholesale relationship structure that works with AT&T and the Gigapower entity work. We make that available to others. And if somebody wants to use that infrastructure and use that as a means to jointly market our products and services where our wireless can help their fixed assets. We view that as being a very helpful dynamic as somebody who's trying to get scale.

So I do see further runway and opportunity there for us to do more. And we're active in that space. And you should expect that as we move forward and we continue this race to convergence. It's one of the tools we're going to do to put distance between ourselves and everybody else.

Brett Feldman - *AT&T Inc - Senior Vice President, Finance and Investor Relations*

Operator, we'll take the next question.

Operator

Simon Flannery, Morgan Stanley.

Simon Flannery - *Morgan Stanley & Co LLC - Analyst*

Thank you. Good morning. I think we managed to get this far without mentioning ACP. I wonder if you could just give us an update what you've seen so far, what do you expect in the third quarter? And then coming back to the comment about in-region fiber, you've talked a few times about the 10 to 15, I think you're almost at 28 million locations, pretty near that 30 million.

So help us understand out where you are on that evaluation process and what should we expect in terms of you giving us a new kind of map for the next three years or whatever, and how that flows through to CapEx, et cetera?

John Stankey - *AT&T Inc - President, Chief Executive Officer, Director*

Good morning, Simon, On ACP, I think we indicated to you probably last quarter, maybe even a quarter before, --

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

The start of the year.

John Stankey - *AT&T Inc - President, Chief Executive Officer, Director*

Yes, that we would be effective at working through this, and we didn't see it as being material or significant night characterized that we saw no reason we continue to be able to deliver on our commitments back to you. And that is, in fact, happening and will happen.

We are most of the way through the ACP effect. Has there been an effect? A little bit, it's not the sole reason. We're a little bit down on fixed broadband this quarter. There's other reasons moves are continuing to be a bit suppressed is one of them seasonally second quarter tends to be down a bit.

But we had a little bit of an impact because of some adjustments that were made go into that. But the vast majority of our customers. Most importantly, we know who these customers are right, because we know that they're getting the discounts are through a transition process and we feel fine about it. I'm pretty proud and pleased with how our prepaid business perform this quarter. It had some impact from ACP associated with it.

I think if you look at where we were with churn, and where we were with gross adds and net adds in that space. I think we came through it demonstrated that we had good quality customers who still need to use the service one way or the other. And we've accommodated them.

So we still got a couple of people hanging out there on some what I will call transitional promotions. I expect that they'll be a little bit of shrink in some of those transitional promotions there. They're all following our expectations as we calculated what we thought the impacts are going to be they're all consistent with the guidance that we have been giving you. So I wish we hadn't had to go through this with our customer base, we did. But I think we've handled it well, and we're largely through the impacts at this juncture and moving on to do other good growth.

In terms of where we are, we've been very clear that we'll give you kind of an update on our capital allocation strategy as we approach this 2.5 times adjusted net debt to EBITDA ratio in the first half of next year, I would expect that as we go through our normal cycle toward the end of the year here. As we start to give guidance for next year, you'll get what you need in terms of moving forward.

And I don't think there's going to be any shocks in this and our priorities remain the same. We want to make sure we continue to grow the business. That's first and foremost, I want to leave a business to whoever sits in my chair later that has a good, strong, sustainable franchise that can be healthy and that the next generation of individuals that work at this company feel confident and proud about where the company is going to go.

And we'll invest in a way that we make sure that we have that capability and that kind of a franchise built. And then of course, we want to continue to maintain our commitments. So our bondholders and our dividend and those are, what I would say, the top three. But as you know, we'll have some optionality to go beyond that as we get into next year.

And I think we'll be very deliberate about that. The Board has been very deliberate about it right now. We're spending multiple cycles on it. We're spending a lot of time looking at scenarios. I think, we'll continue to invest in growth in this business at some level in some way, but I also believe we have optionality to change our formula around how we return to shareholders and I think you'll see us employ the right approach to that.

Operator

Jim Schneider, Goldman Sachs.

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

Good morning. Thanks for taking my question. Two, if I may. First, on Fiber side, relative to the long-term fiber passings target of 40 million, 45 million which we talked about. Can you help us understand whether you're seeing stronger returns and actually accelerating the pace of build-out from here? And how roughly would you expect pace of additions or passings to add to trend in 2025?

And then secondly, in terms of Internet Air, you mentioned that is now available for business nationally. Does that imply that the run rate of net adds could accelerate materially in the coming quarters? And how much headroom do you see in your overall network capacity relative to adding business fixed wireless subscribers. Thank you.

John Stankey - *AT&T Inc - President, Chief Executive Officer, Director*

Good morning, Jim. So our Fiber targets, as Simon alluded to earlier, it's 30 million passings by next year, and we're well on our way to doing that. And you can check the box that's going to occur. And as I just said, I expect that with what we've been seeing and the performance of fiber, and I've been pretty clear about this for our in-region organically developed and built fiber.

Our returns on the overall investment portfolio have been better than we expected when we kind of started into this process and call it the 2014, 2015 timeframe. And we're giving you some additional insight this quarter as you now understand what some of the strengths are as we get into these markets where we begin to have some scale on the fiber footprint that we can jointly market, both wireless and fixed together that's a really powerful combination for us.

And that return characteristic I would say is still, call it in the early innings. We still have a ways to go. As you saw by the numbers we put out there. It's great progress. It's clearly, I think probably the strongest in the industry, but there's still a lot of headroom in there.

And I think to the extent that we fine tune that play. And we begin to bring in some of the product innovation that we want. That's joint between these things in the service innovation. We can do even better and improve that return. Hence, my comment to Simon's or my answer to Simon's question, do I think we're going to continue to invest in growth moving forward and move beyond 30 million passings.

I think the answer to that is probably exactly what that number is and pace will give you a little bit more color as we get into the latter part of this year and make sure that we've got the board to 100% where, we were all in the same mindset around that. And as I said, we're going through that process right now to make sure we're deliberate.

I think one of the things that you should keep in mind as we go through that is what I said to John, we have a lot of tools of which we can go in and put a good converged offer in place and a lot of ways to do it. And I think because our financial returns have been as strong as they are. There's a lot of capital out there available and people want enable partner. And there's a lot of ways we can go about doing this, whether that's through capital-light approaches with straight wholesale and becoming a good partner to others that are building or doing partnership arrangements are doing organic build.

And I think we're going to take advantage of all three, and we can do that in a way that drives really good returns back into the business that everybody looks at and says that makes a lot of sense. In terms of where we are on the Internet Air run rate, you should expect that we're going to continue to grow and you'll see improvements in our rates associated with that.

But I don't want you to take that and say that's an artifact of a change in strategy. We are executing the strategy we put out and again, I don't want to sound like a broken record, but I've articulated that our strategy is a bit different than others. We're not broadly offering Internet Air everywhere we do business. We're being selective in how we do that. We're doing it in places where it makes sense to aid our transition from legacy technology to new technology that helps us take cost out of the business.

We're doing it in places where we have very fallow capacity that we can be confident will be long live in nature. And not something that we end up having to incrementally invest in two years out after we sell into the market.

We're doing it, as I said last quarter, anyplace, the right business customer wants to buy it, we'll sell it. And that means whether we've got capacity or not the business product is a different product. The business product has different usage characteristics. Business product has different RPU characteristics and the business product has different characteristics around how you can bundle and serve multiple products together.

And so I feel very comfortable in a nationwide offer on business that when we pick up the right customer there and how we employ that capability, either for primary or backup, that we can profitably add it to other portfolios -- into our service offerings and reinvest in it in a way that makes sense for the business. So and you'll continue to see us scale further in the business market. We're still getting the distribution tuned and honed in that space. And I would expect to see improvement in our numbers and the business segment as we move forward in the coming quarters.

Brett Feldman - *AT&T Inc - Senior Vice President, Finance and Investor Relations*

And next question, operator?

Operator

David Barden, Bank of America.

David Barden - *BofA Securities - Analyst*

Hey, guys, thanks so much for taking the questions. John, I wanted to maybe go back to something you just said, which was that there's a race to convergence in the market, and I think that not everyone agrees that that's a true statement. That maybe it's more of a race for AT&T to exploit the opportunity it has in its footprint too converge as much as possible.

You mentioned, that you've got a 500 basis points market share advantage in the areas where you've deployed Fiber. Could you kind of share more data that would support your argument that there should be a race to convergence. That AT&T is in a unique position to take advantage of these economics beyond simply market share.

And then if I could. The second question would be, there's been a series of events over the course of the year network outages, data breaches, disclosures about previous data breaches. Is there anything that we need to know about how that's impacting either your go to market or the possibility of future financials. Thank you.

John Stankey - *AT&T Inc - President, Chief Executive Officer, Director*

Hi, good morning, David. So look you will get more and more as we move forward over time. I think Pascal gave you just a lot of insight with what we shared today and I am not necessarily going to tick off other things that we look at. But you should conclude a couple of things.

One, our combined customers are happier customers. They have lower churn and they have longer lifetime values. Why -- to convergence because that's a good way to make money. And it's a good way to keep customers in the fold. And I don't know, I hope not everybody believes that's the right strategy. I think it is we're going to continue to push the pedal on it because we're uniquely positioned to do it well.

And that's what I think is the exciting thing about this company. We have an opportunity for great organic growth and organic investment that allows us to control our own destiny. And when part of that is constructed around a share take dynamic. We don't necessarily have to tie ourselves to the overall growth of the market and whether or not there's growth in fixed broadband connections we can play into. We just want somebody else's connection.

And I think we're demonstrating that we can do that effectively. So maybe that's why it's more important to me than somebody else is already a dominant player in the space and wants to think about it in a different lens.

And when I say race, I mean this race is going to take place over years. It's not going to take place in a quarter or a year or two years. It's a reordering of assets. And I think if it's done right, it's going to be really, really effective. I think customers are another driver behind this raise and I don't think customer's intuitively love to have more relationships in their life with suppliers of critical services to them, than they have to.

I think they'd like to have a few trusted relationships if it works well. And so whoever figures that out over time, whoever can give the customer great value and ensure for them that wherever they go around the globe at whatever time, either through organic owned-and-operated relationships or third party aggregation can be the one place somebody goes to get that connectivity. I think that's a winning combination.

And I believe the person that does that the best will ultimately return the best in this industry and gain scale the best. So that's my rationale behind it and where we're going. And I think that's our true north of how we think about orienting this company, how we're thinking about product development, how we're thinking about how we want to structure pricing plans. We're just keeping that at the back of our mind over the next decade because I think that's where the management team needs to go and what needs to happen.

And I understand this will be a race that we fight year after, year after year. It's not quarter after, quarter after quarter. Look, going to your second question, there's nobody more disappointed that we have to actually address your question and work through these issues than I am. And I know that all of my coworkers hears share that same disappointment that we've had some instances where we've let down customers.

Now, having said that, I think we've done the right things and responding to it. We care about our reliability. We care about how well we run this business from a privacy and data security perspective. I think we know how to do those things. We are operating in an incredibly dynamic environment on two fronts. One, we're changing a lot in our business, which is necessary, and I'm proud of the changes we've been making. And I'm proud of the progress we're making, but it comes with a lot of moving parts.

And two, the threat environment we're in is a really difficult environment and it's going to get probably more difficult. Some of the geopolitical dynamics that are going on or putting pressure on that. Good companies just like ours are all having to learn some new things and are seeing new threats and new environments that they have to adjust to.

And unfortunately, because we have a big large customer base, I think there's a little bit more focus put on that kind of missteps or issues and learnings that we might go through versus some others from time to time. But everybody dealing with this problem. What I'm proud of is how we've dealt with it. We've been responsive. We've done it in a way that I think we've taken good action to learn from those things internally.

We've been transparent with our customers around what the circumstances are. I think we've stood behind our product in those instances. We are, I think, navigating that from a communications perspective from all evidence that I see data-wise in a way that we are doing as good a job maintaining our customers' competences, as I could hope, and I'm not dismissing the issue in any way, shape or form. I view, it is very, very important. It's clearly something I don't ever wish to go through, but we've handled it about as well as we can going through it.

And as I've indicated to you and as Pascal indicated to you, we feel confident in our financial guidance going forward. We feel confident in our public statements and filings that we've made on these subjects where we described the fact that these are not material over the performance of the business, and that's where we stand today, and we're going to continue to strive every day to do better and not have this conversation again.

Operator

Sebastiano Petti, JP Morgan.

Sebastiano Petti - *JPMorgan Chase & Co - Analyst*

Thanks for taking the question. Pascal, just want to see if I could, if we could follow up perhaps on the fibers $480 million one-timer to in the back half of the year that you anticipate from the wireless transmission. Maybe a little bit of color on what that is, perhaps there was this fully contemplated within guidance at the beginning of the year.

And then an additional question for John. Just kind of help us think about given where we are from an FCC perspective, with a lack of spectrum authority and maybe lack of a pipeline as well on the spectrum side, how are you and the team perhaps thinking about the spend and augmentation of the wireless network or how you're planning around that just kind of given those two dynamics? Thank you.

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

Hi Sebastiano. In terms of the payment, we expect to make as we've said, we reported late last year that we were entering into a new agreement, and that's part of that would be phasing out. One of these, one of our vendors and we expected some level of termination payment associated with that. And whether or not that was contemplated in our guidance. I'm not going to get into.

But we are very comfortable sitting here today that we are going to be able to payback and still deliver on our full year commit.

John Stankey - *AT&T Inc - President, Chief Executive Officer, Director*

So to answer your question, first of all, I think it's important to frame that it starts with the point of view that I we view capacity as being a fixed resource that -- has to be managed very carefully. And so made some comments earlier about or point of view around fixed wireless and how we deploy that spectrum and where we deploy that capacity.

I mean, it ties into a point of view of how do we invest in the network moving forward and how do we monetize that scarce resource as effectively as we can. And that's part of our planning. And look, the good news is we put a lot of capacity out there over the course of last couple of years. And we have a little bit more to go, but we're using that wisely. We're being very deliberate around how we deploy it. We want to make sure we give ourselves the longest runway to return as we can.

And I think our strategies are directly proportional to that. And I don't think you should disconnect our investment in Fiber from the fact that we've got spectrum planning issues to do, and I'll get to maybe that part in just a minute. We think that a good way to pick up high density traffic in places is to do it over fiber, not to do it over wireless. And so that's a difference. And maybe my point of view on Dave's question convergence and how the market develops over time and trying to be deliberate in how we do capital allocation.

Now in the near term, I expect we're going to be using every trick in the book as we historically do to ensure that we can deal with the 30% growth, one trick in the book as you continue to advocate for policy change, and I've been pretty vocal. I mean, -- you go and look in some of the comments I've made. I've gone out of my way to walk into some public forums to say that I do not think spectrum policy in this country is on the right path right now.

And that change could come possibly with a change of posture from the existing administration, which may get tweaked and adjusted by a new leader or by an administration change. And that's important because I think, there are things we can do from a policy side to improve the availability of spectrum, which is the most effective way to increase capacity in a network. And we'll continue to advocate and push for those changes as we move forward.

Second and there are some options in the secondary market, some of them that will be available through normal course, and frankly, some others that could be made available if there were some policy and Spectrum adjustments made to how particular spectrum assets that have been put into the speculative market that they're out there could potentially be used and put to use.

And I think good policy for this country right now would be that for everything that we have license that we wanted to actually be invested in turned into service. And it seems to me that would be a good thing, especially when this country is behind other countries like China and other regions of the world and getting licensed spectrum into service.

So I would suggest that if we look at that, there's some near term opportunity to use existing license spectrum that's out there by just tweaking some rules and doing some things differently to get investment in it and actually get capacity in.

Third, we talked about what we're doing around RAN. And I think if you go back to my comments, I shared with you that one of the reasons we think that it's so critical that we open these interfaces up, and we take this step is to play in the next generation of wireless deployment in more distributed radiation points rather than macro sites and they get the benefits of openness in the cost curves and the flexibility. Busting those interfaces open and getting a multi-vendor environment.

And then using our dense fiber assets, we're deploying is a match made in heaven to be able to deal with that growth in a more cost effective way. And so that's a deliberate aspect of our strategy as to why we're doing O-RAN the way we're doing. Why we're thinking about O-RAN is busting open the smaller cell structure to get more innovation, more providers and how to then layer that on top of the fact that we're putting denser fiber reaches into our network that allows for us to take advantage of that.

That allows for a more efficient growth of capacity as we move forward. So I would tell you that I think we've got a lot of tools in place to be able to do this. But it starts with market discipline around how you sell the product and service. And I feel like we're in a pretty good shape around our mix of fixed and mobile assets and how we're thinking about that evolution of convergence.

Operator

Michael Rollins, Citi.

Michael Ian Rollins - *Citigroup Inc. - Analyst*

Thanks and good morning. Two topics, if I could. First on mobility, just curious if you could further unpack where the strength in the postpaid phone that -- came from during the quarter. And if you're seeing any changes in the competitive landscape with some of the adjustments to the promotional strategies from some of the cable and MNO competitors?

And second on the cost structure. I'm curious if you could share your progress on the multiyear cost-cutting targets? And how you're looking at the durability for EBITDA growth on a consolidated basis to potentially outpace the consolidated service revenue performance?

John Stankey - *AT&T Inc - President, Chief Executive Officer, Director*

Hi, Michael. So look, I would tell you the story really isn't a whole lot different than it's been. We're intercepting customers and channels where we think we can make a difference in where we can add them profitably. You can look at the macro numbers and you'll notice one of the things that's occurring is we're growing a little bit faster in the business segment on wireless than we are in the consumer segment.

And part of why we grow better in businesses because we're doing better in some of the government public safety first responder structures. And that's a help of what's occurring there. And as we get our large enterprise relationships do the right thing in that space that can help us grow a little bit quicker. But our Intercept channels around how we've been picking up customers in the consumer space are they've been strong. They've gotten a little bit stronger.

We've been able to demonstrate that we can work with them on a quarter-to-quarter basis and do some things to tweak, how we're going to market and make them more successful. And I think you're going to see that if you went and dissected that. We got a little bit from a lot of different places, we didn't just get it from one. And I'm particularly pleased that we're really not just driving this, as I've said before, from very aggressive, low vol national offers with low price entry points to be able to pick up those customers.

When you look at our growth of converged services, you should conclude that we're getting incrementally better quarter-over-quarter around marketing to our consolidated basis of either wireless, no broadband or broadband wireless. So as all those things come together, that's why we did a bit better and we'll continue to take that where we can as long as we can take it profitably.

Where we are on kind of costs. Look, I just point to the fact that we're continuing to get margin accretion in our business and you're seeing it. And you're getting margin accretion that outstrips the service revenue growth because we're managing the cost structure more effectively.

And I don't go to sleep at night worrying about not having more opportunities to run the business more effectively. I think we have opportunities as we reposition this business to be a 5G and fiber provider. There's a lot of infrastructure and a lot of overheads that have burdened built up to make this business what it was over a century.

And on a base of technology. That was great, it was available and it served its time, but it's not going to be the technology that takes us forward into the next decade. And so we're getting better every year at mining out those costs.

We continue to make progress on the regulatory front. It's a state-by-state battle, but we're making progress on the regulatory front and getting the flexibility to change those cost structures. I think this management team has done an exceptional job of retooling our labor structure around these things. And I feel really good about what we've been able to do.

And I think we're positioning this company for an opportunity for growth and a sustainable franchise moving forward that will give people an opportunity for great careers advancing. That I feel really good about. It's hard work. We still got a ways to go, but we're getting there and technology is working in our favor right now.

When I said earlier that we put a lot of fiber out there. I've mentioned it to you. We are seeing the benefits in our operating costs as a result of that. And I don't mean to beat a dead horse. But as I said, I wish I was early in my career right now operating in our network organization because what we see in failure rates and reliability and on-time performance.

And what we're able to do to avoid missed appointments because the network just works the right way and we're not dealing with unexpected things makes for an operating environment that is far more cost effective than it's ever been.

And we're getting help with technology on the software side. And that software is allowing us to do more of that's taking labor out of our labor-intensive processes that allows us to serve customers better and have them walk away, feeling better about their experience with AT&T. So we're making good progress. We're going to continue to do that. And I would tell you, I think we can continue to take cost out of this business, continue to improve our consumer margins continue to hold what I think are some of the best competitive margins in the wireless industry and grow the business.

Brett Feldman - *AT&T Inc - Senior Vice President, Finance and Investor Relations*

And operator, we have time for one more question.

Operator

Bryan Kraft, Deutsche Bank.

Bryan D. Kraft - *Deutsche Bank AG - Analyst*

Thanks. Good morning. I have a question just on the industry. Investors are growing concerned over the potential for a volume slowdown in the wireless industry. And also that perhaps the industry is taking as much pricing power as it can for a while with the minimal room for further pricing actions.

Just wanted to ask what are you seeing in the market as it relates to these issues? Do you share any of these concerns on either volumes or pricing power Thank you.

John Stankey - *AT&T Inc - President, Chief Executive Officer, Director*

I don't mean to sound like a broken record again, Brian, but I'm going to. I think we've been talking about the fact that we saw volumes moderating in the market for a period of time. And I think what we're seeing this year or even though we're a little bit ahead of first half of last year, I still expect we're going to see a little bit moderating volumes in aggregate in the industry. And that's been all part and parcel to our guidance and our expectations moving forward with you.

I would go back to the fact that I think what makes our circumstances unique is, yes, we have part of our business focused on the fact that you want the industry to continue to grow. And it's doing that. It's doing that because people need to use more of your product. They'll pay you more for better performance and more features. And we're certainly seeing that.

But we also have a share take opportunity. And that share take opportunity allows us to create our own growth by ultimately winning customers from others. And that's part of our formula that's been effective moving forward. And, if we get the formula figured out in the mid part of the business market, which we continue to work really hard on and haven't gotten quite where I'd like to get. I think that could be, you know, another great opportunity for us to show incremental improvement in our performance.

Look, what I would also tell you is, do I think that ultimately we're going to see a situation where the quality of growth is examined more carefully.

Yes, I do. And I feel really good about what we've done around that. I think the quality of growth that we're bringing forward in this quarter, you can tie a direct relationship to customers that are coming on the payroll to ultimately EBITDA growth in this business. And they're all paying. They're all doing the right thing, and I'll take that quality of growth going forward.

I don't worry about the circumstances. I don't get nervous about it because we've been doing that for many quarters. It's not an adjustment to our plan. We're going to continue to go find those quality customers with a competitive offering and bring them in, and that will ultimately sustain the business going forward.

And I don't think this is a issue of price increases or price increases say we've been able to demonstrate more value to our customer. We've been able to give them more things. We've been able to do more for them on their accounts. We have continued room to be able to do that to differentiate the product and service. And when we deliver that value ultimately command some improvement in ARPUs moving forward.

With that, Brett, I'm going to thank everybody for their time this morning. Appreciate it. As I said in my opening remarks, it feels like we're in a little bit of a repeat and rinse and repeat cycle here. That's a good thing. We've been pretty consistent in our approach. I don't have a lot of new things to tell you about how we've been executing around things other than we're doing what we did the previous quarter.

I don't mean to belabor it, but I think at the end of the day that was clearly one of the objectives of this management team, which was to get to something that allows us week-in and week-out, month-in and month-out, quarter-in and quarter-out to trying to manage the same set of issues and get incrementally better. And I think you're seeing that happen in this company right now. And that focus is helpful for us over time. And I think we still have more miles to run and actually improving that place.

So thank you for your time, and thank you for your interest in AT&T, and I hope everybody enjoys the balance of their summer.

Brett Feldman - *AT&T Inc - Senior Vice President, Finance and Investor Relations*

And operator, you can close out the call. Thanks everyone.

Operator

Ladies and gentlemen, that does conclude our conference call for today. On behalf of today's panel, we'd like to thank you for your participation in today's teleconference call and have a wonderful day.

You may now correct or sorry, your conference is ending. Now please hang in.