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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning, and welcome to AT&T's fourth-quarter 2024 earnings call. (Operator Instructions) 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, Finance and Investor Relations. Please go ahead.

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

Thank you and good morning. Welcome to our fourth-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 are subject to risks and uncertainties described in AT&T's SEC filings. Results may differ materially. Additional information, as well as earnings materials, are available on 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*

Thanks, Brett. I appreciate you joining us. I hope you'll find there aren't going to be any surprises on today's call. We finished 2024 strong, like we said we would at our Analyst and Investor Day in December. We achieved full year results that are in line or better than all the consolidated financial guidance we provided at the beginning of the year.

Before I cover our accomplishments, I'd like to extend my heartfelt sympathies to everyone in Southern California. Our thoughts and prayers with all those people whose lives, homes, and families have been deeply impacted by the most destructive wildfires in modern US history.

In these moments, the importance of connection becomes increasingly apparent. And I'd like to thank our teams for their commitment to keeping customers, communities, and first responders connected in the face of this historic devastation.

Now turning to our 2024 performance, our team delivered another solid year as they again drove durable 5G and fiber subscriber growth. In Mobility, our consistent go-to-market strategy continues to resonate, as more customers are choosing and staying with AT&T. Last year, we had about 1.7 million postpaid phone net additions with service revenue growth of 3.5%.

We also expect to lead the industry in postpaid phone churn for the 14th time in the last 16 quarters and to lead the industry on an annual basis for the fourth straight year. This is an impressive winning run in wireless. And as you've heard me say before, where we have fiber, we won as well.

We've now added one million or more AT&T Fiber subscribers for a remarkable seven straight years. It's clear that fiber is the best broadband alternative technology available. And this was validated by Ookla just last week when they named AT&T Fiber America's Fastest Internet with the Most Reliable Speeds.

Following another strong quarter for both AT&T Fiber and AT&T Internet Air, we've now achieved six consecutive quarters of positive broadband net adds. Once again, we demonstrated our ability to grow in a healthy and sustainable manner by adding valuable subscribers, while simultaneously simplifying experiences and processes for our customers and employees.

You see the results of these efforts, and the margin expansion and free cash flow growth we delivered in 2024 as we outlined at our Analyst and Investors Day. We expect these trends will continue.

Our investment in 5G and fiber is fueling this sustained growth. This is why we're so focused on building a durable franchise for the long term. Our deliberate and balanced approach to capital allocation is putting us on a strong foundation to deliver attractive returns for years to come.

With about $22 billion in capital investment last year, we again invested at the top of the industry as we continue to focus on building the largest, highest-capacity, lowest-marginal-cost converged broadband network in the country.

Investing to build a truly differentiated network will provide long-term benefits to AT&T and the many customers, businesses, and communities we serve. And if the new Trump administration is successful in extending expiring tax incentives this year, we feel there's ample opportunity for even more investment in US communications infrastructure.

Ultimately, we did what we said we would last year. And as a result, we exited 2024 in a stronger competitive position. We still have a few things to accomplish. In 2025, we'll focus on executing against the priorities we laid out at our Analyst and Investor Day.

This starts with our customers. We plan to grow 5G and fiber subscribers by offering an elevated customer experience with a compelling opportunity to enjoy both of these connectivity services from one provider. We remain focused on growing our business the right way, which we expect to achieve by once again gaining profitable customers and operating our business more efficiently.

In December, we established a new $3 billion-plus run rate cost savings target that runs through the end of 2027. In 2025, we'll make progress on this goal by further integrating AI throughout our operations. We also expect to realize cost savings as we evolve our technology stacks and work to exit our legacy copper network operations across the large majority of our wireline footprint by the end of 2029.

Last month, we received FCC approval to begin the process to stop selling, transition, and discontinue legacy voice services and a small number of wire centers, utilizing our AT&T Phone-Advanced service as a replacement. This was an important first step to establish a template that supports a deliberate and planned transition to a more capable and modern communications infrastructure.

Within the next few weeks, we will make detailed filings with the FCC to stop selling legacy products in about 1,300 wire centers, which is about a quarter of the wire centers across our footprint. We look forward to working with the [CAR] FCC to accelerate and advance policies and actions that stimulate investment in modernization of the US communications infrastructure.

On the investment front, we anticipate capital investment in the $22 billion range again this year as we invest in modernizing our wireless network, expanding where we're able to offer fiber. We also expect to achieve our target of net debt to adjusted EBITDA in the 2.5 times range in the first half of this year.

This keeps us on pace to commence common stock repurchases using our initial Board-approved tranche of approximately $10 billion during the second half of 2025. This is part of a broader $40 billion-plus shareholder return plan that we expect to deliver over the next three years, which includes more than $20 billion in total dividend payments and an overall capacity for about $20 billion in share repurchases. Under this plan, we also have an additional $10 billion in incremental financial flexibility to pursue strategic opportunities, improve our balance sheet, or deliver further capital returns to shareholders.

Now before I wrap, I'd like to finish where I started, with the customer, and briefly share how the AT&T Guarantee builds on the vision we shared with you in December. Over the past several years, we've pivoted the AT&T brand by using our deep knowledge and insights to orient our services around putting our customers and what they want first.

This has led to improvements in how customers feel about AT&T, as evidenced by our broadband customer satisfaction leadership, our improving wireless net promoter scores, and our overall continued low churn. After over a year of research and preparation, we are taking the important step to establish a platform to differentiate our brand in the marketplace with the AT&T Guarantee.

AT&T is the first and only telecommunications company to offer a guarantee for both its wireless and fiber network. AT&T Guarantee is a bold promise to our customers that we'll deliver connectivity that they can depend on, deals they want, and the prompt, friendly service they deserve. Or we'll make things right if we fall short.

With the AT&T Guarantee, customers have peace of mind that the company stands behind our products and services in a way that no one else in our industry is doing. Our guarantee is a truly converged full company effort. It spans across both wireless and fiber, covering both consumers and small businesses. And with enterprise customers, we remain committed to providing high-quality service in our contractual agreements as we always have.

We were able to offer this unique promise to our customers because we own and operate scaled 5G and fiber networks, where we control the network architecture, operations, and end-to-end customer experience. This allows us to provide a proactive and compelling customer guarantee that's tough to beat and an internal operating posture that focuses all of AT&T's employees on getting it right for our customers.

We feel confident that our customers will repay us with loyalty, and we can attract new customers as well. So in summary, we have a clear strategy in place to advance the plan we shared at our Analyst and Investor Day. We have the right people, capabilities, and differentiated assets to achieve our goals in 2025 and beyond.

With that, I'll 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 fourth quarter financial summary on slide 8. Overall, we're really pleased with how our team closed out the year as we continue to grow subscribers profitably.

Fourth-quarter revenues were up nearly 1%, largely driven by wireless service and equipment revenues as well as broadband revenues. This was partly offset by a decline in Business Wireline.

Adjusted EBITDA for the quarter was up 2.2% as growth, primarily in Mobility and Consumer Wireline, were partially offset by declines in Business Wireline. Adjusted EPS was $0.54 in the quarter, in line with the prior year despite $0.04 of below-the-line net headwinds that we outlined at the beginning of the year.

Fourth-quarter free cash flow was $4.8 billion, which included about $1.1 billion in pretax DIRECTV distributions. Fourth-quarter cash from operating activities came at $11.9 billion, up about $500 million year over year.

Beginning with the fourth quarter, all cash distributions from DIRECTV are now reported within cash from operating activities. However, as a reminder, starting with our first quarter of 2025 results, we will exclude all cash received from DIRECTV from reported free cash flow.

Fourth-quarter capital expenditures were $6.8 billion with capital investment of $7.1 billion. We delivered a strong financial performance during the quarter, while absorbing strong impacts that were slightly higher than the estimate we provided on our third-quarter call.

Now let's take a look at the results we delivered against our 2024 financial guidance on slide 9. For the full year, we achieved all our consolidated financial guidance. We expected Mobility service revenue growth in the 3% range and achieved growth in the 3.5% range, primarily by growing profitable customer relationships.

In Consumer Wireline, we met our target of 7%-plus growth in broadband revenues driven by fiber revenue growth of nearly 18%. Consolidated (technical difficulty) grew 3.1% for the full year compared to our expectation of growth in the 3% range.

Adjusted EPS for the full year came in at $2.26, which is slightly better than the high end of the $2.20 to $2.25 range we provided at our Analyst and Investor Day. As we shared previously, in 2025, we plan to report adjusted EPS excluding DIRECTV. When excluding approximately $0.31 related to equity in net income of DIRECTV, full-year adjusted EPS in 2024 was $1.95.

Capital investment for the full year was approximately $22 billion, consistent with our guidance at the high end of the $21 billion to $22 billion range. On free cash flow, we delivered slightly better than the midpoint of our guidance in the $17 billion to $18 billion range, with full-year free cash flow coming in at $17.6 billion.

In 2025, we also plan to report free cash flow excluding DIRECTV. For comparison, 2024 free cash flow was $15.3 billion, excluding approximately $2.3 billion of after-tax cash distributions from DIRECTV. Now let's look at our Mobility operating results on slide 10.

Our Mobility business continues to deliver strong results, growing both revenues and EBITDA for the seventh consecutive year. We posted 482,000 postpaid phone net adds in the quarter as we continued to successfully add high-value subscribers. Mobility revenues were up 3.3% for the quarter with service revenues also up 3.3%.

Fourth-quarter Mobility EBITDA was up about $500 million or by 6.1% driven by growth in service revenues. Similar to recent quarters, about 100% of the year-over-year growth in our Mobility service revenues flow through to EBITDA. This is the result of sustained low churn and our focus on driving operating efficiencies.

For the full year, Mobility EBITDA grew 6.3%. This is consistent with our guidance for growth in the high end of the middle single-digit range. Mobility postpaid phone ARPU was $56.72 in the fourth quarter, up nearly 1% year over year. ARPU growth continues to be largely driven by our targeted pricing actions and from plan mix.

Postpaid phone churn for the quarter was 0.85%, up 1 basis point versus the prior year, while the upgrade rate declined 10 basis points to 4.6%. Customers reaching the end of their device promotions return to a more normalized level on a seasonal basis in the fourth quarter, and we expect this to continue during 2025.

In prepaid, our phone churn was less than 3% with Cricket phone churn substantially lower. Similar to last year, our 2025 guidance anticipates a healthy wireless market with further normalization of net adds and overall activity levels. We're confident that our Mobility business will deliver solid performance again in 2025. And we continue to expect full-year growth in service revenues in the higher end of the 2% to 3% range and EBITDA in the higher end of the 3% to 4% range.

Now let's move to Consumer Wireline results, which are on slide 11. Our Consumer Wireline business again delivered strong performance with 307,000 AT&T Fiber net adds, our highest ever during the fourth quarter. This solid subscriber growth reflects durable demand for AT&T Fiber as a result of its superior experience, as well as the increased pace at which we've been expanding customer locations served by our fiber network.

We also believe we benefited from some pent-up demand following a one-month work stoppage in the Southeast during the third quarter. AT&T Internet Air continues to perform well in the marketplace. We added 158,000 AT&T Internet Air consumer subscribers in the quarter and totaled more than 0.5 million net adds for the full year.

Our combined success with AT&T Fiber and AT&T Internet Air continues to more than offset declines in our legacy copper subscriber base, which helped us achieve 123,000 total broadband net adds in the quarter. Fiber ARPU was $71.71, up $1.35 sequentially and 4.7% year over year. The improved trend in fiber ARPU growth in 4Q was driven by pricing actions and favorable plan mix.

Fourth-quarter broadband revenues grew 7.8% driven by fiber revenue growth of 17.8%. In 2025, we expect fiber revenue growth in the mid-teens, which is consistent with the multiyear guidance we provided at our Analyst and Investor Day.

Consumer Wireline EBITDA grew 9.8% for the quarter and 10% for the full year, which exceeded our guidance for full-year growth in the mid- to high single-digit range. This was driven by growth in high-margin fiber revenues and by our ongoing transition away from providing service over our legacy copper network. We expect these dynamics to continue in 2025 and to drive Consumer Wireline EBITDA growth in the high single to low double-digit range.

And while our fiber investment is delivering strong returns on a standalone basis, it's also benefiting our Mobility business as we add more converged customers. Our AT&T Fiber penetration is 40% today, with 4 out of every 10 AT&T Fiber households also choosing AT&T as their wireless provider. Both these metrics improved by about 100 basis points versus the prior year, reflecting strong demand for our fiber and 5G services together.

As we discussed at our Analyst and Investor Day, over the long term, we expect to grow our fiber penetration and our penetration of converged services within our fiber footprint. Now let's turn to Business Wireline on slide 12. In the quarter, Business Wireline revenues declined 10%, and EBITDA was down 22% primarily due to continued industry-wide secular declines in legacy services.

For the full year, Business Wireline EBITDA declined 18%. This is in line with the latest guidance we provided for declines in the high teens range. For full-year 2025, we expect Business Wireline EBITDA to decline in the mid-teens range.

In the fourth quarter, our Business Solutions wireless service revenues grew 3.5%, which is faster than our overall growth in Mobility service revenues. FirstNet continues to be a consistent growth category for us, with wireless connections up about 300,000 sequentially. And we ended the year with more than 6.7 million total connections.

Now let's move to slide 13 for an update on our capital allocation strategy. In 2024, we were able to strengthen our balance sheet while maintaining industry-leading capital investment. For the full year, we reduced net debt by $8.8 billion.

And during the fourth quarter, we reduced net debt by $5.7 billion sequentially. Fourth-quarter net debt included a $2.4 billion noncash FX benefit related to our foreign-denominated debt. However, there was no net balance sheet impact, as there was an offsetting FX loss related to associated hedges.

Another item that contributed to the reduction of net debt in the fourth quarter was the completion of a distribution of about $1.5 billion in cash from previously restricted assets. This is reflected in cash from investing and therefore, did not impact our reported free cash flow.

As a result of our adjusted EBITDA growth and strong cash generation, we ended 2024 with net debt to adjusted EBITDA below 2.7 times. Additionally, we lowered vendor and direct supplier financing, which more than offset securitization facilities for a net reduction of $400 million year over year.

Over the past two years, we've reduced our vendor financing balance by about $4.7 billion. Our efforts to reduce vendor and direct supplier financing have helped us to lower our interest expense and to improve the quality and ratability of our cash flows. Given these efforts, we feel good about our combined vendor and direct supplier financing levels, and do not expect to materially reduce them on a year-over-year basis in 2025.

We continue to expect to close the sale of our 70% stake in DIRECTV to TPG in the middle of this year. Since signing this agreement, we have received $1.7 billion in pretax cash distributions from DIRECTV and expect to receive an additional $5.9 billion in after-tax cash payments related to this transaction through 2029. This includes $5.4 billion that we continue to expect this year.

The strength of our operating trends, growth in our free cash flow, and improvement in our balance sheet have positioned us to increase our capital returns to shareholders. As discussed at our Analyst and Investor Day, we expect to maintain our dividend per share and to begin share buybacks in the second half of 2025 once we're in the 2.5 times range for net debt to adjusted EBITDA.

Our operating momentum and capital allocation framework positions AT&T to drive shareholder value through a combination of capital appreciation and capital returns in 2025 and beyond. Now let's cover our 2025 financial guidance.

Our outlook for the year is unchanged from the guidance we shared at our Analyst and Investor Day. But I'd like to highlight a few key drivers of our guidance for adjusted EPS and free cash flow in order to help you with your modeling.

As mentioned earlier, beginning in the first quarter, we plan to report adjusted EPS and free cash flow, excluding DIRECTV due to the pending 2025 disposition of our equity investment. On this basis, our guidance anticipates growth in both of these metrics this year, driven primarily by our outlook for growth in consolidated adjusted EBITDA of 3% or better.

Our adjusted EPS guidance for 2025 of $1.97 to $2.07 also assumes depreciation and amortization expense in 2025 to be slightly higher than 2024 from continued investment in our 5G and fiber networks, lower interest expense from lower debt balances, and an effective tax rate around 23%. Our planned share repurchases starting later this year are not expected to materially benefit our adjusted EPS in 2025.

Looking a little further ahead, we continue to expect adjusted EPS to grow at a double-digit CAGR from 2027, as outlined at our Analyst and Investor Day. This is driven by our outlook for annual adjusted EBITDA growth of 3% or better, as well as accumulating benefits of reducing our share count through planned share repurchases.

It also assumes lower depreciation expense beyond 2025 as we complete our wireless network modernization and take legacy assets out of service. Our guidance for $16 billion-plus of free cash flow this year assumes lower cash interest from lower debt balances, the absence of network termination fee payments in 2025, and lower working capital impacts in 2025 compared to 2024.

Collectively, these items as well as our anticipated adjusted EBITDA growth are expected to more than offset an increase in cash taxes. Excluding DIRECTV, we expect 2025 cash taxes to be $3.3 billion, which is up about $1.5 billion from 2024 on a comparable basis. This expectation is based on current tax law, including the continued phaseout of bonus depreciation.

We also expect that our free cash flow will continue to have a more ratable profile over the course of the year. As a reminder, we typically see seasonally lower free cash flow in 1Q, primarily driven by the timing of device payments and annual incentive compensation payout. Also keep in mind that DIRECTV contributed $500 million to last year's first-quarter free cash flow.

We're excited about our outlook for the year and beyond. We're reiterating all the long-term financial and operational guidance we shared at our Analyst and Investor Day in December.

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

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

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) John Hodulik, UBS.

John Hodulik - *UBS Securities LLC - Analyst*

Great. Thanks, guys. John, maybe a couple of quick regulatory questions for you. First of all, on the regulatory filing about the legacy products, are there any direct cost savings that would come with this, that you could potentially see in '25 if that's successful?

And I think this is probably the first step in terms of heading towards a decommissioning of that copper infrastructure. How would you expect the sort of steps to proceed if you're successful with that filing? So that's number one.

And then number two, on tax reform. One, just what's your view on the chance of getting that through? And you mentioned that you could go a little faster with some of the CapEx. Would that be a '25 issue or '26? And what are some of the areas do you think that you could do more spending and accelerate the plan? Thanks.

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

Hi, John. Good morning. So the legacy filings, first of all, what you should understand is as we laid out our new cost savings objectives for you over the next three years as we discussed in the Analyst Day, as we gave you that detail, you can see that we are expecting that we're going to make progress in taking those costs out of the business. And that's a key foundational element to those estimates.

So what you would expect here in this filing is, we've kind of factored all those into the guidance we've given you and the timing of those things. I'm not going to break out on a per central office basis exactly how long it takes us to recognize that.

But these are processes that take some time, is what you should think about. We have to go through notice cycles with customers. We then have to ultimately transition them. We grandfather them. So these are not things, like, you file, and 90 days later, you're starting to see a dramatic shift or a step function shift in costs. These are what gets us to our objectives by '29 and ultimately, reshaping the footprint in the cost structure of the business.

How those steps proceed, as I said in my comments, the first step is we now have a framework. We're now going to put the first scale test of that framework in with about 1,300 wire centers. We expect that when we do that, the commission is going to say, what do I do with 1,300 wire centers? And we're going to work collaboratively with them to build a process to move through that as quickly and expeditiously as possible.

My expectations are, from the dialogue that's occurring right now, the new administration is interested in finding approaches to scale these more rapidly and have an appropriate way to clear them through faster. Because they believe if the right policies are in place, it will, in fact, stimulate investment in the right kind of going-forward technologies.

And we intend to embrace that and work with them, and figure out how we take 1,300 successfully through the commission and then move through another tranche as we move through that. So that's all part of the process. And it's kind of how we expected this back two years ago, when we started moving down this path and putting this framework in place and building the technologies to enable it.

This is kind of what we expected would be the case. And I feel good, as I mentioned I think at the Analyst Day, I think with the administration change, we kind of moved to a little bit of a tailwind in terms of the receptivity of the approach as we go through that.

On the tax reform side, look, I'm hopeful and I'm optimistic that a Washington that has one party in control can figure out how to set priorities for themselves. My indications would be that from an economic growth perspective that the Republicans believe this is a key driver of what will get the economy moving in the right direction.

I would certainly say from my little part of the economy, those policies would drive accelerated and stimulated investment as they did the first time we were in place. I've used this comparison; we were peaking in about $24 billion of investment a couple of years ago. It's not an accident.

Our tax bill is up about the same amount that we're down in capital investment right now. I don't expect we'd ever get back to $24 billion at this juncture, given how far along we are in our reinvestment strategies. But do I think that the first place I would go if I had a little bit of latitude might be to accelerate some of the fiber build, the answer to that is, yeah, I probably would look at tweaking that. And some of that might go into investment and completing the fiber plan earlier. Some of that may be returned to shareholders.

We can't turn on a dime to answer your question. When you think about what occurs with the fiber build, as I shared with you at the analyst conference, if you want to think about increments of $1 million a year -- so if we're building $3 million right now, and we wanted to move to $4 million. That's probably a 12-month best case, 18-month worst case scenario to ramp to that level.

And when you start thinking about how you gracefully do these things, increments of $1 million are kind of the graceful way to go about doing it. We're not whipsawing vendor communities, supply chains, doing things that are inappropriate.

So I think about that within the course of the year. Can you scale yourself up to get to another $1 million, that's a decision that we'd have to make after we saw some tangibility that the tax cuts are, in fact, going to go into place.

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

Thanks for your question, John. We'll go to the next one.

Operator

David Barden, Bank of America.

David Barden - *BofA Global Research (US) - Analyst*

Hey, guys. Thanks so much for taking the questions. I guess my first one for you, John, just returning to a topic that we discussed on the Analyst Day, which was this notion of home games and away games and the benefits the fiber brings to the Mobile business.

I'm noticing in the fourth quarter that the gains in Mobile net adds among fiber customers was equal to the total net adds for the quarter and about probably 22%, 23% of gross adds. Is that something -- is there some information value in examining how those pieces fit together?

And then the second question, if I could, Pascal, this Reign real estate deal and the $850 million it's contributing, I guess the question is going to be was that -- was knowing that that's coming part of the $16 billion, or is it part of the plus? And how do we think about maybe as we decommission the copper plant, especially, future real estate deals contributing to this cash flow picture? Thank you.

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

Hi, Dave. I don't know that I would over-rotate on the information value, if I understand your question correctly. I think, typically, when you look at what our strategies are for how we actually penetrate within the base, there isn't necessarily perfectly a timing to what I would call the net add dynamics that occur in broadband, whether or not we're successful at penetrating.

There is some activity we get on installation, which is helpful to us. But when you start thinking about what we want to do to drive up that penetration number, the base of unaddressed individuals is much larger than the base of new customers going in.

And so we have to do well in that unaddressed base in order to get net adds in it. There's different strategies associated with it. Pascal, do you want to address the Reign dynamic and the fact that it doesn't run through cash flow?

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

Yeah. So Dave, the Reign deal is -- we're accounting for it as a financing transaction. It's not going to run through cash from operations or free cash flow. It will be running through our financing section of the balance sheet.

You zoom out, Dave, when I think about what are the drivers of free cash flow in 2025, it starts with our expected EBITDA growth. We also, as we highlighted at Investor Day, in 2024, there was a, call it, about $0.5 billion of headwind associated with paying out a termination fee associated with our O-RAN modernization effort.

Additionally, the other tailwind you should expect is, you're going to see some benefit from interest and working capital. We have -- if you saw the way we ended the year, our interest expense was down, and I would expect that to continue into 2025. And I wouldn't expect working capital to be a major factor one way or the other. And so really, those are the dynamics driving it.

David Barden - *BofA Global Research (US) - Analyst*

All right, helpful. Thank you, guys, both. Appreciate it.

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

We'll go to the next question, please.

Operator

Michael Rollins, Citi.

Michael Rollins - *Citi - Analyst*

Thanks, and good morning. You used the same or similar language around the healthy wireless market and a further normalization of net add and activity levels. Curious if you could just put some additional context around that, how that -- they look similar or different than last year in terms of characteristics -- and how AT&T is looking at the mix between volume growth and ARPU opportunity within the '25 guidance.

And just one other quick item, in the trending schedule, you added a much larger number of resale subs. I think it was up 13.5% quarter on quarter. I'm just curious what drove that performance? And does reseller become a more significant component of Mobility service revenue growth during 2025? Thanks.

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

Hi, Mike. Good to hear from you. So I would tell you it's the same or similar as to what we said last year. That's why they're similar language. We expect further normalization. I don't think we're seeing a whole lot different.

As I said before, how we think about the customers that we want to attack that are long-term durable, sustainable customers versus what gets counted in the bucket in aggregate, they don't all necessarily represent that number. But we've seen a bit of a moderation going on, and we expect there's going to be a little bit of a moderation going on this coming year that we worked through.

As with previous years, we're going to do everything we can to do both. We're going to have some volume improvement as we gain customers, and we're also going to manage the base like we effectively manage the base.

I'm not going to break out for you what represents in each of those. We never do talk about those things. I don't intend to do that going forward. But you can expect that we know how to manage the subscription business, and we know how to balance the two out.

There's going to be pockets of our base out there, where we can move them through continuum of either getting more value through different plans or finding pockets where maybe we're priced differently than the market, what needs to be, as well as growing subscribers. And we'll do both, and we'll do it effectively.

What you're seeing on the resale side is, I think we've been really clear and we indicated that we were a provider to DISH and their migration and how they've been handling their customer accounts. We're a beneficiary, I think, of some of their decisions as to what works they're putting our customers on and how they're operating that.

That was certainly not the only contributor but a significant contributor to what's occurring in that. And then we've also had some success in some other MVNO reseller accounts that are now starting to generate some volume as well that are contributing to that.

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

Thanks, Mike. We're going to go to the next question, operator.

Operator

Benjamin Swinburne, Morgan Stanley.

Benjamin Swinburne - *Morgan Stanley & Co. LLC - Analyst*

Thanks. Good morning. Question on fiber and one on Mobility. Pascal, I think you mentioned maybe some pent-up demand benefited the fourth quarter coming off the labor strikes at the end of Q3. Any ability to size that for us?

And then I'm curious, you guys had really strong fiber ARPU growth in the fourth quarter and the year. We've seen some of our cable competitors get more aggressive with their own converged offers. It doesn't seem like that's having any impact. But I'm just wondering if you could talk a little bit about your confidence in fiber ARPU growth heading into '25.

And then just on Mobility, great churn results. Any update on sort of how you're thinking about gross adds and whether that can maybe inflect positive in '25 as Jen and the team kind of put a lot of their initiatives into place. Thanks so much.

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

Hi, Ben. So look, the pent-up demand dynamic, it's not substantial. I just think that there's -- there clearly was some -- there were some customers after we were out of the market for 30 days in the Southeast that decided they were going to wait. And we were able to work through that effectively. And I think that's certain amount of what you're expecting or what we saw in the fourth quarter of turning in that 307,000 number.

I don't see anything in our overall trends that suggest anything different moving forward right now. We've given you an indication. There's a variety of things that drive kind of what you should expect in volumes in fiber in a quarter, one of which is the size of the footprint and what we have to sell into. And then, of course, there's a seasonality dynamic goes into that.

So as we move into the first quarter, seasonality adjustments tend to be a little bit slower than what we see otherwise. And we still have good footprint to sell into, but that pent-up demand will disappear. So you should expect that that's not going to carry into the first quarter.

Exactly what that number is, I don't know that I can precisely put a number on it. But I don't see anything in the market that suggests to me right now that there's any fundamental trend difference in how we're penetrating the market and what we're doing overall.

And the ARPU growth, what I would tell you is, as I just indicated, we continue to manage the base effectively and look for opportunities to either remove customers up in plan to buy higher speeds or work on pricing adjustments where it makes sense to do that.

We did get a benefit of a price increase on some portions of our cohort that work through the fourth quarter that I think you're seeing roll through that. But there's also a dynamic of a higher percentage of the base moving into fiber versus copper legacy products that usually comes with a step-up in ARPU that we get improvements on.

And we're going to continue to actively manage that, but you should understand we're actively managing that underneath an umbrella. We're still lower than cable on an ARPU basis. And that's one of the reasons we do as well as we do and why we don't feel that we need to necessarily discount a better product when we're putting two together is because we are selling currently in the market on -- kind of underneath cable's pricing umbrella at a more competitive price. So that still continues to be the case as we move forward.

What I would expect on where we are in the Mobile side is -- should our gross add performance get a little bit better relative to what we want to do on the share side in certain segments? Yes. But do I expect that we're going to be looking at outsized numbers, given the overall pool of growth is getting smaller? No.

Pascal, I don't know if there's anything you want to add to what I shared there.

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

No. Look, I think all well said.

Benjamin Swinburne - *Morgan Stanley & Co. LLC - Analyst*

Great. Thanks so much.

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

We'll go to the next question, please.

Operator

Peter Supino, Wolfe Research.

Peter Supino - *Wolfe Research - Analyst*

Hey, good morning, everybody. A question on upgrades and one on immigration. On upgrades, I'm not going to ask you about iPhone innovation.

I'm wondering if you could comment on just the average age of the phones in your customer fleet in the postpaid phone business, and maybe describe directionally how that number has evolved and whether we're approaching an inflection point for upgrade simply based on aging as we get into the middle of the 5G cycle here.

And then on immigration, if you could comment on the sensitivity of your postpaid phone business to potential major changes in immigration statistics over the next couple of years after the change in the administration. Thank you.

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

Hi, Peter. Peter, so I would say that I don't see anything in the data that we're looking at that would suggest there's any fundamental shift going on in customers' desires to hold handsets. Sure, different carriers have different points of view on this.

And if you're investing heavier in promotions, you may see a shift. You may incent more customers to choose to upgrade. And the richer those promotions get, the higher that rate. And therefore, you walk away and say, well, maybe there's a shift going on.

I think we are pretty disciplined in what we chose to do over the course of the quarter. And if I would tell you when we did forecast of what percentage of our customers might be coming in for an upgrade, we're not seeing anything out of pattern relative to that, given how we're performing in the market and what offers we're putting in the market.

And I'm not expecting to see that change any time in the near future. The customer will ultimately make that decision. And of course, later in this year, we'll end up with some new devices coming into the market. And once we know what those devices are and how compelling they are, customers will decide whether or not they want to shift that dynamic and move at a higher rate.

But right now, I didn't see anything that occurred in the fourth quarter that I can explain from -- what were the offers in the market, and was it something that somebody wanted to do gift giving on based on what those incentives were as opposed to what I would call a fundamental shift in customers' points of view of their fleet getting more tired, so to speak.

The fact of the matter is phones perform pretty well. They're more durable. People know how to take care of them more. There's better insurance and upgrade processes in place to keep devices in customers' hands for a longer period of time. I don't think those things have fundamentally shifted in the market.

On immigration, I'd probably say relative to the industry, we're a bit less sensitive to it. Because as you've heard me say, we maybe don't play as effectively as I'd like in that part of the market or had what I would think should be more of our fair share.

I guess, the good news is if there is a downward trend on it, we'll be less impacted. It doesn't mean that I wouldn't like to be more effective in that space. But we just aren't quite as well distributed in that segment of the market as maybe some other folks are.

Now in aggregate, do I think that having more people living in the United States is good for a business like ours? I think the answer is yes because we like economic growth in this country. And part of what we all want to see is that the economy continues to grow and services continue to be invested in. And I think a key element to that is we have to have the right immigration policies.

And I'm hopeful that as policymakers kind of go through the next number of months and they think about what they want to do, they get to an appropriate place that understands that for the US economy to continue to grow, we need smart immigration. We need to do this the right way, and that is in everybody's interest to do that. Hopefully, wise minds prevail, and that's what takes place, and we'll see what happens.

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

Thanks for the questions, Peter. We're going to go to the next question, please.

Operator

Jim Schneider, Goldman Sachs.

Jim Schneider - *Goldman Sachs & Company, Inc. - Analyst*

Good morning. Thanks for taking my question. I was wondering if you could maybe expand, John, on your earlier comments around the broadband market and the competitive trends within it. I mean, clearly, some of your competitors in the cable space are getting a little bit more aggressive on pricing.

It sounds like you don't see the need to follow that. But I'm just sort of curious whether you expect there to be sort of more opportunities for jump balls or a little bit more kind of competition within the sort of existing non-home movers in the market going into 2025.

And then separately, on the Business Wireline outlook, that's a relatively muted outlook, not different from what you talked about in 2024. But I'm wondering if you see any opportunities on the horizon here that could jump-start sort of top-line opportunities, whether that's from a fiber connectivity for AI or otherwise. I think you'd sort of moderate those EBITDA declines sooner rather than later. Thank you.

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

Hi, good morning, Jim. I don't see a shift right now in our tactics in the broadband market. I mean, as I've said before, where we have fiber, we win. We win because it's a better product.

And the other tailwind, if you want to call it that, that I think we have that I've mentioned and talked about in the Analyst Day is it's a heck of a lot easier to sell into a market where we're 40%, 50% built as opposed to a market where we're just starting to build.

And we're getting more and more markets where our distribution of fiber and where we are in the build starts to give us scale in the metropolitan area. So we get more effective in that case in the latter stages of our penetration, where we can begin to more efficiently buy mass media awareness. Word of mouth starts to show up with customers who do their own promoting on our behalf because they have the product. They talk to their friends.

So yeah, I would expect that our competitors are having to do things to adjust because we continue to win. But we're fundamentally winning on the product being better. We're not necessarily winning because people are shopping for a lower price right now.

And I actually think the lower-price shoppers are probably migrating more towards fixed wireless. And they maybe have less scale demands as we've talked about. Our product is the one for the scaled household that requires great performance and consistent performance. And that's what we're doing very well in. And I think we know how to play in that space, and we'll continue to do that.

And ultimately, as general consumption continues to increase year over year, we think fiber will be waiting there to pick up more and more customers as they need that high performance. So we feel really good about that.

We gave you an outlook at the Analyst Day as kind of what we expect in recovery in business. And when we did that, it was, as we shared with you, driven by an orientation away from our legacy products. The good news is we had a lot of share, and we did really well in that space.

The bad news is some of those products are in a secular repositioning right now. And they're repositioning to fiber and high-bandwidth connectivity-based products and services, which we'll also do well in. But dollar for dollar is a little bit of a trade down when you make those transitions.

And as we forecasted for you what we thought the recovery in that segment would be, it included what our expectations were and being effective in deploying our fiber and ultimately picking up on some of that transition. So do I expect that we can go in and probably be a little more effective in middle-mile infrastructure as AI becomes more critical in places? Yeah, we expect we will be.

Is that something that we expected when we gave you our forecast moving forward? Yes. Is it stuff we're working on right now that we'll have some success? And yes. Did I see in the fourth quarter probably some of our best fiber growth in business across the board in all segments and what we've historically had? Yes.

Is that expected? Yes. Should it continue? Yes. We still have to outrun the legacy base, which -- that's just a mathematical equation over time that we have to work our way through. So I don't think it's going to change anything that we shared with you in terms of the direction and performance of the business.

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

One other point is on AIA. We -- as it relates to business, we continue to believe it is a great opportunity for us. If you look, we introduced a product middle part of last year. And so we think we have plenty of room to run as it relates to AIA for business.

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

And that's AT&T Internet Air for business. That's our internal acronym.

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

Yes.

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

All right. We'll take the next question.

Operator

Sebastiano Petti, JPMorgan.

Sebastiano Petti - *JPMorgan - Analyst*

Hi, thank you for taking the question. I guess maybe, John, kind of sticking with business, but from the wireless side, obviously, you broke out the wireless service revenue growth, maybe outperformed consolidated Mobility growth on the business side.

Can you maybe pack -- unpack a little bit of what you're seeing in that market, John, obviously, against the context of the broader industry and normalization there? At the Analyst Day, you did outline that AT&T does have a share opportunity, given your mix of customers across the board in the Fortune 1000 and how you see that evolving.

But you also -- it seems like there's tailwinds in that business as well, whether it be from corporate liable, maybe demand growing. So it'd be helpful if you could perhaps unpack that and how you're thinking about that evolving over a multiyear basis within AT&T. Thank you.

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

So Sebastiano, good morning. I would tell you the biggest driver, I think, of our success in business over time is how well we do in improving our distribution, our effectiveness in the mid and low end of the market.

And that's, I think, the biggest driver and that -- we all like the fact that if there's investment in the country and the economy grows, businesses grow, and they consume more in communication services. That's a good thing, and it's an important thing for our industry, and we tend to be highly correlated to that.

But in terms of us doing better as a company and where I think the operating leverage is, it's in us getting better in our distribution structure in that segment of the market. And as I shared with you, that's our intent when we went through the Analyst Day.

Those don't change in 30 days. These are things that require some work and partnerships. And they require you to work with those partners in ways that you give them the right kind of tools to be more effective in prospecting and converting.

And we're midstream on doing that. And our expectations on ramp, back to what I shared to Jim's question or part of what's into our forecast that we've given you an improvement segment and what we're going to ultimately be able to do.

So that's how I think about for AT&T, what we need to do to be more effective in business and where there's opportunity. And it really gets down to how effectively we distribute. And I don't know that there's, if you want to call that tailwind, I just think that's hard to pick-and-shovel work that we kind of have to do as our business. And that's the kind of thing that we do.

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

All right, thanks for the question, Sebastiano. Operator, we're going to take our last question.

Operator

Tim Horan, Oppenheimer.

Tim Horan - *Oppenheimer & Co., Inc. - Analyst*

Thanks, guys. You've been pretty early in migrating your operations and networks to the cloud and open source. I'm sure you've seen DeepSeek has created a much lower-cost large language model out there.

Can you maybe just give us your thoughts on using cloud and AI to both improve relationships with customers, improve your product, and lowering your overall expenses? And then maybe just the same thing on your infrastructure, just any updated thoughts, how you can use your infrastructure to support AI? Thank you.

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

Good morning, Tim. We've actually -- I think this is a place we've already done a lot of work and picked up a lot of benefits in terms of how you operate internally. We've -- if you kind of look at our cost of service dynamics, what we've been able to do in our call centers, and how we operate within our customer base, a lot of that has been driven by AI tool application.

And it's not that we're necessarily exclusively replacing individuals with the technology, but we're making them a lot more effective and efficient in how they handle customer needs and then complementing that with customer supported AI. And when you look at things like our call volumes, despite the fact that we're growing, our customer base dropping 30% year over year. That's driven by the application of that technology and what we're able to do with it.

We've used it a lot internally in our operations. We're seeing demonstrative improvements in our code effectiveness. And I shared this on a previous call. We're spending less right now to develop new code internally and getting more. And it's through the application of AI and the technology and what we're able to do with generative AI.

I fully expect, as I mentioned earlier in kind of my comments on CNBC, we're very early in this technology cycle right now. And this is a seminal technology cycle. It's going to be every bit as big as the founding of the Internet when it's all said and done.

And because we're very early in it, we should expect there's going to be days we wake up like this one when somebody comes in and says they figured out a way to get as much benefit out of the model by consuming less power or using less processing capability, where they fine-tune the models to work in a particular domain area more effectively, where they can run locally as opposed to in the cloud, which is going to open up and facilitate new applications and business models.

I would expect for a nascent technology like this that we're going to have those moments because necessity is the mother of invention. And there's a lot of money, an awful lot of money and a lot of creative minds working on this. And people are going to come up with better ways to apply it. And we're all going to have to stay on our game to make sure we use it effectively, so none of us are in a disadvantaged position relative to our competitors on cost structure effectiveness.

I think there are places where I would like to see our business get better at doing this, which is using the data that we have to start doing things that are unique to us, which handling particular customers and segments of the base and those that we don't have as customers and understanding how we price and attack those things and using the unique data sets that we have around our infrastructure, how that lines up to particular customer segments, in particular, industries to get more effective in the market.

If I were to say I had a goal for 2025, I would like to, this time next year, be talking about good momentum we've received in business as a result of executing on some of those things moving forward. And finally, I'd just say we continue to find innovative ways to use it in our business today.

And maybe I'm not being as effective at talking about all the great things we've done to effectively use that, but we're tuning our RF capabilities dynamically in our wireless network today based on traffic flows and customer movement using machine learning capabilities and AI. And those things always help us on the margin, and we're going to continue to do them moving forward.

Appreciate the question, Tim. Let me go ahead and close this out for all of you. And I would just say one thing. We outlined for you what we intended to do in 2024 in January of the year. And when you kind of look at what we delivered, we did exactly what we said we were going to do, if not a little bit more.

And I think what we've, hopefully, demonstrated to you over the course of '24 and the previous years, our execution is getting very consistent. And that's not a surprise as we refocused the business, and we put our energy towards being a great communications company.

We're on that learning curve, and we're getting more consistent and better at what we do. And we still have opportunities to improve upon the progress we've made. This is going to be an important year for us as we hit the midpoint of this year, and we have an opportunity to recalibrate on our capital allocation.

And that's been the deliberate plan to do that. We look forward to that moment. And we think we're in a great position to continue to invest in this business and drive the same level of consistency and improvement that you've seen over the last couple of years.

So thank you very much for your interest in us. And I hope everybody has a good rest of the year.

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

Operator, you can go ahead and end the call.
