

LSEG STREETEVENTS

EDITED TRANSCRIPT

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OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

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

PRESENTATION

Unidentified Participant

Before we jump into it, I'm going to turn to Pascal for Safe Harbor.

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

Good morning, everybody. It's a pleasure to be here. Just as a reminder, some of the comments I'm going to make today are forward-looking in nature and subject to risk and uncertainty. Please refer to our website. Additionally, we are in the midst of Spectrum Auction 113, and therefore I'm unable to comment on anything related to that.

Unidentified Participant

Thank you, Pascal. And thank you for joining us. We're very excited to have you again this year.

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

It's a pleasure to be here.

Unidentified Participant

So for those of you who don't know Pascal, as I mentioned, he is the AT&T CFO, Senior Executive VP as well, where he and his team oversee the financial strategy of their USD176 billion connectivity business. Since joining AT&T in 2021, Pascal really has spearheaded the company's effort for cost transformations, simplified its balance sheet, and strengthened and overseen historic levels of wireless and wireline investment, which has really led to make AT&T, I believe, one of the top annual investors in the US, positioned it as a leader in converged connectivity, and helped the company deliver on its long-term strategy.

Wow, that's a mouthful, but really quite impressive. You've done, especially, since I sat in the analyst chair in 2020, the company has come a long way.

QUESTIONS AND ANSWERS

Unidentified Participant

Maybe I'll just start off. You recently -- I think as recently as last night, reiterated your full-year outlook, including plans to continue investing this year in the range of USD23 to USD24 billion through 2028. It's interesting. Can you kind of frame this investing? Because it's worth noting that some of your peers during the same period are actually pulling back on that capital investment. And how do you view this as an attractive opportunity?

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

Sure thing. Maybe let's zoom out a little bit. You look at the last decade, what we have clearly seen is the trend with demand for bandwidth is increased significantly. And as we look ahead, we look at -- you're going to see more and more increasing workloads from AI, think about autonomous vehicles, drones, smart devices.

The amount of bandwidth connectivity is going to continue to increase at just exponential rates. And that connectivity demand is going to be more so driven by uplink demand than downlink. So we are building a network not simply for today, we are building a network for the future. That network is going to be AI ready for whatever workloads it produces. We understand we can't wait for everything to materialize to make that investment. We think the trends are unmistakable. They've been happening and they continue to happen.

Now, as you noted, we've been investing for some time. And the good news is this, as investors, you don't have to wait for that future consumption to materialize, you are getting significant growth over the next several years. We are consistent with our guidance. We expect to accelerate growth in subscribers, broadband subscribers, driven by our converged offerings.

We also expect a step up in our service revenues and our EBITDA over the next several years and we've guided to double-digit EPS during that period, all while delivering an attractive dividend and a buyback that basically equals the level of the dividends in terms of the dollars committed to it. So all in all, we're in a position right now where we're delivering returns to shareholders today while investing for the enormous growth we see ahead.

Unidentified Participant

And I want to push on that too, because you touched on this, the capital allocation priorities. You've been very aggressive in making progress with the balance sheet but also pursuing strategic acquisitions. EchoStar, which I know hasn't closed yet, Lumen, Fiber recently required incremental capital. Do you need to pursue additional, like in your seat, additional M&A, where does that fall on your kind of to-do list here? And I can't talk about the current spectrum options, but additional spectrum down the line, et cetera.

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

You take a step back. We've been focused principally since John Stankey took over as CEO on investing for organic growth. That is where we think we have enormous opportunities. There is significant room to continue to grow.

And last year, we saw an opportunity to acquire attractive spectrum from EchoStar, both mid band and low band. And we also saw in Lumen a unique opportunity to acquire fiber assets in a location where we didn't operate, in a market where wireless, we had less share than we have nationally, and those assets were acquired at a price that's comparable to our building fiber, and it's underpenetrated, so providing us with enormous opportunity to continue to drive incremental returns off of the existing base of assets.

As importantly, when we did the acquisition, we also acquired rights of way from both, rights of way to build significantly more in that territory. And it came with BuildEngine that also allows us to continue to build right away. We didn't have to staff. We didn't need to start new relationships in those territories. So all those things we found attractive. So right now, we're focused on what we have in front of us. We have a lot of work to do to continue to execute and monetize the assets recently acquired and plenty of room to run in our organic footprint. That's where we're focused.

Now, as you would expect, in the business that we're in, we're paid by our investors to make sure we're always looking at the market to see their opportunities for additional returns, and that's something we do all the time. But we don't need to do anything at this stage. We are squarely focused on executing what's in front of us.

Unidentified Participant

And you mentioned a large part of the driving of the Lumen was the convergence strategy, the bundle, which, again, has really come on strong just for the industry. And I think over the last few months, you've rolled out several changes for your 5G and fiber services, including a more simplified, Unlimited Your Way plans, OneConnect, Build-A-Plan which have an underlying simplification that should resonate with customers. Can you walk us through what you're looking to achieve with this? I mean, I believe it's that bundle, lower churn, higher ARPU, but I'm curious as to what was the logic there and the timing?

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

If you zoom out a bit, when you look at AT&T's wireless position, I think it's fair to characterize it. We probably tend to over-index on more premium customers, customers that have more than two lines. And we have the highest ARPU in the industry. All those things tell us that if we want to grow in a market that's not growing quickly, we have to attack other parts of the market, whether it be value customers, one- or two-line customers. And how do you do that? You become very strategic and you provide choices to customers that are attractive.

So when we try to execute our plans, we're guided by three principles. As you noted, simplicity, value and choice. Consumers have told us that's what they're looking for. And importantly for us, convergence. Convergence meaning -- currently we have, we expect to end this year with about 40 million fiber passes. Our goal is for each of those fiber passes, for every subscriber we have to try to sell them both fiber and wireless. Why? They've told us that's what they want, and they want to be able to do that simply.

And so, what we're trying to do with our offerings is to really provide consumers with choice, whether they are premium customers, lower value customers. And all in all, our belief is that with the unique hand that we have, with the expanding fiber footprint, it's 40 million today going to over 60 million by 2030, we're going to be in a position as a result of those relationships to drive an outsized share take in wireless.

Unidentified Participant

And where you have history with the legacy fiber, you've seen that play out, right?

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

Without a doubt. Our customers that have both fiber and wireless are our lowest churn customers, highest lifetime value, and their NPS is higher than our overall base, and brand love is off the charts. All things that tell us that if we want to continue to drive customer affinity and give customers what they want, this is the winning hand.

Unidentified Participant

Got it. On the wireless side, a key part of the industry has always been about device subsidy. I'm curious your current thoughts of how much of the industry has talked about moving away from these aggressive device subsidies and really refocusing on the network and the experience there and service. But at the same time, these device subsidies have historically been a very important point of differentiation for the industry or for players within the industry, from the MNOs relative to the cable MVNOs. How do you think about that trade off and kind of what gives you confidence that we're going to stay in this network first competitive environment?

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

The device subsidies are really -- I view them as a way to show customers appreciation, reward them for their loyalty in choosing us. Look, I think it's fair to say at times we probably as an industry have over indexed on those. There are other ways to show loyalty, provide superior products and services, great customer service, and a great value proposition. We're selling a great service, and let's lead with that.

Also, look, I think there is a lot of focus on the devices. I think one of the things that I think is lost when people are talking, or that's not emphasized enough, is the devices also allow us, in addition to accommodating what the consumers are looking for, it allows us to sell unique products. We have an insurance product where we insure your device. Pretty attractive revenue stream for us. Similarly, we have a product called Next Up, your next upgrade on us if you pay an additional USD10 a month. So they're all things that are available and allow us to monetize the relationships in different ways. So I think it's really important.

When I look at the overall devices and our relationships with consumers, there's a budget of subsidy that we earmark. We stay within those budgets. We manage to it. So the price of the device is only one piece of it. There are other elements of value such as the trade-in, the price plan that the customer buys in at, and all these other ancillary revenue streams that we are able to garner from the relationship. Do we continue to try to find ways to manage device subsidy more effectively? We do. I think we do a pretty good job and on balance of what we invest in there. We think we get a really attractive return.

Unidentified Participant

And I would think like the more convergence permeates into the customer base, I don't want to say it becomes less important, but if my family has your fiber service and wireless, I mean, I'm less focused on my kind of subsidy of a particular handset. Is that what you're seeing in some of these more mature markets?

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

Yeah, as a general matter. But look, our view is this, we have to meet the consumer where they are. And if they want a device subsidy, we'll figure out how to do it, but in a way that not only works for them but works for us as well.

Unidentified Participant

Got it. So Lumen, I want to talk about the integration there, because that is a deal you have closed on and had for a bit. You're in really one of the largest infrastructure buildouts in the telecom, I'd say in the broadband market. You mentioned earlier a goal of 60 million fiber locations by 2030, which does include the integration of Lumen, which you closed earlier this year. Can you talk about what made these territories particularly attractive? The rights-of-way I think is a very underappreciated point, because I think people don't think that's just easy. And so, I'm curious as to how you think the integration has gone thus far and your priorities from here.

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

Sure. You take a step back, we acquired about 4.5 million fiber passings for about USD5.8 billion. Do the math. The cost per passing is very competitive with what it takes us to build. That was one element that made it attractive.

Two, as I mentioned earlier, we've acquired rights of way. So not only did we get the existing passings, we can build out well beyond those. And we've said we plan to more than double those passings over the next five years. So that was an attractive element.

It came with a team that was accustomed to doing business in those markets, has relationships with the different municipalities where the permitting is requested, knows how to navigate the local markets. Additionally, those assets were under penetrated. So they were at 25% penetrated. That compares to our national average of 40% and we said we expect to go well above that. So that was an element of value.

Also, in that footprint, our wireless share is significantly less than it is nationally. And to boot, they are not, the convergence rate in those territories is considerably less than what we are seeing in our own footprint. So all those things together made this a really attractive asset. We closed in February. It's early days, but, honestly, the reception in the local market has been really positive. Sales demand is really strong, much higher than it was when Lumen owned the assets.

Unidentified Participant

Who didn't have a wireless tool?

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

That's right. They don't have the distributions that we have in the local markets. We have retail outlets across the country, all things that allow us to really be able to hit the ground running from a distribution standpoint. With that said, we have to ramp up the pace at which the build team is building.

They have to be able to accommodate much more installations than they've been accustomed to, and all those were things we anticipated that there would be a ramp-up period. We're in that, but what's really encouraging is every week the team is getting better. They're continuing to execute better and achieving the scale that we anticipated.

Unidentified Participant

It is part of your longer-term. This was a critical piece in this long-term fiber bet, I would say. We're hearing a lot about broadband these days and other players. And I'm just curious broadly, what gives you the confidence that now is the time to double down on this fiber bet? And I'm curious, does AI become part of that conversation too? Is that last mile of connectivity?

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

It really does when you -- AI doesn't exist without our connectivity. I mean, plain and simple. And we know one thing for sure that data consumption is going to continue to go up under AI. And how do you best meet that? Our view is this fiber gives us the best ability to meet that. Why? You have symmetrical speed, high speeds available, lowest latency. And importantly, the cost to deliver -- the unit cost to deliver bandwidth is the lowest with fiber. It has great maintenance profile, less powered consumption, all things that make it incredibly attractive.

Now we know it's a long game. You don't wake up five years from now and say, oh, I want to be in the fiber business. We've been at this for a while. And we are building a network that is AI ready. There will be a lot looking to catch up and trying to figure out how to catch up as those consumption trends materialize, we're not going to be in that position. And as I said earlier, the good news is this. We're able to do all this while accelerating our growth in earnings and delivering value to shareholders in the interim.

Unidentified Participant

You also have another tool in your toolkit in fixed wireless. You've indicated through a lease agreement that you've deployed the large majority of the 3.45 spectrum that you will be acquiring from EchoStar in the fourth -- or you agreed to acquire it. I realize it hasn't closed. How should investors think about the role fixed wireless is -- has in driving this incremental growth and really the overall broadband opportunity?

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

Fixed wireless is another tool in the toolkit. It's another product that we have. At the very beginning, as we -- the product was being introduced, we said -- we didn't anticipate it being our lead offer for broadband. Fiber is our lead offer for all the reasons I just went through.

But fixed wireless, where do we think it makes sense to use? It makes sense to use in advance of fiber coming to territory. So if you still have in those places where you still have legacy DSL and that you want to get customers in advance of a fiber rollout and you're planning to do so, great tool.

Two, if in places where we're not going to offer fiber, even though we have plans to be at 60 million plus locations, there's a lot of homes that we're not going to cover with fiber. So that's an opportunity for us. Importantly, when we are selling fixed wireless in those instances, we look to do it in conjunction with wireless.

It's very clear when we're looking at returns, fixed wireless only makes sense if you are using your follow capacity. And you don't have to densify your network to provide incremental coverage and capacity. It's -- once you start to have to do that, the returns on fixed wireless go down dramatically. And so, it's really important that we are surgical in how we use it. And so, outside of our traditional footprint, we try to really drive convergence. And those markets also, typically, we are underpenetrated in wireless. So it allows us to increase our share of wireless in those markets.

Unidentified Participant

Got it.

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

It's a really good tool for small and medium-sized businesses. So those with multiple locations where we may have fiber in one but may not be able to cover them with fiber and another, so you're able to drive that. And the consumption trends for smaller businesses are not as significant as consumers. So all those things factor into how we look at it.

It's an important tool, not a toolkit. It's one that we think for the right customer. It's the right solution. But I wouldn't anticipate us to be -- to have to focus on those relationships to the same extent as you see some of our peers.

Unidentified Participant

Got it. And with the worry always with fixed wireless has been a spectrum will be tapped out, but with what you've received or will receive, or at least seen actually right now from EchoStar, that worry is not...

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

Well, it's not today, but at some point, you're going to have to pay the piper. That's why we're being much more surgical than others about it. I mean, look, there's a -- there's a common theme here. We are playing a long game. We're not trying to build a company for today. We're building it for tomorrow. And it's really important -- we've been in this business for 150 years. We're going to be in it more than that in the future. So I want to make sure that we are looking at this, and we are managing this for the long term. And that's been John's message. We're going to build this to last.

Unidentified Participant

And between the fixed wireless and your fiber, I believe you said in the release last night that year over year, this fiber growth will be up?

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

Yes. Advanced home internet is the category that we call the combination of either fiber or fixed wireless broadband. We expect growth in customer additions to accelerate year over year, relative to what we saw in the first quarter.

Unidentified Participant

So the investments are paying off?

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

There's no doubt. Like there's nothing that we've seen that would suggest that these are not best investments for our investors long term. And so, we're really bullish about the future here.

Unidentified Participant

I want to shift to business. Your Advanced Connectivity business services were essentially stable year-over-year. People have always been native on this for the group in general. But it's important to note that was the first time during the first quarter where you saw that stability in a long time, I believe, and what is -- which to me is an important milestone. What is driving that stabilization? And because people used to feel like that was like the melting ice cube, and that those were just continue to decline. But here we go, it's stable.

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

Look, I'm incredibly proud of our team and business. We said this a couple of years ago that we expect, as you got through the next several years that the business would stabilize and begin to grow. In fact, we have given guidance that we expect our Advanced Connectivity business services revenues to grow low single digit in the next several years. There are several things that are happening there.

One, as we build out more fiber locations and as we penetrate the existing fiber base, we're seeing an acceleration in growth in business fiber revenues, both shared and dedicated. Two, we're also seeing fixed wireless. As we rolled it out, our fixed wireless business product is less than two years old. And so, as we are rolling it out to small and medium-sized business, we're seeing really good uptick consistent with our theory of the case.

And those two things, coupled with value-added services that we provide to businesses will are more than offsetting some transitional products like VPN. And all told, we're at the point of stabilization, we expect to grow low single digits over the next three years.

Unidentified Participant

I'm old enough to remember when it was to be called like butts in seats. The more butts in seats and businesses, the more growth we'll have. But do you feel like you've aligned the sales force in a way to kind of accommodate this new normal that you're seeing from the businesses and their needs?

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

Sure. Look, the business market is incredibly complex. The way you sell up market is very different than the way you sell small and medium-sized businesses. In medium-sized business, in particular, there's a -- you have to rely on distribution relationships to help drive those. So all things that we're working to make sure we have aligned, we have the right distribution for the right products. Lower market,

our retail channel is quite effective at driving that. And upper market, it is the traditional sales force that is really working with customers to really satisfy their needs.

Unidentified Participant

Got it. I'm going to shift to two questions, which some might call the elephant in the room, because we're at a big week with a big IPO coming on Friday.

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

Yeah, which one?

Unidentified Participant

Exactly. And there is a lot of water cooler to chat about satellites role and -- in the broadband industry. And I guess, how do you think of that evolving broadband competitive landscape with satellites, birds in the sky? And how do you feel you're positioned? We've talked a lot about the fiber, and I totally understand that point. But there is others talking about how they're going to chip away into this broadband market. How do you think about this competition?

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

You look at today between broadband -- between fiber cable, fixed wireless and the wireless infrastructure that exists in the US, probably that covers 99% of the US population. But there is a 1% population that's not covered today in very rural areas. And I think satellite is a great solution for that.

The cost to deploy traditional infrastructure in those areas are -- is prohibitive. So -- but within urban and suburban areas, it's really -- the infrastructure that is in place is better. It is the cost per bit to deliver is cheaper. And those markets are competitive with well-established competitors. So look, anything is possible. But look, there is -- we think we provide great solutions at a really attractive price in urban, suburban areas, and that's where our focus is.

Over time, we would expect to be able to partner with different satellite providers to help bridge the coverage where we don't have infrastructure. And ideally, we'd like the coverage to be seamless such that if somebody drives into a rural area from a suburban area that they are able to have continuous coverage, because we've worked with the satellite providers to ensure the seamless transfer of the connectivity no different than when you travel internationally.

Unidentified Participant

And you get moved to the other carrier. And you'd partner -- I mean, the big 3 have come out together and said that they'd be willing to work together in that, is that correct?

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

Yeah, that is. Here is we all see the need to provide seamless connection to our consumers at an attractive price. And by coming together, here's what we're able to do. We're able to agree on a set of standards and principles that we're going to use to deliver that service. Two, it allows us to pool scarce spectrum resources together. And oftentimes, they are complementary resources. So it allows more complete coverage. And then finally, it also allows us to share in the infrastructure cost of delivering that satellite connectivity.

So all together, those things are -- made this pretty compelling for us. And importantly, I think the consumer wins here by being in a position to come together to solve these pain pace, we're able to deliver the value to the consumer at an attractive price.

Unidentified Participant

And I realize you can't talk about the spectrum auction, but the fact is you've spent billions of dollars you and your peers on spectrum, of mid-band spectrum, which is tough to come by. And if physics still matter, does that also come to play with satellites?

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

Yeah, there will be unique spectrum necessary to be able to connect direct to device. So the spectrums that collectively we have allow us to do that better than each one of us trying to do that separately.

Unidentified Participant

Absolutely. Final question. If you're sitting in the same seat, maybe this seat three years from now, I think a big question. What would success for AT&T look like? And what do you see as the biggest variable to get from here to there?

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

Here is the good news. It's -- our destiny is within our control. We don't need to acquire any other assets. We just need to execute on the assets that we have and optimize those assets. We are currently in the midst of several transformation, whether it is getting out of copper, modernizing our wireless network, expanding our broadband footprint significantly.

You fast forward next several years, those things all come to an end. And the significant duplicate infrastructure today that is supporting those different initiatives. You get to the other side of that that infrastructure goes away, you have a much more modern, efficient network, both broadband and wireless, you're able to deliver better connectivity than anybody else at the most efficient cost structure, it is going to be a business that is really attractive margins high, high operating leverage and very strong cash flows. And all that will accrue to our shareholders.

Unidentified Participant

Terrific. And I think AI has been a major part of the conversation from there.

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

Yes, we are going to have an AI-ready network and everybody's going to be scrambling to catch up.

Unidentified Participant

Pascal, thank you. Thank you to everyone in the audience.

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

Thank you for having me.

Unidentified Participant

Thank you so much.

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