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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning, and welcome to AT&T's second quarter 2026 earnings call (Operator Instructions). As a reminder, this conference is being recorded.

I would now like to turn the conference call over to our host, Brett Feldman, Treasurer and Head of Investor Relations. Please go ahead.

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

Thank you, and good morning. Welcome to our second quarter call. I'm Brett Feldman, Treasurer and Head of Investor Relations for AT&T. Joining me on the call today are John Stankey, our Chairman and 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 on the Investor Relations website.

With that, I'll turn things over to John.

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

Thanks, Brett, and good morning, everyone. I do appreciate you joining us today. Earlier this year, we provided an outlook for accelerated growth and execution of our strategy and that's exactly what we delivered in the second quarter. We gained more than 1 million advanced connectivity subscribers from fiber, fixed wireless, and postpaid phones.

With all three product categories posting higher net additions year over year. This was our best ever second quarter for AT&T fiber net adds and a record quarter for combined fiber and fixed wireless net adds. We also continued to grow our base of converged customers.

At the end of the second quarter, 42.5% of our advanced home Internet customers also have a postpaid wireless account with AT&T. And this convergence rate reached 45% when excluding customers within our acquired footprint from Lumen. These are high lifetime value subscribers, and our strong customer growth is a key driver of our accelerated financial growth during the second quarter.

At a consolidated level, we reported faster year-over-year growth in service revenue, adjusted EBITDA, and adjusted EPS compared to our growth in the first quarter. We also achieved our highest consolidated adjusted EBITDA margin since we refocused our business on advanced connectivity at the beginning of this decade. This was driven by our improved operating leverage as we gain scale in 5G and fiber, reduce legacy costs as we shrink our footprint, and through continued implementation of our cost transformation initiatives across the company.

And we're driving growth in our Advanced Connectivity segment across both consumer and business channels. During the second quarter, we achieved year-over-year growth in Advanced Connectivity business service revenues. This reflects our success at repositioning the business around fiber and 5G just as we did in consumer and expanding our reach through a more balanced direct, indirect, and digital distribution model.

The result is growth in converged relationships and new logos, and you're seeing that momentum in our improved financial performance. It's taken a lot of work to get here. We continue to expect Advanced Connectivity business service revenues will grow at a low single-digit CAGR through 2028.

The strength of our performance comes from the structural advantages we've established after years of consistent and targeted investment. So it will be our largest year ever for fiber expansion with plans to reach 8 million new locations including over 4 million locations acquired from Lumen.

As I've said in the past, where we have fiber, we win with fiber and wireless. And I expect that as we expand our funnel of new fiber locations, we'll drive strong growth in our converged customer base and financial results.

The dense urban and suburban areas where we build fiber at scale, we believe that our competitors cannot and will not match our network performance or our operating scale and proficiency. This includes the AT&T Fiber brand, widely recognized among the best home Internet products in the market, local teams of technicians and in-home experts, capable technical support infrastructure, extensive owned and partner distribution, sophisticated device logistics, and the ability to harness our national advertising and brand campaigns to rapidly drive penetration as we reach new geographies with our fiber and converged services.

Simply put, we believe that we are the best positioned to serve customers the way they want to be from one trusted connectivity provider. When customers consolidate their Internet access with us, we see lower churn, outstanding brand affinity, higher lifetime values, and we carry the vast majority of their Internet traffic over our advanced infrastructure.

And for those limited circumstances, when the AT&T network is not available to one of our converged customers, we expect to be in a position to solve many of these corner cases as we move into 2027. Consistent with our ability to extend our scale and operating proficiency, I'd like to give you a brief update on our progress integrating our recently acquired Lumen footprint into our operations.

We spent the past six months standing up operations to support a faster pace of growth and network deployment and customers as we accelerate the branded rollout of AT&T Fiber but we're already utilizing our existing distribution and converged offers to tap into pent-up demand in these underpenetrated areas, which is translating into improved growth.

We're not just adding fiber customers. Our June converged gross adds in these territories were up 45% compared to February. Our convergence playbook is taking hold here just as it has in our traditional footprint, creating a clear runway to deepen customer relationships and accelerate growth in converged accounts as we complete our integration activities and scale the pace of fiber expansion.

While the benefits of our investment-led strategy are evident today and our improved operating momentum, we continue to build a business that is best positioned to meet the future advanced networking demands of AI-driven connectivity. The rise of agentic AI is fundamentally reshaping network traffic, not just in volume, but in shape, symmetry, and criticality.

The proliferation of Agentic and autonomous AI workloads will require networks to sense, decide, and act in near real time. Emerging use cases, including drones, autonomous driving, robotics, and AR glasses, all require ubiquitous high-performing uplink optimized connectivity.

Today, industry research shows AI agents generate up to 450% more total traffic per task than a human performing the same work. Agentic adoption is projected to drive approximately 9x growth in enterprise traffic and approximately 7x growth in consumer traffic by 2035.

Distribution of AI inference to the edge necessitates, low latency, and high bandwidth connectivity to access end points. This is why we believe fiber-enabled network convergence at the edge will create a true competitive advantage. Additionally, we're already seeing rapid increases in large-scale data traffic, which demands high-capacity metro and intercity fiber infrastructure.

As AI fundamentally changes how consumers and businesses connect, it will drive a fundamental change in their expectations for connectivity. We believe AT&T is the only provider building and investing in this infrastructure at the scale necessary today to support the demands a decade from now. We aren't missing any critical elements necessary to execute our strategy. We have the necessary building blocks in place, the technology, agreements, and the assets for our strategic path forward.

The enabling connectivity of the future is in our hands today. By the end of this decade, we expect to operate the most advanced and technologically open communications network in the US, built on a foundation of dense interconnected metro fiber and deep nationwide spectrum. This is exactly the asset base we want as AI begins to shape the next era of connectivity, and I wouldn't trade our assets for anyone else's.

While we position for the future of connectivity, our shareholders are benefiting from our growth today. This is supporting our improved capital returns and provides us with the flexibility to further increase our pace of planned share repurchases this year by up to 25% to approximately $10 billion to capture what we see as a disparity between our operating fundamentals and the valuation of our stock.

Momentum also picked up this quarter and our work to exit inefficient copper-based services accelerated by positive actions by the FCC. We appreciate the leadership of FCC Chairman, Carr, and the commission for recognizing the urgency to modernize the nation's communications infrastructure and upgrade customers to more reliable service.

Last month, the FCC gave us permission to discontinue legacy copper voice service and about 60% of our wire centers in California, so we can upgrade our customers to AT&T phone advanced, fiber, and wireless.

Looking more broadly in our efforts to discontinue copper network services and operations nationwide, we continue to make great progress on our exit plans. We have approval to discontinue legacy services in over 30% of our wire centers, which will be effective by late 2026. By the end of the year we expect a couple of hundred wire centers to have zero customers.

This is an important step, providing the path to unlock access to descaling parts of our cost structure and to further streamline our operations. Nearly two years ago, we told you we would establish a path to effect an orderly turndown of legacy copper services by the end of the decade. In my view, we've now reached the tipping point, and that goal is firmly in sight.

Finally, before I turn the call over, I'd like to comment on last month's announcement that Pascal has decided to retire at the end of the year. He's been a great partner, and all no doubt have much more to say about his contribution when his work is finished. Until that time, we're executing a deliberate and carefully planned transition and AT&T is fortunate to welcome back Jennifer Biry.

There's no doubt that Pascal is a tough act to follow, but we have the person to do just that in Jennifer, and we'll do so without missing a beat.

She knows many on our team. She understands the business. Her views on how we should run the company are aligned with how Pascal and I see the world. And she returns with a broader and deeper understating the fundamentals of running a software-driven enterprise. This is something that will be very important to AT&T as we move forward. That said, we still have some important things to accomplish between now and year-end, and we all intend to make good use of the time.

With that, Pascal, over to you.

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

Thank you, John, and good morning, everyone. At a consolidated level, total revenues in the second quarter were up 2.3% year over year, driven by service revenue growth of 2.7%. Adjusted EBITDA was up 5.2% year over year, and our adjusted EBITDA margin increased 110 basis points to 39.1%.

For the full year, we continue to expect consolidated service revenues to grow in the low single-digit range and consolidated adjusted EBITDA to grow in the 3% to 4% range. Adjusted EPS was $0.65 in the second quarter which is up more than 20% from $0.54 the prior year, driven primarily by growth in adjusted EBITDA and lower depreciation expense.

We continue to expect full year adjusted EPS to be in the range of $2.25 to $2.35. We added over 1 million fiber locations during the second quarter as we accelerated the pace of our deployment. This contributed to higher capital investment of $6.1 billion compared to $5.1 billion a year ago.

Second quarter free cash flow increased by roughly $300 million year over year to $4.7 billion, which exceeded the high end of our guidance range of $4 billion to $4.5 billion. For the full year, we continue to expect $18 billion-plus of free cash flow and $23 billion to $24 billion of capital investment.

Compared to the second half of last year, where we're ramping up our fiber deployment. We expect our capital investment to be more ratable during the second half of this year. We also expect higher cash flow from operations during the fourth quarter of this year compared to last year when our results were impacted by discrete items, including legal settlements and a large contribution to our pension. As a result, we expect free cash flow will be relatively stable year over year in the third quarter with strong year-over-year growth in the fourth quarter.

Our consolidated growth continues to be driven by our Advanced Connectivity segment, which contributes over 90% of our service revenue and nearly all of our adjusted EBITDA. Advanced Connectivity service revenues grew 5.1% year over year in the second quarter, accelerating by 150 basis points compared to our growth in the first quarter.

EBITDA for this segment grew even faster increasing 8% year over year driven by top line momentum and our continued cost transformation initiatives. The team is really doing a good job here, and we remain on pace to achieve $4 billion in consolidated annual cost savings by the end of 2028.

Wireless service revenues grew 3.3% year over year, driven by growth in our customer base, including 432,000 postpaid phone net adds and the uplift from pricing actions that took effect during the second quarter. We are pleased with the execution of our pricing strategy in wireless, including the rollout of new plans and pricing actions during the first half of the year.

Impressively, we grew postpaid phone ARPU year over year while reducing postpaid phone churn. Our wireless growth is increasingly driven by new accounts and not simply additional lines of service. During the second quarter, we added 147,000 consumer postpaid wireless accounts, which is our best result in more than three years. We believe this is a direct result of our converged go-to-market strategy, which is driving improved growth in new customer accounts that choose AT&T for Wireless and Home Internet.

Advanced Home Internet service revenues grew by more than 27% year over year. This was primarily driven by improved fiber net adds as we accelerate our fiber deployment and center our go-to-market strategy around our converged offers as well as our acquisition of fiber assets from Lumen in the first quarter.

Fiber ARPU declined 1.3% compared to a year ago, which primarily reflects a full quarter impact of our transaction with Lumen whose subscribers have lower ARPUs. Excluding customers in the footprint that we acquired from Lumen, Fiber ARPU was approximately flat year over year. This reflects our focus on growing converged customer accounts, which enjoy discounted pricing, but typically stay with us longer and increase their spending over time.

We expect our focus on convergence to drive continued strong net additions in Advanced Home Internet and postpaid phone subscribers during the third quarter and continued growth in converged customers. In the near term, this will likely put some pressure on fiber ARPU, but we feel really good about our ability to manage our back book pricing as we grow our base of fiber customers that also subscribe to our wireless services.

As we said before, our goal is not to maximize ARPU of individual products, but instead to maximize total Advanced Connectivity service revenues in order to drive attractive returns on our investments in 5G and fiber, and we are expecting continued strong growth in service revenue.

And as John noted, we are achieving this growth in Advanced Connectivity service revenues across consumer and business operations. Business Advanced Connectivity service revenues grew 1.8% year over year in the second quarter, driven by momentum in wireless, fiber and fixed wireless. We have turned the corner and expect the AT&T business to remain a driver of growth in Advanced Connectivity service revenues going forward.

Our Advanced Connectivity segment enters the second half of the year with strong momentum, and we continue to expect full year service revenue growth of 5%-plus and EBITDA growth of 6%-plus.

In our Legacy segment, service revenues declined 26% year over year, and EBITDA declined about 46% as we accelerate the process of powering down our legacy copper network and migrate customers to more advanced and reliable voice and Internet services.

The retirement of our legacy network is a critical piece of our transformation into a scale provider of Advanced Connectivity. As we complete our network modernization and other transformation initiatives, we expect that by the end of the decade, we will have the best-performing network with a highly competitive cost structure.

We returned $4.1 billion to shareholders during the second quarter, including approximately $2.2 billion of share repurchases. We are on pace to repurchase nearly $1 billion of stock in July. And as John previously shared, we now expect to buy back approximately $10 billion of our shares in 2026. This compares to our prior target of $8 billion of share repurchases this year and represents a pull forward of our planned buybacks through 2028. Together, our planned share repurchases and expected dividend payments will total approximately $18 billion this year, which is essentially 100% of our outlook for free cash flow.

Our cash flow and liquidity provides us with flexibility to sustain our dividend and accelerate our planned buybacks, while also maintaining our commitment to reduce balance sheet leverage following our planned acquisition of Spectrum Licenses from EchoStar. We are well positioned to fund the transaction, which we expect to close by the end of July.

We ended the second quarter with net debt to adjusted EBITDA of 2.68 times, which was essentially flat with the first quarter. We continue to expect that our net leverage ratio will increase following the close of our transaction with EchoStar to the 3.2 times range and then return to a level consistent with our target in the 2.5 times range within approximately three years following the close of the EchoStar transaction.

I'm really pleased with how we have the company position heading into the back half of the year. We have great operating momentum, a leading position in fiber and converged connectivity and a team that's motivated to win in the marketplace.

Brett, we're now ready for the Q&A.

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

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Sean Diffley, Morgan Stanley.

Sean Diffley - *Morgan Stanley - Analyst*

Great. Thanks very much. I was hoping you could elaborate on the traction you're seeing with some of your new plans like Build-a-Plan and OneConnect. It seems like you're targeting a bit more of the value segment and going down market. Maybe talk about some of the success you're seeing there. Is it all incremental and just markets you have been focused on before.

And then just on fiber, you talked about balancing volume and pricing going forward. I think you mentioned ARPU flat ex Lumen, how should we think about managing pricing broadly on fiber and levers on the back book? And then last one just on satellite, does that change your assumptions on unit economics or penetration rates and maybe some rural markets over the next few years?

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

Good morning, Sean. So we're going to do the whole call here in three questions. So let me start with where we are kind of on the planned execution. I would say the recalibration we did on the plans was done quite artfully and quite well by the team. And I think you've seen that in the results. And I would add to that, as you know, we've done some rejiggering and pricing on the base, and you see the churn performance that we've been able to generate.

And so you take all those together and what I think they are indicative of is a pretty seasoned team that understands kind of how to manage in this environment and do it effectively. I think, I mentioned in my remarks, we were at a three-year high for new account additions this quarter. And I would have credited a lot of that to the shifting of the plan and our focus on the value segment where we see a lot of that new account entry coming in, not at a line into existing accounts.

And I think that's healthy for us, especially when you look at our overall service revenue performance. The margin numbers that we put forward, our growth in EBITDA, I mean, all those things, in my view, are a very healthy combination of what you want to try to achieve. So yes, we're being deliberate about moving into some segments of the market where maybe we're a bit underpenetrated. But I think you're seeing we're doing that with a nice balance on profitability and ensuring that we do it in a way that's accretive.

And as you know, I've got a typical dynamic here where I want to see percentage of service revenue in the industry grow. And frankly, our goal is to make sure that our average revenue per account grows. And as you can see in the disclosures we've given you, we're doing all that. And so that's a good thing.

Same thing on fiber. I don't think it's any different. Once we put the fiber infrastructure in place, my point of view is there isn't a customer out there that shouldn't be ours. We have the best technology. It can be operated at the lowest marginal cost. And yes, it can offer some very premium services with symmetrical gigabit and multi-gigabit services. And there is a segment of the population that wants to pay for that, needs that level of performance. But we also know that there's clearly a segment of the population that's more value oriented.

But the silly thing would be to serve those value-oriented customers on a higher cost infrastructure. And so we want to make sure that our fiber product offerings match to the continuum, both the value-oriented and the performance-oriented shopper. And we can do that really well, especially when the customers converge, because we're not just optimizing for one product, but we're optimizing for the suite of products that the customer has in home. And as we shared with you, we get lower churn on those customers, a higher lifetime value and higher brand affinity. So that's what drives the lifetime value they stay with us longer.

So you should expect that on fiber, we're going to be very, very aggressive at making sure we get our fair share along the continuum of price points. And I will do that, and I will use that expertise that I mentioned earlier that the team has demonstrated to make sure that as we have the life cycle with that customer that we ultimately get a value equation that is accretive to the business allows us to continue to grow our share of service revenues. And that we improve our share position overall in the industry.

And that's the play we're running, and we know that it's a long game that we have to run it against, and we think about this over multiple years, and I'm very comfortable with mix and the overall performance that you saw this quarter and carrying that forward.

And then on the rural side of things, like we're investing heavily in urban and suburban for a reason, because we think it matches best to our capabilities. We think that's where we can drive returns most effectively. I also think that it's possible you could see some shift in serving architectures, moving forward in rural areas.

I do believe there'll be areas that satellite might serve adequately that allow us to maybe shrink our terrestrial footprint on, what I would refer to as, poverty sites, sites sit out there and pick up relatively small amounts of traffic, but provide continuity of connectivity, and that might be able to positively impact our cost structure in those instances and at the same time, give the customer a really good experience. So I do expect rule of characteristics of our business change. As you know, in the fixed part of my business, I'm trying very hard to shrink footprint.

That's all the comments I made about shutting down wire centers and going to zero customers. I want assets out of those areas. I want to take costs out. I don't want to be problem there, where I want to be problem is where I can build fiber and where I can use fiber to put wireless transmitting entities at the end of the edge points and use those networks effectively in consolidating traffic. And that's the fundamental underpinning of the business we want to build.

And then establish parent relationships or joint relationships with other providers to fill in that small percentage of the time that the customer walks off our network, that 2% of the traffic that maybe we can't get on that infrastructure. I like coming at the customer where we own and operate 98% of the traffic. We have control of it. We have control of the product and the service that we offer and that maybe we do the integration of leasing on the other 2% as opposed to the other way around.

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

Thanks for the question, Sean. Operator, we'll go to the next one.

Operator

John Hodulik, UBS.

John Hodulik - *UBS AG - Analyst*

Great. John, could we talk about the broadband volumes, especially fiber and your comments that June adds were significantly better than February. I mean, does that suggest that these numbers are going to continue to ramp? Or do you think the Lumen property is, you're just sort of tapping into some pent-up demand? Just trying to get a sense for how you expect those volumes to shake out.

And then secondly, the comments on the Agentic traffic. That definitely confirms a lot of things you've been hearing from the data center companies and other areas of the sort of AI ecosystem. And how does AT&T -- I realize it's a longer-term view. But how does the AT&T as a connectivity provider of wireless and the fixed side, how do you monetize that over the next, say, five-plus years? I know this is sort of a high-level question, but I'd love to get a sense for how AT&T may benefit from other traffic?

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

Good morning, John. So let me clarify so that you understand what I said in my comment. What I said is that the converged rate in the Lumen footprint rose to 45%. I wasn't suggesting that the broadband sales rate increased 45%. So our ability to pair when we sell a broadband service to pair with wireless improved to 45%. So what we're demonstrating there is in the Lumen footprint, we could run the same kind of play that we've done in the non-Lumen footprint and getting converged customers brought together and all the goodness that comes with that.

Now we are improving our sales rates in the Lumen footprint. As we've told you, we have expectations that we can take penetrations up in those areas that we'll start to look like it does in a traditional AT&T footprint. And we're systematically moving through that.

As I indicated, we have steps to take to get there. What we're effectively doing right now is converting all the infrastructure, all the branding, all the support systems that we have with customers, all the methodologies, the technicians use when they show up in a house, all the CPE that a customer gets that provides that world-class WiFi that we put in place inside of a home that makes the high-bandwidth connectivity actually sync.

We're converting market-by-market, and we're pretty much getting to the back end of that now. Once we have the AT&T brand in those markets, then we can go in and really start to put a little more gasoline on the fire and start to drive those volumes up, and we're getting to that moment now where you're going to see us begin to lean into it and it's showing up in the numbers. That's part of why you're seeing these really strong results. But we have another step-up to take here as we move through the year, and that's part of our plan. When we talked to you about accelerating performance that we're going to make that happen.

And then, of course, the other shoe drop on that is we've got to get the footprint scaling faster, right? You got to get the construction engine up. And we're doing that work as well. But that's a little bit longer cycle time work. It's something that we need to take well into next year to ramp up to the rate and pace of build that we want.

And we're seeing progress in that area, but it's like anything that has to do with civil work. It's bumpy in places and you do a little bit better in one geography and a little slower in another. Eventually, we get there. We know how to do that. We've got everything in place to do that. We've got all the supply agreements. We're normalizing all the construction agreements and all the things we need. But that's taking shovel work that we still got to get through to kind of make the equation all in together.

Monetizing the agentic traffic is the way I think about it is this. First of all, the wireless network, you need to build better upstream. And so part of why we did the Spectrum acquisition we did and why we leaned into the 600 megahertz is we believe the best way to manage a robust upstream in an agentic environment is to have really strong low-band position.

And we already have an advantaged low-band position in the market. The 600 is going to make that advantage even more substantial. And because you can engineer the Spectrum a little bit differently, given how those bands are set up, we intend to try to engineer a really robust upstream network that reaches deep into buildings and has a lot of consistency to it. And we think that's what the low band is going to allow us to do.

The other thing that's really important, of course, is to get density in the network and owning fiber footprint allows us to get density. So we're now introducing into our network PON-fed, small cell infrastructure, taking advantage of all that PON infrastructure we put out there using the backhaul on the wireless infrastructure to get more radiating points deeper into the network.

That then allows us to use all the capabilities you've been hearing about for multiple years as to why we did 5G. Why do you do slicing? And why do you have quality the service capabilities that you drive in that are driven towards specific applications? This is what this enables. And so do I believe that just like you do in fixed broadband, where we differentiate and we drive better yields on higher-performing services, we charge more for a gig than we do for a 500 meg circuit.

You are going to see in wireless, differentiations and service, in my view. And whether it's an enterprise, the needs to buy a slice that is specific to a particular application that they need to support or a customer who has a particular way that they operate and do things in their life that requires it, I think you're going to see service differentiation. And my view is, it's managing the performance in the upstream that will be the most critical that will differentiate that.

And the last thing I'd probably share with you and the way to think about it is, you hear me say it often, I think history repeats itself in this industry. And there was a long history or segment of history where VPN was really, really important to customers. And why was VPN important? One was security. And the other was that it managed performance when there were situations of constricted or not plentiful bandwidth. And those are the two fundamental foundations of what made VPN effective.

The place in networks where we still see restricted bandwidth is in the wireless business. Fiber basically over-provisions, and you don't have to worry about bandwidth in those circumstances, but we know that based on how wireless networks perform now and probably for the near future, we're still going to have moments where there's restricted bandwidth or restricted performance.

And so I do believe the dynamics of VPN and why those engineered and highly managed networks were important for a period of time in the wireline space, will start to become more prevalent in the wireless space just simply because of bandwidth constraints and the need for higher performance given the kind of applications that are going to be always on and mobile moving forward. And I think that's where that monetization premium comes in as kind of a corollary to what you've seen in the past.

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

Thanks for the questions, John. Operator, we'll go to the next one.

Operator

David Barden, New Street Research.

David Barden - *New Street Research - Analyst*

So two for you, John. Just first, in the prepared remarks, you said that you were going to solve for corner cases into 2027 in the fiber-to-the-home business. I was interested to know if that meant that M&A is potentially in your future.

And then the second is your take on what Brendan Carr's announcement was that the upper C-band will be basically undeployable, even though it's going to be auctioned in 2027 until 2031, how does that affect your thinking about how you deploy capital in the coming years?

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

Morning, Dave. So you know me, I'm always dropping little breadcrumbs about future M&A and everything I say. That comment was not intended for that.

David Barden - *New Street Research - Analyst*

(laughter) Okay.

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

The comment was -- maybe I wasn't clear enough and I said, if you think about what we do today for a converged customer, we handle 90%-plus of the traffic they need to get on and off the Internet once we have a converged customer through mobile and our fixed services.

And occasionally, they walk off the network. They get in their boat, and they maybe go out beyond the coast, or they go to a national park where we don't have coverage. And so what I talked about handling the corner cases, at those moments where they walk off the network. It's the 2%. It's what something like satellite constellation would be good for.

And so the work that we're doing through combinations of the JV and all the technical work we've been doing up at this point in time, for example, with one of the partners who are working with AST SpaceMobile, those are all going to come to fruition as we move into next year, and it's going to be the product that we've been working on with the AST offering. Will be a very intuitive product that doesn't require the customer to do anything differently. They have their device and it behaves and operates just like it does today as they're moving around.

But if they walk off the network, they're not going to walk off the network. We're going to provide a seamless transition into coverage via satellite on a directed device basis. And so those are the corner cases I was alluding to that by the time we get into next year, we will have solved for that other 2%, and we will be in the market doing what customers want, which is providing in the assurance that they can buy from one provider, and always be on the Internet.

And in that respect, we will be first in the market with that. We will be the best in the foundation of what we provide in fixed broadband. And that's a really strong position to be in, and it's what others have to come and beat, and I think it's going to be unbeatable.

Relative to the announcement on what Commissioner Carr has said about the C-band auction is that it is a long time out. I think we expected it was going to be a long time out from a planning perspective. Certainly, we've worked aggressively on the public policy front to try to get auctions back up and moving in. To this administration's credit, they stepped up and have started to get that pipeline going again.

But after four years of inactivity from the previous administration, it's hard to make up for lost time. That is really what precipitated our decision to do the EchoStar transaction. That allows us to have the spectrum we need to kind of control our destiny for the next several years and feel very comfortable about that and a combination of -- I'm sure there's going to be some opportunities that pop up in the secondary market that we look at and say, look attractive to us.

And then you add that into what I said earlier, which is we have this ability now to go and use the dense fiber infrastructure we put in place to begin to be more targeted in how we augment capacity into the network to where we need it in dense areas.

If you think about how wireless networks have now evolved where there's a pretty healthy amount of spectrum that's out there on most cell towers. We're providing really, really good service. The pockets of where you need better density and more bandwidth are becoming more and more contained. We've built a lot on the interior. You go into a stadium you're not hitting the cell site outside. You're hitting infrastructure that's been deployed in the stadium. Same thing in the hospital. Same thing in the high-rise building.

So now we're in a situation where you go outside of those locations where when you augment capacity, it's going to be much more targeted, and you're just fine in the broader macro. And if you look at how a typical cell site works, if there's three sectors on the cell site, oftentimes, when you hit exhaust, it's not because all three sectors have exhausted. It's because there's one face on that cell site that happens to point toward a densely populated area that has a park that is busy on a Saturday or it's a congregating area.

And so now with technology where you can go in and do this, I don't think that the notion of having to get these really dense national swatches of spectrum and painting it with a paint brush across the US is the game anymore. I think the game is using your infrastructure to penetrate where you need more density and then being very selective at where you go and get that broad paint brush of additional spectrum to add in.

And so my point of view is we're very well positioned to deal with the pipeline that's coming, the length of time, and being very strategic, surgical, and deliberate about how we add into the Spectrum portfolio at this time. At the same time, leveraging this great infrastructure we put in place, which is this dense fiber that we have throughout the network.

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

Thanks for the question, Dave. Operator, we'll go to the next one.

Operator

Craig Moffett, MoffettNathanson.

Craig Moffett - *Moffettnathanson LLC - Analyst*

Two questions, if I could. First, John, when you talked about the AI usage-led growth and the 7x increase by 2035. How do you think about that with respect to the amount of network capacity available for FWA? Does the -- do you reprioritize higher-value mobility traffic in that scenario?

And then just to return to the issue of satellite for just a second. There has been so much speculation about Starlink potentially competing on the basis of an MVNO. I wonder if you could just comment on not so much Starlink as an augmentation to your network, but Starlink as a potential competitor. And what do you think that would take? And is there a scenario where you would partner with them with an MVNO agreement?

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

Good morning, Craig. So look, on the point of view, fixed wireless access, I think I've been fairly consistent about this, which is I don't consider it to be the optimal technology to serve fixed traffic over the long haul, and I have been pretty clear that, that's why we invest in fiber because that is the optimal technology to use.

However, it clearly has its point and use in the market at this juncture and in places. And I've been pretty clear about those kind of places where I think it has more staying power and longevity than where it doesn't.

I've used examples like there's a whole bunch of businesses that we support where fixed wireless access is an excellent technology for them and the nature of their business and will be for years to come, given the nature of how they do things. And they tend to be more mobile-dominated businesses with maybe a fixed location to construction yard with a bunch of people that are out every day at sites.

The yard needs some support, but it doesn't need gigs and gigs of services. And those things tend to move around, and they like the flexibility associated with it. So my point of view is it's a really important tool in the portfolio. But with -- to your point, you always want to be prioritizing your scarce spectrum resources that I just talked about in the answer to the previous question with John, to use it for mobility. The answer is yes. And I never want to compromise buying the next opportunity for a mobile service at the expense of serving Netflix in a fixed location. There's a way to maybe characterize it.

And I think our strategy is matched to that. I don't have a problem with using fixed wireless access to test markets and do things like shut down fixed infrastructure that's old and tired and needs to be retired, and we're using it extensively in copper.

I don't have a problem using it to see where we can go and build some presence in a market that then indicates we should come and overbuild it with fiber, and we already start with warm revenues in place to do that. And I think we'll do that probably more effectively than anybody else moving forward. But I'm never going to sit here and tell you that the way I want to serve fixed traffic is by buying more spectrum and build more wireless infrastructure is the primary means to do that.

Speaking more broadly about satellite and satellites competition on a direct-to-device, I tried to be pretty deliberate in my comments. We sit here today with everything we need to put the best product in the market. I'm not betting on the next turn of a chip. I don't need any fantastic developments and technology in any way shape or form to do what I need to do. I mean, it's not rocket science for what we need to do to be successful in the market.

And so we're doing that today, and I think we can build the best converged product today. And we can be in the market and be effective and penetrate today. And when we think about a wholesale arrangement, as I said before, the motivation for a wholesale arrangement is always to get on a part of the market that you can't get at yourself.

And what I just described to you, and all the things we're doing and recalibrating our plans, how we're tuning distribution, the success we're having in adding accounts would suggest to me that for customers that want to buy wireless and broadband, fixed broadband together, we're doing just fine in reaching those markets. We understand how to do that. We have the technology to do it. We have the distribution to do it. Those have been built up over years.

We have the infrastructure in place to put a really robust product in front of them that had been built up over years, and we can do that just fine on our own. And I don't necessarily need a wholesale arrangement to go and address that 2% of the traffic that I can't get at today, because I can get at 98% of the traffic. I'm solving for a much smaller equation.

If that number was inverse maybe I would think differently about it. So I'm not prone to look for a wholesale agreement to go solve the problem I don't have. I am from to look for a partnership to solve the 2%.

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

Thanks for the questions, Craig. Operator, we'll go to the next one.

Operator

Michael Rollins, Citi.

Michael Rollins - *Citi Infrastructure Investments LLC - Analyst*

First, I was curious if you could talk a little bit more about customer behavior. If you look at the decline in churn, the lower upgrade rates, are you seeing the -- almost the opposite of last year where customers were replacing devices in the category more quickly. Now they may be slowing down. And is that something that can further press down the churn rate for you?

And then second to that, with device prices potentially going higher for a variety of reasons, how does that influence your approach to subsidies? And if that cost to the end customer goes up, does that also help slow this rate of device replacement, help your churn in the process?

And then just one more separately on capital allocation. Just curious as you've identified, for example, in this quarter, some additional financial flexibility, the choice was to add to the repurchase target for this year by about $2 billion. Just curious, more broadly, if you could discuss if you're able to create more flexibility in the future to pull forward cash available, how you think about buybacks versus debt reduction versus accelerating fiber builds and pressing your advantage with convergence?

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

So I think the customer behavior issue on churn is not a single thing. Obviously, we've been wanting to ensure that we can improve our churn performance. You know how important it is to the business from a cost-effective perspective, and you see what it does when we can keep it in check, you get margin performance like what you saw this quarter which we all aspire to have happened consistently.

I think we've been able to achieve that through a combination of things. One is data to help us understand the base a little bit better. We've been treating really important cohorts that have helped. I think there is a little bit of suppression right now in device switching, that helps. I think that we've done a better job on convergence and bringing people on both products. That helps.

And when you kind of go in and look at it, it's a -- it's always a complex story on churn. It's never like, oh, we did this one thing and it worked out. It literally is cohort-by-cohort, product group-by-product group. You have to go and look at standalone wireless versus standalone broadband, converged customers, geographic dynamics. So it's always a contribution of those things. But I will tell you, if there's less device upgrading going on, does that ultimately oftentimes help on churn? Yes, it does. And it's a contributing dynamic around it.

Getting to your second question, I would expect that device costs are going to go up. I mean, I don't think it's a mystery to anybody. Apple has certainly indicated that that's the direction they're going. We know that memory costs are going up. I would expect when costs go up, prices go up. And when prices go up, demand goes down. I think that's what happened in economics in normally functioning markets.

And it would be my expectation that if costs are going up, prices are going to go up and demand will probably be suppressed in some way, shape or form. And that is what I would expect to see moving forward and certainly probably my expectations in how we run the business moving forward.

On your question on capital allocation. Look, this is a decision for the Board. It's not my decision to make exclusively. It's something this Board is actively engaged in, in a nonstop level. And certainly, the events of the last couple of months have flavored those discussions differently than they might have been a year ago.

I would tell you sitting here today with what I view as being a very suppressed valuation on the stock, I probably have a bias that says, I'd like to buy more of it back because I think it's incredibly undervalued.

Now what does it look like three months from now, how do we calibrate that over the next two or three years? The Board will ultimately make that decision. You can tell what our short-term decision was to bring some of our buyback forward as a result of this circumstance. As the Board reconsiders their authorization that they've already communicated and put out there, we'll refine that moving forward, and it will obviously be an artifact and a reflection of kind of where the stock is currently valued and what's going on.

I feel like the balance sheet is in a good place. We have a lot of flexibility to do a variety of things and can cut it either way. But we just got to kind of see how things develop over the next couple of months.

The markets, it's a little bit different right now, and we're all looking at it, trying to understand it, and we're taking a little bit of time to see how some things settle in, and this Board will be deliberate. They'll spend some time in September, at their September meeting on this topic. And when we have news to give you, we'll give you some more news.

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

Thanks for the questions, Mike. Operator, go to the next one.

Operator

Sam McHugh, BNP.

Samuel McHugh - *Exane Bnp Paribas - Analyst*

Revenue growth in Advanced Home Internet still running below that 30% target you have at the year, but wireless is doing quite a bit better. Has your view changed on how you deliver revenue growth this year between wireless and fiber?

And then Pascal, you talked about flattish underlying fiber ARPU this quarter, implying close to 250 bps deceleration in 1Q. How should we think about that underlying fiber ARPU for the rest of this year?

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

Yes. Sam, I'll start and then Pascal can come in. And I think I get what you're driving that, and you're referring to kind of the broadband revenue growth. Look, our point of view on this is, as I said, is our goal is that we want to drive growth in service revenues, and we want to drive growth and share service revenues.

And in a converged world, there's a lot that depends on whether or not the customer starts as a customer of a wireless that ultimately adds broadband, but they start as broadband and add wireless. And based on that, sometimes the incentive to get somebody into a combined relationship shifts from one product to the other.

And I don't want my team hamstrung in how they think about that. I want the converged relationship. And if it means that on a percentage basis that we need to use broadband as the lead to consolidate an account, and we take a little bit of a revenue hit to do that. And then over time, we gain that back and it sustains a really accretive relationship in wireless. I'm perfectly okay with that because the net result of that are the kind of results that you see this quarter. Really strong margin performance, churn heading the right way and growth accelerating.

And so I get less concerned about the discrete dynamics of the single product. I pay more attention to average count revenue growth. I pay more attention to whether or not we can manage the base effectively through the continuum, and I gave you some data points at the beginning of the call to show you that this is a very capable team that understands how to manage that life cycle. And I have every degree of confidence that in the coming years, we're going to take advantage of that if we run our play effectively to drive those converged numbers up.

Pascal?

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

Sam, the only a couple of points I would add, first, overall, we reiterated our guidance for advanced connectivity service revenue to be 5%-plus. And that underscores our confidence that on a combined basis, we're going to be able to deliver the service revenues that we thought. And we -- in fact, we feel really good about how we are pacing today. I have no concern. We do trade-off between products.

And is it possible that you're going to see broadband come in a little less than we guided -- the broadband guidance a little less and wireless a little more? Yes. But on balance, we're still really happy with the performance, and that's why we reiterated all of our full year guidance.

The other point I think is -- shouldn't be lost in all this is, in addition to our consumer business, our enterprise business is really performing well. We delivered 1.8% service revenue growth on really strong fiber and fixed wireless growth. So there are a lot of things working well. And we -- and our goal is to really try to optimize all of them. And I think the team is doing a great job at that.

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

Thanks for the questions. Operator, we're going to take our last question now.

Operator

Peter Supino, Wolfe Research.

Peter Supino - *Wolfe Research LLC - Equity Analyst*

I want to ask another question on churn. Starting at the industry level, churn seems to be settling down both for you as you forecasted at the beginning of the year and also seemingly for the industry after accelerating in 2025. And I wondered if you'd just share your perspective on what happened last year, what's happening this year and maybe put that in context of what you're seeing in terms of consumer sensitivity to price increases like the one that you executed in April.

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

Yes, Peter. So things obviously stepped up a bit on the promotion side from last year to kind of moving into this year. And as you've heard me say before, I'm not sure that was all unexpected when LTVs are improving, it's likely that there's going to be a little bit more activity put in place to promote and try to attract customers. And I think we saw the general per account, per customer economics improving in the industry. And as a result of that, there was a willingness to invest a little bit more to bring customers in, and that's the pattern we saw last year.

The fact that it's now hit a different level and maybe it's stabilized a bit doesn't surprise me because I think people rationally look at it and say, do I want to take it the next step up if I'm not seeing fundamental shifts in LTV? And the answer from an economic perspective would be, of course, I'm going to be a little bit more deliberate about that.

I can speak for our game, and it really didn't change last year to this year, which is we spent a lot of time focusing on getting converged customers. We want people paired with our best products and services. And that, in particular, are -- those are accretive and effective customers to chase, and we're getting a lot better at doing that, and we're opening more footprint where we can do that.

And so we've been directing a lot of our promotional activity. We've been directing a lot of our retention activity in a way that plays into our strengths in that regard. And I think that's why you're seeing the strong margin performance you're seeing where we're able to keep our costs in check at the same time, managing good customer volumes and getting the kind of metric performance on convergence that you're seeing moving forward. The team has executed well in making those things happen.

So I think that's how it works for us. That's the game I want to play. I can't speak to others. Some aren't, I don't think, reporting churn anymore in the same way. So it's sometimes hard to understand exactly what's going on.

But I can tell you this is what's working for us, and I feel pretty comfortable that play has some durability and sustainability and why we're engineering ourselves to do that. And I think we're going to see the balance of the year look very much the same to what you saw right now.

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

All right. Thanks for the question. Appreciate it, Peter. Operator, you can go ahead and close out the call.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.