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# EDITED TRANSCRIPT

T.N - AT&T Inc at Barclays Communications and Content Symposium

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## OVERVIEW:

Company Summary

## CORPORATE PARTICIPANTS

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

## CONFERENCE CALL PARTICIPANTS

**Kannan Venkateshwar** *Barclays Services Corp - Equity Analyst*

## PRESENTATION

**Kannan Venkateshwar** - *Barclays Services Corp - Equity Analyst*

Good morning, everyone. I'm Kannan Venkateshwar, and I lead the North American cable telecom and media research effort here at Barclays. Sorry, we had to make this event virtual last minute, given all the travel disruptions. But I did want to acknowledge all the work of my corporate access team who have been very busy in the last 24-hours, setting all this up to work seamlessly. So thank you, Jamie and team.

I'm really happy to have here with me Pascal Desroches, CFO, AT&T. Pascal, great to have you, and thanks for doing this. But before we get started, I think you have to go through the safe harbor statements.

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

Sure thing. Good morning, Kannan and it's a pleasure to be with you. Before I begin, I want to call your attention to our safe harbor statement, which says some of my comments may be forward-looking and, therefore, subject to risks and uncertainties, and results may differ materially. Also, we're in the quiet period for the FCC Spectrum Auction 113 and during this period, I'm unable to comment at all about the upcoming auction.

So with that, Kannan, we can get started.

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## QUESTIONS AND ANSWERS

**Kannan Venkateshwar** - *Barclays Services Corp - Equity Analyst*

So maybe we could start with mobility, Pascal, and just the overall operating environment across the wireless business and address some of the questions that everybody has top of mind. It seems like volumes have been a big priority over the last few years. And at present, pricing based on your guidance as well as what others like Verizon have said, it seems there is this debate about whether this is a race to the bottom, are we in a new normal, especially if volumes don't grow.

So could you talk a little bit about the ARPU trajectory from here, and how you could maintain your service revenue growth trajectory in case ARPU was to remain in the present trend line for some time?

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

Sure thing, Kannan, I think what's really helpful to keep in mind is 2025 was a competitive environment, right? And you look at 2025, we grew wireless service revenues a touch over 3%. We grew our broadband revenues mid-teens, and our ARPU was up modestly. And I think it's a reflection of the -- candidly, how we have been going to market and what you could expect from us as you look ahead.

We are in a unique position in that. We are significantly expanding our fiber and fixed wireless footprint. We were the first to really highlight the fact that we're going to -- customers want to buy on a converged basis. And we have been driving convergence for some time, and our opportunities for convergence are going to go up significantly.

Last year, we ended with 32 million fiber subscribers. As we sit here today, we are above 36 million, having closed the Lumen acquisition, and we expect to end this year at over 40 million fiber locations passed. Those locations, coupled with an expansion of our opportunities for fixed wireless, give us an opportunity to drive convergence. Why is it so important to us?

We have found that where we have both fiber and wireless, we are number one in brand love among consumers and small businesses. We are number one or two among medium and medium-sized businesses and enterprises. So it's -- our customers love the products when we're able to solve them together and our opportunity to deliver those products together is growing.

And what we are able to do when we have them together is you have customers who typically buy more from us, higher price points. They stay with us longer and allow us to achieve much higher lifetime value. So the place that we have been running, they're going to be available to us on a much broader basis as you look ahead. And I feel really good about where we are. And I think 2025's performance is a good reflection of what we think we're going to be able to do as you look ahead.

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**Kannan Venkateshwar** - *Barclays Services Corp - Equity Analyst*

Got it. And from an ARPU perspective, just continuing on that thread for a bit. But when we think about your change in focus over the last couple of quarters, it seems like the origination cohorts have changed a little bit in terms of where you are focused, what changed from a targeting approach -- what changed for the targeting approach to change towards some of the lower-priced cohorts?

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

Sure thing. Here's which -- when you're running a subscription base, the size that we are, you have to have a pretty broad offering. Remember, we start from a place where we have the highest wireless ARPU. And in order to grow our service revenue, which is really where we are -- what our goal has been and will continue to be, you have to broaden out who you appeal to.

That doesn't mean you're not able to extract more value from other portions of your overall subscriber base. And we've been doing that for some time. Last year, you saw a significant effort to really try to drive growth among value customers and also converged customers typically come with a service -- with a bundled discount, but over time, we're going to be able to drive more value from those customers.

And I think it's really important that we differentiate ARPU from pricing. It's possible that our ARPU doesn't grow, but we're still able to drive pricing in parts of our base, and that's what we've been doing, and that's what I would expect us to be able to do as we look ahead.

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**Kannan Venkateshwar** - *Barclays Services Corp - Equity Analyst*

Got it. Actually, before I ask the next question, I forgot to mention at the start that in case the audience has questions, there's a chat box in front of you, feel free to type it in and I'll read it out towards the end. And on the Mobility business, Pascal, when we think about churn, I mean, that's also been a little elevated. And you've mentioned a larger-than-normal proportion of contract roll-offs not being a factor anymore.

And so is this all because of competition? And do you expect 2026 to be different as you go through the rest of the year in terms of churn or does it mean revert to some extent?

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

Yes. When I think back to 2025, there were a few factors at play. I think, one, for us, you had a bigger cohort that was coming off contracts. Two, I think immigration clearly had an impact in terms of the number of new subscribers available in the ecosystem. Three, those had an impact, not only at the federal level, but many state and local governments had those-like efforts and other institutions like colleges and university.

All those things were at play in 2025. Our planning assumption as we came into 2026 was to assume that many of those still exist. We're not going to experience a contract roll off that we did last year. But Kannan, the way I think about it is given our unique position and our driving convergence. Yes, we are planning for a higher level of churn in 2026.

But over time, as we drive more and more convergence in our base, it's very clear that converged customers churn less. So over time, we would expect churn to come down as more and more of our base is converged. And it's one that I think currently, we are planning for that not to be the case in 2026. But over time, it's just a matter of time as we drive more convergence.

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**Kannan Venkateshwar** - Barclays Services Corp - Equity Analyst

Got it. And so pulling on that thread for a bit, more on the fiber side, you recently closed on Lumen. How should we think about the timing of the integration process? And how quickly can you ramp the pace of build and scale this business? So when should we start to see these opportunities show up?

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

Yes. We are quite excited about the Lumen opportunity. We closed in early February. And as a reminder, the Lumen business came with over 4 million fiber locations passed. Importantly, those locations passed are only 25% penetrated. And so we think we have a huge opportunity to ramp up penetration. Also, the convergence in those locations is less than 20%.

As a point of comparison, in our own footprint, convergence is over 40%. So we think we have a huge opportunity to capitalize on that asset and to really improve penetration and drive additional convergence. It's going to take some time. Through the good work of our legal team, we were able to close this candidly a little faster than we even thought.

And so right now, the work that is being done is build, -- adding to the distribution in the area to drive more penetration, also adding to things like field tech to ensure that we're able to meet with the higher volumes we expect. And all that work is underway, and I would expect, as we make all the way through the year, we will be able to get through to a normal operating cadence that we do -- we see in our own footprint.

And look, it's early days, but I feel really good. The reception about our brand in that new footprint has been really positive, and we think that will only grow as we add more and more marketing muscle behind it. As it relates to the build, again, it's similar to distribution and penetration that I just talked about. It's going to take a little bit of time. Lumen has been building less than 0.5 million in each in its footprint.

We expect to ramp that up significantly. Just like we've talked about in our own footprint to do that, it just takes some time. You have to add more resources, and the build engine has to scale. But we know how to do this. We really do, and it's only a matter of time, and we have every confidence that we're going to be able to do it. And the AT&T brand will be really accepted well there, and it's going to be a great acquisition for us.

**Kannan Venkateshwar** - *Barclays Services Corp - Equity Analyst*

When you think about the other aspects of the deal, I mean, you've also mentioned an equity partner potentially as a source of capital in this. I mean what's the timing around that? And then as we go forward, will Lumen be broken out in terms of its metrics in terms of net adds, subs penetration so that we can see the underlying performance?

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

Sure thing. With regard to an equity partner, when we announced the deal, we said it would take us six- to nine-months to close on an equity partner. We're in that process right now, and I expect us to be in a position to close some time in the second half of the year on that. Remember, it has to -- similar to the acquisition itself, the equity partner has to go through -- the acquisition of an equity partner has to go through a regulatory review process.

That's why it takes that long, but we have pretty good line of sight to that process. As it relates to disclosures, rest assured, we're going to give you visibility in terms of how the asset is performing relative to our expectations.

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**Kannan Venkateshwar** - *Barclays Services Corp - Equity Analyst*

Got it. And I guess just broadly around this investment theme, John has mentioned that you have capacity on your balance sheet for other strategic options. Do you see future asset acquisitions as an opportunity, especially given that you also have a deleveraging goal? And then more broadly, are there other structures possible? I mean Lumen obviously is one alternative structure, you have giga-fiber and so on.

As you think about the underlying asset within your balance sheet, which is pretty big now, are there other structures possible even for that asset base?

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

Here is the good news about where we are today. We don't need any other asset to execute on our strategy. With the acquisition of the EchoStar spectrum and the Lumen assets, we have clear line of sight to get to over 60 million fiber locations. We have the largest wireless network that we are in the midst of modernizing, and we expect that process to be largely completed as you get through the next couple of years.

So -- and it will be -- and we'll have a really deep spectrum portfolio. So we feel really good about where we are. So there's not a need to do anything. But as you would expect, it's our responsibility whenever anything comes to market to evaluate it to see whether we have an opportunity to generate returns for our owners. But right now, what is exciting is there's -- we don't have to do anything. We have a lot of running room ahead of us without having to do anything inorganically.

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**Kannan Venkateshwar** - *Barclays Services Corp - Equity Analyst*

Got it. And on the fiber side, volume growth is obviously a huge focus for everyone, and you have the goal of 40 million passings this year as well. But cable is also trying to fight harder now with back book repricing and network upgrades and so on. So when you think about the fiber market more broadly, what's the competitive playbook or your go-to-market strategy?

And then in terms of a growth cadence, I mean, should we expect the push for volumes to lead to an acceleration, either on the volume side or the revenue growth side. So if you can just talk about broadly the strategic advantages and the path from here, that would be useful.

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

Yes, I think it's worth underscoring the comments I made at the outset. We're at a point right now where our opportunities for incremental fiber subscribers is growing. With the closing of Lumen, we are above 36 million locations passed. This year, we are stepping up our organic build, and we expect to end 2026 at of a 4 million bill pace annually in our own footprint.

We're ramping the Lumen build engine and expect that to be ultimately at 1 million locations. So in 2027 and beyond, we expect to be adding 5 million fiber locations each year. And this year, we expect that number to be over 8 million. And so that gives you a sense for how our opportunity set is growing. And where we are building, we are building in a location that we haven't been before. And we're bringing the AT&T brand.

We're bringing the ability to converge. In that instance, cable is the one playing defense, we're playing offense. We're coming in with a better product. We're in a position to offer it at a better price point, and we're able to converge it with wireless all on our own networks, not having to rent somebody else's network. And as I said at the outset, when we have those two products together, we are number one in consumer brand love and NPS. So we feel really good about our position. And I think the question should be, what is cable going to do about our plans to continuing to expand.

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**Kannan Venkateshwar** - Barclays Services Corp - Equity Analyst

Got it. And then on fixed wireless, you have been accelerating quite a bit over the last few years. I mean, the industry as a whole has been accelerating quite a bit. Now you have a pretty substantial spectrum portfolio, but we saw a sequential decline in Q4 for the first time in your numbers. So how should we think about the long-term trajectory now with your more expensive spectrum portfolio? And what does the growth opportunity here to look like?

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

Sure thing. I think just taking a step back, one of the things that we've said we've been doing, and I think it's really worth emphasizing is we've been modernizing our wireless network. That means we didn't literally taking every single tower and putting new radio access technology in it. And we've been trying to sequence that process and the rollout of fixed wireless in those territories. That process is still mid-flight.

So we haven't even -- we haven't completed the modernization. And as we complete it, more and more opportunities for fixed wireless open up. That's one. Two, as you mentioned, we've got through the EchoStar acquisition, pretty attractive spectrum holdings. Those two things are going to help us expand our opportunity set over the next several years.

With regard to the fourth-quarter, I think the fourth-quarter, typically, the focus is device offers and other holiday sales. I wouldn't read too much into it. Fixed wireless as a product because it's not available nationwide, we haven't really put the AT&T marketing and distribution muscle behind it. So we have every confidence once we do that, we're going to be able to drive really attractive returns.

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**Kannan Venkateshwar** - Barclays Services Corp - Equity Analyst

Got it. And you've spent about \$30-ish billion on EchoStar and Lumen assets, but you haven't shown much accretion benefits in your guidance as you go through your guidance period into 2028. So could you maybe expand on why it takes so long for these acquisitions to contribute to EBITDA?

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

Sure thing. With the Lumen assets, right, let's take those first, they come with a revenue base, call it, about \$900 million. In order to grow that into a drive deeper penetration, we're going to make pretty substantial investments in driving our distribution and service capabilities in that footprint. So largely, we would expect that to be -- it won't have a material impact in year to EBITDA.

It will have slightly dilutive impact to interest because we are -- to EPS because we are paying interest on the debt. As it relates to EchoStar, it's a very similar story. As I mentioned, we are in the midst of modernizing all of our towers. And what that's going to result in is overtime, we expect to complete that modernization by -- largely by the end of 2027. What that will do is it will allow us to fully deploy that spectrum.

As you can tell from my comments, both whether it's the Lumen assets or the EchoStar, there's a ramping period and an investment period that we are going to undertake over the next couple of years. And we expect that to be largely completed by the time we exit 2027. That's why the accretion is expected to really show up in 2028 in earnest.

What I think is impressive is the fact that we are able to absorb these assets, not change the guides we previously had outstanding. We're still able to deliver that, which speaks to the strength of our underlying business. And these assets will produce really attractive long-term returns for our shareholders. So I feel really good about the pace at which we are executing on this. And I think the returns on this will be really attractive for our shareholders.

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**Kannan Venkateshwar** - Barclays Services Corp - Equity Analyst

Got it. And during earnings, you also gave us some color on free cash flow and EBITDA for the upcoming quarter. And that was a little softer, largely on account of capital investments and cash interest and so on. Could you help us understand how the cadence for free cash flow plays out the rest of the year? How should we think about any kind of seasonality or any other factors that impact future quarters?

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

In terms of quarterly cadence, I think the cadence should be largely consistent with what you've seen in the past. The first half of the year, in particular Q1, there are a couple of things that impacted from a seasonality, holiday sales and the devices that are paid for in the first-quarter is always a bit of a headwind to Q1 free cash flow.

The annual incentive comp is also paid in Q1. This year, in particular, we are ramping up integration of Lumen. So those are expenses that we didn't have last year. We're also stepping up our capital spending from '22 to between '23 and '24. That's expected to be a headwind. As we make our way through the year, some of those items no longer persist or those comps ease.

So you would -- you should expect free cash flow to continue to grow as you make your way sequentially. As it relates to the three-year plan, this year, we expect free cash flow to grow largely as a result of EBITDA growth, lower pension contributions. And last year, we had some non-recurring working capital investments, including litigation expenses and wholesale access advances that are not expected to recur.

That's going to be offset by higher capital. As you make your way through the next couple of years, you should expect free cash flow growth to be largely driven by EBITDA growth.

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**Kannan Venkateshwar** - Barclays Services Corp - Equity Analyst

Got it. I guess the other variable is the cost transformation project. And you've talked about \$4 billion in new cost savings between '26 to '28. So could you talk about how this relates to the prior \$3 billion goal? I mean is this incremental? Are you accelerating the timeline? Is there anything new? What are the new components that you're including in this?

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

I think we've done a really nice job the last several years of continuing to transform our cost base. You look at last year, at the end of '24, we gave a three-year guidance that said we were going to reduce -- we were going to save over \$3 billion. Last year, we saved over \$1 billion and it's in a variety of areas, third-party costs, third-party vendors, software, force, access.

And if you look at our trending schedules that we have on our website, those will show you when you exclude equipment costs and other growth-related expenses. We -- our cash operating expenses were down last year. And I would expect that trend to continue. We have done a great job on cost. We're reinvesting a lot of that -- those savings back into growing our customer base and because we think we have a huge opportunity to do that, but the team has done a great job.

And I would expect that to continue over the next several years. The \$4 billion really is going to capture '26 through '28. The prior guidance captured '25 through '27.

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**Kannan Venkateshwar** - Barclays Services Corp - Equity Analyst

Got it. And in terms of decommissioning, you've obviously talked about this being an opportunity in the coming years and that you -- but the other part -- other side of this is you expect legacy service revenues to decline by over 20% in 2026 and for it to be immaterial by '29. But EBITDA is expected to turn negative in '27, which means that your revenues are declining at a faster rate than the cost opportunities. So how should we think about the cadence of cost savings from this front?

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

Yes. I think if you look back the last couple of years, our legacy revenues have been declining faster than our cost, and that's what's been impressive about our organic performance the last couple of years. And with each year that passes, the absolute drag on legacy should diminish. And you saw last year, we took out about \$1 billion of the costs associated with the legacy business.

And I would expect that to continue as you make your way through the next several years. I have every confidence that we can manage that process through cost reductions and continued accelerated growth in advanced connectivity.

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**Kannan Venkateshwar** - Barclays Services Corp - Equity Analyst

Got it. And we just have a couple of minutes left. So anybody in the audience, if you have questions, please type it into the chat box. But Pascal, maybe on the decommissioning side, another question here is, obviously, there's a cost and revenue side of it, but there's also an asset unlock opportunity here. You have a lot of real estate potentially in this business.

You also have -- copper itself is quite valuable in today's market, and there's a lot of it in the plan. So when you think about this opportunity, when should we start seeing some of these -- the asset opportunities start to show up? I think some of it has already happened, but it would be great to understand how this plays out in the coming years.

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

Yes. Look, none of the guidance we've provided you includes any monetization of real estate or monetization of copper. And I think the opportunities there are pretty attractive. As we -- I think it's important to keep in mind, it was with the Carr FCC that we were able to really start to gain some exit velocity on decommissioning process.

We now have approval from the FCC to stop inwards new subscribers onto legacy. That's a big deal for us. We expect by the end of 2026 to be able to stop offering -- not only stop offering but to be able to get out of 30% of our wireline footprint. That's a big deal. As we get out of more and more of that footprint, that's when you should start to see some of these monetization opportunities realize themselves.

And so we are in really good shape, and I would expect that to only grow as we make our way further into the decommissioning process. And I think with the regulatory environment, there is a tailwind at our back that we didn't have for a long time.

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**Kannan Venkateshwar** - *Barclays Services Corp - Equity Analyst*

Got it. All right. On that note, Pascal, we're out of time. This was great. Thanks for joining us.

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

Thank you. Thank you for having me.

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**Kannan Venkateshwar** - *Barclays Services Corp - Equity Analyst*

Absolutely. Yes, we'll see you next time.

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

Take care.

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**Kannan Venkateshwar** - *Barclays Services Corp - Equity Analyst*

Bye.

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