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OVERVIEW:

Company Summary

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PRESENTATION

Kannan Venkateshwar - *Barclays Capital Inc. - Analyst*

All right. Good morning, everyone. Thanks for joining us this morning. We're really glad to start our day today with Pascal, CFO, AT&T. And it's been a great year, Pascal. Obviously, the stock's doing very well.

And so maybe a good place to start. And I think the big swing, from our perspective, has been the change in investor sentiment about execution -- AT&T execution, and growth outlook seems to have improved quite a bit. And you and John have been working hard since you came into your respective roles.

QUESTIONS AND ANSWERS

Kannan Venkateshwar - *Barclays Capital Inc. - Analyst*

And so maybe a good place to start is what changes did you make operations change course on execution? What innings are we in with respect to these changes?

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

Before we jump in, first and foremost, good morning, everybody. And before we get started, I want to point out the Safe Harbor statements that are up on the screen here and available on the web. We're going to make some forward-looking statements that are subject to risks and uncertainties. Please refer to this slide for more details.

So in terms of just when I zoom out, there were a number of really foundational changes that we put in place when John became CEO. First and foremost, that, okay, if we want to be the best connectivity company in America, that is our North Star. How do you do that? It starts with having the best connectivity services.

So we have invested significantly in both our wireless network and our fiber network over the last several years. In fact, if you look back the last five years, we have invested over \$140 billion into telecom infrastructure, including nearly \$40 billion in mid-band spectrum. So that is -- improving our services was foundational and making sure that we never gave customers a reason to say their service is not good enough.

Then, we also made significant investments in our promotional offers. We were not competitive. Our peers were more promotional. They were investing more in their customers. And we said we needed to make sure we were competitive and provided our customers with the very best deals. And not only new customers, but existing customers was two.

Three, we improved our customer service. We invested significantly in making sure we are responding faster to customers, making sure that we are in a position where we see a problem, we proactively reach out to them. And you saw the next evolution of that in the Guarantee we announced.

And all that coupled with a focus on efficiencies and making sure that we are being as efficient as possible. We've taken out over \$7 billion of costs. And all those things together has resulted in us growing our share of wireless service revenues, driving significant growth in fiber revenues, and overall steady growth in EBITDA in the last several years.

And here's the good news. I think it's really important to say we are just getting started here. It is really early innings. If I think about what is really exciting to me, you look ahead, we are in the midst of modernizing our wireless network. We announced an Open RAN architecture project that would span over the next several years. When completed, we expect this year is the peak year of investment towards that. When completed, we're going to see more efficiencies in power usage, power configuration, and overall maintenance profile.

And as you think about pursuing an open architecture, what will happen is you will see much more innovation in radio access networks and should drive down efficiency and prices over time. And we're at peak levels of investment in 2025 within our capital budget. And I would expect that to step down over the course of the next several years.

Also, we ended last year with 29 million fiber subscribers and growing fiber revenues, high teens. And we expect to step up our investment in fiber over the next several years. And when we are investing in fiber, we are penetrating very quickly and it's giving us an opportunity to drive further convergence of wireless and fiber. And over the next five years, we expect to add over 15 million living units to get us to about 45 million passings in our footprint.

And we said that we are pursuing builds outside of our traditional footprint. We want Gigapower JV, and we're pursuing open access partnerships. So all those things together will continue to add more tailwinds to our consumer wireline business.

Additionally, there are a lot more efficiencies to go after. When I look at AI and the ability to drive improvements in efficiencies in customer service, digital sales, and importantly, optimization of our traffic on our network -- all things that will make the business run more efficiently -- we've got it to \$3 billion plus incremental cost savings the next several years. So together, tailwinds in fiber, more efficiency in wireless, as well as our commitment that we're going to give our customers the very best deals and compete for the gross ads that are out there, together, that should really drive nice tailwinds to our business for years to come.

And the other point I would note is this. Right now, we are our consumer wireline business, our broadband business. We are carrying infrastructure related to our legacy copper business. There are significant cost opportunities that will come out of that over the next several years.

And also, we are scaling our fiber network. And so our fiber network, by definition, is subscale because we're adding to it each year. So all together, if you look at that, you say, god, when you get out of this period, the margin profile of that business can be incredibly attractive.

Kannan Venkateshwar - *Barclays Capital Inc. - Analyst*

We get an opportunity based on each of these. I mean, obviously, every one of these areas you've outlined is a big theme in itself, so we'll --

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

And by the way, I haven't even talked about our buybacks and our return programs.

Kannan Venkateshwar - *Barclays Capital Inc. - Analyst*

We'll come to that for sure. Before we get into some of the details, maybe one of the big uncertainties right now is just the macro environment and some of the policy changes and so on. So what would be helpful is to understand -- from a guidance perspective, you've obviously provided us some long-term guidance.

What kind of market level assumptions are you incorporating into your guidance? And how you're thinking about unit and pricing growth, just given the backdrop with respect to immigration and so on?

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

It's -- taking a step back, as we said, when we gave our three-year guides, we said it doesn't assume any major recession. And nothing we're seeing would suggest that that is happening. We also said that for 2025, in particular, when we gave guides, we said we would expect a more normalizing level of industry growth and activity. What does that mean?

I looked back the last several years, we've been normalizing. You went from really frothy environment in '21 and '22, '23 moderated some, '24 also moderated some in the context of overall durable relationships that exist in the market. And I use that very carefully, because you don't -- not all ads are created equal. Some count ads as prepaid to postpaid migrations; we don't. Some count extra lines.

So when -- I always discount a bit when somebody says, well, share of net ad, what's really important is share of new relationships that are durable and will provide us attractive economics. And we believe over the last several years, we have gotten our fair share, but those -- the industry growth has moderated, and we expect that to continue.

Two, we expect there -- because there is going to be a moderation, that there will be competition and our outlook is underwritten, assuming that we're going to have to compete for the net ads that are out there. All those things are embedded in our expectations for the year. And I feel really good about being in a position to compete in this business because not a lot of companies can.

And we are in an enviable position. And the work that we have done to improve our network, to improve customer service, as well as the investments we're making to make sure we are competitive on our promotions, makes me feel really good about being able to execute and take our fair share in this market.

Kannan Venkateshwar - Barclays Capital Inc. - Analyst

And I guess one of the other sources of uncertainty more broadly is just the regulatory framework. The tax parts of it are a bit of, I guess, known unknowns in a way. And I know you're not incorporating any benefit from that in your guidance, but there's other stuff for things like spectrum policy, for instance, or satellites suddenly are in prominence for various reasons, and then BEAD rules, FirstNet.

I mean, I think there's a whole set of things from a regulatory perspective that might change. So how are you thinking about the regulatory environment right now and how it might impact you?

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

Yeah, a couple of things. Let's start first with taxes. When the first Trump administration passed the tax incentives in 2017, dare I say, it was really successful in stimulating investment. You look at our company, we were at record levels of investment the last several years, in part funded by the tax benefits. We added jobs, both nationally and individual states. So it was a good thing for the American public.

I am hopeful, based on all the discussions, that we will see an extension of those tax cuts. And if we do, we should see us invest more. And our CEO said, in those instances -- I would also expect our return to shareholders should be augmented as well. It will be a combination of both incremental investments and augmentation of shareholder returns. So we'll see how that plays out.

In terms of BEAD, clearly, solving the digital divide is so incredibly important. Right now, the states are each approaching this slightly differently. And there are requirements to have fiber as the solution. And in reality, in certain instances, it doesn't necessarily make sense to have fiber as the solution because it's cost prohibitive. So an expansion of these different tools you can bring to solve the digital divide and the states approaching it with a measure of consistency would be really helpful in optimizing the dollars already earmarked for bridging the digital divide.

Right now, some states are handling it well. Others, I think, they're still trying to figure out how best to do it. And a measure of consistency across the states, a broadening of the solutions that can be brought to bear to solve the issues, I think, would really result in optimizing how the dollars are ultimately spent.

Kannan Venkateshwar - *Barclays Capital Inc. - Analyst*

And the other big topic from a regulatory perspective is just the M&A environment. And there's this anticipation that there's this window for larger deals that we might be in the middle of right now.

You mentioned your fiber ambitions. Is there an opportunity here to maybe bootstrap into fiber a lot faster through M&A? And you talked about peak CapEx this year, and you, of course, have service revenue growth guidance, which is pretty positive. So would you approach your balance sheet differently if there was a scaled opportunity to get into fiber and accelerate that business much faster?

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

Yeah. Here is the good news. Unlike our peers, we're not compelled to do anything. We have significant organic runway in front of us with really attractive returns in the next five years. And I look -- no accident that Verizon did the acquisition of Frontier. Even with that, our scale will continue to surpass their ambitions.

I look at the cable companies. It's really hard to gain significant scale in wireless without having your own network. So T-Mobile announced a fiber JV. Again, I think a recognition that if you want to compete, you have to have your own network.

And we don't have to worry about any of that. Sure, if an opportunity became available where we thought we can acquire certain assets that are -- that can deliver really attractive returns to our shareholders without disturbing our returns program, without really supplanting any of the organic opportunities that we have, of course, we would look at it and evaluate it. That is our job as stewards of the investor capital. But the good news is this. We don't have to do anything, and we have plenty of room to run.

Kannan Venkateshwar - *Barclays Capital Inc. - Analyst*

Digging in a bit deeper into some of the underlying operating trends, so it looks like -- last quarter, growth has picked up a little bit. Upgrade rates went up a little bit. Have you seen a trough on these metrics, and do these trends continue through the year? And from a growth mix perspective, how much of your growth is now coming from execution on things like bundling and consequent churn benefits potentially versus maybe a business mix changing?

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

Here is the way -- if you look at what we've done the last several years, we have fiercely competed to make sure that we never gave our customers a reason to leave us. That's where it starts. So we've been maniacal about churn and making sure we're giving them really competitive offers, a good network, top service.

On top of that, we had offers in the market to make sure we are competitive with our peers. There are a certain amount of gross ads in the market that we're going to go after, and we're going to be competitive. These ads provide really attractive LTVs. So we've grown subscribers through a combination of both those things.

When you look at subscriber growth, the things to keep in mind when you just peel the layers of the onion a little bit more, within that, we said we expect business to contribute significantly and business service revenue growth will grow faster. And in business, think FirstNet, think small to medium-sized businesses, adding really durable relationships for us. Also, there are segments that we are underpenetrated in.

You look at our ARPU, we're at the high end of the industry, and we think we have an opportunity to expand and go after the value segment. And we've been pretty vocal about that and focused on that. So when you're managing a subscription base this size, it's really important that you look at different places to try to take share in a smart way while, at the same time, really making sure that you are keeping your existing customers happy. And I think we've done really well doing that.

Also, another thing that we have done over the last several years is we've been good at managing ARPU up across our base. That's been through a combination of having customers select higher-valued plans, migrate up the value chain. At the same time, we've done selective pricing actions. And when we've done those, we've tried to pair it with some value give to the consumer so the relationship is in balance. And I think we've done a really good job at that, and I would expect that to be part of the formula as we look forward.

So that, coupled with -- we've seen nice tailwinds from wholesale. DISH continues to migrate more of its customers onto our network, a tailwind for us that I would expect to continue. So altogether, that's been the formula we've been executing, and it's working incredibly well. There's no reason to change it.

Kannan Venkateshwar - *Barclays Capital Inc. - Analyst*

I thought DISH was going to be a competitor. It looks like it's contributed to your growth, so that's great.

But I mean, I guess one area that doesn't come up often enough is just prepaid. And I think it turned negative for the first time in a while recently. Could you talk about, I mean, why that's the case? Is it more prepaid migration to postpaid? Is it something else that's maybe going on behind the scenes in terms of macro or something?

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

I think on a macro basis, I think it's fair to say that it's prepaid to postpaid migrations that you're seeing. But when I think about our business, the brand that we really hunt with is Cricut. Cricut is an incredibly valuable service, one where many of the customers behave more like postpaid than prepaid.

We think we can build on that by also trying to be more aggressive in attacking different portions of the value base with our Cricut brand. It hunts incredibly well. The team there manages it really well, and I think there's an opportunity there. And that's our biggest brand. The profitability on that brand is really attractive, and we feel really good about our ability to compete in that market.

Kannan Venkateshwar - *Barclays Capital Inc. - Analyst*

Another business that's obviously -- you mentioned this earlier -- as a big focus is your consumer broadband business. Your EBITDA growth there is trailing revenue growth to some extent, and part of it is, of course, the legacy copper business. So when should we expect this gap to close? Because it's a pretty substantial gap, and that business has a big flow-through margin. At some point, we should start seeing an inflection.

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

I would say you just look at the last couple of years. There were several hundred basis points of margin expansion. And I look out five years from now, there is no reason why this shouldn't have the same margin -- this business shouldn't have the same margin characteristics as other broadband companies. In fact, it should probably be better. Think lower power usage, more reliable, less need for repairs, better product. So there's no reason why it shouldn't.

Right now, as I said earlier, there are two things happening that are weighing down margins. One is we have an enormous legacy copper business that's in decline. And so we are descaling that business and carrying a lot of fixed costs associated with it. At our investor event in December, we highlighted how we expect over the next five years to be substantially out of the copper business along with the related infrastructure.

Two, the scaling of our fiber network. Because we are expanding our footprint, because last year's build of [2.5] is barely penetrating, we're going to be in this phenomenon until you get through our build cycle over the next five years. But rest assured, there is no reason why, when you take a step back, this business shouldn't have superior margin characteristics to those of others in the broadband business, especially when you pair our ability to pair our wireless product with broadband product. That will bring down churn and will raise the lifetime value.

Kannan Venkateshwar - *Barclays Capital Inc. - Analyst*

Then in fiber, I mean, you've talked about 50% share in converged markets. And John's talked about potentially partnerships and non-converged markets or potentially other models that you guys could look at in fiber. So could you maybe expand on that as to what the plan is in some of these non-converged markets? And could you license capacity, for instance?

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

Yeah. Here is the interesting thing. When we launched Gigapower, what we wanted to see is, does the AT&T brand hunt outside of our traditional footprint? And the early read on that is it really does. And when we're able to take our great fiber product and pair it with wireless, we see really attractive returns.

We've also done a couple of open access partnerships to say, okay, how about a construct whereby a provider enters into a relationship with us and allows us to buy wholesale from them. We'll bring preferential supplies potentially. We've shown an ability to penetrate incredibly well, so it gives them visibility to a long-term stream of cash flows.

And over time and success, that could be an opportunity to further consolidate. And we're able to do all this testing in a Catalyte way. So there is no reason why, even outside of our traditional footprint, why you shouldn't have an ability to potentially get returns either through Gigapower, where we own 50% of the economics, or through open access.

Now, importantly, there are parts of the country where fiber access won't make sense. And in those parts, we've said, fixed wireless can be a fine solution for broadband. It could be better than what is being provided today. So we have a full array of tools to tackle the opportunities in front of us. And the good news, as said at the outset, we don't have to do anything in order to unlock those opportunities other than to continue to run our play.

Kannan Venkateshwar - *Barclays Capital Inc. - Analyst*

Then in terms of capital intensity, I guess you have other initiatives in the works, such as the transition to ORAN, for instance, which should save a lot of CapEx over time. How should we understand the scale of this impact in terms of capital intensity or how it progresses over time?

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

You just mechanically take a step back. We expect our revenues to grow over the next several years on relatively fixed CapEx. So capital intensity will decline. But the way I think about it -- the way internally we talk about it is we have a unique opportunity to add value to our shareholders and to create revenue streams that are going to provide really attractive returns. And we don't have an unlimited amount of time to do that.

So what's important is how do we take advantage of that opportunity. And as I've said at the outset, our plan is to continue to build to some 45 million locations on a relatively flat capital. And so you exit that period. You exit the period where we are modernizing our wireless network, there

is going to be the amount of capital efficiency and the amount of operating leverage that shows up will be extraordinary. So this is a time to lean into an opportunity with the very best technology and really seize opportunities that will be there for decades to come.

Kannan Venkateshwar - *Barclays Capital Inc. - Analyst*

And one of the narratives in AT&T which always held back valuation to some extent, as you know well, is all the puts and takes of the free cash flow side. There always used to be something we had to adjust out and look at organic growth. And you've cleaned this up quite a bit since you took over in your role.

So when we go forward, given you've laid out a relatively clear CapEx path going forward, should we now expect EBITDA growth and free cash flow growth to be more or less proportionate? Or is there a little bit more work to be done?

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

Here is the way I think about our business. It's really not -- let's say 2025, for example. If you look at 2024, excluding DirecTV, we delivered \$15.3 billion of free cash flow. We expect that to grow \$16 billion or better this year. What are the piece parts?

First and foremost, we expect to grow EBITDA 3% or better. Second, last year, we paid a termination fee to [TURC] vendors as part of our ORAN initiative and called that \$500 million plus. As a result of deleveraging we've seen over the last year, we would expect interest expense to be a tailwind year over year, \$500 million or so, while setting that are increases in our cash taxes, and that's based on current tax. So a fairly straightforward and clean look at what cash should look like, and we've given long-term guides that is fairly clean as well.

In terms of one of the things that had been written about quite a bit is the cadence of free cash flow. And when I look at our business, the cadence of free cash flow is impacted. On a quarterly basis, I think Q1 and, to a lesser extent, Q2 will be seasonally low versus the second half of the year. Why? We have a majority of our device sales in the fourth quarter that we pay for in the first quarter and sometimes even the second quarter depending upon the timing of when we received inventory. Also, we pay our annual incentive compensation in the first quarter.

Those two things tend to weigh free cash flows organically more towards the back end. We've done a nice job in smoothing it out. But other than that, the cash flow trends in our business are fairly straightforward.

Kannan Venkateshwar - *Barclays Capital Inc. - Analyst*

Got it. I think we're out of time. Thank you, Pascal. Thanks for being here.

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

Thank you, Kannan. Thank you for having me. Take care, everybody.

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