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PRESENTATION

Douglas David Mitchelson - *Crédit Suisse AG, Research Division - MD*

Good morning. Welcome to day 2 of our first virtual conference but our 22nd Annual Communications Conference here at Crédit Suisse. I'm Doug Mitchelson, the telecom and media analyst here in the United States. Very pleased to have with us this morning to kick off the day, John Stephens, Chief Financial Officer of AT&T.

John, thank you very much for joining us today.

John Joseph Stephens - *AT&T Inc. - Senior Executive VP & CFO*

Doug, thanks for having me. I'll take off my mask to make it easier to understand me. We've taken the COVID situation very seriously so I'm used to wearing that mask around the office and all day long.

Before we get started, we're going to talk about forward-looking items. Results may -- actual results may differ. So we'll just encourage you to look at our SEC filings, information on our website and our public data to form your opinions.

And with that, I look forward to talking with you, Doug.

QUESTIONS AND ANSWERS

Douglas David Mitchelson - *Crédit Suisse AG, Research Division - MD*

Thanks so much John. So look, I mean, COVID is influencing almost every aspect of your businesses. So why don't we start there? Any updates, any insights as a result of the impacts COVID-19 is having on your businesses?

John Joseph Stephens - *AT&T Inc. - Senior Executive VP & CFO*

Sure. As we said before, we pulled out our guidance because the visibility of the overall economy, and specifically visibility to our specific businesses, is not present. We continue to work through the COVID, not only in how we're handling situations for our employees, working from home, having appropriate protocols for our essential employees who deal with customers on a day-to-day basis, but to go through the business activity as we see it. Specifically, we're seeing some challenges on our wireless business. Network is doing great. Our coverage is great. What we saw is on our international roaming, people aren't traveling, so their phones aren't getting used as much in travel. When we look at the Entertainment business, the theaters were shut down so it has delayed the release of some of our movies and delayed the production. Business connectivity has done really well. And customers continue to want that connectivity (inaudible) broadband to the home with the business connectivity. So we continue to work through it. But visibility is not yet clear, and so we'll continue to evaluate and move forward as we learn more.

Douglas David Mitchelson - *Crédit Suisse AG, Research Division - MD*

So I wanted to go through each of the businesses, so I think we'll touch on some of those in a little bit more detail. Let's start with wireless. So what's the competitive environment like in wireless? It's certainly one of the questions I get asked the most.

John Joseph Stephens - *AT&T Inc. - Senior Executive VP & CFO*

Yes. I mean it's still healthy. It's still a very competitive environment as it always has been. We're seeing generally rational competition. We do see some offers now and again that are what I would consider bordering on noneconomic. But usually, when you dig through those, you'd find out that free offers aren't generally free. And there's still a lot of (inaudible). So I would say that general environment is competitive like it has been, but it hasn't changed dramatically in its competitive nature. I will tell you that because of the store closures across the industry and because of the retail slowdown across the economy, the wireless industry, much like others, adjusted their spend on advertising, adjusted their spend on promo and adjusted their spend on how to touch customers, whether it be through the stores or through digital. So all of that had probably a bigger effect than any significant change in economy and competitive offers.

Douglas David Mitchelson - *Crédit Suisse AG, Research Division - MD*

So I think at the earnings call, you talked about reevaluating distribution. Any insights on that?

John Joseph Stephens - *AT&T Inc. - Senior Executive VP & CFO*

Sure. I mean we are always looking to -- as our customers have wanted to go to a more online and more digital experience, we've been building up those resources, building up that muscle with COVID. And quite frankly, we closed close to 1,000 stores during COVID. But we had to rely on that and really lean on that and pressure test it even more than we had in the past. That's worked really well. So when you go through that and then you look at the -- where are the malls going to be when they open up, where -- what is retail going to look like, before you go back and open all your stores, you're going to go through that evaluation and you're going to look to streamline and be more efficient. And certainly, we'll go through that process. COVID might have given a timing to that, but this was a process that we would have expected to go on for some time.

Douglas David Mitchelson - *Crédit Suisse AG, Research Division - MD*

And on the network build side for wireless, any updates?

John Joseph Stephens - *AT&T Inc. - Senior Executive VP & CFO*

Yes. I mean we're at over 120 million POPs coming with 5G today. And that -- and with our build, it benefits those customers today because it not only made 5G available to them but really improved the 4G LTE network with speeds and capacity and coverage. So we're benefiting those customers. And we'll expect to have a national footprint for 5G, nationwide coverage or 200 million POPs by the end of the summer of coverage. So we feel really good about that. Progress continues to go well. FirstNet is -- 80% of the FirstNet requirements are completed. And we still have a couple of years left in that contract, so we're almost a full year ahead of schedule, about 9 months. So all the network activities are going well. And we continue to win the awards, quite frankly, for coverage, for speed. So we feel really good about it.

It's -- the network team has done a phenomenal job in coordinating the FirstNet build with the previously owned AWS-3 and WCS spectrum, combining it all to a very effective customer experience improvement situation. We all hear a lot of commentary amongst all our competitors about who has the best flow in medium-band spectrum position, but I feel really confident that we have the best flow in medium-band spectrum position for such. And it's actually in service and benefiting customers today, benefit that they can get using the phones that are in their hands today, whether they be LTE phones, 3G phones or the few 5G phones that are out there.

Douglas David Mitchelson - *Crédit Suisse AG, Research Division - MD*

So let's move over to financials for wireless then. Can you cover sort of recent performance, subscribers, ARPU, churn, et cetera?

John Joseph Stephens - *AT&T Inc. - Senior Executive VP & CFO*

Yes. Postpaid voice subscribers, 163,000 in the first quarter. That was more than the rest of the industry combined. That was pretty much obvious. If you look at what our competitors did, if you adjust for some people count -- new migrations in the postpaid voice instead of adds, if you take that out, we're the only ones to have positive numbers. It was a big first step game for us, drove that, and we expect that to continue. We had service revenue growth even with the pressure from international roaming going down in late March. Even with that pressure, we grew service revenues 2.5%. So we got customer growth, service revenue growth. We also had improvements in resell, improvements in IoT, improvements in prepaid. All of that is going on.

Service revenues are up about $330 million, but profitability or EBITDA was up $500 million. So we're also getting expenses driven out of the business. So from that first quarter experience, it's really great. As we said, coming out -- once COVID hit, international roaming was hit. Store traffic was much slower, not only store closures but just store traffic. We saw a downtick in equipment sales at the end of the quarter. And certainly, that continued. That's not a profitability issue, but it is -- it does impact our revenues. We are seeing our stores open back up, so we would expect to see some pickup in that, some return, if you will. But we're not going through those public numbers yet. We're still following them closely.

Wireless is really performing well and really been -- it's going to be the very, very strong piece of our business. And that's before 5G devices are out fully. That's before we complete this dramatic improvement in our networks. And quite frankly, that's before we are able to bundle HBO Max with our wireless service. So feeling good about it. The economy is providing challenges. COVID and the shutdown is providing challenges, and we'll still have that. But longer term, we feel really good about it.

Douglas David Mitchelson - *Crédit Suisse AG, Research Division - MD*

When you think about that -- you're talking a little bit earlier about the sort of the nationwide 5G coverage. I think you mentioned 120 million POPs. What's the sort of path to get to full nationwide coverage? And how do you think about additional spectrum? Certainly, with the T-Mobile-Sprint merger, they're talking a lot about the mid-band spectrum advantage. You mentioned that your mid-band spectrum is already out in play. But we've got some spectrum auctions coming up. Perhaps, CBRS is something that you can't discuss, but C-band might be able to be something that you could.

John Joseph Stephens - *AT&T Inc. - Senior Executive VP & CFO*

Yes. So a couple of things, one, getting from the 120 million to 200 million POPs covered through 5G, that's some build, but it's a lot of software upgrades. You don't get 80 million that quickly without having built the equipment into place and now going through a software upgrade. So that's a big part of it. We'll keep doing that. Secondly, we'll continue on with our FirstNet build, which we've coordinated with our 5G build. They go hand in hand. And we'll see continuing buildout of the 5G capabilities over the next 18 months certainly and continue to see significant increases in the coverage numbers. So we feel really good. I will never say all or any of the -- 100% of anything is covered because there's always unique situations. But certainly, we're moving to dramatic nationwide coverage above the normal standards.

Secondly, I would tell you, on the spectrum side, you're right. We can't talk about CBRS. With regard to C-band, everybody would be interested in more spectrum. I mean that's just the lifeblood of the industry. And so the expectation is that people would pay attention to and be aware of the auctions coming up. I would tell you, the issues are going to be does the -- where does the auction go? How does -- does the CBRS auction have to be completely wrapped up before they go to the next round? Who's going to show off the fly? What does COVID do to the government's expectations of financial wherewithal of the bidders? What happens with the election? What happens with the regulatory policy?

It's a lot of change going on in D.C. Certainly, everybody is going to be ready. We'll be ready, and I expect we'll participate. But we're in a different spot than others because we have our low and medium-band spectrum positions in service. We had -- and what we have in service is so much more capacity than others that we'll be able to compete for a long period of time so without any additional spectrum. We certainly will look to more spectrum, and I would expect we'll continue to evaluate all the opportunities out there. But we're not in the same position as others who were going through massive buildout and putting in either spectrum or who needs -- significantly need this spectrum because of the capacity constraints in their existing positions. We're in a much more flexible position.

Douglas David Mitchelson - *Crédit Suisse AG, Research Division - MD*

All right. So you mentioned FirstNet. Any more details on the progress of the buildout of FirstNet, what it means so far in your wireless business?

John Joseph Stephens - *AT&T Inc. - Senior Executive VP & CFO*

Yes. It's 80% of the commitments buildout. 1.3 million customers, 10,000 agencies have authorized us to sell. So we're getting into that sweet spot now and really trying to grow that business. As I mentioned, it was the driving force. Probably close to 100,000 customers in the first quarter were FirstNet-related, and that included both voice as well as some devices, whether it be body cams or tablets. But it's really been a good service. And quite frankly, during the last few months of COVID, our opportunity to serve -- included in that FirstNet responder group nurses and doctors and the health care providers we're literally on the front lines of fighting COVID. And the quality of our network and the fact that, that relentless preemption, the ability of these first responders to get on their phone and know it's going to work at any time, any place, and they're going to have the ability to preempt anybody else has worked well for the customers. It's worked well from the safety of our communities. And quite frankly, we're pleased -- continue to be very pleased to be involved with it.

Douglas David Mitchelson - *Crédit Suisse AG, Research Division - MD*

So we'll shift over to the Entertainment Group and talk about fiber and broadband strategy. So big question, can you walk us through your video and broadband strategy and recent results?

John Joseph Stephens - *AT&T Inc. - Senior Executive VP & CFO*

Yes. So I guess broadband is still a very good story in the sense of -- since COVID's hit, the reliability of our wireless network is unquestioned, and the reliability of our broadband network is doing really well. Our fiber services, our [IPP] services are going really well. Our security services and the business side are doing well. So our opportunity there is to take that 4 million fiber base and grow it into that 14 million opportunities of fiber that we have. And we feel really comfortable about the ability to do that, having the focus -- and you'll see our opportunities to grow into and expand. So I'd expect we'll continue to see some fiber additions, not at the pace we've had over the last few years, whether these new greenfield builds, new connectivity to businesses, new connectivity to residential locations where we may have fiber in the neighborhood and we want to take it to the home, all of those kinds of situations will be evaluated. But the reliability and the quality is what allowed us to grow revenues in the first quarter on broadband.

Video continues to be a challenge, particularly in the first quarter. And in April, we saw a lot of small businesses shut down. A lot of those bars, restaurants, hotels, they suspended their accounts with us. When their businesses are closed down, they're not going to be utilizing the television under the -- through the sports bar or utilizing for entertainment in the hotels when they don't have any customers. So we're going through that process, and that is a challenge. We're working with all of those customers. We have permissions in place to deal with that and try to work with them on it to suspend the accounts, and then when they reopen have them come right back on. But it's been a challenging time. We'll continue to face that.

For an overall TV viewership, people are engaged more. We're using it. We've been home. They're watching on TV. And specifically, they're really engaged with HBO NOW. We saw the engagement at the end of the first quarter and going into the second quarter really jump on HBO NOW, our over-the-top HBO offering. And we'd expect that to continue with the new HBO Max.

So that's kind of an overview. I'd like you to ask any specific questions you want, Doug.

Douglas David Mitchelson - *Crédit Suisse AG, Research Division - MD*

Well, look, I think one of the big questions for -- we're going to talk about WarnerMedia in a second, is basic [core cut] in the United States. So I'm sure to the extent you're willing to talk about video subscriber trends overall for the second quarter, I would be interested. I think people are interested as well in -- on the video strategy side with how AT&T is starting, and you have multiple brands out there and essentially where you're headed with your video strategy as you look out the next few years with all the changes taking place in consumer behavior.

John Joseph Stephens - *AT&T Inc. - Senior Executive VP & CFO*

Yes. So I think you'll continue to see the satellite product out there. That will be that offering, specifically where we can bundle it with fiber -- with broadband or in those, if you will, rural -- more rural areas where it is a really high-quality delivery of service. You'll see this in our footprint. We're going to use AT&T TV. It's a lower capital investment product. We can -- and then as opposed to rolling a truck to your house and put a satellite dish, we can -- the UPS truck can deliver that AT&T TV box. That can be self-installed, give you a great, high-quality video product sent on our broadband or on anybody else's broadband and give us the ability to effectively provide advertising and information to you that makes it much more cost-effective for the customer and for us. So you'll see that. And on the DTC side, I think you'll really see us focus on HBO Max. The migration of HBO Now into HBO Max, the ability to build off of that base will be the real focus. You will see DTV Now become more AT&T TV and move there, and we'll see that streamlining of brands and processes over time. But we've got to think about that HBO Max being a DTC. And we may have others, but that would be the real focus of our delivery there and on the AT&T TV being the focus of the new customer base with the traditional satellites still being available.

Douglas David Mitchelson - *Crédit Suisse AG, Research Division - MD*

And I think if I go back a year ago, 2 years ago, sort of last question on the Entertainment division, you talked about the ability to hold up margins and hold up profitability levels. This year is a bit of [mulligan] for the whole industry. But as you look forward, is this shift to streaming sort of a big enough cost bucket that you look forward and have some optimism regarding margins and profitability for the division even if satellite continues sort of a slow fade over time? Or are there other sort of drivers within the division that you're focused on to elevate profitability as much as you can going forward?

John Joseph Stephens - *AT&T Inc. - Senior Executive VP & CFO*

Yes. So let me -- specifically on the Entertainment, specifically on video, DTC entertainment is separate and apart from the HBO Max, which is our main piece. We're seeing -- still seeing strong cash flow generation. So there's one thing about capitalizing installation costs then amortize it over the years and another thing about how much cash the businesses are -- and it continues to generate strong cash flows. So we continue to see that. We have not given guidance this year on growing EBITDA or holding it stable. We were able to grow it last year. And I think that's a commitment to the team on their ability to drive that cost. We're doing those same plans this year and driving a lot of cash. But in short, it's a challenging environment when the economy is down, a lot of our business customers, the hotels, bars and restaurants are down. And we are shifting from a satellite-based business into this -- where the fiber is available, into this AT&T TV, direct-to-consumer, over-the-top product. We'll continue to work hard to do and continue and drive out costs, but it's a lot of hard work. The team is sticking with us, but it's a lot of hard work.

Douglas David Mitchelson - *Crédit Suisse AG, Research Division - MD*

So let's shift over to WarnerMedia. You've mentioned HBO Max when you're talking about wireless. You mentioned HBO Max when you're talking about broadband. Now we're arriving at HBO Max. So any update post-launch? Definitely an interesting time to be putting HBO Max out in the marketplace.

John Joseph Stephens - *AT&T Inc. - Senior Executive VP & CFO*

Yes. No customer counts announcement or anything like that. We'll save that for the earnings release. I'm taking a couple of these points. Distribution agreements, whether it's going to be DIRECTV, whether it be Comcast, Cox, Charter, the ability for our customers to buy HBO through those wholesalers for us, those distributors for us, has all been signed up. So that's a very encouraging thing because HBO Max, that will help in the sense of getting HBO Max out there. It will make it very easy for our customers who already highly value HBO. And we're already at that price point in the marketplace to now take advantage of what is a lot more content on HBO Max. So getting those distribution here in place is really important.

Getting the launch up and the ability for our HBO NOW customers, the customers that we already sell, so to speak, over-the-top to and have them have the ability, and then getting new sales out, all of that has been encouraging. The systems have worked well. The content has been accepted well. We will have some changes in our rollout schedule simply because of the shift out of production. But much of our content was already well underway before COVID hit, and so we haven't seen a lot of that kind of disruption yet. We will move things around. But when you have a 100-year-old inventory at Warner Bros. and you have a tremendous cache of whether it be Friends or Big Bang or a whole collection of cartoons for the kids or relationships with Sesame Street and so forth, we have an ability to weather through that process very well.

We did see significant engagement increases or viewership increases in HBO NOW in April and May. We saw it. And we'd expect that to continue with HBO Max. We haven't announced any numbers, and we'll wait on that, but we feel really good about how it's going. And we feel good about the results we're getting. It is a process that does a refresh of our existing HBO customer base in a really smooth way as that industry changes. It gives us an opportunity to fully expand the HBO brand from an over-the-top basis. And we fully expect to get to 50 million customers in the U.S. over the next 5 years. But lastly, it gives us a tremendous opportunity to go international and to expand that footprint and get a much larger base to amortize production costs over. So that's the long-term answer. We're pleased that Jason Kilar is taking a lead in WarnerMedia. And he's very experienced in over-the-top products and launching, and so it's -- he's very helpful to what was a very strong team already. So we feel very good about that. And we're optimistic. We just remain optimistic. It's a multiyear process. But so far, so good. And we'll look to give you some more data in July.

Douglas David Mitchelson - *Crédit Suisse AG, Research Division - MD*

Yes. I know you're not giving any numbers, but any insights on the engagement for the HBO customers? Did they start using the Max content? New customers that came in, were their behavior patterns different? How did it sort of do overall, at least in terms of consumption versus your initial expectations?

John Joseph Stephens - *AT&T Inc. - Senior Executive VP & CFO*

Yes. So a couple of things. One, as I mentioned, HBO Now, so a little close to 40% increase in engagement and viewership in the early weeks of COVID in the early measurement period. We didn't announce any more past that. Quite frankly, on the HBO Max side, we've been pleased with where we're at. But it's been 3 weeks or not quite 3 weeks. And so from that perspective, we're -- it's early. We're -- well, I'm very about positive it, but it's early. So we're going to give it some more time and make sure we do full measure. But yes, we saw increased engagement. We saw increased viewership at CNN, dramatic increases in viewership because of the COVID situation. We saw increases in viewership on TNT, TBS and our Turner channels in recent months. So all of those viewership data and all those ratings data have improved. The engagement really improved in HBO Now.

Douglas David Mitchelson - *Crédit Suisse AG, Research Division - MD*

And do you think -- you talked about having, adding an ad-supported component to HBO Max, and I believe the plan was to do so in 2021. Does COVID potentially push that back at all? Or do you still think that's a good time frame to think about evolving the service?

John Joseph Stephens - *AT&T Inc. - Senior Executive VP & CFO*

Yes. I think COVID is going to affect the whole business, quite frankly. So we're just working through it, and particularly, you see what it's done in the advertising business. So whether it's a cancellation of the sporting events like NCAA, whether it's the suspension of the NBA season. So COVID has had a real impact on the advertising world, whether it be travel, restaurants, hotels, airplanes, cruise lines so forth. So all that, that could have an impact. So we're going to continue to work on that, continue to expect that. But we're going to have to evaluate that and see how it fits into the kind of new order of things as we get better visibility coming out of COVID. And I'd suggest to you, there's a lot of discussion on whether that is how fast we're coming out of it, how long that recovery will take. You guys have seen a lot of different views on that. And we're still very carefully analyzing all that to come up with our best steps forward.

Douglas David Mitchelson - *Crédit Suisse AG, Research Division - MD*

Well, let's keep going on that. Turner and the studio, how are they performing in this environment?

John Joseph Stephens - *AT&T Inc. - Senior Executive VP & CFO*

Yes. Turner, as I said, the ratings in the television shows are doing really well. The loss of sports and the revenues associated with it is challenging. We are excited to see basketball coming back. And we're hopeful to see the rest of the sporting arrangements, sporting events come back, so we're optimistic, but careful and we'll continue to do that. Quite frankly, the studios are really -- the production has really been put on hiatus. And while there's some recent rulings from the states for a while, production is starting. We have not yet started production yet out of all the studios in California and Burbank. That has some different effects. One, yes, we don't spend as much cash. Two, we've had to have some -- we have taken responsibility for some payments to continue to make sure that we're more -- people would rely on us for having income. So we've done some of those COVID payments. But the reality of it is we're going to see a delay, a pushback in some of the production coming out of the studio. Likewise, you'll see what -- I would have expected if this was January of this year, I would have expected we're going to be out by now for us waiting for it to come out in the next few days, so to speak. It has been delayed. Theaters were shut down. Other movies are having, if you will, rescheduled, or like we did with Scooby, really moving it more to the direct-to-consumer process. So we're not only have those changes going on, but we're learning from that and trying to get a better understanding. We're continuing to work with the theater owners. They've been long-time partners, and we're going to continue to work with them. But it will be an evolving situation to see kind of that specific piece the industry does, how we work together going forward and what it does on the theatrical side, the changes in our schedules and our approach.

Douglas David Mitchelson - *Crédit Suisse AG, Research Division - MD*

Okay. So moving on to Business Wireline. Are you seeing positive impact on Wireline due to changes in consumer behavior or distributed workforce and stay-at-home? And you've mentioned the softness -- or you sort of previously mentioned the softness in the small to medium-sized business area. Any updates there as well?

John Joseph Stephens - *AT&T Inc. - Senior Executive VP & CFO*

Yes. The small to medium business is about 15% of our overall Business Wireline group. So while it is challenged, just like I mentioned with bars and restaurants, it's something that we can manage through because of the shared look to gain that getting some of that back with wireless, which is in those Business Wireline numbers. So that's one. Two, on the large business side, we did see in late March and in April, we saw a lot of demand for secure, bigger pipes, (inaudible) connecting to -- employers connecting to their employees' homes. And so we saw a lot of demand. They came to us, they relied on us, and it worked well. We've seen the demand likewise for connectivity in people's homes on their side. So that aspect of the business has gone well. The business is challenging in the sense of it's evolving and we're moving away from legacy voice and some legacy data. But quite frankly, it's been a very reliable cash flow business, a very reliable EBITDA business. The team continues to generate at $2.4 billion, $2.5 billion a quarter, EBITDA, some good numbers and generate a lot of cash flows. So really still appreciate what it does especially at this time to keep that dividend strong and keep the cash flow strong.

By the same token, it sells one heck of a lot of wireless. Those business customers buy their wireless IoT devices. They buy their wireless phones, tablets through that channel. We sell to a lot of their employees who -- that gives us connection to the channel. Quite frankly, FirstNet is operated through our business and our channel. So when you look at Business Solutions, including what we sell in wireline and wireless, that revenue is actually growing and the EBITDA is growing. So that business doesn't -- it doesn't get as much respect as it deserves, at least from the finance guys' viewpoint because it continues to generate a lot of cash and really strengthens the wireless business.

Douglas David Mitchelson - *Crédit Suisse AG, Research Division - MD*

So I think that's a good lead into the balance sheet and cash flow question. On the earnings call, you accounted to relatively comfortable dividend coverage. Can you walk us through the puts and takes on free cash flow guide for the year and your thoughts on dividend coverage and the balance sheet in this environment?

John Joseph Stephens - *AT&T Inc. - Senior Executive VP & CFO*

Yes. So when we pulled down our guidance on the first quarter call against COVID, we pulled it all down. The one thing we, so to speak, put back up or replace was guidance on free cash flow, and basically said that we have dividend coverage in the 60s, whether that be at 60% or 60 -- somewhere 60% to 80%, certainly in the 60s. Pretty wide range, but a range that's very comfortable to continue to support the dividend, not only this year but for many years to come, and to give the board the flexibility to decide what to do with the dividend, specifically whether they want to increase it going forward, like they've done for 35 years. That was the reason for that message, and we still feel very comfortable with that.

When you think about what that means and how we get there, think about it this way. 75% of our cash flows comes from our Broadband, our Business Wireline and our Mobility business. And as I mentioned to you, the Business Wireline is -- doesn't get the respect it deserves because it keeps putting up good solid numbers and generate a lot of cash. The broadband business with the fiber growth actually grew revenue in the first quarter. And remember, the initial investments, we're building out the fiber broadband that we ran over the last 5 years. So every dollar revenue really helps with cash flows because the money in the investments are already made. And then in wireless, as I mentioned, we have about a $500 million improvement in EBITDA, so that goes with it a strong cash flow. So when you think of those 3, it's about 75% of our free cash flow. All are doing well. All doing strong, very reliable, very resilient. So we feel very good about it.

We're seeing challenges in the media business, the delays in releasing some of our movies, some of those kinds of things. But advertising really being adjusted for during the COVID period. But we certainly can handle it. We've got -- we're strong enough, big enough, large enough company. So feel really good about that. And quite frankly, what I'd tell you is if you look at the market, we've done some significant debt deals. We've paid down a ton of debt in the last few months. When we went to the market a couple of weeks ago in the euro market and the U.S. and we're able to access significant amounts of (inaudible), over $15 billion at very attractive interest rates for long periods of time.

So the marketplace, the bond market, the credit -- the debt and credit markets certainly respect our cash flows. They're speaking with their market books. We certainly strive to have the stock market understand the same story. But if you look at where our 10-year -- our 2031 bonds or 2051 bonds are trading and when you look at how they traded, we're trading at better rates, higher quality stands today than we did at the beginning of the year, than we did in January and February. So the market really is respecting us. And I think that's really important. But we feel very good about our cash flows. It's something that we put a lot of effort into over the years and continue to feel like we can manage it well. Remember, last year, we did $29 billion of free cash flow. And certainly, we had some onetime items that helped with that as we do every year. But that's a dramatic number with making the dividend coverage going at about 50%. So we've given ourselves a lot of room in the guidance we've had. And we feel very comfortable about making that guidance. And as always, we strive to beat it.

Douglas David Mitchelson - *Crédit Suisse AG, Research Division - MD*

So the -- before we go to closing comments, we've got a couple of minutes. And I think leveraging that answer on liquidity and cash flow, John Stankey, new CEO, and often with these new CEOs come a lot of change. We were talking on the lead in that this is a difficult environment to operate in. He seems pretty busy just managing the company around COVID. Jason Kilar comes in. That would suggest a continuation or even greater investment in the pivot to streaming at WarnerMedia. Do you have the flexibility for John to come in and make some growth investments and to continue to pivot at media? How do you think about the flexibility to invest in this environment?

John Joseph Stephens - *AT&T Inc. - Senior Executive VP & CFO*

Yes. So of course, we've retained that flexibility to investors, right? Think about this year. Last year, we spent over $20 billion in CapEx and other investments, right? And afterwards, we still have $29 billion of free cash flow. So our free cash flow numbers are impressive, but it's after significant investments. And remember, that significant investments we made last year in CapEx didn't include those significant investments in content. And we had increased investments in content. So that $29 billion comes after that. So we do have that flexibility today. We're helped by the fact that we've completed our fiber build-outs. So the ramp at the speeds we're going may come down. We'll continue to invest, but we don't have to keep (inaudible) that we're 80% complete with FirstNet, so we are coming to that being completed. Doesn't mean we're not going to continue to invest. But we can have a different balance to it. So absolutely, we've got the opportunities to invest or, if you will, if you think about a 60%, if you will, dividend coverage, that means there's 40% excess cash above your dividend. In our case, how do you do that math? That's a lot of money. That's multi-multi-multibillions of dollars, close to double-digit billions of dollars. That gives you a lot of flexibility on top of whatever you expect the CapEx investment. Last year, it was over $20 billion What do we expect for CapEx investment this year? This just a significant amount of flexibility.

We're focused on paying down debt. We're focused on continue to strengthen the balance sheet. But there's no limitations in my mind right now. And quite frankly, all the credit markets, and effectively, various forms, that are all operating effectively. Funds have done a good job in doing -- in helping that along. And so we feel real comfortable about our flexibility. It's why we pay down our term loans and really done some maturity extensions and really focused on taking advantage of these low rates.

Douglas David Mitchelson - *Crédit Suisse AG, Research Division - MD*

And then the last 2 areas before we close off. You often talk about asset sales. You often talk about cost versus due asset sales. First, we went from 2 months ago, I don't think anyone could sell anything. Then the bankers I talk to now say the market's as hot as it's ever been. Interest rates are low. Tax treatment is good. Any update on asset sales for the company?

John Joseph Stephens - *AT&T Inc. - Senior Executive VP & CFO*

Yes. We're still going through the Puerto Rico sale with the DOJ and hope to get that done here in the near term. CME are such a European broadcaster company that is to go through the EU approval. Those 2 deals together are about $3 billion in cash and relieving us of another debt guarantee that we have with CME. So those are important. We continue to have some real estate and some other tower sales. There's plenty of portfolio review going on in our business. Not ready to get into any details. But as you can imagine, when you went through steady transactions as we did last year, whether it's monetizing our tower options, whether it's selling Hudson Yards, whether it's selling Hulu, all of those kinds of things that we did last year and fall into this year for some of the regulatory approvals for CME and Puerto Rico. We're constantly going through a portfolio stroke. We're constantly looking at opportunities to monetize it. And quite frankly, that gives us a lot of flexibility to invest in other businesses or invest more in those areas where we feel would be benefited by the additional investment. So when you have a -- you've got a $500 billion balance sheet, finding 1% or 2% to monetize, as I tell my team, should be expected every year. It's hard to do. It's a challenge. But if you think about the magnitude, you get a different perspective on ability of flexibility. And certainly, when we did last year, that proved that we can do it. And I'm expecting we're going to continue to improve that year in and year out.

Douglas David Mitchelson - *Crédit Suisse AG, Research Division - MD*

So on the cost side, to wrap up. I imagine I'm not going to get any numbers out of you today, but you've talked a lot about a focus on cost the last 9 to 12 months for obvious reasons. Then this environment hits. A lot of change taking place. Distributed workforce and other things that you mentioned that are benefiting the revenue side could also benefit your cost side. So is there a way to talk through -- are you seeing sort of even more cost savings potential than you thought as an acceleration of cost savings that you already thought you could capture? Any discussion on the cost side would be helpful.

John Joseph Stephens - *AT&T Inc. - Senior Executive VP & CFO*

Yes. I think it's -- I think your way of forming questions is the right way to do it. It's a change in the timing. And so if you're going to streamline your retail operations and you're going through a process of really growing your digital operations, and then you have an event where you have to close out a significant number of stores. Or in a natural case, it's okay we open them all back up and go back to normal or do we make the shift to being more effective and efficient. By the way, if I'm looking -- if I've been on the path to reduce real estate, whether it's selling a former headquarter buildings or bringing people in the shared space, owned space versus high leases, it's a process we've been going on for 5, 7 years, quite frankly, longer than that. Do we now say, well, we need even less real estate? Or we need it in a different way and accelerate that change. We were on a path, but can we accelerate it? I think you think about that in every light. We've had a very good digital operations. The team on the digital sales, specifically at mobility, has put a lot of work over the years. But now it's a much more, okay, that build -- you built a great system, it works. Now let's -- we're ready to transition much fuller to it, push it much harder, open it up much wider, maybe we would have been more on a guarded path, but maybe we now need to push that much stronger. And this is the opportunity to do it. So I think of it not so much as changing dramatically all the automation and all the streamlining, all the transformation efforts that are going. I think of it more as an ability to change the timing of implementation and move quicker.

The finance team, I've got a -- my team's got it and they proved to me. They closed the books. We got an earnings release out and filed a 10-Q all working from home. I wouldn't have thought that. I mean, that's -- for a company like ours, we did it very timely. We had an early earnings release. So now have to I think differently about, okay, do I really need to have 500 people or whatever the number is in the office right now? Or can I continue to allow the -- cut down on office-based cost, on buying responsibility for parking garages? Can I continue to invest in technology and systems that allow us to streamline the process? There's all of that going on. So we've done really good with the WarnerMedia merger synergies, but we're getting a lot more opportunity here. And this will help move that along, too. So it's just -- I think of it more as a timely change than really changing the overall viewpoint on transformation. We've been on that path for a long time. And we've got more to do. We have to do more. But I feel good about the opportunities for us to capture it.

Douglas David Mitchelson - *Crédit Suisse AG, Research Division - MD*

So of course, most importantly, you can attend virtual conferences, which is critical. So..

John Joseph Stephens - *AT&T Inc. - Senior Executive VP & CFO*

Our travel budget has been reduced. That's for sure.

Douglas David Mitchelson - *Crédit Suisse AG, Research Division - MD*

So let me throw it back to you for closing contents -- comments. Look, John, thanks so much for coming today and helping us kick off day 2 of our virtual conference. And please, any closing comments that you might have?

John Joseph Stephens - *AT&T Inc. - Senior Executive VP & CFO*

Doug, thanks for having us. Thanks for your interest in AT&T. From a company perspective, we do feel -- we feel good about our cash flows, dividend sustainability, our balance sheet. We do feel really good about the strength of our wireless, of our broadband, of our business assets. And we -- while there's challenging times in the media business, we believe we've got the best assets, the best platform to move forward with HBO Max. And with CNN and with Turner, we have the best assets to move forward. It's a challenging time, but that's the benefit of being who we are. We're going to have those assets to go forward. Lastly, I'd just suggest, if everybody -- as I try to always say, on your way home or your way around your neighborhoods today, don't text and drive. I'm interested in every dollar revenue I can give, but I'm not interested in a nickel from that. And folks, please wear your masks for yourself and for your neighbors and for the community. We're facing a challenge of safety and security, and our individual actions can help protect others.

So thanks, Doug. Appreciate it, and everybody be safe.

Douglas David Mitchelson - *Crédit Suisse AG, Research Division - MD*

Thanks, John. Thanks so much. Thanks, everybody.

John Joseph Stephens - *AT&T Inc. - Senior Executive VP & CFO*

Thank you.
