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EDITED TRANSCRIPT

T.N - AT&T Inc Investor Meeting

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the AT&T Investor Meeting. (Operator Instructions) And as a reminder, this conference is being recorded.

I would now like to turn the conference over to our host, Amir Rozwadowski, Senior Vice President, Finance and Investor Relations. Please go ahead.

Amir Rozwadowski - *AT&T Inc. - Senior VP of Finance & IR*

Thank you, and good afternoon, everyone. I'm Amir Rozwadowski, Head of Investor Relations for AT&T. As you saw earlier today, we announced an agreement with TPG to form a new entity, which will own and operate AT&T's U.S. video business. This call is to discuss the deal and provide you an opportunity to ask questions about the transaction. Joining me on the call today are John Stankey, our CEO; John Stephens, our CFO; and Pascal Desroches, Senior Executive Vice President of Finance and incoming CFO.

Before we begin, I need to call your attention to our safe harbor statement, which says that some of our comments today may be forward-looking. As such, they're subject to risks and uncertainties. Results may differ materially. Additional information is available on the Investor Relations website.

I also want to remind you that even though the FCC has issued the result of the C-band auction, we continue to be in the quiet period for the auction. We do have an Analyst and Investor Day scheduled for March 12, where we plan to update you on our business and capital allocation plans.

With that, I'll turn the call over to John Stankey. John?

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John T. Stankey *- AT&T Inc. - CEO & Director*

Thanks, Amir, and good afternoon, everyone. Thank you for joining us on short notice. Before John and Pascal cover the financials, I want to spend a few minutes on why we're teaming up with TPG to form this entity for our pay TV business.

So let me start on Slide 3. Today's announcement better positions AT&T to capitalize on the long-term strategic trends influencing our business going forward. We certainly didn't expect this outcome when we closed the DIRECTV transaction in 2015, but it's the right decision to move the business forward consistent with the current realities of the market and our strategy. It aligns with our investment and operational focus on connectivity and content and sharpens our focus on the strategic businesses that are key to growing our customer relationships across 5G wireless, fiber and HBO Max. Further, it supports our deliberate capital allocation commitment to invest in our growth areas, sustain the dividend at current levels, focus on debt reduction and restructure or monetize noncore assets.

Through this innovative relationship with TPG, we're taking our traditional U.S. video assets, DIRECTV, AT&T TV and U-verse, and putting them in a separately controlled and managed business consistent with the organizational and segment structure we announced last month. This allows an independent management team to focus solely on maximizing the value of this leading video portfolio.

The deal provides us an opportunity to monetize a portion of our U.S. video assets, participate in future cash distribution from the entity and share in future value creation opportunities. As a result, our remaining consolidated core business will enjoy an improved future EBITDA trajectory and overall growth profile.

Our strategic focus is on growing customer relationships with connectivity and content. Today's announcement allows us to materially move this agenda forward. We're coming off a year where we saw strong wireless subscriber growth, including our best postpaid phone net adds in a decade and all-time low churn levels.

The significance of fiber broadband continues to expand not just as a superior fixed access technology but also is the foundational layer for empowering 5G connections and business connectivity. We added more than 1 million new AT&T fiber customers in each of the past 3 years. And in addition to baseline growth of nearly 1 million new homes and business locations, we'll build out about 2 million additional fiber-served locations for a total of 3 million new fiber-capable locations as part of our integrated fiber strategy this year.

Finally, HBO Max is an important part of our future, and its adoption continues to surpass our initial expectations as customers gravitate to the high-quality and award-winning content available on our direct-to-consumer platform.

In summary, consistent with our recent progress, today's announcement aligns with the evolution of our business. It helps us move forward on what matters most to our customers and our stakeholders.

Let me now turn it over to John and Pascal to go through the structure of the deal. John?

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

Thanks, John, and hello, everyone. Let's move to Slide 4 to cover the financial details of the deal. The transaction gives us a total implied enterprise value of $16.25 billion for the business, which includes about $6 billion in debt. Additionally, we retain the commitment to fund the NFL SUNDAY TICKET up to $2.5 billion. New DTV will be jointly governed by a Board with equal representation from AT&T and TPG. AT&T will contribute its U.S. video business unit to New DTV. TPG will contribute $1.8 billion in cash in exchange for its equity interest. New DTV will also take on $6.2 billion in committed debt financing, almost all of which will be paid to AT&T.

When the transaction closes, AT&T expects to receive $7.8 billion from the New DTV. AT&T anticipates distributions in the $1 billion range to begin in 2022. As you can imagine, the actual amount will depend on New DTV's ability to execute against its operating expectations.

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This transaction is subject to customary closing conditions, including regulatory review. We expect it to close later this year. The video unit's union-represented employees are transferring to the New DTV with their collective bargaining agreement.

I would now like to turn it over to Pascal to provide an update on our financial expectations. Pascal?

Pascal Desroches - - *Senior Executive VP of Finance and incoming CFO*

Thank you, John. Let's move to Slide 5. Starting in the first quarter, we expect to classify our U.S. video business as held for sale. As a business held for sale, we are required to cease depreciation and amortization of the video business assets. This will reduce consolidated depreciation and amortization relative to 2020, but remember, we are retaining certain assets, including the U-verse network infrastructure.

Following the close of the transaction, AT&T expects to no longer consolidate the U.S. video business. Instead, we expect to account for our investment in the New DIRECTV under the equity method of accounting.

Given when the transaction is expected to close, we don't anticipate any changes to the 2021 guidance we provided in January. But as John told you a moment ago, this transaction changes the financial profile of our business. And as John noted, we retain value creation optionality from these assets down the road. But most important, we materially move forward our agenda to focus on our connectivity and content growth areas.

Amir, that's our presentation. We're now ready for questions.

Amir Rozwadowski - *AT&T Inc. - Senior VP of Finance & IR*

Thank you, Pascal. In the interest of trying to get to as many folks as possible on the call, we would ask analysts to focus their questions only on today's announcement. Operator, we're ready for the first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the first question comes from Michael Rollins with Citi.

Michael Ian Rollins - *Citigroup Inc. Exchange Research - Research Analyst*

Just following on one of the last comments that you made. You talked about retaining value creation optionality down the road. And as you've explored strategic options for this business, I'm curious about the range of options that it might include. And when you think of what could create value with these assets and other assets that are out in the market, is the opportunity for programming scale to combine video distributors one of the greatest catalysts for value creation as you think about those options?

John T. Stankey - *AT&T Inc. - CEO & Director*

Mike, I'll -- I think what I would tell you is there was a very thorough job looking at every alternative under the sun and what made sense. And at the end of the day, we feel comfortable this is the right approach moving forward for all the reasons we talked about, that I'd be hard-pressed to suggest somebody can probably come up with an idea that we didn't evaluate, looked at, talked to people about, determined whether or not it made sense moving forward.

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I don't want to presuppose. There are a couple of different avenues or ideas that I think our partners have around what we might be able to do to position the asset differently moving forward and allow it to create some more value. I think just like we evaluated every opportunity for this first step, we will be very diligent in evaluating second step options and weighing them out and looking at them, and they cover a fairly broad landscape of things we can consider.

We're going to have to get this deal done first. We want to get the leadership team in place and executing well. And then from there, we can explore what those second options might be, and we'll do it in combination with our partner. And it's really important that we do that jointly with them. And we've been focused on getting to step 1 right now and haven't done a thorough enough look at where we think this value might come from, but we have some ideas we'll look at.

Operator

Next, we'll go to the line of Simon Flannery with Morgan Stanley.

Simon William Flannery - *Morgan Stanley, Research Division - MD*

Great. So on the -- you said the '21 free cash flow is $26 billion. Can you just talk us through the puts and takes? How much -- is there $4 billion or $3 billion of DIRECTV cash flow in that number, assuming a kind of second half close? And then does that drop down to -- I think you said you'd get about $1 billion a year in cash flow after that. So how do we think about the kind of the waterfall through '21 and into '22 on that?

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

Yes, Simon, so a couple of things. One, first of all, we feel comfortable with the $26 billion this year. We're -- we went back and evaluated various closing dates and what impact it might have. I feel like we've got enough room, quite frankly, to continue to stay to the $26 billion target. As you'll know, in this business, the fourth quarter is a lighter cash flow quarter for this business. And so the timing of the expectations of close didn't play as much of a role as you might expect if it would have been smoothly spread.

Secondly, with regard to 2022, we do expect cash flows coming out of the business and continued cash flows beyond that. And with the sharpened focus of a separate entity and the TPG skill sets that they'll bring to it and a really high-quality management team led by Bill Morrow, we're optimistic about that. But I would tell you the $7.8 billion of cash, actually, $7.6 billion in cash plus $200 million of debt assumption, is an acceleration of any further cash flows that we receive in 2022 or '23, and that was part of the value creation.

I'm not going to give you any specific numbers with regard to 2022 or 2023 free cash flows, but we feel really good about the ability to take advantage of the situation. One last -- in the way it's flowing out.

One item I'd just point to you is this. If you think about the $26 billion this year and a dividend of $15 billion, it leaves us about $11 billion of excess free cash flow over dividends, almost $8 billion from this transaction, another $1.2 billion from the Crunchyroll transaction that we expect to close this year. We'll generate about $20 billion of cash over and above our dividend responsibilities and over and above significant investments in fiber and in our core businesses, including HBO Max.

So when you put that together, we feel good about the continuing ability of the resilient customer base to generate really good cash flows for us and to manage our overall debt levels and our commitments in a very manageable, very logical way.

Simon William Flannery - *Morgan Stanley, Research Division - MD*

And the D&A, can you size that for us? The -- stopping depreciation, how much is that?

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

Yes. So what I'd suggest to you there is, first and foremost, we'll be filing our 10-K today. Technically, it has been filed this afternoon. Has it, Pascal?

Pascal Desroches - - *Senior Executive VP of Finance and incoming CFO*

Yes.

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

Okay. And then secondly, in there, we'll give disclosures about the impairment impacts. And those impairments, actually, we knew about when we gave guidance, and those will be spelled out there.

Then secondly, I'd tell you, the remaining -- there's a significant piece of the remaining depreciation that relates to what Pascal mentioned, and that is those core U-verse assets, not only the distribution but also the [hand] in operations and the distribution of the content. But we're going to retain and continue to provide those capabilities to the New DTV. So those assets will continue to be depreciated. Those won't be held.

I don't have specific numbers for you, but we're going through that process, and we'll provide as much detail as we can not only in the (inaudible), the normal -- 10-K and the quarterly earnings announcement, but as we can through the subsequent presentations we'll have with regard to Analyst Day and so forth.

Operator

Next, we go to line of John Hodulik with UBS.

John Christopher Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst*

Okay. A couple of things. First, a clarification for John Stephens. So John, did you say that the $7.8 billion in value is an acceleration of those $1 billion payments you referenced for '22 and '23, so you won't be getting those distributions in those years? That's number one.

Another -- second question for you, John, was right up your alley. Are there any tax benefits that are associated with this transaction?

And then lastly, maybe for John Stankey. I remember when you guys acquired Warner Bros. or Time Warner, you talked a lot about putting distribution together with all the ad inventory at Turner. And now that you're sort of pulling those assets apart, does it -- do you sort of rethink the value of owning Turner? And is that an asset that we consider -- that we could consider a possible monetization target as we look forward?

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

John, let me answer the first question. At some point, as a stand-alone, we get that closed, and I view that as very positive for our overall balance sheet and consistent with what we've been saying with regard to in getting laser-focused on not only operations but on strategic assets. The $1 billion is the amount that we'd expect to get next year and growing going forward as the preferred returns to our partner are satisfied. So that's the first thing.

Second thing is, yes, we did evaluate all the tax implications. This is what I would consider a very tax-efficient transaction. I don't generally get into the details, but it is -- it was -- we had a tax filed in the overall transaction, and it's tax efficient. And I would suggest you think about the $7.8 billion

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is a positive net of the tax implication that we're going to get that $7.8 billion benefit inclusive -- or net of any tax implications of the transaction. I'll turn the other question over to John.

John T. Stankey - *AT&T Inc. - CEO & Director*

John, we're not going to destroy any value we created between the entities. And so when we negotiated the agreement as to how we operate the advertising business, we preserved the interplay between the Turner inventory and DIRECTV inventory and the thought process around how that gets represented out to the market. And so I don't see that. The premise of your question, which is, therefore, that should trigger some other assessment of asset base, it doesn't really represent in this transaction in that fashion.

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

John, let me add to that. We expect and we'll continue to be partnering with DIRECTV [IR], TNT, TBS, CNN, and we're going to be partners -- interested positive partners where there are mutual benefits. And I expect them to carry that. So there's going to be kind of your traditional transition services arrangements, maybe some tax returns of financial accounting, but there's also real business partnership going forward. And we feel very comfortable with TPG on the other side of that and the New DIRECTV being a part of that.

Operator

Next, we go to the line of Frank Louthan with Raymond James.

Frank Garrett Louthan - *Raymond James & Associates, Inc., Research Division - MD of Equity Research*

Great. Are you -- so you're selling the U.S. assets. Any thoughts on selling the Latin American assets separately? And then -- and what rights does the preferred stock give TPG? What will they be getting with this?

John T. Stankey - *AT&T Inc. - CEO & Director*

Frank, what I would tell you is no different than what we've communicated in the past. We've always evaluated the Latin America assets as to whether or not they're better for us to continue to operate and generate the value out of them or is there a partnership or other structure that would make sense. And I think you're well aware we've been looking at things over the years, and we'll continue to look at them. So if the right opportunity popped up and we thought that given the value associated with it was better than us operating, would we be open to a structural change? Yes, we would, and we've said that. But right now, this is about the domestic business, and that's all we're announcing here at this point.

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

TPG gets a preferred return and preferred return rights in the transaction, and that was part of the overall transaction, clearly understood. We felt that, that was a fair value for them based on the expertise and capabilities and experience that they bring to the transaction. I'll tell you, Frank, that we'd expect those preferred returns to be satisfied relatively quickly over a period of a few years, and it is the basis for why I said we expect $1 billion in 2022 growing thereafter is because there is going to be more cash available to the common interest after the preferred is satisfied. So it was taken into account. The overall transaction, we feel good about it, particularly in light of what TPG brings to the situation and brings to as a partner, shared control partner in the new entity as we have the -- a great management team actually running the entity.

Frank Garrett Louthan - *Raymond James & Associates, Inc., Research Division - MD of Equity Research*

Will the new entity have any access to cross-selling broadband, any cross-marketing in that regard?

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John T. Stankey - *AT&T Inc. - CEO & Director*

Yes. As I -- we mentioned in my opening remarks, I mean there is cross-representation, cross-distribution arrangements with the businesses, and they're going to -- I think you've seen it in the press release. Customers aren't going to see a change here if they have a bundle or service or pricing plan. It will look just like it does to them today. We're going to be very mindful of ensuring that there isn't disruption around that, and new gross adds and opportunities to go to market were highly aligned with this new business to make sure that we continue to move forward in a way that's mutually beneficial.

Operator

Next, we go to line of Phil Cusick with JPMorgan.

Philip A. Cusick - *JPMorgan Chase & Co, Research Division - MD and Senior Analyst*

Sorry if I'm simple, but the e-mails I'm getting, I think, put me in good company as I and a lot of people are confused with the enterprise value of the deal. Can you just walk through the buildup on Page 4 and talk as well about the timing of the SUNDAY TICKET payments? Is that a payback of the initial cash you get? It looks like TPG is sort of getting the first money out and you're making a bet on the durability of sub numbers and cash flow. Is that fair?

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

Yes. TPG is in a preferred position. That's right. And yes, we do believe and we're optimistic about the ability that the focus will bring and their expertise bring to improve and maximize the value opportunities.

With regard to your first question, Phil, if you look on that schedule, we're going to get -- we (inaudible) borrowed $6.4 billion, most of which comes out to us right away. Secondly -- that's the first piece of it. Secondly, there will be $1.8 billion of money coming in from TPG, and that essentially comes out to us right away. So those are the first 2 pieces of cash we get in the $7.8 billion I referenced before. There is -- we are putting $200 million worth of debt into the partnership such that we're going to get actually $7.6 billion in cash, $7.8 billion of value.

Now there's 2 pieces of ownership we have, a $4.3 billion preferred with a 6.5% PIC and then a $4.2 billion common interest that we will -- that we have. So that's the buildup to the $16 billion value. So effectively, of the $16.3 billion value, we get $7.8 billion of it, so to speak, on day 1 and, again, a preferred interest for $4.3 billion. And then the remaining $6 billion is shared between the 2 of us, 30% to TPG for the $1.8 billion and 70% for us for the assets that we contributed.

Philip A. Cusick - *JPMorgan Chase & Co, Research Division - MD and Senior Analyst*

Okay. And then the SUNDAY TICKET payments?

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

SUNDAY TICKET payments will -- we -- it will depend on when the deal closes. The contract itself is part of the New DTV, but we are giving them a coverage of up to $2.5 billion for that. Depending upon when it closes, there's 2 years left on that contract, depending on what part of the season it would close, it may have been something that was already satisfied by us. Or depending upon closing, it may yet to be satisfied. And it will also depend on their actual utilization, the New DTV's actual utilization of the partnership or other modifications, if any, of the contract. So it is a guarantee for them, but it all depends on closing date and utilization and subsequent utilization of the contract.

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Operator

Next, we go to line of Kannan Venkateshwar with Barclays.

Kannan Venkateshwar - *Barclays Bank PLC, Research Division - Director & Senior Research Analyst*

John, a couple, if I could. So the first is when you think about the future potential transactions, I mean if there was a scenario where DIRECTV and DISH were to merge in the future, is there any provision in the deal in how it's shared? And I'm sorry if this was addressed early, but I joined a little bit late, but is there any provision where future synergies or any economics from future transactions are shared based on different economics relative to the equity shares that we see right now?

And secondly, when we think about the SUNDAY TICKET deal, I mean the $2.5 billion value, could you help us understand how that was sized? Because at least, based on some of the headline numbers reported in the press, it looks like the value -- the annual value that you guys pay for the deal is much less than $2.5 billion. So how is that number scaled? If you could just give us some sense.

John T. Stankey - *AT&T Inc. - CEO & Director*

So Kannan, let me give you kind of my first take on this. As you can imagine, it's a deal that's been papered, and there's a lot of different terms and conditions in it and a lot of different scenarios that might be out there, none of which I'm going to talk about or fill in the public on.

But generally speaking, as I indicated in my opening remarks, we remain a participant in any future value that gets created as a 70% owner of this entity. And you ought to think about if something else occurs, we get 70% of ultimately the value, and our partner gets 30% of the value is a general rule in that both parties are, of course, incented to try to create more value because it's good for our investment, our structure moving forward on that. I think that's the simplest way to think about it. But I'm not going to suggest you that there aren't small corner cases or certain things that we have to look at going forward.

On the SUNDAY TICKET side, I think we're going to say -- we said all we're going to say about it at this point. It's a contractual relationship with another party. The amount that's in there is the amount. How we calculate it and how it transacts back to the particular contract really isn't something that I want to get into a public discussion about.

Operator

Next, we go to line of Brett Feldman with Goldman Sachs.

Brett Joseph Feldman - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

I have 2 questions. The first one, just to clarify in free cash flow, what is the mechanism for determining the timing and the quantity of the cash distributions that you would be eligible to receive on a recurring basis, that $1 billion and growing that you talked about? And how will you account for that? Would that be part of your consolidated free cash flow? Would it be supplemental?

And then the second question is,what you're doing here is you're basically selling your MVPD business, but you do offer video services, most notably HBO Max within Warner Media. Are there any restrictions in the types of video services that you'll be able to offer through Warner Media? For example, are you not allowed to offer anything that might be construed to be a channel bundle or even live TV?

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

The free cash flow mechanism, there's a whole collection of kind of rules around that. I would tell you that the first thing is it's really just an operational aspect of paying, allowing partners to have money to pay taxes and to cover other appropriate costs that are associated with the [editing]. That's the first step.

The second step after that goes into the standing of the preferreds and the commons. And so that mechanism -- and as that's fulfilled, that mechanism gets updated. So that's part of the normal course. In operations, the $1 billion I gave relates to our expectations on that. And as I also mentioned, as the preferreds get satisfied, those expectations increase and we would expect more cash.

With regard to any of the impacts on free cash flow for next year, I'd just wait to let us give additional information on guidance after we see when it closes and as we give guidance next year. But certainly, in any event, the cash would be available to handle all of our responsibilities in the normal course. Regardless of the geography, it may show up on our statement of cash. On...

John T. Stankey - *AT&T Inc. - CEO & Director*

On the question about the product evolution, Brett, the -- our partner on MVPD bundles and MVPD light bundles is ourselves. It's our 70% ownership. And if there's something to be packaged that looks a product like that, we want to use what we have and we use our distribution [cloud] to carry forward.

Now does that mean that the HBO Max product as it stands today is restricted and can't move and change? No. It doesn't mean that. It can evolve and change as different product mixes occur. And can there be a certain type of linear content along on-demand digital content? Yes, there can and we have latitude to do that. But if there's an MVPD product to bring forward, we're highly incented in the structure to make sure that we're helping ourselves in that regard.

Operator

Next, we go to the line of Colby Synesael with Cowen.

Colby Alexander Synesael - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

I just wanted to go back to the structure of the deals as it relates to the preferred. And I apologize if I'm not just understanding. But what is the point of using the preferreds? And why shouldn't we just think of it as you're basically contributing, call it, the $8.5 billion, the difference between -- or the combination of the equity -- the common equity and the preferreds, and TPG is contributing $1.8 billion, but ultimately, further 17% contribution, they're getting 30% of the company plus a 10% cash coupon. It seems like it was a pretty good deal for TPG and perhaps less so for AT&T. I'm just wondering if you could kind of break that down for me a little bit.

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

I'd just say it this way. The $4.3 billion of preferred equity comes out before anybody gets to the end of the common. So that makes a significant economic differential. And so -- and the 6.5% PIC on that is significant. So from that perspective, that really changes the economics in my mind. And that's the way we view it.

But as John, I think he mentioned, having -- TPG have a 30% interest in the upside and a 70% interest in outside aligns our interest to maximize revenues, maximize the utilization of those products, whether they be the satellite distribution of DTV, whether it be AT&T TV and for us to work together effectively and efficiently such that we can both share in profits that exceed all those preferreds and generate common returns for both of us. But clearly, we have appropriate interest that does not go to your math. And then I want to make sure it's clear.

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Colby Alexander Synesael - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

And so is TPG getting -- with the $1.8 billion preferred, are they immediately getting then the common equity ownership structure as well? Or does that come over time?

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

They immediately get it, but remember, the preferreds have to be satisfied first, and that's the economics of the transaction. And they and us feel good about that. And we -- it was well thought out, well discussed, fully -- a fulsome discussion.

As I say, we've got a good partner here. They've got a lot of experience, and they've got a lot of experience with big companies, like [IMEA], like Humana, like Intel. So they've done this before with a variety of entities. And they have experience in the entertainment business, whether it's with creative artists or other -- Spotify, other companies. So we feel good about the partnership and the opportunity that we have to generate returns for that common interest.

Operator

Next, we go to the line of James Ratcliffe with Evercore ISI.

James Maxwell Ratcliffe - *Evercore ISI Institutional Equities, Research Division - MD & Senior Analyst*

Just wanted to come back to the $1 billion a year or so of distributions. And first, I wanted to clarify. Is that net of whatever you'd be paying as part of the NFL ticket obligation? Or is it -- would it effectively next year if the obligation is fully used up that roughly offset, you have $1.2 billion going out and $1 billion coming back?

And secondly, just looking at the preferred coupons, it's sort of the back end implies you're getting $1 billion preferred coupons just shy of $300 million, so about $700 million for you folks, implies $1 billion to the common, TPG gets $200 million, implies about $1.5 billion in total distributions, and interest shouldn't -- $6 billion, a few hundred million dollars on top of that. So that implies sort of like $2 billion as the cash flow of the business. Am I thinking about that the right way?

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

I would tell you, we're trying to do math in this kind of environment, it's probably not our best use of time. Let me just suggest to you that -- a couple of things. One, the NFL SUNDAY TICKET guarantee is separate. It's -- we are viewing that. Remember, it is for the remainder of the contract. That doesn't go on forever. I don't want to get into details. As John said, we're not going to give the details of that contract.

Secondly, the $1 billion is what we expect to get out next year in 2022 and in growing thereafter. So when you think about this deal, the $7.8 billion upfront is significant. And there is positive ongoing cash flows going forward, and both parties are encouraged to grow that as fast as possible because it gets to the common share once we get past the preferred returns, and that benefits both of us.

So our goal here was to align both owners in a shared, controlled environment to let the management team grow the business as effectively as possible with a separate focus that may not have -- and also for us to have a separate focus, as John has said many, many times, on connectivity and on, if you will, software-based entertainment. And we have that with this transaction.

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James Maxwell Ratcliffe - *Evercore ISI Institutional Equities, Research Division - MD & Senior Analyst*

Got it. If I could just squeeze one more in. How are the rating agencies going to view this? Net -- in terms of net debt drops by $8 million -- $8 billion, but are you going to get credit for any proportional share of the EBITDA of entity? Or is that -- all go way?

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

Yes. We'll let the rating agencies announce how they might treat it. As you might expect, we've been in conversations with them, trying to make sure that we treat them with respect and understanding. So we'll let them get in the situation as such, and we'll give you more clarity around the overall debt situation. Specifically, I think Pascal is planning on doing that at the Analyst Day as we've just had another announcement yesterday from the SEC. So we want to wrap all of it and do a bow when we can talk about it, which, right, as Amir pointed out, we still have some limitations with regard to the FCC announcement.

Operator

Our final question comes from the line of David Barden with Bank of America.

David William Barden - *BofA Securities, Research Division - MD*

Congrats on the transaction. So -- and I apologize I joined a little late. But John Stephens, I just wanted to make sure that we understand the rationale for the deconsolidation. It's obviously not the economic interest. Does the Board structure of New DIRECTV have one extra Board member from TPG that allows them to have control? Or is your word shared control enough to justify the deconsolidation?

And then the second question, if I could, is Bill Morrow was brought on not too long ago to be kind of cost-cutter and chief for AT&T. Now he's leaving. Is there -- is that still a function at AT&T? Is there going to be a replacement for Bill? And what is that kind of cost-cutting structure at the mothership going to look like going forward?

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

So I'll answer the first one and John Stankey will take the second one. But with regard to shared control with regard to the New DTV -- and quite frankly, we've been here before and we called it Cingular back then. And that's what it is. There's going to be a separate management team for New DTV, but the Board membership is shared.

John T. Stankey - *AT&T Inc. - CEO & Director*

Dave, on the question about what we're doing. We -- I don't define Bill's role as cost-cutter chief, first of all. I know what you're driving at. Effectiveness and efficiency, transformation is where we've been after. It's not just about cost-cutting. It's about running our processes better and what we've been able to do to better serve customers and how we operate the business better as well. And of course, it makes us more efficient, more effective and should be putting return points back into the business. But he's doing a lot more than just cost-cutting.

And we have been anticipating that this was going to be happening for a period of time. It's why we made the announcement last month that he was going to take over the operations of the business. We've had transition work going on around that. I think the good news is over the course of time that he's been in this job, we did a lot of analysis work, a lot of definitional and assessment work and then a lot of plan building work. And we're past all the plan building and into execution now.

Bill was not going to be the person that was going to execute plans. That happens out into the machine, people all over the organization, and they all have their plans and they have their initiatives. And we're in a good place right now where they can pick those plans up and carry them forward.

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And I feel very comfortable in transitioning an individual behind Bill's role that will focus on the program management of those plans and ensuring that we execute on them properly as opposed to formulating the plans. That requires a little different type of skill and somebody who can navigate differently within our business to do that, and we will match that individual skill with that. There'll be a -- I can't make the announcement just yet, but there will be an announcement for it coming on who that individual is.

And I will also tell you, we're going to be doing a little bit of restructuring to ensure that other parts of the company that are critical to that transformation work are actually under the purview of the individual to make sure that their execution is sharp, coordinated and eliminates any handoffs we have on things like capital allocation and how projects get chartered at work. So I think it's actually a timely moment for this transition to occur, and we'll use it to our benefit to put a different set of talents and skills in place and allow Bill to move on and do what he's going to do so well in running this particular entity.

Amir Rozwadowski - *AT&T Inc. - Senior VP of Finance & IR*

Thanks very much. That's all the time we have for questions. I'm going to turn it over to John Stankey for some final comments.

John T. Stankey - *AT&T Inc. - CEO & Director*

So again, I appreciate everybody coming together on short notice, and I know it's a lot to digest. Good news is on the 12th, we'll all be back together where you can ask a couple of additional clarifying questions if between the K filing that you can go out and look at that has not an insignificant amount of detail. And it's riveting, I'm sure you'll enjoy it for several nights. If you can't figure it out from that and what we shared with you in the release, we'll have an opportunity to cycle back with you.

What I would tell you is we've worked on this a fairly long period of time. We've been around the block in a number of different options and thought about a lot of different alternatives for the business. The management team, the Board is convinced that this is the right step for us to take at this time. As I said, it's as much about where the markets stand today that we're operating in as it is about anything else, and it will allow the core of our business to focus on the things that we believe we can grow and add value at a faster clip. And we're excited about the management team that can focus on that and a dedicated team with the right incentive structure in place to make sure that every dollar of value comes out of our video business moving forward in a way that makes sense.

And I expect that just like the last couple of years have seen us see things happen structurally in this market that have surprised us and has changed, that I expect the next couple of years will do the same and having the optionality for that asset to ultimately do some things that provide some flexibility and value back to us. With a structure that way, I don't anticipate as that being bad news for us.

So with that, thanks for your time, and we'll talk with you all in a couple of weeks.

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

Thank you.

Pascal Desroches - *- Senior Executive VP of Finance and incoming CFO*

Thank you.

Operator

That does conclude our conference for today. Thank you for your participation and for using AT&T conferencing service. You may now disconnect.

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