







Q2

2016 AT&T EARNINGS

Investor Briefing

No. 293 | JULY 21, 2016

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AT&T Reports Second-Quarter Results Including DIRECTV Acquisition

- ▶ Consolidated revenues of \$40.5 billion, up more than 22%
- ▶ Operating income up 13.6%
- ▶ Net income up 10.6%
- ▶ Cash from operations of \$10.3 billion, up 12.5%
- ▶ Free cash flow of \$4.8 billion, up 8.4%
- ▶ Diluted EPS of \$0.55 as reported and \$0.72 diluted adjusted EPS compared to \$0.59 and \$0.70 in the year-ago quarter



HIGHLIGHTS:

- ▶ 2.1 million wireless net adds driven by connected devices, Mexico and Cricket
- ▶ U.S. wireless postpaid churn of 0.97%, second-lowest ever
- ▶ U.S. wireless operating margins expand; best-ever U.S. wireless EBITDA margins
- ▶ 342,000 U.S. DIRECTV net adds; 38,000 global TV net adds
 - Nearly 1 million U.S. satellite net adds since acquisition of DIRECTV
- ▶ 74,000 IP broadband net adds
- ▶ Nearly 800,000 U.S.-branded smartphones added to subscriber base, more than offsetting a nearly 600,000 decline in U.S.-branded feature phone base
- ▶ 185,000 U.S.-branded (postpaid and prepaid) phone net adds
- ▶ 380 million North American 4G LTE POPs
- ▶ Year-to-date cash from operations up 14.5%; year-to-date free cash flow up 11.6%
- ▶ Full-year guidance on track to meet or exceed expectations

CONSOLIDATED FINANCIAL RESULTS

AT&T's consolidated revenues for the second quarter totaled \$40.5 billion, up more than 22% versus the year-earlier period largely due to the July 24, 2015 acquisition of DIRECTV. Compared with results for the second quarter of 2015, operating expenses were \$34.0 billion versus \$27.2 billion; operating income was \$6.6 billion versus \$5.8 billion; and operating income margin was 16.2% versus 17.5%. When adjusting for amortization, merger- and integration-related costs and other expenses, operating income was \$8.1 billion versus \$6.5 billion; and operating income margin was 20.1%, up 30 basis points from a year ago.

Second-quarter net income attributable to AT&T totaled \$3.4 billion, or \$0.55 per diluted share, compared to \$3.1 billion, or \$0.59 per diluted share, in the year-ago quarter. Adjusting for \$0.17 of amortization, merger- and integration-related costs and other expenses, earnings per diluted share was \$0.72 compared to an adjusted \$0.70 in the year-ago quarter.

Cash from operating activities was \$10.3 billion in the second quarter, and capital investment¹ totaled \$5.6 billion. Free cash flow – cash from operating activities minus capital expenditures – was \$4.8 billion, up 8.4% year over year.

¹2Q16 includes \$95 million in capital purchases in Mexico with favorable vendor payment terms.

Business Solutions



The Business Solutions segment provides both wireless and wireline services to business customers and individual subscribers who purchase wireless services through employer-sponsored plans. AT&T's wireless and wired networks provide complete communications solutions to these customers. AT&T's business customer revenues include results from enterprise, public sector, wholesale and small/midsize customers.

FINANCIAL HIGHLIGHTS

Total second-quarter revenues from business customers were \$17.6 billion, down 0.5% versus the year-earlier quarter. Growth in mobility service and strategic business services helped largely offset declines in legacy services and wireless equipment sales. When adjusting for the sale of certain hosting operations and the impact of foreign exchange pressures, total revenues would have been stable. Business Solutions service revenues were down 0.5% year over year as solid wireless service revenue and strategic business services growth was more than offset by declines in legacy services.

Second-quarter operating expenses were \$13.4 billion, essentially stable versus the second quarter of 2015. Operating income totaled \$4.2 billion, down 0.7% year over year. Second-quarter operating income margin was 23.9%, essentially stable from the year-earlier quarter with wireless and IP revenue growth and cost efficiencies largely offsetting declines in legacy services.

BUSINESS WIRELESS FINANCIAL RESULTS

Business wireless revenues were up 2.0% year over year to \$9.7 billion driven by wireless service revenue growth, which offset lower equipment revenues. Wireless service revenues were up 2.7% year over year, reflecting smartphone and tablet gains and continued migration from consumer plans.

BUSINESS WIRELINE FINANCIAL RESULTS

In business wireline, declines in legacy products were partially offset by continued growth in strategic business services. Total business wireline revenues were \$7.8 billion, down 3.4% year over year. When adjusting for the impact of the sale of certain hosting operations and foreign exchange pressures, wireline revenues would have decreased 2.2%, and total wireline data revenues would have declined slightly. Data revenues make up nearly 60% of Business Solutions wireline revenues.

Revenues from strategic business services, the next-generation wireline capabilities that lead AT&T's most advanced business solutions – including VPNs, Ethernet, cloud, hosting, IP conferencing, voice over IP, dedicated internet, U-verse and security services – grew by more than \$200 million, or 8.4%, versus the year-earlier quarter and 9.0% when adjusting for foreign exchange pressure. These services represent an annualized revenue stream of more than \$11 billion.

SUBSCRIBER METRICS

At the end of the second quarter, AT&T had 77.5 million business wireless subscribers. The company added 185,000 postpaid subscribers and 1.2 million connected devices in the second quarter. Postpaid business wireless subscriber churn was 0.91%, stable with the year-ago quarter.

During the quarter, the company also added nearly 20,000 high-speed IP broadband business subscribers. Total business broadband had a loss of 14,000 subscribers in the quarter.

BUSINESS INNOVATION

Through its powerful global networks, AT&T provides integrated solutions to business customers and offers a wide variety of wired and wireless products and services to increase businesses' productivity. AT&T serves millions of business customers, from the largest multinational corporations to small businesses, in all major industries. AT&T continually develops products and services to ensure that its business customers have access to the latest technology solutions. In recent business news, AT&T:

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- ▶ Closed significant business deals with the Department of Veterans Affairs, DuPont, Follett Corporation and Under Armour.
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- ▶ Launched AT&T Network Functions on Demand in 76 countries and territories. The service reduces hardware requirements, allowing businesses to quickly and easily run virtualized network functions on a single universal piece of equipment. AT&T Network Functions on Demand offers a simple, more agile network experience to businesses around the world.
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- ▶ Announced our first AT&T Network Functions on Demand customer, Fisher & Paykel Appliances Ltd. Fisher & Paykel plans to use the service to launch, change and manage network functions in its offices around the world. The service will help Fisher & Paykel quickly respond to evolving business needs by simplifying its on-site network infrastructure management.

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- ▶ Introduced AT&T Threat IntellectSM, a security foundation including specialized people, processes and advanced analytical tools unique to AT&T, to help businesses identify and mitigate threats faster and more efficiently. AT&T secures more connections than any communications company in North America.
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- ▶ Released the third AT&T Cybersecurity Insights report on breach preparedness to help businesses prepare for security incidents and take appropriate precautions.
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- ▶ Renewed AT&T's long-running relationship with NBC Olympics, a division of the NBC Sports Group. NBC will utilize AT&T networking services and integrated solutions for its production of the Olympic Games during the Games of the XXXI Olympiad in Rio de Janeiro, Brazil this August.
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- ▶ Continued our business fiber momentum by launching blazing-fast 1 gigabit speeds in more than 220 markets over AT&T Business Fiber.

Entertainment Group



AT&T's Entertainment Group provides entertainment, high-speed internet and communications services predominantly to residential customers in the United States.

FINANCIAL HIGHLIGHTS

Total revenues were \$12.7 billion, up 120% versus the year-earlier quarter mostly due to the acquisition of DIRECTV. Also contributing to the gain was continued growth in consumer IP services.

Second-quarter operating expenses were \$11.1 billion, up 85% from a year ago due to the acquisition of DIRECTV. Operating income totaled \$1.7 billion, an increase from a year-ago loss of \$196 million. Second-quarter operating income margin was 13.0%, up from (3.4)% in the year-earlier quarter with satellite and IP revenue growth and cost efficiencies offsetting TV content cost pressure and declines in legacy services.

SUBSCRIBER METRICS

Total video subscribers were down 49,000 in the quarter. The company added 342,000 satellite subscribers in the second quarter. U-verse TV subscribers declined 391,000 as the company continued to focus on profitability and increasingly emphasized satellite sales. The Entertainment Group ended the quarter with 25.3 million video subscribers.

The Entertainment Group had a net gain of 54,000 IP broadband subscribers in the second quarter. Total Entertainment Group broadband subscribers decreased 110,000 in the quarter. IP broadband subscribers at the end of the quarter totaled 12.6 million.

ENTERTAINMENT GROUP INNOVATION

In recent news, the company:

- ▶ Announced that live out-of-market game streaming of DIRECTV NFL SUNDAY TICKET is now available to all NFL SUNDAY TICKET subscribers beginning with the 2016 NFL season.
- ▶ Introduced plans to broadcast more than 20 MLB Network Showcase Games in 4K Ultra HD. The company also broadcast portions of the Masters, U.S. Open and AT&T Byron Nelson golf tournaments in 4K Ultra HD.
- ▶ Premiered the docu-series, *My Fighting Season*, which tells the stories of soldiers deployed in Afghanistan, exclusively on the AUDIENCE Network®. *My Fighting Season* is the follow-up to the popular series *The Fighting Season*, both directed by Ricky Schroeder.
- ▶ Launched AT&T GigaPower in 7 major metro areas: El Paso, Fresno, Indianapolis, Oklahoma City, San Diego, San Francisco and San Jose. The company also announced the launch of GigaPower in multiple premier apartment and condo communities.

Consumer Mobility



The Consumer Mobility segment provides nationwide wireless service to consumer and wholesale subscribers located in the United States or in U.S. territories. Our U.S. wireless network powers voice and data services, including high-speed internet, video entertainment and home monitoring services.

FINANCIAL HIGHLIGHTS

Total revenues from Consumer Mobility customers totaled \$8.2 billion, down 6.5% versus the year-earlier quarter, reflecting declines in equipment revenues from lower handset sales and in postpaid service revenues due to the success of Mobile Share Value plans and migrations to business plans. Second-quarter operating expenses were \$5.6 billion, down 8.5% versus the second quarter of 2015, reflecting lower equipment and commission costs as well as increased efficiencies.

AT&T's Consumer Mobility operating income totaled \$2.6 billion, down 1.7% versus the second quarter of 2015. Second-quarter operating income margin was 31.4%, up from 29.9% in the year-earlier quarter with lower volumes, fewer subsidized sales and cost efficiencies more than offsetting pressure from customers choosing Mobile Share Value plans. Consumer Mobility EBITDA margin was 42.8%, compared to 40.6% in the second quarter of 2015. (EBITDA margin is operating income before depreciation and amortization, divided by total wireless revenues.) EBITDA service margin was 50.5%, up from 48.3% in the year-ago quarter. (EBITDA service margin is operating income before depreciation and amortization, divided by total service revenues.)

SUBSCRIBER METRICS

At the end of the second quarter, AT&T had 54.3 million Consumer Mobility subscribers. In the quarter, the company lost 10,000 total subscribers with 72,000 postpaid net adds and 365,000 prepaid subscriber net adds mostly offsetting losses of 446,000 reseller subscribers. Consumer Mobility postpaid churn was 1.09%, compared to 1.16% in the year-ago quarter.

CONSUMER MOBILITY INNOVATION¹

AT&T is a leader in mobile internet, delivering expanded choice in devices, services and applications. In recent weeks, AT&T:

- ▶ Launched a new AT&T Unlimited Plan for connected car customers. Customers with the Unlimited Plan can now add select connected cars or a ZTE Mobley vehicle Wi-Fi plug-in device to their plans for \$40 per month or get 1GB of data per month for \$10 per connected car or ZTE Mobley.^{1,2}
- ▶ Introduced AT&T Next/AT&T Next Every Year, a new simplified offer which provides well-qualified buyers the choice to purchase a smartphone for \$0 down, dividing the retail price of a smartphone into low monthly installment payments. Buyers also have the choice to pay an optional down payment up front to reduce their monthly payments.

- ▶ Launched the AT&T THANKSSM program to show customers how much they mean to the company through unique benefits, perks and experiences. Qualifying AT&T postpaid wireless customers can get a free movie ticket on AT&T when they buy one at full price for a Tuesday showing.
- ▶ Announced that customers can get Mexico roaming for no additional charge when they switch to new Mobile Share Value 15GB and higher plans. These customers get unlimited calling, texting and data in and between Mexico and the United States. New and existing customers with an AT&T Unlimited Plan can say goodbye to roaming charges in both Mexico and Canada. They can talk, text and use data in and between the United States, Mexico and Canada with no roaming charge.
- ▶ Expanded the Cricket distribution network to nearly 14,000 outlets across the country through deals with a number of major retailers, including GameStop and Sam's Club, both of which recently expanded their distribution networks.

¹Requires plan charge (\$60/month) + \$40 per month access charge each. Also requires eligible TV service or AT&T will put you on 10 GB plan (Overage \$15/GB) or your old plan (restrictions apply). After 22GB of data usage, AT&T may slow speeds. Coverage & service not available everywhere. Additional usage and other terms and restrictions apply. See att.com/unlimitedplan for details.

²Requires AT&T 1GB Car Plan. Overage charges of \$15 per GB apply. Requires AT&T Unlimited Plan on same account or AT&T will put you on the 1GB Data Connect for Cars plan for \$20 per month (overage \$10 per 1GB).

International



The International segment includes wireless services in Mexico and satellite entertainment services in Latin America.

Total International revenues totaled \$1.8 billion. Second-quarter operating expenses were \$2.0 billion. AT&T's International operating loss totaled \$193 million. Second-quarter operating income margin was (10.6)%.

MEXICO

AT&T owns and operates a wireless network in Mexico. AT&T covered about 65 million people in Mexico with 4G LTE at the end of the second quarter and expects to cover 100 million POPs by the end of 2018.

Total wireless revenues from Mexico totaled \$606 million. Second-quarter operating loss was \$225 million, reflecting continued investment in operations, network and subscriber acquisition. In the quarter, AT&T added 165,000 postpaid subscribers and 614,000 prepaid subscribers to reach nearly 10 million total wireless subscribers in Mexico.

DIRECTV LATIN AMERICA

AT&T is a leading provider of pay television services in Latin America and owns 100% of its satellite operations serving Argentina, Chile, Colombia, Ecuador, Peru, Uruguay, Venezuela and parts of the Caribbean. It also owns approximately 93% of Sky Brasil and 41% of Sky Mexico. Sky Mexico financial results are accounted for as an equity method investment.

DIRECTV Latin America revenues reflect macroeconomic pressure with weakening local currencies. Total revenues from Latin America were \$1.2 billion. Operating income was \$32 million.

Second-quarter subscriber net adds were 87,000, driven by gains in Argentina overcoming subscriber pressure caused by the earthquake in Ecuador. Total subscribers at the end of the quarter were 12.5 million. Sky Mexico added 121,000 subscribers in the second quarter and had approximately 7.8 million subscribers as of June 30, 2016.

INTERNATIONAL HIGHLIGHTS

In recent weeks AT&T:

- ▶ Positioned the company as a better alternative for wireless services in Mexico. The company has achieved or surpassed expectations by deploying a 4G LTE network, expanding distribution to match LTE network reach and maintaining offers that lead the industry in transparency and simplicity. Specifically, the company:
 - Expanded its 4G LTE network to cover 65 million people in 61 cities.
 - Added over 600 new points of sale throughout the country.
 - Rebranded stores serving more than two-thirds of Iusacell and Nextel Mexico customers to AT&T and successfully relaunched the Unefon prepaid challenger brand.

AT&T Mobility



AT&T's U.S. mobility operations are divided between the Business Solutions and Consumer Mobility segments. For comparison purposes, the company is providing supplemental information for its total domestic mobility operations.

FINANCIAL HIGHLIGHTS

Wireless revenues reflected lower service revenues from the adoption of Mobile Share Value plans and equipment revenues primarily from lower handset upgrades.

- ▶ Total wireless revenues were \$17.9 billion, down 2.1% year over year, mostly due to decreases in equipment revenue. Wireless service revenues of \$14.9 billion were down 1.3% year over year with continued growth of smartphones and tablets partially offsetting continued adoption of Mobile Share Value plans. Wireless equipment revenues decreased 5.5% to \$3.0 billion, due to lower sales volumes and higher bring your own device (BYOD) subscribers in the quarter.
- ▶ Second-quarter wireless operating expenses totaled \$12.6 billion, down 3.2% year over year, reflecting greater operating efficiencies and lower sales volumes, which offset higher promotional costs. Wireless operating income was \$5.3 billion, up 0.8% year over year even with increased promotional activity and continued adoption of Mobile Share Value plans.
- ▶ Wireless margins reflect adoption of AT&T NextSM, increases in BYOD customers, lower smartphone upgrade volumes and continued efforts to drive operating costs out of the business. AT&T's reported second-quarter wireless operating income margin expanded to 29.8%, versus 29.0% in the year-earlier quarter.
- ▶ Wireless EBITDA margin was a record 41.4%, compared to 40.1% in the second quarter of 2015. Wireless EBITDA service margin was AT&T's best ever at 49.8%, up from 48.5% in the year-ago quarter.

ARPU

The continued adoption of AT&T Next is reflected in postpaid service ARPU (average revenues per user).

- ▶ Phone-only postpaid ARPU decreased 2.4% versus the year-earlier quarter but was stable sequentially; however, phone-only postpaid ARPU with AT&T Next monthly billings increased 2.5% year over year. This growth comes even with low upgrade volumes and an increasing number of customers holding onto their devices after completing Next payments.

SUBSCRIBER METRICS

In the second quarter, AT&T posted a net increase in total wireless subscribers of 1.4 million to reach nearly 132 million in service, up 7.9 million over the past year.

- ▶ The company added 257,000 postpaid subscribers and 365,000 prepaid subscribers with gains in both Cricket and GoPhone.
- ▶ AT&T also added 1.2 million connected devices and lost 459,000 reseller subscribers in the quarter, largely due to disconnects from our 2G network. The company added 319,000 postpaid tablet and computing devices in the quarter and lost 180,000 postpaid phone subscribers with losses in lower-ARPU feature phones.
- ▶ The company had 622,000 branded net adds (both postpaid and prepaid) in the quarter, including 348,000 branded smartphone net adds. Nearly 800,000 total branded smartphones were added to the base.

CHURN

Improvements in postpaid and prepaid churn helped offset higher connected device and reseller churn.

- ▶ Postpaid churn was 0.97%, compared to 1.01% in the year-ago quarter. That's AT&T's second-lowest postpaid churn ever. Total churn was 1.35%, up from 1.31% in the year-ago quarter largely due to higher connected device and reseller churn.

SMARTPHONES

The company's branded smartphone base continued to grow in the quarter, and even more customers moved off the subsidy model – either choosing AT&T Next or bringing their own devices.

- ▶ The company had 6.4 million branded smartphone gross adds and upgrades in the quarter, including 1.6 million prepaid smartphones. The postpaid upgrade rate in the quarter was 4.6%.
- ▶ Sales on AT&T Next were 4.0 million, or 83% of all postpaid smartphone gross adds and upgrades. The company also had a second-quarter record 477,000 BYOD gross adds. That means about 93% of smartphone transactions in the quarter were non-subsidy.
 - About 50% of the company's postpaid smartphone base is currently on AT&T Next, with almost 75% of postpaid smartphone subscribers on no-device-subsidy plans.

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- ▶ At the end of the quarter, 89%, or 58.5 million, of AT&T's postpaid phone subscribers had smartphones. Smartphones accounted for 96% of postpaid phone sales during the quarter. AT&T's ARPU for smartphones is about twice that of non-smartphone subscribers.

DATA PLANS

Many customers continue to choose Mobile Share Value plans. Customers also responded to the company's unlimited wireless with video subscription offer. More than 5 million wireless subscribers are on the new plans.

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- ▶ The total number of Mobile Share accounts was 20.4 million with an average of about 3 devices per account. Nearly 40% of Mobile Share accounts are on 15 gigabyte or larger data plans.

THIRD-QUARTER 2016 EARNINGS**DATE: OCTOBER 25, 2016**

AT&T will release third-quarter 2016 earnings on October 25, 2016, after the market closes.

The company's Investor Briefing and related earnings materials will be available on the AT&T website at www.att.com/investor.relations by 4:30 p.m. Eastern time.

AT&T will also host a conference call to discuss the results at 4:30 p.m. Eastern time the same day. Dial-in and replay information will be announced on First Call approximately 8 weeks before the call, which will also be broadcast live and will be available for replay over the internet at www.att.com/investor.relations.

CAUTIONARY LANGUAGE CONCERNING FORWARD-LOOKING STATEMENTS

Information set forth in this Investor Briefing contains financial estimates and other forward-looking statements that are subject to risks and uncertainties, and actual results may differ materially. A discussion of factors that may affect future results is contained in AT&T's filings with the Securities and Exchange Commission. AT&T disclaims any obligation to update or revise statements contained in this Investor Briefing based on new information or otherwise.

This Investor Briefing may contain certain non-GAAP financial measures. Reconciliations between the non-GAAP financial measures and the GAAP financial measures are available on the company's website at www.att.com/investor.relations.

The "quiet period" for FCC Spectrum Auction 1000 (also known as the 600 MHz incentive auction) is now in effect. During the quiet period, auction applicants are required to avoid discussions of bids, bidding strategy and post-auction market structure with other auction applicants.

AT&T INVESTOR BRIEFING

The AT&T Investor Briefing is published by the Investor Relations staff of AT&T Inc. Requests for further information may be directed to one of the Investor Relations managers by phone at 210-351-3327.

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