

AT&T	
Ticker Site BiG	T
Ticker BiGlobal Trade	T
Ticker BT24	T
Ticker BiG Power Trade	T
P/E Ratio 2020E	8,55
P/BV Ratio	1,10
EV/EBITDA	7,14

Source: BiG Research; Company's data

Price and Performance (Values in USD)	
Price	27,06
52 week high	39,70
52 week low	26,08
YTD	-30,8%
Average daily volume (un)	36.065.248
Market Capitalization (mn)	192.767
Beta	0,93
Dividend	2,05
EPS	1,90

Source: BiG Research; Company's data

Financial Data	
Sales (USD mn)	181.193
EBITDA (USD mn)	61.856
Number of Employees	247.800
ROA	2,0%
ROE	6,1%
D/E	0,93
Dividend Yield	7,69%

Source: BiG Research; Company's data

Notes:

All quotes were updated in Bloomberg at 14h55 of October 27th, 2020.

AT&T (Ticker: T US)

Description

AT&T is an American telecom and media company. In 2018 it completed the acquisition of TimeWarner enhancing this way its portfolio of films and series content. It also provides wireless and video services in Mexico and other LatAm countries.

AT&T trades in the NYSE with a market capitalization of USD 192 bn.

Investment Case

Acquisition of content from TimeWarner: This new content enables AT&T to offer its wireless and cable customers higher quality content at possibly a lower price or in bundles of services. Usually cable companies have to pay content distributors fees for distributing the content. So, it is evident the advantage in having high quality content in house to cable companies. At the same time, AT&T will now have a higher negotiating power when selling this content to other cable companies.

Streaming content growth: The streaming business model has been proved successful by Netflix, and now it's the time for the media giants to create their own. AT&T will be able to use all its content to make its streaming service HBO Max attractive to customers and intends to achieve 50 mn domestic subscribers until 2025. The cross-selling of the streaming service to its telecom customers should assure a rapid growth. On the other hand the shift towards streaming platforms damages the Pay TV business of AT&T.

High dividend yield: AT&T's dividend yield of more than 7% is sustainable giving the strong cash generation of the company. Operational cash flow is around USD 40bn of which USD 20bn are used for Capex and the remaining USD 20bn is available for paying the dividend (around USD 13bn) and to reduce leverage.

De-leveraging: One of the main concerns of the market is the amount of debt that AT&T currently has. However, the company also generates a very strong cash flow, which will use to reduce it in 2019 as it is their top priority. The company has also said it will raise more cash through non-core asset sales. Net Debt increased to USD 171bn at the end of 2018, due to TimeWarner acquisition, but since then it has declined to USD 149 bn.

Xandr as an advertising opportunity: Xandr is a segment that utilizes AT&T customers data to deliver target advertising. The service is still in the early stage, generating around USD 1.5bn per year in revenues but has a high EBITDA margin (around 70%). In 2020 the elections will intensify advertising spending and will benefit this segment.

5G an opportunity and risk: 5G may allow AT&T to gain more customers and drive revenue per customer upwards, however the spectrum and infrastructure needed is very costly and may pressure an already high indebted company.

Talent retention difficulties: In the last acquisitions made by AT&T the management teams of Time Warner and DirecTV exited the company shortly after. Elliott Management an activist fund pointed this fact to explain that AT&T may have a very heavy structure that does not attract nor retains talent.

Covid-19 impact: The main impact has been in the WarnerBros theatrical segment. With cinemas closed or limited, this source of revenue disappeared and AT&T is considering already (as other content producers) to exhibit the new movies directly in the streaming platforms.

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Income Statement

IS (USD mn)	2017	2018	2019
Services	145.597	152.345	163.499
Equipment	14.949	18.411	17.694
Revenues	160.546	170.756	181.193
Cost of equipment sales	18.709	19.786	18.653
Cost of services	21.159	26.727	31.132
Depreciation and Amort.	24.387	28.430	28.217
Sales & Marketing	35.465	36.765	39.422
Impairments	2.914	46	1.458
Other	37.942	32.906	34.356
Operating Expenses	140.576	144.660	153.238
EBIT	19.970	26.096	27.955
Interest expenses	6.300	7.957	8.422
Financial expenses	1.469	6.734	1.065
EBT	15.139	24.873	18.468
Taxes	-14.708	4.920	3.493
Net Income	29.847	19.953	14.975
Earnings Per Share	4,77	2,85	1,90

Source: Company's data

In 2019 AT&T registered revenues of USD 181.2 bn, an increase mainly due to the consolidation of Time Warner. EBIT margin has been around 15%. The company has 4 main segments:

Communications (rev. USD 142bn, EBIT mg 22%) includes the telecom services that the company offers to its clients, which include television and high speed internet services, voice and data services, mobile networks and the sale of phones and other equipment to customers. The decline of Entertainment and Business Wireline revenues is being partially offset by growth of postpaid phone subscribers and ARPU.

WarnerMedia (rev. USD 33.5 bn, EBIT mg 28%) includes the media business, divided between Turner (producer of CNN, Cartoon Network and TNT), HBO and WarnerBros (which produces series and movies as The Dark Knight, Harry Potter, Lord of the Rings, Man of Steel or Matrix).

LatAm and Vrio (rev. USD 7bn, EBIT mg -9%): This segment includes LatAm telecom operations and Vrio which is one of the main pay tv producers of Latin America.

Xandr (rev. USD 2bn, EBIT mg 65%): advertising unit.

Operating expenses increased due to acquisition of WarnerMedia but also declined in line with the decline of pay tv subscribers as content cost is lower. Interest expense represents a high cost given the amount of debt the company has.

The majority of impairments of 2017 and 2019 relate to abandonment of copper cable assets due to transition of clients to fiber.

FCF (USD mn)	2017	2018	2019
Operational Cash Flow	38.010	43.602	48.668
Business Net Income	29.847	19.953	14.975
Depreciation and Amort.	24.387	28.430	28.217
Amort. of media content	0	3.772	9.587
Changes in Working Capital	-3.609	-10.368	-11.926
Others	-12.615	1.815	7.815
Investment Cash Flow	-18.943	-63.145	-16.690
Capex	-21.550	-21.251	-19.635
Acquisitions / Dispositions	1.182	-41.161	2.875
Financial investments & others	1.425	-733	70
Financial Cash Flow	25.930	-25.989	-25.083
Debt change	36.452	-9.349	-16.771
Share buyback	-430	136	-622
Dividends	-12.038	-13.410	-14.888
Others	1.946	-3.366	7.198
Change in free cash flow	44.997	-45.532	6.895
Cash at the end of period	50.932	5.400	12.295

Source: Company's data

Free Cash Flow

Cash flows are very robust in AT&T business, which generates around USD 45bn of OCF per year, of which uses USD 20bn for Capex and the rest for dividends, buybacks and debt repayments. The company is also selling non-core assets in order to raise money to decrease debt. In 2019 it raised USD 2bn from sale of Hudson Yards North Towers Holdings, Hulu for USD 1.4bn and in 2018 some data centers for USD 1.1 bn. In 2020 completed the sale of wireless and wireline operations in Puerto Rico and Virgin Islands for USD 2 bn.

Balance Sheet

Net Debt increased to USD 171bn at the end of 2018, due to TimeWarner acquisition, but since then it has declined to USD 149 bn.

Under **Property, Plant and Equipment**, AT&T had at end of 2019, USD 39bn in buildings, USD 96 bn in central office equipment, USD 72 bn in cable, wiring and conduit, USD 95 bn in other equipment and USD 22 bn in software.

Goodwill is a big chunk of assets, USD 146 bn. This poses the risk of massive impairments in case the perspectives of future income from these assets deteriorate. Relative to the last acquisitions it was recorded a Goodwill of USD 41 bn from TimeWarner, USD 1.2 bn from Otter Media, USD 1.2 bn from AppNexus. It also has USD 3.7 bn related to its Latin America business and USD 100 bn related to communications.

Intangibles reach around USD 150 bn related to Wireless licenses (USD 3 bn), Trademarks (USD 17 bn), distribution network (USD 15bn), released content (USD 6bn), customer lists (USD 6bn) and some indefinite assets without amortization such as Wireless licenses (USD 84 bn), orbital slots (USD 12 bn) and trade names (USD 6 bn).

BS (USD mn)	2018	2019	3Q20
Assets	531.864	551.669	538.553
Cash & Equivalents	5.204	12.130	9.758
Receivables	26.472	22.636	19.379
Inventories	7.713	12.434	13.948
Property Plant & Equipmen	131.473	130.128	128.722
Operating lease right-of-use	-	24.039	24.546
Intangible Assets & Goodw	310.197	303.849	297.432
Other Assets	50.805	46.453	44.768
Liabilities	337.980	349.735	343.497
Short term Debt	10.255	11.838	5.898
Long term Debt	166.250	151.309	152.980
Payables & accrued expen:	43.184	45.956	42.728
Deferred income taxes	57.856	59.502	60.448
Other liabilities	60.435	81.130	81.443
Equity	193.884	201.934	195.056
Equity + Liabilities	531.864	551.669	538.553

Source: Company's data

Analyst:
João Calado, CFA

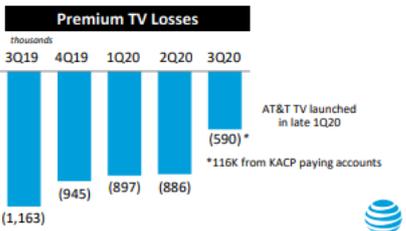
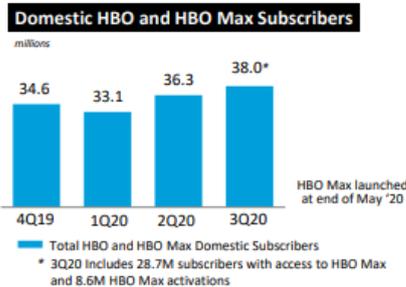
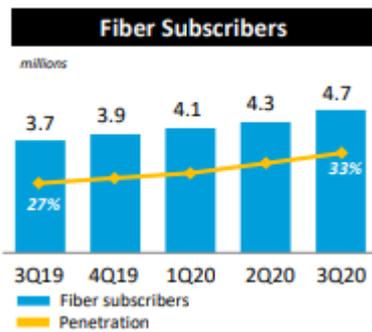
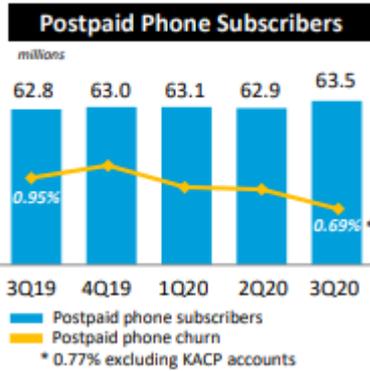
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▲ **Third Quarter Earnings**

In the quarter, AT&T achieved revenues of USD 42.34 bn (-5% yoy) vs est. USD 41.66 bn and EPS of USD 0.76 vs est. USD 0.94.

Covid-19 was responsible for an impact of USD 2.5 bn in revenues and USD 1.9 bn in adj. EBITDA in this quarter. Mostly in WarnerMedia segment of cinemas.



Source: AT&T

Analyst:
João Calado, CFA

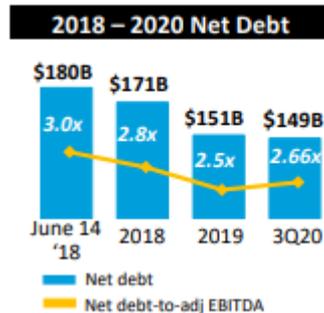
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Revenues (\$M)	3Q20	3Q19	% Change	\$ Change	COVID impact (estimated)
Mobility	17,894	17,701	1.1%	193	(450)
Wireless service revenue	13,883	13,930	-0.3%	(47)	(450)
Entertainment Group	10,053	11,197	-10.2%	(1,144)	(125)
Business Wireline	6,340	6,503	-2.5%	(163)	(90)
WarnerMedia ¹	7,514	8,350	-10.0%	(836)	(1,595)
Latin America	1,396	1,730	-19.3%	(334)	(300)
Other ²	(857)	(893)	-4.0%	36	35
Total	42,340	44,588	-5.0%	(2,248)	(2,525)

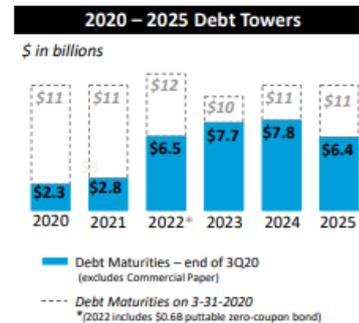
Adj. EBITDA (\$M)	3Q20	3Q19	% Change	\$ Change	COVID impact (estimated)
Mobility	7,712	7,753	-0.5%	(41)	(485)
Entertainment Group	2,056	2,400	-14.3%	(344)	(85)
Business Wireline	2,507	2,481	1.0%	26	(100)
WarnerMedia ¹	1,930	3,021	-36.1%	(1,091)	(1,055)
Latin America	59	105	-43.8%	(46)	(135)
Other ³	(951)	(681)	39.6%	(270)	(45)
Total	13,313	15,079	-11.7%	(1,766)	(1,905)

Source: AT&T

At end of the quarter AT&T had USD 149 bn in net debt (net debt/EBITDA 2.7x), with USD 10 bn in cash. AT&T expects to complete USD 3bn in sales of non core assets in 4Q 2020.



Source: AT&T



Mobility: Clients increased by 1.1 mn in postpaid phone. Postpaid phone-only ARPU decreased to USD 54,7 due to lower international roaming revenues. Churn in postpaid was 0.85% vs 1.19% in 3Q19.

Entertainment Group: Decline of 10% due to loss of pay tv subscribers (-590,000). AT&T TV NOW lost 37,000 subscribers. In broadband there were 158,000 net adds.

Business Wireline: Services increased only +1.7% yoy.

WarnerMedia: Mainly impacted by theatrical rev. decline. Turner rev. +5.6% yoy due to more ads. Subscribers of HBO reached 57 million worldwide, of which 38 mn in US. The ones in US only 8.6 mn have HBO Max

LatAm: Negatively affected mainly by FX and Covid-19 impacts.

For 2020 AT&T anticipates FCF of USD 26 bn.

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▲ Third Quarter Conference call with analysts (paraphrasing)**Explain Subscribers growth?**

JS (John Stankey, CEO): Team is focusing on multiple strategies like reengineering the distribution and it has increased efficiency. Making sure to get value to customers. Segment the portions of the market that we think there is a gap and adapt to those segments.

And better churn sustainable?

JS: Satisfaction about our higher quality network has removed a reason for customer to leave. As customers started to go to suburban areas our network quality in that areas helped.

Promotions are also based on our extended customer base and we know that our network is good and if customers leave is only because they have seen other promotions. So now we can compete with that and take the chance to commit them with us for a long term and try to sell them a higher value plan which includes entertainment.

Our base is less committed to contracts vs competitors. But we are working on it and to address the number one reason for people to leave and so maintain the churn low.

Fiber expansion?

JS: The intent is to enter next year in a structure where we are gaining customers, gaining share and increasing broadband. Customers really like the product and we will continue to add fiber footprint and we are going to pick that a bit.

Capex needs to be higher due to fiber deployment?

JS: We will not give guidance for capex at this point. We are comfortable with generation of cash flow. We are working in cost reduction and is helping us to invest in market. But I don't think you will see a significant change in the trajectory we are following.

Higher penetration of fiber. Can you expand significantly the customers available if you speed up the fiber deployment and capex?

JS: Policy currently is attractive for investment. If there is a new administration, we would check what are their plans. We do not need policy to increase investment but we need to know that we won't have a negative consequence of investing. We are in a very good position to monetize the fiber deployment that we are deploying given the number of customers that we already have. I know that as a company we have not squeezed the lemon of that juice quite enough and we want to be more efficient in that deployment and monetization. Sometimes may be a cell tower for 4 operators, sometime millimeter wave, sometimes a family household, and sometimes a company. We want to invest in that and get the good return from it. Fiber is the basis of other network services.

Explain the growth in fiber?

JS: We are a share taker and that is how we are growing. We deploy fiber and we get more market share. If we do it on the right way, we can get value from that, especially when you have a good product like we have. The internet connection has become very important due to Covid-19 and more teleworking. We are now entering markets where the investment to revenue return should be smaller. There is still a lot of unconnected apartments and family homes like Dallas or Los Angeles. People that had only wireless in their house may turn to fiber due to need of more speed.

Quantify cost cutting in 3Q"? Opportunity in next years?

JS: We set a target of 6 bn USD and we are continuing to work towards it. We saw already some benefits from digitalizing the stores and relocate and close some stores.

What opportunities there are in the digitalization of the economy?

JS: Legacy wireline issues are not new and my point of view regarding what matters to subscribers is connectivity and good infrastructure. We are doing much better in customers of wireless where we sell other content to.

WarnerMedia: How things are progressing in production of movies and shows?

JS: We feel much better about the restart of the production. We exited around 180 productions in February, but now we have around 130 running. There were some that we are not going to start again. Theatrical work is underway as well but exhibition is something we do not have visibility on. The Tenet experience was very good, so we may do some geographic theatrical releases, maybe in holiday season. Moving into next year will be very difficult, we are not optimistic regarding theatrical releases. We are evaluating our options and in next month or two we will decide on what plan to follow. We also don't have much visibility on sports and how many events and when will happen in next year.

HBO MAX initiative? Context on international launches? Ad service?

JS: It is playing out like we expected (except for the pandemic effects). The customer retention game is related to library. We had an objective of how many minutes we wanted the customer to engage and we achieved that objective. The pandemic put us on the tough spot on originals which drive the growth in customer base. We could have done better if we had the originals we planned initially but now production is ramping up and will help us.

On international our focus is on LatAm and certain parts of Western Europe. Teams are working on it. Subscriber counts we gave in October are consistent with current performance and we maintain it.

The price point will be maintained given the quality of content. There is a segment that will pay that price, but other will prefer a lower price but with some ads, and we want to take advantage of that part.

Acceleration of decline of premium tv?

JS: I don't know what the rate of decline will be. There is certain sport content that will maintain some households in premium. One of the reasons for HBO Max is to be where customers want to be and we have the opportunity to get those customers in the new service.

Free Cash flows north of 26bn. Is that related to lower capex or tax, and how promotions will affect that number? If Biden proposal goes through, what will that mean for AT&T?

JS: Some of the benefit have come from tax and cares act. The resilience in products and growth in customers and sales will give us resilience. We feel good about the dividend payment. On tax reform, it is an issue, and is an incentive for capex and we generate a lot of investment and jobs. Over the last years this incentive to invest was supported by democrats and republicans.

You are not getting paid on the high dividend you give to the market. Why not prioritize other capital deployments?

JS: There is a discontinuity in the yield vs what we are paying but that problem will take care of itself. We think that when we have visibility, we may think about capital allocation. We also want to pay down debt and we will think about what to do on equity side. But we would like to have more visibility first.

Management Team

Source: AT&T

John Stankey (CEO of AT&T): John began its mandate as CEO in July of 2020, having previously the role of COO. John led the acquisition of DirecTV in 2015 and Time Warner in 2018. He graduated in Finance in Loyola Marymount University and has an MBA from UCLA. After university, Stankey worked for Southwestern Bell Corporation becoming Executive President of Industry Markets in 1998. He became CIO of the new company after the merger between SBC and AT&T in 2005. Was CTO from 2008 to 2012 in AT&T. Stankey serves also in the board of UPS.

Main views according to an interview in October 2020: (paraphrasing)

Main priorities: Invest in wireless networks and in content, ensure dividend payment and decrease debt. We want to execute well to achieve growth.

Acquisitions are not a priority. If there are opportunities for divest something in portfolio that does not contribute to the long-term growth, we will consider them. Advertising is critical for future of AT&T so we will not abandon that.

We want to establish credibility by communicating what we are going to do and then fulfilling that. And in HBO we are achieving it as presented in October of 2019, by managing to grow subscribers when in the last 5 years we had plateaued.

How many streaming services will exist in the future?

Difficult to predict exact number but looking at past industry dynamics, in broadcast networks the industry settled with 4, in cable companies and telecoms it also declined to 4. We may probably get the same situation here where 4 or 6 will have the necessary dimension to survive.

Will Cinemas get back to normal?

Certain content that its better displayed in cinema will continue, and it is still a good experience. However, Cinema operators will have to adapt and maybe change their business model. But for content creators it is very important to be able to adapt the content to either direct customer or cinemas. And consequently, we have now Casey Bloys responsible for overseeing the content creation in Warner Media to then lead the choice of where the content should go.



Source: AT&T

Randall Stephenson (Chairman and former CEO): Randall was Chairman and CEO of AT&T since May of 2007 to 2020. From July of 2020 until January of 2021 Randall will still be the chairman of the company. After earning his degree in Oklahoma he went working for the Southwest Bell Telephone in 1982. After he had a role in several finance positions in Telmex where he was mentored by Carlos Slim. In 2001 was appointed CFO of SBC where he managed to reduce its USD 30bn of debt to zero in 3 years. Later when SBC acquired AT&T he was COO.

In 2018 Randall received from AT&T around USD 18.8mn, including salary (USD 1.8mn), stocks and options (USD 11.8mn), bonus (USD 5.2mn) and other benefits.



Source: AT&T

Jason Kilar (CEO of WarnerMedia): Jason was the founder of Hulu and run the company until 2013 when Hulu achieved USD 1 bn in revenues. His career begun in 1993 in The Walt Disney. After receiving and MBA from Harvard in 1997, he led Amazon's books, music and video businesses in North America.

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Recent changes: in August of 2020, Warner Media laid off hundreds of employees across Warner Bros, HBO and DC Entertainment. These changes included the departure of Warner Media chairman Bob Greenblatt and HBO Max chief content officer Kevin Reilly. Ann Sarnoff was promoted to lead the new content group (which includes Warner Bros, HBO, HBO Max, TNT, TBS and truTV) and Casey Bloys will report directly to her. Bloys was president of HBO programming but will oversee original content for HBO Max and TNT, TBS and truTV.



Source: AT&T

▲ Elliott Management (activist fund and shareholder)

On September of 2019, Elliott Management disclosed a stake of USD 3.2 bn in the company and proposed a series of recommendations for the board in a letter, in order to underline several value creation opportunities for the company. The fund believed that a USD 60 per share could be reached until end of 2021.

Underperformance of management: The activist fund starts to explain how AT&T has been underperforming more than 100% since the new management was nominated in 2007, especially due to 3 M&A failures: the failed attempt to acquire T-Mobile in 2011, the acquisition of DirecTV in 2014 and the recent acquisition of TimeWarner. The fund says that T-Mobile got a break up fee and other conditions from the failure of the deal to improve its own business and become a strong competitor, while DirecTV was acquired at the peak of its Premium TV business performance which has been lagging since. As for TimeWarner, it is not the acquisition itself a problem, but the strategy which had not been yet fully described and explained to shareholders.

Elliott Management also highlights the departures of DirecTV and TimeWarner after the transactions, affirming that AT&T has difficulties in retaining talent. It also criticizes the decision to promote the current CEO, from CEO of WarnerMedia to COO of the whole company. It states that he lacked relevant experience in telecommunications business, and was chosen just a week after the resignation of the former CEO of AT&T telecommunications, without a deep process of head hunting for the position.

Still, the fund highlights several opportunities for the company:

- **Wireless:** Elliott Management believes “AT&T is in the best position to be the market leader in 5G”, helped by its strong spectrum position (in mmwave and mid-band).
- **Entertainment:** Pay TV subscribers are shifting towards OTT and on-demand consumption models and DSL subscribers upgrading for IP based solutions, however despite some negative impact expected, it should stabilize in a higher value customer mix.
- **Wireline:** AT&T has been investing in fiber and improving its presence in order to be able to serve businesses in an efficient way.
- **WarnerMedia:** Given its valuable content this division will be extremely important for the development of the direct to consumer business.

Reduction of debt through sale of non-core businesses is also suggested: examples like the home security business, regional sports network, CME, Sky Mexico, Latin American pay TV (Vrio) and Puerto Rico operations. Other bigger parts of the business should also be considered such as DirecTV or Mexican wireless or wireline footprint.

Reduction of costs should also be considered in order to achieve a 36% EBITDA margin in 2022, with actions such as:

- Streamline divisions such as finance, HR, marketing, sales or legal that according to the fund's hired consultants are 2x or 3x more costly than in the main peers. It may also outsource more non-core network functions or close some retail stores.

As for capital allocation, Elliot Management, recommends no material M&A, growth of 2% in dividends per year, and post dividend FCF divided between buybacks and debt repayments.

AT&T response:

- Following this letter AT&T CEO since 2007 moved to the Chairman position and the company made a Warner Media day in order to explain its strategy for TimeWarner incorporation with AT&T business. The new CEO chosen was the former COO.
- In the following conference call, AT&T stated that was working actively with Elliott Management and incorporating some suggestions to improve the business.

End of 2019 3-year outlook and capital allocation plan:

- Revenues to grow 1-2% per year through 2022.
- Stable EBITDA margin in 2020
- Expand EBITDA margins by 200 bp in 2022 to 35%.
- FCF is expected to be in the USD 28 bn range in 2020 and then as investments in HBO Max decline and cost reductions are made achieve FCF of USD +1bn in 2021 per year to achieve around USD 30-32 bn in 2022.
- Capex is expected to be USD 20 bn in 2020
- Dividend is expected to continue to increase, and after paying it, AT&T wants to use the extra cash to repurchase the shares issued to finance TimeWarner acquisition.
- Want to reduce 100% of debt used to acquire TimeWarner by 2022
- Does not plan any major acquisition
- Expect EPS between USD 4.5 and 4.8 in 2022.
- Expect monetization of USD 5 to 10 bn in assets in 2020.

2019 Commitments	2019 Accomplishments
Generate \$26 billion in free cash flow	✓ Record free cash flow of \$29 billion ⁴
De-lever to -2.5x net debt-to-adjusted EBITDA	✓ Achieved -2.5x net debt-to-adjusted EBITDA ⁵ ✓ Retired 56 million common shares
Monetize net \$6-8 billion in assets	✓ Overachieved, closed on -\$18 billion
Grow adjusted EPS in the low-single-digit range	✓ Adjusted EPS of \$3.57, up 1.4% ⁶
Deliver on merger plan; HBO Max	✓ \$700 million in synergies ✓ HBO Max unveiled
Grow wireless service revenues	✓ Up nearly 2% for full year
Stabilize Entertainment Group EBITDA	✓ \$10 billion in 2019 vs. \$10 billion in 2018 ⁷
Capital investment in \$23 billion range	✓ \$23.7 billion gross capital investment ⁸
Achieve network leadership	✓ Best and fastest wireless network

Source: AT&T

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▲ Mobility (Communications):

This unit provides wireless services in US, including voice and data.

The industry is trying to attract customers to bundle plans, where multiple services are joined at a lower price, given that these clients have less churn. This way AT&T is trying to bundle home plans with phone, video and even equipment plans. At the same time, has to guarantee that its network is reliable and fast, in order to decrease churn (rate of customers ending the relation with the company).

Clients: As of December 2019 the company had 166mn subscribers, of which 75mn postpaid, 18mn prepaid, 7 mn reseller and 65mn connected devices. In this segment is also included the equipment sales in US.

Communications Business Unit Discussion Mobility Results

	2019	2018	2017	Percent Change	
				2019 vs. 2018	2018 vs. 2017
Operating revenues					
Service	\$55,331	\$54,294	\$57,023	1.9%	(4.8)%
Equipment	15,725	16,227	13,236	(3.1)	22.6
Total Operating Revenues	71,056	70,521	70,259	0.8	0.4
Operating expenses					
Operations and support	40,681	40,690	42,317	—	(3.8)
Depreciation and amortization	8,054	8,263	7,931	(2.5)	4.2
Total Operating Expenses	48,735	48,953	50,248	(0.4)	(2.6)
Operating Income	22,321	21,568	20,011	3.5	7.8
Equity in Net Income (Loss) of Affiliates	—	—	—	—	—
Operating Contribution	\$22,321	\$21,568	\$20,011	3.5%	7.8%

The following tables highlight other key measures of performance for Mobility:

Mobility Subscribers

(in 000s)	2019	2018	2017	Percent Change	
				2019 vs. 2018	2018 vs. 2017
Postpaid Phone Subscribers	63,018	62,882	63,197	0.2%	(0.5)%
Total Phone Subscribers	79,700	78,767	77,657	1.2	1.4
Postpaid smartphones	60,664	60,131	59,298	0.9	1.4
Postpaid feature phones and other devices	14,543	15,937	17,376	(8.7)	(8.3)
Postpaid	75,207	76,068	76,674	(1.1)	(0.8)
Prepaid	17,803	16,828	15,154	5.8	11.0
Reseller	6,893	7,693	9,171	(10.4)	(16.1)
Connected devices ¹	65,986	51,332	38,987	28.5	31.7
Total Mobility Subscribers	165,889	151,921	139,986	9.2%	8.5%

¹Includes data-centric devices such as wholesale automobile systems, monitoring devices, fleet management and session-based tablets.

Source: Company's data

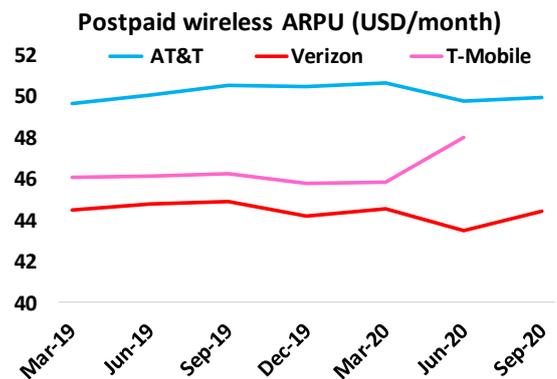
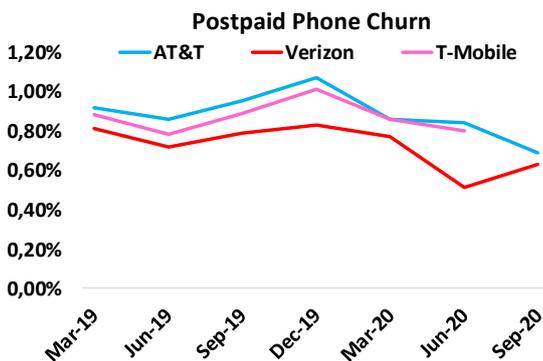
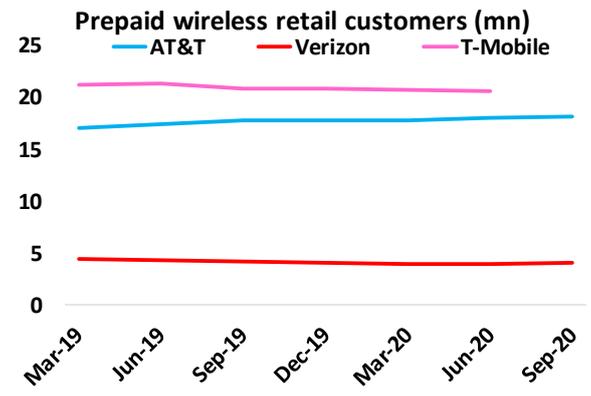
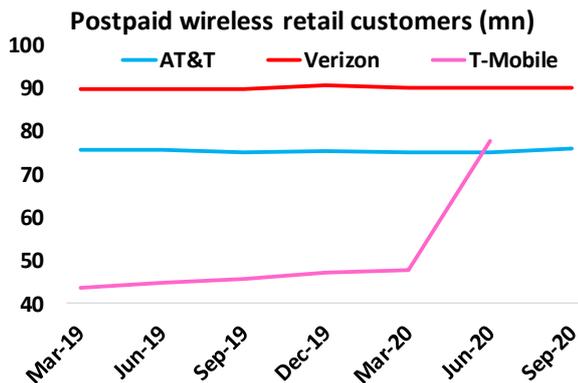
Strategy for charging more to customers: Telecoms are creating plans to differentiate between customers that want to pay for premium internet access vs those which prefer a cheaper plan. Premium internet access is not only 5G speeds but also the priority of access to internet in high speed. In the cheaper plans, customers have unlimited data but AT&T has the right to slow connections when network is busy, while in the more expensive ones, the customer may have 100GB available at always fast speeds before AT&T may slow their speed. They also offer in the most expensive plans, a video streaming (in case of AT&T this is HBO Max) in order to retain customers. Each 0.01% of churn represents USD 100 mn in revenue.

Strategy for increasing number of customers and loyalty: The plans are more expensive for an individual phone, however if clients have more phones from family associated then the price for each plan drops. The most expensive wireless plan for AT&T customers is USD 85 per month if purchased individually, but in a family with 4 phones connected, the price drops to USD 50 each.

Importance of 5G in strategy: 5G is for now more marketing than something of special importance to the general public. 4G+ speeds are very fast already and enough to stream videos and music with quality. Verizon opted for having less area covered with 5G but near their hotspots and always outside, you can get the highest speed available (sometimes above 1.7 Gbits per second). T-Mobile on the other hand, opted for having more areas covered with 5G but on a higher band frequency and consequently the speed is much slower, being almost similar to 4G. AT&T is somewhere in the middle, with broader area covered but at lower speeds than Verizon.

Competition in Telecom market:

There are certain differences in strategy of the 3 main telecom companies in US. Verizon is focused on the more premium customers of postpaid, while T-Mobile has much more exposure to the segment of lower revenue prepaid customers. AT&T is somewhere in the middle, however was able to achieve the highest Average Revenue Per User (ARPU) in Postpaid. The three companies noted a decline in churn this year, partially due to Covid-19 restrictions which made consumers reluctant to change from one network operator to another.



Source: Company's data; BiG Research

5G: In the 5G, the companies are replicating their strategies on 4G with T-Mobile opting for the low income customers that don't mind a lower quality service (lower internet speeds) while Verizon is betting on the premium market, by having already millimeter wave with speeds above what the customers may even need or are able to use.

Verizon: has more millimeter wave band, so the faster 5G speeds but on a very limited covered area.

T-Mobile / Sprint: Have a low band which only achieves speeds similar to 4G. Acquired in the Sprint transaction, on average 160 MHz of 2.5 GHz in the top 100 markets. T-Mobile owns more low and mid-band spectrum than AT&T and Verizon together. Verizon asked regulator to analyze the concentration of spectrum in T-Mobile after this company made arrangements with Columbia Capital for leasing of 600 MHz spectrum. AT&T also made a complaint stating that after the T-Mobile Sprint merger, the new entity "exceeds the Commission's spectrum screen, often by a wide margin, in Cellular Market Areas (CMAs), representing 82% of the US population, including all major markets". If FCC finds that these limits were exceeded it may require a sale of some spectrum by T-Mobile.

Entertainment Group (Communications):

Entertainment Group provides video, including OTT (over-the-top) services, broadband and voice communications services to residential customers. It also sells ads on DirecTV and U-verse distribution platforms.

The video entertainment business is ending as more customers shift from pay tv towards streaming of content. The blackout periods where customers lose access to content usually also drives them away from pay tv.

In 2019, total video subscribers declined by around 4 mn to 20.4 mn as consumers are shifting from satellite-TV to online video. IP broadband subscribers (fibre and DSL internet) declined to 13.6mn but are increasingly purchasing higher speed internet.

Entertainment Group Results

	2019	2018	2017	Percent Change	
				2019 vs. 2018	2018 vs. 2017
Operating revenues					
Video entertainment	\$32,110	\$33,357	\$36,167	(3.7)%	(7.8)%
High-speed internet	8,403	7,956	7,674	5.6	3.7
Legacy voice and data services	2,573	3,041	3,767	(15.4)	(19.3)
Other service and equipment	2,040	2,106	2,387	(3.1)	(11.8)
Total Operating Revenues	45,126	46,460	49,995	(2.9)	(7.1)
Operating expenses					
Operations and support	35,028	36,430	38,903	(3.8)	(6.4)
Depreciation and amortization	5,276	5,315	5,621	(0.7)	(5.4)
Total Operating Expenses	40,304	41,745	44,524	(3.5)	(6.2)
Operating Income	4,822	4,715	5,471	2.3	(13.8)
Equity in Net Income (Loss) of Affiliates	—	—	—	—	—
Operating Contribution	\$ 4,822	\$ 4,715	\$ 5,471	2.3%	(13.8)%

The following tables highlight other key measures of performance for Entertainment Group:

Connections

(in 000s)	2019	2018	2017	Percent Change	
				2019 vs. 2018	2018 vs. 2017
Video Connections					
Premium TV	19,473	22,903	24,089	(15.0)%	(4.9)%
AT&T TV NOW	926	1,591	1,155	(41.8)	37.7
Total Video Connections	20,399	24,494	25,244	(16.7)	(3.0)
Broadband Connections					
IP	13,598	13,729	13,462	(1.0)	2.0
DSL	521	680	888	(23.4)	(23.4)
Total Broadband Connections	14,119	14,409	14,350	(2.0)	0.4
Retail Consumer Switched Access Lines	3,329	3,967	4,774	(16.1)	(16.9)
U-verse Consumer VoIP Connections	3,794	4,582	5,222	(17.2)	(12.3)
Total Retail Consumer Voice Connections	7,123	8,549	9,996	(16.7)	(14.5)
Fiber Broadband Connections (included in IP)	3,887	2,763	1,767	40.7%	56.4%

Source: Company's data

Fiber deployment program: AT&T has been deploying fiber in order to increase the speed of the internet provided and so be able to gain competitive advantage and charge higher prices. At end of September 2020 AT&T had already 15,375 thousand broadband connections, of which 4,678 of fiber.

Business Wireline (Communications):

In this segment are included the services provided by AT&T to corporate clients: data, voice, cloud, VPN, cyber-security, Ethernet and broadband.

In 2019, revenues continued to decline in legacy voice and data services but at a lower pace. Strategic and managed services continue to grow around 5% per year due to growth in cloud, data services and security.

Business Wireline Results

	2019	2018	2017	Percent Change	
				2019 vs. 2018	2018 vs. 2017
Operating revenues					
Strategic and managed services	\$15,440	\$14,660	\$13,880	5.3%	5.6%
Legacy voice and data services	9,180	10,674	13,791	(14.0)	(22.6)
Other service and equipment	1,557	1,406	1,532	10.7	(8.2)
Total Operating Revenues	26,177	26,740	29,203	(2.1)	(8.4)
Operating expenses					
Operations and support	16,091	16,201	18,441	(0.7)	(12.1)
Depreciation and amortization	4,999	4,714	4,756	6.0	(0.9)
Total Operating Expenses	21,090	20,915	23,197	0.8	(9.8)
Operating Income	5,087	5,825	6,006	(12.7)	(3.0)
Equity in Net Income (Loss) of Affiliates	—	—	—	—	—
Operating Contribution	\$ 5,087	\$ 5,825	\$ 6,006	(12.7)%	(3.0)%

Business Solutions Results

	2019	2018	2017	Percent Change	
				2019 vs. 2018	2018 vs. 2017
Operating revenues					
Wireless service	\$ 7,925	\$ 7,323	\$ 7,928	8.2%	(7.6)%
Strategic and managed services	15,440	14,660	13,880	5.3	5.6
Legacy voice and data services	9,180	10,674	13,791	(14.0)	(22.6)
Other service and equipment	1,557	1,406	1,532	10.7	(8.2)
Wireless equipment	2,757	2,510	1,532	9.8	63.8
Total Operating Revenues	36,859	36,573	38,663	0.8	(5.4)
Operating expenses					
Operations and support	22,735	22,608	24,376	0.6	(7.3)
Depreciation and amortization	6,213	5,900	5,859	5.3	0.7
Total Operating Expenses	28,948	28,508	30,235	1.5	(5.7)
Operating Income	7,911	8,065	8,428	(1.9)	(4.3)
Equity in Net Income (Loss) of Affiliates	—	—	—	—	—
Operating Contribution	\$ 7,911	\$ 8,065	\$ 8,428	(1.9)%	(4.3)%

Source: Company's data

Analyst:
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WarnerMedia:

This division was separated in 3 divisions: Turner, HBO and Warner Bros, but in mid 2020 after the Covid-19 impacting cinema revenues, management speed up the aggregation of these 3 units into one. The idea is to produce content altogether and then decide where that content should be monetized, if in cinemas, or directly to consumer through streaming or even licensed to 3rd parties.

2019 was the first year that TimeWarner was fully consolidated in AT&T.

WARNERMEDIA SEGMENT

	2019	2018	2017
Segment Operating Revenues			
Turner	\$13,122	\$ 6,979	\$430
Home Box Office	6,749	3,598	—
Warner Bros.	14,358	8,703	—
Eliminations & Other	(730)	(339)	—
Total Segment Operating Revenues	33,499	18,941	430
Segment Operating Contribution			
Turner	5,199	3,108	140
Home Box Office	2,365	1,384	—
Warner Bros.	2,350	1,449	—
Eliminations & Other	(588)	(246)	(78)
Total Segment Operating Contribution	\$ 9,326	\$ 5,695	\$ 62

Source: Company's data

Streaming:

3 pillars for success in streaming, according to AT&T:

- Premier content
- Technology Platform
- Marketing & Distribution

Type of content:

- New subscribers are driven by **original content**
- Retention of subscribers depends on the **library quality**, which will influence time spent in the platform per day.
- Despite services having more than 35,000 hours of content, half of the platform usage is driven by the top 100 titles. That is why quality is important. As such some of our most popular content will be exclusive to our platform.

Streaming importance for AT&T:

- Shift from consumer spending away from premium tv content towards streaming platforms

Monetization:

- Chance to retain customers by offering its streaming service in telecommunications bundles.
- Sell content directly to customers
- Gain international customers
- Advertising revenues

Products:

- HBO Max will be the leading product
- AT&T TV
- AVOD platforms (Ad-supported Video-On-Demand) to be launched in 2021

Marketing:

- AT&T had in 2019 around 10 mn HBO subscribers through distribution channels that include TV, mobile subscribers and HBO NOW which is served directly by WarnerMedia. AT&T's plan was to allow these subscribers to migrate to HBO Max creating word-of-mouth marketing, momentum and buzz. However, since launch there was only few migrations to the new service.
- AT&T wants also to market the service aggressively to their current 170 mn telecom clients. The objective is to reach 50 mn domestic subscribers by 2025 (Netflix has more than 70 mn subscribers in US nowadays).
- Internationally AT&T wants to expand to get economies of scale and increase content production. Currently it is prioritizing expansion in Latin America and Europe. For example AT&T made an agreement with SKY to produce content in UK, Italy and Germany. IN Central Europe, Spain and Portugal HBO has already 9 mn subscribers. The objective is to reach between 25 to 40 mn subscribers internationally by 2025 (Netflix has more than 60 mn subscribers in EMEA and more than 36 mn in Latin America).

Turner (WarnerMedia):

This unit operates television networks such as CNN, Cartoon Network, TNT, Turner Sports and Boomerang. Its main revenues come from content licensing to other distributors and sale of advertising on its networks and digital properties.

In 2020 this unit should benefit from an increase in advertising connected to presidential election.

Turner Results

	2019	2018	2017
Operating revenues			
Subscription	\$ 7,736	\$4,207	\$365
Advertising	4,566	2,330	65
Content and other	820	442	—
Total Operating Revenues	13,122	6,979	430
Operating expenses			
Operations and support	7,740	3,794	331
Depreciation and amortization	235	131	4
Total Operating Expenses	7,975	3,925	335
Operating Income	5,147	3,054	95
Equity in Net Income of Affiliates	52	54	45
Operating Contribution	\$ 5,199	\$3,108	\$140

Source: Company's data

HBO (WarnerMedia):

Premium pay TV, OTT and streaming services for domestic and international customers. It also includes content licensing.

Home Box Office Results

	2019	2018
Operating revenues		
Subscription	\$5,814	\$3,201
Content and other	935	397
Total Operating Revenues	6,749	3,598
Operating expenses		
Operations and support	4,312	2,187
Depreciation and amortization	102	56
Total Operating Expenses	4,414	2,243
Operating Income	2,335	1,355
Equity in Net Income of Affiliates	30	29
Operating Contribution	\$2,365	\$1,384

Source: Company's data

AT&T expects to achieve 36 mn US subscribers of HBO Max at end of 2020 and 50 mn US subscribers in 2025, generating around USD 5 bn in annual incremental revenue.

WarnerMedia has not yet made an agreement to allow Amazon Fire TV and Roku users to have access to HBO.

Warner Bros (WarnerMedia):

Production, distribution and licensing of television programming and films. Distribution of home entertainment products and production and distribution of games.

Warner Bros. Results

	2019	2018
Operating revenues		
Theatrical product	\$ 5,978	\$4,002
Television product	6,367	3,621
Games and other	2,013	1,080
Total Operating Revenues	14,358	8,703
Operating expenses		
Operations and support	11,816	7,130
Depreciation and amortization	162	96
Total Operating Expenses	11,978	7,226
Operating Income	2,380	1,477
Equity in Net Income (Loss) of Affiliates	(30)	(28)
Operating Contribution	\$ 2,350	\$1,449

In this segment the company has a library of 100,000 hours of programming, including over 8,600 movies and 5,000 tv programs. It also includes a videogame licensing (DC Entertainment, Harry Potter and Mortal Kombat).

Top 20 Movies by Box Office Gross Revenues	Year	Revenues Gross USD
Harry Potter and the Deathly Hallows Part 2	2011	1,341,693,157
Aquaman	2018	1,143,689,193
The Dark Knight Rises	2012	1,084,439,099
The Hobbit: An Unexpected Journey	2012	1,017,003,568
The Dark Knight	2008	1,001,996,207
Harry Potter and the Sorcerer's Stone	2001	975,047,606
Harry Potter and the Deathly Hallows Part 1	2010	960,431,568
The Hobbit: The desolation of Smaug	2013	960,366,855
The Hobbit: The battle of the Five Armies	2014	945,577,621
Harry Potter and the Order of the Phoenix	2007	943,076,457
Harry Potter and the Half Blood Prince	2009	935,213,767
Harry Potter and the Goblet of Fire	2005	897,099,794
Harry Potter and the Chamber of Secrets	2002	879,225,135
Batman vs Superman: Dawn of Justice	2016	867,500,281
Inception	2010	832,402,082
Wonder Woman	2017	821,133,378
Fantastic Beasts and Where to Find Them	2016	802,402,853
Harry Potter and the Prisoner of Azkaban	2004	796,907,323
Suicide Squad	2016	746,059,887
The Matrix Reloaded	2003	738,576,929

Source: The-numbers.com

This segment is one of the main affected in 2020 due to quarantines to stop the spread of Covid-19.

LatAm and Vrio:

LATIN AMERICA SEGMENT

	2019	2018	2017	Percent Change	
				2019 vs. 2018	2018 vs. 2017
Segment Operating Revenues					
Vrio	\$4,094	\$ 4,784	\$5,456	(14.4)%	(12.3)%
Mexico	2,869	2,868	2,813	—	2.0
Total Segment Operating Revenues	6,963	7,652	8,269	(9.0)	(7.5)
Segment Operating Contribution					
Vrio	83	347	522	(76.1)	(33.5)
Mexico	(718)	(1,057)	(788)	32.1	(34.1)
Total Segment Operating Contribution	\$ (635)	\$ (710)	\$ (266)	10.6%	—%

Vrio: It provides entertainment service mostly to residential customers using satellite technology throughout Latin America. Currently the service has around 14mn subscribers.

Vrio Results

	2019	2018	2017	Percent Change	
				2019 vs. 2018	2018 vs. 2017
Operating revenues	\$4,094	\$4,784	\$5,456	(14.4)%	(12.3)%
Operating expenses					
Operations and support	3,378	3,743	4,172	(9.8)	(10.3)
Depreciation and amortization	660	728	849	(9.3)	(14.3)
Total Operating Expenses	4,038	4,471	5,021	(9.7)	(11.0)
Operating Income	56	313	435	(82.1)	(28.0)
Equity in Net Income of Affiliates	27	34	87	(20.6)	(60.9)
Operating Contribution	\$ 83	\$ 347	\$ 522	(76.1)%	(33.5)%

The following tables highlight other key measures of performance for Vrio:

(in 000s)	2019	2018	2017	Percent Change	
				2019 vs. 2018	2018 vs. 2017
Vrio Video Subscribers^{1,2}	13,331	13,838	13,629	(3.7)%	1.5%

Mexico: AT&T offers postpaid and prepaid regional and national wireless services in Mexico to around 18mn subscribers. They also sell equipment. EBITDA is however still negative.

Mexico Results

	2019	2018	2017	Percent Change	
				2019 vs. 2018	2018 vs. 2017
Operating revenues					
Service	\$1,863	\$ 1,701	\$2,047	9.5%	(16.9)%
Equipment	1,006	1,167	766	(13.8)	52.3
Total Operating Revenues	2,869	2,868	2,813	—	2.0
Operating expenses					
Operations and support	3,085	3,415	3,232	(9.7)	5.7
Depreciation and amortization	502	510	369	(1.6)	38.2
Total Operating Expenses	3,587	3,925	3,601	(8.6)	9.0
Operating Income (Loss)	(718)	(1,057)	(788)	32.1	(34.1)
Equity in Net Income of Affiliates	—	—	—	—	—
Operating Contribution	\$ (718)	\$(1,057)	\$(788)	32.1%	(34.1)%

The following tables highlight other key measures of performance for Mexico:

(in 000s)	2019	2018	2017	Percent Change	
				2019 vs. 2018	2018 vs. 2017
Mexico Wireless Subscribers¹					
Postpaid	5,103	5,805	5,498	(12.1)%	5.6%
Prepaid	13,584	12,264	9,397	10.8	30.5
Reseller	472	252	204	87.3	23.5
Total Mexico Wireless Subscribers	19,159	18,321	15,099	4.6%	21.3%

(in 000s)	2019	2018	2017	Percent Change	
				2019 vs. 2018	2018 vs. 2017
Mexico Wireless Net Additions					
Postpaid	(608)	307	533	—%	(42.4)%
Prepaid	1,919	2,867	2,670	(33.1)	7.4
Reseller	219	48	(77)	—	—
Mexico Wireless Net Subscriber Additions	1,530	3,222	3,126	(52.5)%	3.1%

¹ 2019 excludes the impact of 692 subscriber disconnections resulting from the churn of customers related to sales by certain third-party distributors and the sunset of 26 services in Mexico, which are reflected in beginning of period subscribers.

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▲ XANDR:

XANDR: This is a new project of AT&T that intends to use the information gathered from its multiple clients to provide targeted advertising.

XANDR SEGMENT

	2019	2018	2017	Percent Change	
				2019 vs. 2018	2018 vs. 2017
Segment Operating Revenues	\$2,022	\$1,740	\$1,373	16.2%	26.7%
Segment Operating Expenses					
Operations and support	646	398	169	62.3	—
Depreciation and amortization	58	9	2	—	—
Total Segment Operating Expenses	704	407	171	73.0	—
Segment Operating Income	1,318	1,333	1,202	(1.1)	10.9
Equity in Net Income of Affiliates	—	—	—	—	—
Segment Operating Contribution	\$1,318	\$1,333	\$1,202	(1.1)%	10.9%

Below we can see the total advertising revenue generated in the different segments of AT&T:

Total Advertising Revenues

	2019	2018	2017	Percent Change	
				2019 vs. 2018	2018 vs. 2017
Advertising Revenues					
WarnerMedia	\$ 4,676	\$ 2,461	\$ 65	90.0%	—%
Communications	1,963	1,827	1,513	7.4	20.8
Xandr	2,022	1,740	1,373	16.2	26.7
Eliminations	(1,672)	(1,595)	(1,357)	(4.8)	(17.5)
Total Advertising Revenues	\$ 6,989	\$ 4,433	\$ 1,594	57.7%	—%

Source: Company's data

▲ Relative Valuation

Name	Country	Market Cap (mn)	Currency	P/E 2020E	EV/EBITDA	EV/Sales	YTD	Div. Yield	NetDebt/EBITDA	Margin EBITDA
WALT DISNEY CO/THE	UNITED STATES	223.642	USD	82,2	19,8	3,6	-14,4%	0,7%	3,5	18,0%
NETFLIX INC	UNITED STATES	214.220	USD	74,0	54,0	9,7	49,9%	nd	2,3	17,9%
T-MOBILE US INC	UNITED STATES	139.452	USD	47,2	12,4	4,2	43,9%	nd	5,0	33,7%
COMCAST CORP-CLASS A	UNITED STATES	199.003	USD	18,0	8,2	2,6	-3,1%	2,1%	2,9	31,8%
VERIZON COMMUNICATIONS INC	UNITED STATES	238.225	USD	12,1	8,2	2,9	-6,2%	4,3%	2,8	35,8%
AT&T INC	UNITED STATES	192.767	USD	8,6	7,1	2,3	-30,8%	7,7%	3,1	31,9%
Average exc. AT&T				46,7	20,5	4,6		2,4%	3,3	27,4%

Source: Company's data; BiG Research

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M&A

Acquisition of DirecTV: In 2015 AT&T acquired the PayTV service DirecTV for around USD 67.1bn. DirecTV had more than 20 mn subscribers in US and around 18mn in Latin America. DirecTV operated mainly in the satellite business which is currently losing subscribers as network technologies advance. At end of 2019, AT&T stated that DirecTV had generated a healthy cash flow of USD 4 bn or more per year, in a total of USD 22bn. Elliott Management criticized this acquisition stating that it was at an awful timing given that since then, the industry in which DirecTV operates (Premium pay TV and satellites) has been declining. Following the acquisition, the whole management of DirecTV exited the company.

Sale of DirecTV: There are rumors that AT&T is preparing the sale of DirecTV. These also mention that the sale value would be lower than USD 20 bn, a price much lower than the amount paid for AT&T.

Acquisition of TimeWarner: In June of 2018, AT&T completed the acquisition of TimeWarner, increasing this way its media content. TimeWarner has not only a successful movie producer, WarnerBros, but also the streaming service HBO and Turner. The total cost including debt was around USD 85.4bn. Despite AT&T saying that one of the reasons for the acquisition was the experience of the management team, the fact is that almost the entire management exited the company following the acquisition.

Possible Hulu disposal: AT&T sold in 2019 its 9.5% stake in the company for USD 1.43 bn.

Acquisition of Leap Wireless (Cricket): In 2013, the transaction was completed for USD 1.2 bn. Leap operated under the brand Cricket as a prepaid wireless provider and had 4.57 mn customers and spectrum in the PCS and AWS bands covering around 138 mn people which complemented AT&T's spectrum.

Risks

Carriage disputes: Cable companies provide the connection to customers' home, however most of the content available is produced by broadcasters which seek a fee for allowing this content to be available to cable customers. In US is common that when there is a disagreement on the fee between the two parties, the broadcaster ceases to make the content available (a blackout) which puts pressure on the cable company to reach an agreement. Usually an agreement is reached near the deadline, however the terms are not disclosed. These blackouts have been more frequent, registering in 2018 around 140 vs 42 in 2011. These have a negative effect in customer retention.

HBO carriage dispute: Dish Network closed HBO services to its customers as it failed to reach an agreement with AT&T. Dish said AT&T asked to be paid a minimum of subscriptions despite the number of users of the service. This kind of negotiating tactic by networks in US is a major risk for revenues and growth of media companies. AT&T revenues in 4th quarter of 2018 were impacted by this problem. On the other side, if Dish customers value HBO content, they can get access to it through AT&T streaming services: DirecTV Now or HBO Now.

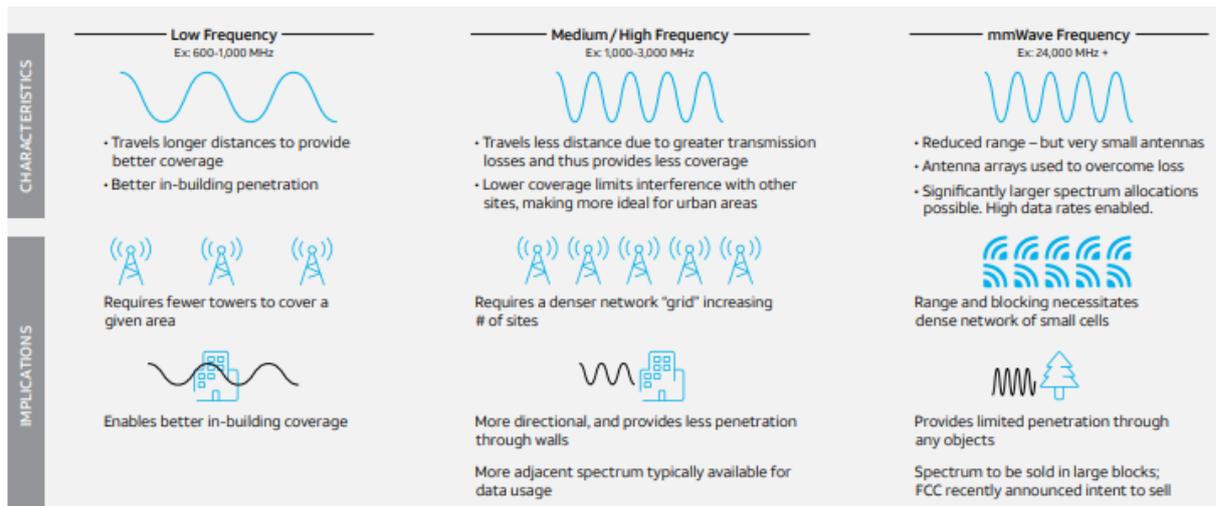
Increased competition with merge between Sprint and T-Mobile: This merger created a 3rd big player in the US telecom market. This new big player will drive up pricing and offering competition.

Labor Costs: AT&T employs around 250 thousand people, of which around 40% are represented by unions. As the contract agreements expire, AT&T employees may begin strikes if the company fails to address their demands. In case Joe Biden is elected and chooses to increase the minimum wage, these costs may increase.

▲ **Annexes**

▲ **Spectrum:**

- **Low band** (<1GHz), is primarily used nowadays for LTE and 3G and provides a wide coverage area with good building penetration, but peak speeds at 100Mbps.
- **Mid band** (1GHz to 6GHz) these frequencies do not have such a good in-building penetration but peak speeds may reach as high as 1Gbps.
- **High band** (aka millimeter wave >24GHz) These frequencies will enable speed of up to 10Gbps. However they have a very short range of around 1km which is impacted by rain, fog or objects in the way.



Source: AT&T; CNet, DailyWireless, Extremetech, CTIA

Refarming spectrum: This is the process of changing the use of for example the 2G spectrum to the latest technology of LTE which will enable 4G and 5G. 4G has better capabilities to transfer data and better penetration in buildings, however before changing the spectrum to 4G or turning off completely 2G, operators must make sure that users have the needed equipment.

▲ **Last auctions:**

- **Auction 105, in Sept. 2020**, for 70 MHz of frequencies between 3.5 GHz and 3.7 GHz (CBRS or Citizens Broadband Radio Service):
 - **Verizon:** paid USD 1.9bn on licenses mainly in densely populated areas;
 - **Dish Network:** paid USD >900 mn on licenses over a broader part of the country;
 - **MVNO** (Mobile virtual network operators): Comcast's Xfinity Mobile and Charter Communications, bought also around USD 460 mn in spectrum each. These companies use Verizon's network to sell wireless service to their customers, but by buying some spectrum, may use this to transfer data from customer's devices to their own antennas and move traffic through their own cable networks;
 - **T-Mobile** only spent USD 6 mn. T-Mobile was able to get this type of spectrum (mid-band) from the acquisition of Sprint;
 - **AT&T** did not purchase anything. It is between T-Mobile and Verizon in terms of spectrum that already has and is saving for the C-Band spectrum auction in December of 2020. This type of band is not shared with for example military (which has priority over commercial customers) and this auction will have 280MHz of capacity available for frequencies between 3.3 GHz and 4.2 GHz.

- **Auction 103, in Dec. 2019**, for 100 MHz blocks of frequencies between 37.6-38.6 GHz, 38.6-40 GHz and 47.2-48.2 GHz (millimeter waves):
 - **Verizon:** paid USD 3.4 bn for 4940 regional licenses;
 - **AT&T:** paid USD 2.4 bn for 3267 regional licenses;
 - **T-Mobile:** paid USD 932 mn for 2384 regional licenses;
 - **Dish Network:** paid USD 203 mn for 2651 regional licenses;
 - **US Cellular:** paid USD 146 mn for 237 regional licenses;
 - **Sprint:** paid USD 114 mn for 127 regional licenses.
- **Auction 102, in March 2019**, for 100 MHz blocks of frequencies between 24.25-24.45 GHz and 24.75-25.25 GHz (millimeter waves):
 - **AT&T:** paid USD 982 mn for 831 regional licenses;
 - **T-Mobile:** paid USD 803 mn for 1346 regional licenses;
 - **US Cellular:** paid USD 126.6 mn for 282 regional licenses.
- **Auction 101, in Nov. 2018**, for frequencies between 27.5 GHz and 28.35 GHz (millimeter waves):
 - **Verizon:** paid USD 506 mn for 1066 regional licenses;
 - **US Cellular:** paid USD 129 mn for 408 regional licenses;
 - **T-Mobile:** paid USD 39.3 mn for 865 regional licenses.

▲ Network generations:

- **1G** or first generation: Suited for frequencies of 150 MHz or 900 MHz with a 30KHz bandwidth with a capacity of 2kbps. Used mainly from 1980 to 1990 and with bad voice quality.
- **2G:** Suited for frequencies of up to 1.8GHz with a bandwidth of 900 MHz with a capacity rate of 64kbps. Used mainly in the 90s and allowed text messaging.
- **3G:** Suited for frequencies up to 2.1 GHz and a 100MHz bandwidth with a data capacity between 144kbps and 2Mbps.
- **4G:** Suited for frequencies between up to 8GHz with a 100MHz bandwidth using technology of LTE and WiFi and a data capacity between 100Mbps and 1Gbps.
- **5G:** This technology may use bands in the range of LTE, between 600MHz and 8GHz and also in millimeter wave of 24GHz to 86GHz.

▲ 5G

5G:

- This new generation has as objective to **increase mobile network speeds** (more data per second), **reduce latency** (the time it takes to receive and send information) and can **connect more devices** at the same time (useful for wearables and sensors). This is achieved by advancing both the network stations and the mobile devices.
- 5G, as in 4G, will use multiple towers to release the signal, and these towers will be connected through cables or wireless to the network operator.
- 5G will operate in **low band frequencies (<6GHz used currently by 4G, which have broader range but lower speed)** and **high band frequencies (>6GHz which have a shorter range and at higher bands cannot penetrate buildings, but can have much higher speeds).**
- In the beginning of this new technology all devices will need both 4G and 5G technologies as they will use first 4G to establish connection and then later switch to 5G (non-standalone architecture). In a few years, it is expected that devices will come only with 5G technology (standalone) and will be able to connect directly to network.

5G advantages:

- For driverless cars 5G will be extremely important to enable the connection between vehicles and traffic signs with a very low latency in order to improve response times and avoid accidents.
- With 5G, the need for the roll out of fiber optic lines will be reduced as with the higher capacity of 5G vs 4G, network operators may offer 5G home internet through a wireless router. They will just need to install a cell site in each couple of neighborhoods instead of a connection to each home.

Myths on 5G:

- 5GHz Wi-Fi is not the same as the 5G for mobile phones, 5GHz is only the “new” (since 2009) frequency it uses to make available internet at a short proximity from the router and avoid being in the 2.4GHz frequency which remote controls and Bluetooth also use. The new Wi-Fi generations which operators are now offering have the denomination Wi-Fi 6 and may reach speeds of 10Gbps.
- Some operators are calling current technologies as 5G, but despite higher speeds, these do not offer the lower latency and the capability to serve more devices at the same time as 5G does. 4G speeds are increasing with time and new modems becoming available in the latest devices.

Graph



Source: BiGlobal Trade (partner Saxo Bank); BiG Research

Calendar

January 27th, 2021: 4Q 2020 earnings

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▲ Glossary

ARPU: Average Revenue per User

RGU: Revenue Generating Unit, counts the number of devices/clients generating revenue for the company.

FTTH or Fiber to the Home: This is the installation of fiber from a central point, to the residence of the customer.

HFC or Hybrid Fiber-coaxial: This is the transmission of the signal through fiber until a local community box (optical node) which then converts the light signal into radio frequency and transmits through coaxial cable this frequency to customers.

DOCSIS or Data Over Cable Service Interface Specification: This is the transmission of high-bandwidth data to an existing cable television system, and is used by many tv operators to transmit internet through their HFC infrastructure.

DTH or Direct to Home: Means that the signal is sent directly to customer's home through satellite.

ADSL or Asymmetric Digital Subscriber Line: Uses copper telephonic wires to transmit data and provide internet access.

Bandwidth and Frequency: Bandwidth refers to the amount of data transferred per second while frequency measures the number of oscillation of the data signal per second. This means that at a higher bandwidth

Refarm spectrum: It is the process of changing the use of for example the 2G spectrum to the latest technology of LTE which will enable 4G and 5G.

RAN or Radio Access Network: This is the bridge between the user's cell phone and the operator central network. Usually comprises a base station and antennas to cover a certain region.

MTR or Mobile Termination Rate: This is the rate that one operator has to pay another for terminating calls on its network.

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