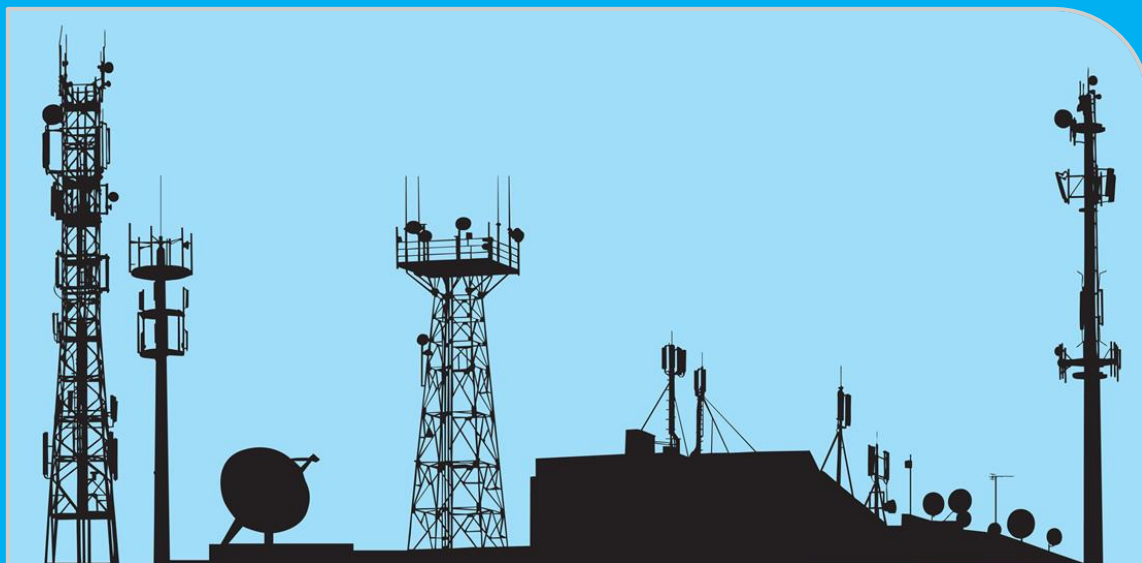


TNO Playbook: AT&T

Capex spending drops as AT&T prioritizes debt repayment



Product Code: GNI-18062019

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Date Published: 06/18/2019

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Operational KPIs

Wireless subs (1Q19): 173M
+8.8% (YoY)

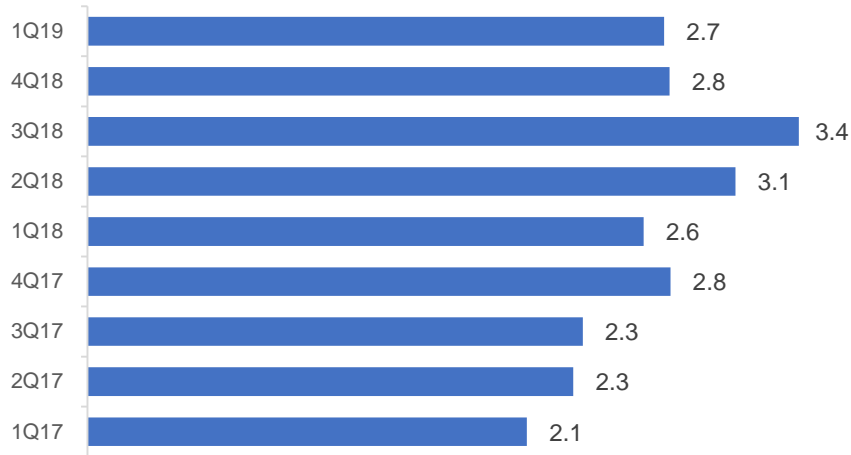
Video subs in US (1Q19): 23M
- 5.9% (YoY)

DirectTV ARPU: \$115 per month
(+2.2% YoY)

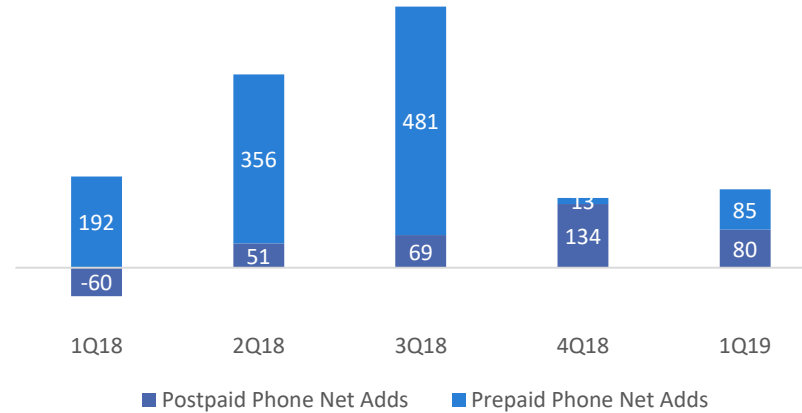
Fixed BB subs (1Q19): 14.5M
+0.2% (YoY)

Fixed BB ARPU: \$50 per month
(+8.3% YoY)

Wireless net adds in US (M)

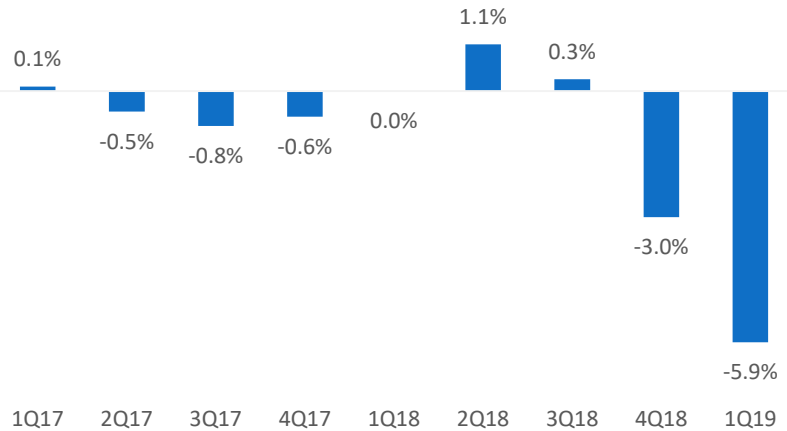


Postpaid & Prepaid Phone Net Adds (K), 1Q18-1Q19

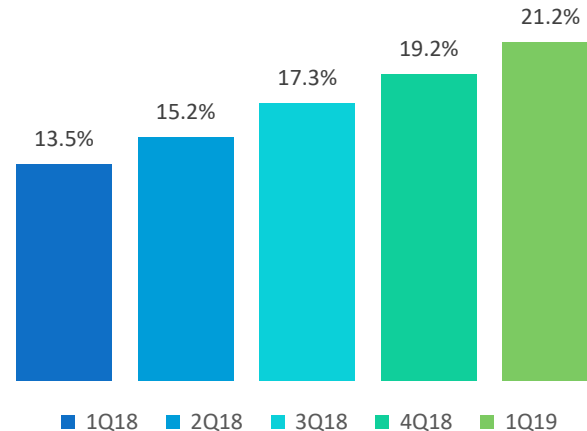


- AT&T's subscriber growth for 1Q19 was disappointing for all segments except wireless. The company added 2.7 million net mobile subscribers in 1Q19, reaching 155.7M subscribers in the US.
- AT&T added 80K net new postpaid wireless subs, ahead of Wall Street's expectations. But AT&T's 85K prepaid net adds fell short of analyst's estimates.
- AT&T's device upgrade rate for 1Q19 fell to a record- low of 3.5%, down from 4.3% in 1Q18. The smartphone upgrade figures are likely to rebound next year, as AT&T's 5G network rollouts will most likely push subs to upgrade to 5G-compatible phones

Video subs YoY growth (%)



Fiber as a % of fixed BB subs

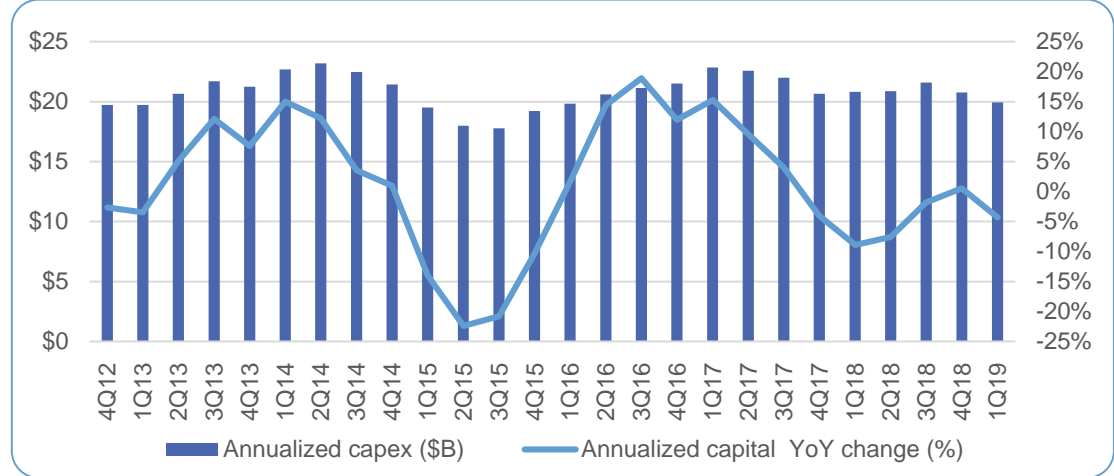


- AT&T continued to lose video subs in 1Q19 (down 5.9% YoY), as the telco scaled back promotions of its online streaming service DirecTV Now.
- AT&T recorded 22.4M premium TV subs in 1Q19, down by 6.5% YoY. This decline was due to the end of promotional pricing and strong competition. AT&T is now focusing on profitability, as it increased its annual price for its premium pay-TV services. DirecTV ARPU for 1Q19, was up more than 2% YoY, this is the first quarterly increase in the last five quarters. AT&T is seeing higher churn and fewer gross additions from low-end subscribers
- AT&T's fiber subs hit 3.1M, adding 297K new subs in 1Q19. AT&T currently markets its fiber network to over 12M customer locations in parts of 84 metro areas.

Capex analysis

Capex declined in 1Q19, but 5G and fiber investments remain in the spotlight

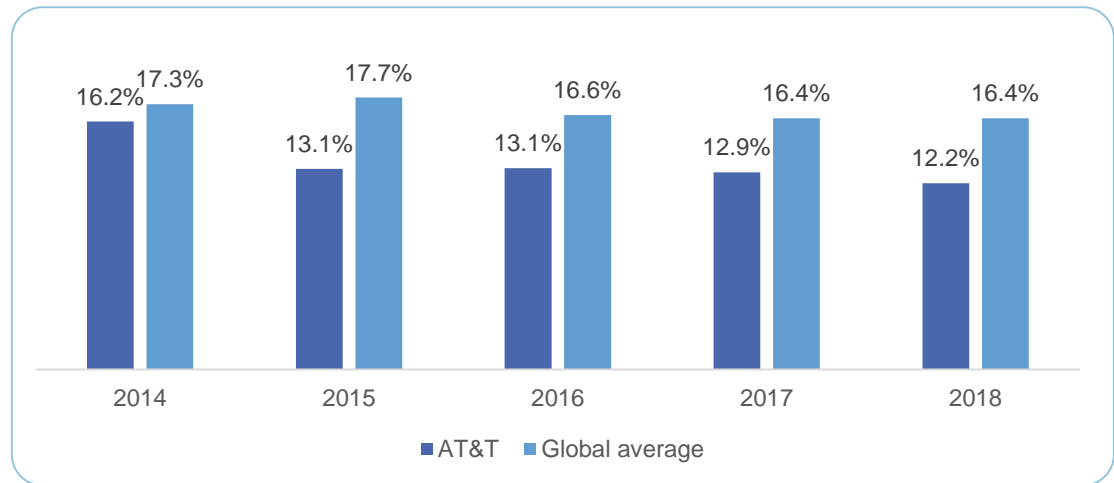
Annualized capex (\$B) & YoY Growth (%)



Analysis

- AT&T and many mobile operators saw an uptick in capex outlays at the start of 4G, but that does not seem to be the case in 5G. Excluding 4Q18, the company's annualized capex has been declining for 6 straight quarters (starting 4Q17).
- Apart from content and mobile networks (including network densification), a big portion of investments are concentrated on the extension of fixed access networks (particularly the last mile). FTTH is a big part of that. AT&T's fiber now passes over 12M locations and has over 3M subs.
- AT&T has targeted spending \$23B as capex in 2019 – as it prioritizes investment in 5G. The company has already made huge strides, as it set itself a target of virtualizing over 75% of its network by 2020, by deploying a software-centric networking approach. By 2018 end, almost 65% of its network was already virtualized. Further, AT&T also started designing its own cell site routers and released those hardware details as open blueprints for vendors to build. In 2019, it plans to deploy up to 60,000 “white box” routers across its mobile network. This is helping AT&T bring 5G sooner to the market.

Annualized capital intensity: AT&T vs. global average



Analysis

- By global standards, capital intensity of AT&T is low. AT&T, for instance, recorded its lowest annualized capex/sales ratio of 11.2% in 1Q19, as the telco increased its focus on debt repayment. Its net debt for 1Q19 reduced by \$2.3B, and it generated free cash flow of \$5.9B. This could also be early signs of the operator piling up cash and reducing debt to gear up for 5G and fiber.
- AT&T's focus will be on preparing for the 5G roll-out, as it looks to launch commercial 5G service sooner to the market. However, AT&T has turned more cautious on its capex plans recently. The mobile market also needs new 5G-specific apps that will bring new avenues for revenue and ARPU growth. Connected cars are one opportunity that AT&T is exploring actively.
- AT&T foresees sustained growth in fiber. In particular, 5G and FirstNet (which needs deep fiber backhaul) investments will have a major role to play. The telco is investing in more backhaul as it tries to expand fiber and rollout 5G home internet to newer markets.