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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to AT&T's first Quarter 2021 Earnings Call. (Operator Instructions) And as a reminder, this conference is being recorded.

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

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

Thank you, and good morning, everyone. Welcome to our first quarter call. I'm Amir Rozwadowski, Head of Investor Relations for AT&T. Joining me on the call today are John Stankey, our CEO; and Pascal Desroches, our Chief Financial Officer.

Before we begin, I need to call your attention to our safe harbor statement. It says that some of our comments today may be forward-looking. As such, they're subject to risks and uncertainties described in AT&T's SEC filings. Results may differ materially. Additional information is available on the Investor Relations website. And as always, our earnings materials are on our website.

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

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

Thanks, Amir, and good morning, everyone. It's been about 6 weeks since our Analyst and Investor Day. So the framework for what we'll cover today will be familiar to you. We have a consistent, deliberate and clear approach to the way we run our business: from our market focus areas to our 2021 priority to grow customer relationships, with most U.S. households across these market focus areas, to our capital allocation plans.

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As you see in our quarterly results, our execution has been sharp, and we have momentum. We continue to grow our customer relationships with strong subscriber growth in Mobility, AT&T Fiber and HBO Max. We also continued to invest both in capital spending and in content. Our ability to drive costs out of our business and deliver strong cash flows has allowed us to invest in strategic growth.

However, as you can see from the results, we're investing wisely. We've been deliberate and intentional in allocating dollars where they'll generate returns. This supports the future of our business, while also optimizing the returns on strategic opportunities across our portfolio. For example, cost transformation efforts in Mobility yield improved year-over-year profits, while we simultaneously invested to drive customer growth.

Same at WarnerMedia, where EBITDA was down slightly even with significant increased investment in HBO Max. The restructuring and consolidation of our WarnerMedia business is driving cost savings in our studio operations, networks, sales force and technology. Our transformation initiatives across the company are driving efficiencies and freeing up capital to invest in our growth areas, and there is more opportunity ahead of us.

Our deliberate capital allocation plan allowed us to invest and sustain our dividend at current levels, which we believe is attractive. We're prioritizing cash after dividends to reduce debt. And we continue to monetize noncore assets as we refine our overall business focus, as you saw us do in the quarter, with our announced sale of a controlling interest in DIRECTV and our other video assets.

Let's look at the progress we made in delivering on our market focus areas on Slide 4. Our customer growth was impressive across Mobility, Fiber and HBO Max. And we're doing it the right way, with a focus on growing profitability.

In Mobility, we added nearly 600,000 postpaid phones in the quarter, our best net add first quarter in more than 10 years. Our subscriber momentum is strong, and we're taking share. Gross adds are up, and our average promotional spend per net add is significantly lower than a year ago. Our transformation program is enabling us to be competitive.

At the same time, we're benefiting from a simplified go-to-market strategy and optimized sales and distribution channels. Mobility EBITDA was up more than 2%, and service margins increased 100 basis points despite a 2020 first quarter compare, where roaming revenues were largely unimpacted. You put it all together, and I believe this demonstrates the formula works.

AT&T Fiber net adds were strong and penetration levels continue to expand. We've added more than 1 million Fiber subscribers in the last 4 quarters. IP broadband revenues grew nearly 5% in the quarter, and we're on pace to build out Fiber to another 3 million consumer and business customer locations this year.

HBO Max continues to deliver strong subscriber gains, fueled by the success of our day-and-date theatrical strategy and our steadily strengthening post-COVID content slate. In the U.S., we've added more than 11 million domestic HBO Max and HBO subscribers in the last 12 months.

It's a premium offer, with a premium ARPU compared to other streaming platforms. And subscription revenues in the first quarter grew about 35% globally for WarnerMedia's Direct-to-Consumer business, and we're on track to launch HBO Max internationally and introduce an AVOD product in June.

Across the board, we're encouraged by our momentum and how our management team is executing against our singular priority to grow customer relationships in our market focus areas. With that, I'll turn it over to Pascal to discuss the specifics of our first quarter results.

Pascal, welcome, and the floor is yours.

Pascal Desroches - *AT&T Inc. - Senior EVP & CFO*

Thank you, John, and good morning, everyone. Let's begin with our consolidated results on Slide 6.

We started the year with growing revenues, earnings and cash flows. Revenues were up from a year ago, with gains in Mobility and WarnerMedia more than offsetting declines from Video, legacy services and FX. As a reminder, our Communications segment has been recast to exclude our

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Video business. For the quarter, Communications EBITDA was essentially flat with the prior year. That demonstrates a marked improvement from the fourth quarter.

Adjusted EPS for the quarter was $0.86. That's up more than 2% year-over-year. We also had a good start to the year with our cash flows. Cash from operations came in at $9.9 billion for the quarter. Free cash flow was $5.9 billion, with higher sales of receivables, lower CapEx and interest.

Our dividend payout ratio was about 63%. CapEx was $4 billion. Gross capital investment was $5.7 billion. In addition, WarnerMedia's total cash content investment across all their business this quarter was $4.5 billion, slightly higher than last year.

As we indicated at our Analyst Day, we are investing in our market focus areas, and we're seeing further validation of our strategy in the first quarter results. Therefore, we edged up our gross capital investment expectations to the $22 billion range for the year. Additionally, we increased our expected vendor financing payments, given our ability to negotiate favorable terms.

Let's now look at our segment operating results, starting with our Communications segment on Slide 7. Mobility continues to lead the way in our Communications business. We saw a strong customer growth in our postpaid phone base, growing service revenues, growing EBITDA, with expanding EBITDA service margin, and that's with continued headwinds facing our high-margin international roaming business that we estimate cost us about $100 million in EBITDA this quarter.

Our simple, direct postpaid phone offers continue to resonate with customers. And as John mentioned, our Mobility gross adds share is increasing and postpaid phone churn has stayed near record-low levels. Cost transformation continues to be a big part of the story for Mobility. Our more efficient sales processes and streamlined operations are driving down costs.

In fact, our average promotional spend per net adds is significantly lower than a year ago. Our cost efforts are also evident in Business Wireline. Cost management has helped expand EBITDA margins as customers transition away from higher-margin legacy services and products. But the product simplification and the resulting cost savings have been key to delivering solid EBITDA.

Consumer Wireline is another business in transition. We are moving quickly to expand our Fiber footprint, and our results show you why that is crucial. We added 235,000 AT&T Fiber customers in the quarter. IP broadband ARPU grew 3.2% year-over-year.

Our Fiber penetration rate is more than 35% and growing. And total broadband net adds also increased. We expect this to be the trough in terms of year-over-year EBITDA growth. We expect trends to improve from here, driven by IP broadband revenue growth in the mid-single digits for the year.

Let's move on to WarnerMedia, which is on Slide 8. WarnerMedia results are the first half of what we expect will be a transformational year for the business. Revenues were up nearly 10%. Higher Direct-to-Consumer subscription and advertising revenues drove the growth.

And even with higher customer acquisition and content costs associated with HBO Max and higher sports costs, EBITDA was down only slightly. Advertising revenues were up more than 18%, driven by return of sports, especially the NCAA championship, Men's Basketball Tournament. Direct-to-Consumer subscription revenues grew about 35%, reflecting the success of HBO Max.

We now have 44.2 million domestic HBO Max and HBO subscribers and nearly 64 million worldwide subscribers. Average monthly revenue per domestic customer is just a little less than $12. And now we have 11 million customers who combined one or more connectivity products with HBO Max or HBO.

The same-day release of movies in theaters and on HBO Max has been a success. It has provided theaters with a steady flow of content in a pandemic-challenged environment. And it's also been a great catalyst for subscriber growth at HBO Max.

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The success of Godzilla vs. Kong at both the box office and on HBO Max bears this out. It had the largest domestic box office of any other movie in the last year, while also having the largest viewing audience of any other film or show on HBO Max since launch. And films such as Godzilla vs. Kong attract new retail customers who are staying because they enjoy other content on the platform.

We're really looking forward to the introduction of our international and AVOD products planned for HBO Max later in June. We plan to have attractive price points for our AVOD offering. And we expect to lean into our international launch, reaching 60 additional markets by the end of the year. Our aim is to use our differentiated premium content offering to attract global customers.

Now let's go to Slide 9 for an update on our capital allocation and liquidity. We made our $23 billion C-band spectrum payment since we last talked to you in March. That drove net debt-to-adjusted EBITDA ratio to 3.1x. We expect this will be our peak leverage level.

We're still on track to have a sizable reduction in debt by year-end through a combination of strong free cash flows and proceeds from asset monetization. We'll continue to focus on debt reduction. We expect our net debt to adjusted EBITDA to be around 3x by year-end.

We also continue to actively evaluate other asset monetization opportunities. Our treasury team has also been working tirelessly to lower our cost of debt. Our weighted average cost of debt is down 50 basis points year-over-year, driving about $150 million in lower interest costs in the first quarter.

Our weighted average maturity for debt is 16 years at a weighted average cost of 3.8%. About 90% of our debt is at a fixed rate, so we feel we're well protected in an increasing interest rate environment.

Amir, that's our presentation. We're now ready for the Q&A.

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

Thank you, Pascal. Operator, we're ready to take the first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of John Hodulik from UBS.

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

Maybe 2 questions on the WarnerMedia side. You've got 64 million total HBO Max subs, and the AVOD and international launches coming later this year and obviously some momentum, so it's certainly more than we thought in the first quarter. I mean, is the 67 million to 70 million guide for year-end, does that need to come up? And if not, why do you expect a slowdown?

And then maybe for Pascal, I mean, you mentioned some of the drivers, but we expected a double-digit decline in WarnerMedia EBITDA this quarter despite -- driven by all the content investment in HBO Max. Can you give us some more color on some of the drivers that kept that EBITDA essentially flat? And is that a trend that we can expect through the year even as the investment ramps?

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Pascal Desroches - *AT&T Inc. - Senior EVP & CFO*

Thank you for your question, John. A couple of things to keep in mind. First, as it relates to our guide, we provided our guide on Investor Day. And obviously, we're really pleased with how the business is performing.

But at this time, we're not going to update our guidance beyond what we've said already. But we are really pleased with the performance. And I think what you're seeing is we're putting out a really good product and consumers are responding.

In terms of WarnerMedia overall, here's a thing to focus on. We've mentioned this several times, but over the course of the last several years, there's been a consistent transformation effort taking out duplicate costs across the organization. So we have combined technology organization, sales function, content production studios.

So all that is what you're seeing coming through is offsetting the investment that we are making in HBO Max. That was the plan. That was deliberate. And that's what we -- that was our objective, and it's coming through.

In terms of going forward, I'm not going to comment on what the exact trends are going to be. But again, you should keep -- we have significant transformation savings that should help subsidize some of the investment we're making.

Operator

Your next question comes from the line of David Barden from Bank of America.

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

Maybe 2, if I could. John, you talked at the Analyst Day about the prospect of accelerating Fiber investment based on the success rate that the team had in deploying against the opportunity that they were presented, with the 3 million passings this year, potentially as many as 4 million next year. Could you talk a little bit about kind of what you're seeing on the ground relative to your expectations, and how the recent price changes in the Fiber business factor into that game plan?

And then, I guess, the second question for you, Pascal. You effectively lowered your CapEx guidance by boosting your plan to take advantage of vendor financing, but you kept the free cash flow guidance the same, implying lower operating cash flow from a quarter ago. Could you elaborate a little bit on how we kind of square that change in the guidance with what looks like relatively strong performance this quarter?

Pascal Desroches - *AT&T Inc. - Senior EVP & CFO*

Dave, let me start with the CapEx question, then I'll turn it over to John. Here's the context to keep in mind. Our first quarter performance was really strong. And typically, as you know, this is the low watermark for free cash flow delivery. And so we're really pleased with how the business is performing and the customer momentum.

Rest assured, you should not read into this any more than it is. We -- when we looked at our projections for capital spend, we thought it was appropriate to increase it. But we didn't think at this time of the year, given how early it is, it was appropriate to start to change guidance. We want it to maintain some flexibility, but we are really comfortable with our free cash flow guidance. And it has not changed in any way as a result of the change that we've made to CapEx, so there's really nothing more to it than that.

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

Yes. And I'd tell you, Dave, just to kind of maybe put a finer point on what Pascal said. One of the things I'm trying to impress upon with the management team is we want to do things the right way, and we want to do things in a sustainable way.

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And I had probably a little bit of a cultural shift. We have a very process-driven organization that's very focused on delivering what we ask them to do, and that's a great strength. But sometimes, that means that people are very literal about looking at a number and saying, "I will get you that number," and maybe don't raise a point that says, "If you give me a little bit of flexibility, I could do something a lot more efficiently or effectively for the next 2 years."

And I'm really trying hard with the management team to help them understand they have the latitude to do the right thing for the long haul. And that while we want some consistency in how we run the business, there's a limit to doing that with the de minimis returns or diminishing returns.

And so with that, I got to back up what I say to folks. And when they come in and they have compelling ways to think about how we should build or go about deploying, I need to be responsive in ensuring that I give them the latitude to do that. And given the number of things we have underway that we're scaling, including the Fiber build, as you asked the question and what we're doing around starting to roll into 5G deployment, et cetera, making sure that we get that latitude in there is really important to me. And I think it's important to supporting them.

And what I'm seeing on the early days of -- I won't even call it the early days, what I know about our base on our Fiber deployment and what we know about the incremental work is it's, from an operational perspective and a market perspective, all green lights. That's one of the reasons why I'm really comfortable in letting the team run in the way that we're letting them run.

And I like what I see in terms of our market position. If you look at things like customer lives, churn, customer satisfaction and Net Promoter Scores and the actual performance of the product, they're all great. And when you start looking at that, you know there's going to be goodness.

And I've told you this before, I've not seen share movement on typical products like this as rapidly as we're able to get share movement once we deploy an area. And I frankly have never seen customer satisfaction levels move up and get to a promoting position in the market as we transition the product as fast as we're seeing. I think both of those things bode really well.

And as you heard Pascal talk about in the opening remarks, we think we're at kind of the bottom of our EBITDA compare. A lot of that is actually being driven by our strategy to start attaching content to broadband. That's been really good in terms of driving those customer lives up. It's driving churn down. It's driving engagement and satisfaction levels higher.

We're going to get the benefit of that over the customer life cycle. And as we start to lap that, you're going to start to see our EBITDA dynamics start to creep back up to where we want them. So I feel really good across the board.

Operator

Your next question comes from the line of Simon Flannery from Morgan Stanley.

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

John, can you talk a little bit about the plans for the C-band spectrum? What are you doing in the marketplace today? When do you expect to get the initial markets rolled out?

And is that -- what's then the extra $1 billion is going on? Is that part of the $6 billion to $8 billion you called out? So any updates around the timing there would be great. And I think you just mentioned on CNBC around your interest in the 3.45, perhaps you can expand on that?

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

So Simon, we gave you the POPs coverage guide at the Analyst Day, and we haven't changed any of that. Now even within -- without changing the pace and rate of where we are on C-band deployment, which will begin turning markets up late this year, that doesn't mean that, in things that we're doing today, that can help the 2022 build, that we wouldn't make some decisions on deployment.

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And that is an aspect of some of this -- the capital dynamic we described, but it's not the aspect. There are a variety of things that are playing into it. That's one of several.

And so as we time certain things, the aggregate amount may be the same, but there's things that we can do today as we're touching towers and doing things and parts of the infrastructure that, for example, maybe aren't going to be in service until later in '22, that we could do a little more efficiently to preprovision some things and not go back and touch them a second time. So some of that ordering is a dynamic that we're trying to drive through.

As I've told you, I don't expect that there's going to be any change right now on our deployment plans and the growth from the guidance that we gave you 5 weeks ago. We'll see as we get into this a little bit deeper. As usual, we're in that cycle where technology is relatively new. Vendors have commitments. We're waiting on specific units.

Global supply chains are stressed right now across the board. And you asked the question, "Can you do the work?" And people will give you comfortable answers. But I'm a little skittish. I mean, we're seeing dynamics that are occurring in the global supply chain where unexpected things are popping up.

And it is possible that we could see certain element shortages that start to crop up as everybody is racing to put stuff up on towers in May. And that's why I want to be a little bit cautious around guiding up or doing anything different until we get a little bit of momentum around that.

In terms of where we are on the 3.45 end-of-year DoD auction, look, I believe that there could be an opportunity there. We're going to watch it carefully. We've always participated in any spectrum auction that comes forward, or looked at it and said, "Does it make sense for the portfolio?" And we can see some things that if the valuations are sound valuations, that makes sense for our business.

I will tell you, in the guidance we've provided you over the next several years, we have plugged in an expectation that we will be in spectrum markets as we guide down to our 2.5 debt-to-EBITDA level that we projected for you in '24. And so I expect, within that plan, we're going to be looking at it and saying, "Do we like the valuations, and does it make sense?" And we do believe some of that spectrum could fit into our network portfolio and be helpful to us down the road if the auction is done in the way we think it's going to be done.

Operator

Your next question comes from the line of Michael Rollins from Citi.

Michael Ian Rollins - *Citigroup Inc., Research Division - MD & U.S. Telecoms Analyst*

Two questions, if I could. First, just curious if you could share more details on the customer engagement levels that you're seeing on the HBO Max platform, to gain a better understanding of how customers are using the platform after the initial reason to purchase the service or activate on to the application.

And then, secondly, just curious if you could also provide some context on the customer verticals that are contributing to the improvement in the wireless postpaid subscriber growth, and if you're seeing any impact or change to your growth or growth expectations from some of the recent promotional changes of your competitors.

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

So Mike, let me give you kind of -- we're not going to give you any more guide publicly on the hours of engagement than what we gave you at Analyst Day. I don't want to get into kind of every 5-week update on those numbers.

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I think we gave you a good sense of what's happening, and our satisfaction that we're well up over 2 hours per day per account. And I think that's a really good place to be. And it certainly is probably higher than our engineered expectations when we launched the product, and we'll take that goodness.

The behaviors of what customers are doing, really, I don't think are dramatically different than what you would see on any other SVOD service. As Pascal mentioned, we clearly have a good reason for them to come in. And we're seeing in the customer data that many are opting to come in because of theatrical slate opportunity.

And credit to the team. They've done a remarkable job not only of engineering that strategy and executing it, carrying it through, and it's playing out exactly as we kind of laid out for you when we said we wanted to do it in terms of the mix. We've got more of the year to get through to see what that balance is between theatrical revenues versus SVOD.

But when you look at the customer growth on SVOD, and you see some of the early data coming back on movies like Kong vs. Godzilla (sic) [Godzilla vs. Kong] in the theater, I think you can all see that there's probably a pretty compelling rising tide lifting all boats in this case. And we feel it's the right call for the moment we were in with the pandemic and really comfortable about that. And that drives customer exploration of the product.

And once they come in, they do what they do with any other SVOD service. They go to our high-value series. So any of the new scripted series content that we have out there, HBO Originals, HBO Max Originals, they go for the high-profile ones, and they start to engage on those. And then guess what else they do? They dig deeper into the library.

And there's workhorses in the library, depending on the demographic of the individual, that tends to sustain them around. And because of the good job of marketing the slate for the movies, I think what we're seeing is evidence that they say, "Well, gosh, I'm now into it for 2, 3 weeks, and I know there's another one coming next month that I want to see. I'm sticking around." And so our churn expectations have been consistent with what we expected moving in.

And so I think it's just the classic approach to managing any SVOD service, although we're playing to our strengths in how we're tiering the content. And we're using theatrical maybe a little bit more heavily than other services might use because that's one of our strong suits, and it always has been, with the strength of HBO and the theatrical slate that HBO offered in the core product.

On the wireless side, I've said this before, I don't want to sound like a broken record, but part of our strength is that we're really able to cover the waterfront on some of the verticals in our distribution strategy. And in particular, we've been particularly strong in using our enterprise business and our business sales force in not only selling into business segments, but ensuring that affinity plans in those areas can reach customers and their families at home for being part of that business that we sell to.

The strength of the FirstNet, which has opened up a vertical that we were under-indexed in, in share, and we're seeing really attractive share growth. And again, there's an affinity characteristic that occurs within that vertical. It's not only an affinity characteristic among coworkers, but we've managed to ensure that if somebody chooses to come on for the purpose of their work as a first responder, that they have a lot of incentives to maybe drag their family through that experience with attractive pricing and approach.

We continue to be strong in our traditional verticals, with our iOS-centric customer base, which tends to scale what I would call the better part of the postpaid market. And we haven't lost any edge there. In fact, we've been a little bit stronger.

And I would tell you, I think we still have room to run. I think we're probably under-indexed in a couple of verticals, especially if we start looking at the Hispanic community, that we can do a little bit better in, in how we position our brand and our product. And the team is focusing on those areas.

So my point of view right now is our momentum is continuing. We're doing better, as you can see from the results. We still have a couple of cards to play to try and sustain that. We've been very consistent in the market, with a repetitive offer quarter after quarter.

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You're correct, we have seen our competitors continue to try to compete aggressively. They're mixing and changing their offers pretty frequently. We seem to be very consistent and very stable, and that's a really good place for us to be. And we're going to continue to play our game.

Operator

Your next question comes from the line of Phil Cusick from JPMorgan.

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

John, following up on wireless, you talked last year about investing in the base. How do you see the upgrade and retention outlook for the next few quarters? You've upgraded a lot of the base. Do you think there's just less need for new phones going forward?

And second, for Pascal. I believe with lower churn, you extended the life of wireless customers. Can you give us an idea how much that may have helped wireless EBITDA year-over-year?

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

Yes, Phil, it's hard to predict exactly where the ebbs and flows of the subscriber base goes. It's been fairly consistent, and I expect it's going to remain pretty much on this pattern. The pattern that we would expect, given it was a new device launches, it tapers off a little bit in the middle part of the year after you get through the bubble immediately following a new device launch. And then as you get to the second part of the year, if you get into the holiday season, it will kick back up.

But as I said, we have given you guidance that we think is consistent with the volumes that we're experiencing right now. We're really comfortable with where we're at. As we told you, you're going to see service profitability bounce back, and you're seeing EBITDA grow in the segment. We're very comfortable we'll continue that trajectory.

So I'll take the customer growth, and we can get that dynamic moving the direction it's at. I feel really good about it. I don't think I'm going to guide you to suggest that there's going to be any dramatic shift, one way or the other, over what you're seeing right now on our direction.

Pascal Desroches - *AT&T Inc. - Senior EVP & CFO*

And Phil, a couple of points. First, just a follow-on to John. The thing to keep in mind is, look, we saw not only customer momentum, we saw revenue gains as well as profitability gains in Mobility. So the strategy is working, and we feel really good about it.

As it relates to your question on customer lives, here's the context. Overall, this is something we do on a regular basis. We change lives of assets based on the most recent information we have. The net effect of changing lives this quarter was slightly negative to earnings.

For wireless, it was positive. For Consumer Wireline, it was positive. But for DIRECTV asset, it was negative. So on balance, it was negative. And it was not significant by any stretch, and we've disclosed that in our 8-K.

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

I think you'd expect to see a little bit of extension of wireless lives, with churn taking the direction it's taking. 7 handles on postpaid churn is rarefied air.

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

Yes, agreed. Pascal, if I can follow up on a question earlier. I'm just getting a lot of incoming that -- where people are of 2 minds. Can you spoon feed us on the free cash flow versus increased vendor payments versus CapEx?

I think there's a lot of misunderstanding about what are you spending, and that's this year. What are you paying back for in previous years? And you mentioned also something about higher confidence, so higher spending as well. Can you just go deeper on that?

Pascal Desroches - *AT&T Inc. - Senior EVP & CFO*

And Phil, as you know, we have a metric out there, non-GAAP metric that's called gross capital investment. That is the sum of cash that we pay for CapEx, plus amounts we pay to vendors for financing related to CapEx that don't flow through free cash flow.

I will tell you that much of the time, those vendor financing payments don't necessarily relate to in-year purchases of CapEx but relate to prior year. But it's a measure that we've historically provided as just another data point for people to consider.

Overall, your takeaway should be from our free cash flow -- from the guidance we have out there. One, we intend to continue to fully invest in our businesses. Two, we expect to generate free cash flow at the levels that we've guided to. And we feel really good about the trajectory in being able to accomplish that based on where we are today.

Operator

Your next question comes from the line of Brett Feldman from Goldman Sachs.

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

I was hoping we could spend some time on the AVOD product that will be launching this summer. Can you elaborate a bit on who you see as the addressable market for that offer? In other words, who do you think you can reach with the AVOD service that you aren't currently reaching with Max?

And then how do you intend to reach those consumers? Do you think you'll be as efficient leveraging your existing channels as you have with HBO Max? Or do you think you're going to need to broaden out and work with new partners as you bring that service to market?

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

Brett, let me -- I'll give you a little bit of color. And as you know, we, for market reasons, haven't entirely disclosed everything like pricing, et cetera. And we'll, of course, do that right before the launch so that we get the maximum benefit of coming into the market.

Look, I think that there is a segment of the base, and this is particularly true when there are multiple streaming services out there and people are making decisions to reorder their investment in in-home entertainment, that are going to be more price-sensitive. And while we believe HBO Max, without commercial interruption, as a premium product and warrants what we charge in the market today, we know that, that premium, in some cases, is high enough that there are people, when they start to say, "Well, I've got 3 services, and I aggregate everything out, that maybe I won't make a choice to be in it."

And that's particularly true if you look at maybe some younger demographics. And as a result of that, we believe getting the price point down where, for them to get some well-executed advertising, they would look at the product and service and stay within the portfolio, streaming services that they may wish to have in their household or in their apartment, that they think that this is a good place to be.

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Another example will be in certain socioeconomic dynamics. So you can expect, for example, we believe the AVOD product actually pairs well with some of our prepaid offers and how we might position it because it tends to line up on a more price-sensitive socioeconomic dynamic. And we think that opens up marketing channel and awareness channel and ultimately an opportunity to drive penetration in other places where, again, customers are a bit more price-sensitive.

So really, at the end of the day, a customer gets to make a choice. And there's no question if you give a lower price point, you're going to push it down lower in the demos that will ultimately subscribe to it. And I think that's more important as people are making portfolio decisions of multiple services in their household.

And when you see the reality of an ebb and flow on a Direct-to-Consumer offering, where maybe you hit that period of time where you're not as enamored with the offering that we have on the new content that's in place, having that option to be at a lower price point allows somebody to stick with the service. And we just think it's a really smart place to be for that segment of the market.

In terms of the channels, what we've been -- and I think it's really an important point that you bring up, and I want to stress this. We've been really, really careful about our channel partners. At the end of the day, a Direct-to-Consumer business should be a Direct-to-Consumer business. It should be a business that we have the opportunity to have a direct relationship with the customer, market and sell to them and work with them in the way that we feel is appropriate.

And so where, in some cases, we were criticized for taking a long time to getting certain agreements worked out, you should understand that we were doing that under the principle of we refused to back off on the notion. That we wanted to make sure that our distribution and the way we offer the product was something that we ultimately had the ability to talk to our customers, and to bill our customers and make sure that we can manage the life cycle of our customers over time, and do these migrations easily and not allow somebody else between us and the user interface of the customer. And not all launches of streaming products have done that and done it in that same fashion.

And so we've been a little bit more dependent on our owned and operated channels. We've been, I believe, respectful and balanced with our existing distribution partners, where we've certainly consented to their rights to be able to bundle and sell the product, where we can make sure that we manage the customer experience and the user interface as the customer is inside the product, and that we can appropriately inform them and guide them to the right kind of content and have the kind of relationship with them that we should have as a direct owner of that product or service.

And so you're going to see us use, for example, our own prepaid channels. But you're not going to see us dramatically change our distribution strategy, where, just to get volume, we're turning over control and exercise rights of how the product or service is being used.

We're in discussions with our existing distributors. We intend to make it available to them under very similar constructs to what we did in economic incentives with the subscription product, if they choose to do that. And if they choose to carry it forward and it's done in the way that we think is the right balance for our ability to manage that customer, we'll extend it to them. If not, we'll be moving it largely through our owned and operated channels, if that's what's required.

Operator

Your next question comes from the line of Frank Louthan from Raymond James.

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

What is your sense of the fiber investment that could come out of the infrastructure bill in Congress? And how much that might be available to you?

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And can you comment on the FCC's EBBP plan that they're, I think, going into effect later this month. And how you might be able to take advantage of that for your customers, both on the wireline and on the wireless side?

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

Sure, Frank. The infrastructure bill -- euphemistically speaking, the infrastructure bill's a little bit of a large, amorphous thing right now. And I think we're in very much the early innings of shaping what it's going to be. I don't pretend that I've got any great insight, that I can predict how the political process will play it out, but I'll give you my opinion on it.

My opinion is that it will go through some changes. I think, in aggregate, the size of it will probably be different than what it was proposed to be. My sense is that there's enough support on both sides of the aisle that both would like to see broadband spending. If it's a bipartisan approach, I think it would still survive a bipartisan approach. If it ends up not being a bipartisan bill, I think it will still survive not being a bipartisan bill.

If you think about how it's executed, I think the White House made a couple of broad statements in the announcement of the policy that were starters. I think you've heard the President say himself that he's open for discussion on things. And I know there's a lot of dialogue going on. My sense with that dialogue is that there are members of Congress on both sides of the aisle that maybe have somewhat different views as to how the policy should be executed than what was, at a very high level, laid out in the bill with some suggestion. I don't think it was all that specific.

And I think we're actively involved in that discussion right now, talking about our learnings and our understandings of what we think good policy would be. If, in fact, the government chooses to put some subsidy in place around that and some incentives in place, we think it should probably get to a different place than the rough framework that the White House put in place. And we think that there is support on both sides of the aisle and other policy aisles of this administration to try to drive it that way.

I believe some of the things were frankly not characterized properly. I think when you get underneath the facts of how broadband infrastructure is deployed in the United States today, what occurs when there's 2 players in the market that are offering both capable and robust networks, what the price performance characteristics of the product are, I think vast parts the U.S. broadband market are actually performing incredibly well.

I think we have an issue that needs to be dealt with on certain degrees of low-income subsidy. Interestingly, voluntarily, several of us in the market, including AT&T, has a voluntary low-income offer that's out there, that it's hard to imagine that a $10 offer, in my view, would be a monopolistic pricing offer. It seems to me that that's a pretty gracious and attractive offer. And if there were the right subsidies put on it, that, that could be a pretty effective tool of putting more fixed broadband into people's homes.

I do believe we have some rural areas that the bill needs to deal with, that if the policy is done right on a technology-agnostic way, that we can participate in and grow in. And that clearly is going to take some additional discussion and policy formation to get it into that place. We're in the early innings of it. We're active in it. I think it's going to be something, at the end of the day, like any political process, that there'll be a middle ground that will come up with some opportunity, but probably not everything we'd like.

But we'll be active and aggressive in the places that we can go. The good news is, in the guidance that we've given you, in the core of our business, we have a lot of opportunity for growth in broadband. This would be icing on the cake if we were able to make some headway there. I think we can move forward without this policy to deliver to you what we said we were going to deliver.

We've been working with the SEC on the -- how the subsidy gets placed out. We've been talking with them about the approach to it. My sense is that they've got their arms around it. They understand how to administer these programs. They are going to do it in a way that I think it will help some of our customers.

Again, we've got great offers out in the market for low-income customers. In some cases, there's income stress that maybe don't qualify as low income. The SEC plan will help the income-stressed, but it will particularly help low income. And that, coupled with the offers we have in the market, I think, should be generally helpful moving forward.

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I think we're probably at a peak right now at need. As people return to schools in person, I think there's going to be a little bit of pressure taken off this dynamic moving forward. But again, we weren't banking on a lot of government subsidy in the guide we've given you on our direction. So if it breaks the right way, it will be a good thing for us.

Operator

Your next question comes from the line of Kannan Venkateshwar from Barclays.

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

So John, on the broadband side, just wanted to see if, given the success you've had on the wireless side with device promotions, and now that seems like it's flowing through to margins as well, is there any thought about maybe a different go-to-market strategy with broadband as well which accelerates the pace of growth there in the coming years with respect to penetration? Because that's been a big focus for you guys for a long time. Just wondering if the approach has some room to change.

And secondly, on the wireless side. When you think about the margins this quarter, I mean, they were obviously pretty good in the context of some of the promotions you guys have run. And I think you pointed to the promotional costs on a normalized basis per subscriber actually being pretty attractive. Could you just talk about that a little bit more and how that might play out over the course of the year?

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

Sure, Kannan, we're -- first of all, if you have any ideas you want to send me, feel free to just drop me an e-mail. I'm always looking for good thoughts on what might be effective in the market. But I will tell you, yes, we've had really good success at pairing our wireless services with our broadband customers.

And I will tell you, it's one of the areas of, frankly, over the last couple of months. Really pleased with the team's execution, and how we've been working that data set and that customer base, to put the right attractive offers in place. And one of those things where, because we have a relationship with the customer, we can maybe do some things a little bit differently in the market and how we position what those incentives are, for them to put 2 products together than what you might do in a mass market channel nationally. And we feel that, that's a pretty attractive place for us to go.

And I mentioned we're having really good success bundling our entertainment Direct-to-Consumer product with broadband. And we're seeing really high marks from customers in doing that. That feels really good. That feels, to me, like a new version of pay-TV with broadband. It feels like a forward-leaning entertainment product and service, coupled with broadband, where we know that when we bundle, we drive churn down.

Our success has been really strong on that. We've leaned in on that. We're seeing customers receive it really well. But it is really, really good on customer profitability and asset lives when they make that wireless coupling decision.

I'm not going to kind of say it too much, but we believe there are some further customer relations on service integration we can do between wireless and broadband that makes some things even more attractive moving forward for that customer base. Our product road map, as we move into 2022, starts to introduce some of those, and it goes right at the heart of what you're suggesting. And I absolutely believe that will be a winning play.

But I don't want to oversell it because, right now, our broadband footprint, as you know, doesn't cover the entire United States. And we do need to be successful in marketing and selling in the entire United States in our wireless business to be successful.

Why are we doing better on promotional unit costs and dynamics? Consistency of execution is one, as we've not had to change our approach to the market and change our messaging to customers, and go to what I would call the expensive approach to on again, off again, on again, off again.

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Those things cause you to do things like try to retrain salespeople. You have to put incentives and SPIFFs in place to get their attention to move through.

I will tell you, we are operating through our distribution channels in an incredibly consistent fashion, in a way that, if I look at the numbers, and I take great pride to what the team's executed and what they're doing, and it looks like sound management, it looks like we're doing the right things and doing them better.

And when we get the customer in with the right consistent offer, our trusted sales advisers are doing what you would expect trusted sales advisers to do. They're guiding the customer to the right product and service that meets their needs. And sometimes, that product and service and that solution isn't exactly the thing that the customer was motivated to come and explore.

And oftentimes, that's a -- it's a good outcome for our business when that occurs. And that might be a buy up on an unlimited plan to higher rates that allow us to drive ARPU up. It might be bundling another product and service with them. And we're getting the goodness that comes along with that consistent message.

It causes customers to explore with us instead of maybe their first inclination, which might have been to go and explore with the competitor and move their service. And that's why the churn levels are so much lower. So we're getting really good lift from our promotional spend. We're getting really good performance when you look at how we're managing the device recovery life cycle. It's all good, and it's all helping.

And when you're not driving the volume that we had driven in the past, when we're down at those low gross add levels, guess what, your unit costs are higher per gross add. When you're operating at the levels that we're operating at right now, you get some scale benefits to it. So it just -- it all comes together in a way that's really goodness, and that's what you're seeing work through the numbers.

Operator

Okay. That question comes from the line of Colby Synesael from Cowen & Company.

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

Great. I guess, 2 questions. One, I was hoping you could just talk about what you're seeing from a competitive perspective in broadband. You've obviously had success now for a few quarters, stepping up your fiber net adds. Just curious if you're seeing any response to that and how that might expect the momentum you're anticipating in the remainder of the year.

And then, secondly, Pascal, as it relates to the guidance, after such a strong quarter, the revenue growth guidance of plus 1% seems pretty conservative as does the EPS expectation that it's flat. I think, in a previous question, your response is that it's less about anticipating any type of downturn, if you will, in terms of the financial results, but more a function of you guys not wanting to be in the habit of having to change your guidance so frequently. I just want to make sure that I'm understanding that correctly.

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

So Colby, I don't think I've seen what I would call any dramatic shift or adjustment into the broadband market and the competitive dynamics around it. We were not pleased with our performance in places where we don't have fiber, which is why I need additional footprint and why we're headed in that direction. But we're incredibly pleased with our ability to compete where we do have it, and it's been pretty consistent in terms of the competitive dynamics around that.

In fact, I think we're doing some things right now that are improving our performance overall because of our focus in the market and how we're thinking about the integrated customer experience. And really, what we're now starting to do, it took us maybe a little too long to get there, but we're thinking beyond the side of the house is the way I would think about it.

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We've always built really good networks. And we do a really good job of ensuring that they're consistent, reliable and work well. But the inside of the house is a bit of a dirty place right now from a data perspective, and it's getting dirtier by the day as customers do more and more, add more devices.

And we're now starting to work really hard on how our product and service can help the customer inside the house. That was the result of making our product look more consistent, more reliable and perform better. And I think we're in the early innings of that, frankly.

And so one of the competitive dynamics that we really want to push on is ensuring that, where we used to kind of, I would say, wipe our hands as the problem that occurred on the other side of the network interface, in many instances, trying to lean on and embracing that in a way that's helpful to the customer, it makes our product and service work better. And we think that, that's a great way to compete moving forward. And it has a real interesting opportunity to start differentiating the product and service offer moving forward. And I'm pretty optimistic about that, coupled with our fiber infrastructure, as we move into '22. Pascal?

Pascal Desroches - *AT&T Inc. - Senior EVP & CFO*

And Colby, on your guidance point, your commentary was spot on. It is early in the year. We're really happy with our performance. We don't want to get into the habit of changing our guidance each and every quarter.

And John said this earlier, but just to underscore the point that he said. What we want to try to do is to focus on running the business and investing appropriately, and we believe that has to be our priority. And we're comfortable we can do that and, at the same time, deliver on our financial commitments. And -- but we won't be in the habit of changing guidance every quarter.

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

Thank you very much for the questions. John, turn it over to you for any wrap comments.

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

Well, first, thank you all for being with us today. And Pascal, it's good to have you here. And -- but sadly, you no longer continue to have a first coming up. So look forward to many more of these with you.

But what I would tell you is, second quarter of last year, we told you about where we wanted to focus this business, and that we wanted to make sure that we were gaining momentum and success in satisfying broadband customers in our wireless business, and what we could do in growing fiber and fixed connections and how we grew a forward-leaning entertainment-based product. And I think, this quarter, you're seeing that the team has done a remarkable job of getting their focus together over the course of the last year in carrying success forward.

And I would submit to you, you can plow through the numbers and see that it's being done in the right way across the board. So these are growing products. They're growing in the right way, with the opportunity for high-value subscribers that are highly satisfied, sticky, with long in-service lives. And I feel really good about that in terms of building the franchise.

And then, finally, if you look underneath those numbers, we have a lot of confidence in what we've seen coming out of the first part of this year. We told you our guide was a conservative guide. We don't know exactly where things are going with the clawback from COVID. I'm hopeful and optimistic that we see citizens continue to get vaccinated, and we continue this march out.

And if those tailwinds continue, I think we're going to have a really strong year in front of us. But there's still a degree of uncertainty that we're all trying to adjust to, and I'm sure you understand that. But irrespective of that, the fundamentals underneath the business are really strong right now. You see that in the quarter. We're going to continue to ride that.

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And I look forward to talking to you 90 days from now. Thanks for your attention. We'll see you soon.

Operator

Ladies and gentlemen, that does conclude your conference for today. Thank you for your participation and for using AT&T teleconference. You may now disconnect.

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