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T.N - Q2 2021 AT&T Inc Earnings Call

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OVERVIEW:

Co. reported 2Q21 adjusted EPS of $0.89. Expects 2021 consolidated revenue to grow in the 2-3% range. Expects 2021 adjusted EPS to increase in low-to-mid single digit range.

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PRESENTATION

Operator

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

I would like to turn the conference call 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 second 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 CFO. Also joining us for the Q&A portion of our call are Jeff McElfresh, the CEO of our Communications Group; and Jason Kilar, CEO for WarnerMedia.

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. I also want to remind you that we are in the quiet period for the FCC Spectrum Auction 110. So unfortunately, we can't answer your questions about that today.

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

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

Good morning, everyone, and thanks for being with us. At the risk of being repetitive, or I guess consistent, depending on your take, the framework for what I want to cover today should be familiar to you. It's been 4 quarters since we articulated a simplified strategy and how we plan on evaluating our success going forward based on 3 priorities.

First, we wanted to grow subscriber relationships through our 3 market focus areas of 5G, fiber and HBO Max. Second, we initiated an effort to transform our business to be effective and efficient in everything we do so that we could allocate increased resources to support these focus areas. And third, we committed to deliberate capital allocation to support increased investment in growth, improve returns, narrow our operating focus and restore flexibility to our balance sheet. To achieve these priorities, we made some difficult near-term decisions to set our businesses up for success in the coming years. And that success is defined by improving our competitive position to the investment in best-in-class products and experiences for our customers. By doing so, we believe the execution of this strategy will drive better returns and profitable long-term growth.

Let's look at what we've achieved in the past year on Slide 4. We made notable progress in each of our priorities. In wireless, we're gaining share, lowering churn and had our best 12 months of postpaid phone net adds in more than a decade. We just posted record quarterly wireless EBITDA. In fiber, customers have similarly responded to the combination of a premium service at attractive prices, and we've grown our base by more than 1 million subscribers. By year-end, we have expanded our fiber footprint by 3 million consumer and business customer locations. And just over a year after launch, we've grown our domestic HBO Max and HBO subscribers by 10.7 million. We transformed HBO from a $6 billion business thatwas not growing to an $8 billion run rate business that grew at nearly 40% this quarter.

We've also made solid initial progress in our cost-transformation efforts, which have produced $2 billion in savings that we've reinvested into our core growth areas. We're streamlining our operations and effectively growing digital fulfillment channels. Our NPS scores have improved significantly, and our fiber customers continue to rate us #1 in customer satisfaction. Churn levels have dropped substantially, too. Our second quarter postpaid phone churn matched a record low. And in broadband, we had our lowest churn on record and the highest second quarter fiber gross adds ever.At WarnerMedia, we continue to deliver great content. In the first half of the year, we introduced hit series, such as Mare of Easttown and Hacks. And our lineup in the back half of the year is even stronger with new seasons of popular series such as Succession, Raised by Wolves, Curb Your Enthusiasm and Love Life. That's on top of the day and date movies we'll have on the platform, such as Space Jam: A New Legacy, The Suicide Squad, Dune and Matrix 4.

When the Emmy's were announced last week, HBO Max and HBO led the field with 130 nominations, the most of any network or platform. In total, WarnerMedia received more than 180 nominations. I'm really proud of the way the team is executing. And speaking of good execution, we're seeing indications that our DIRECTV deal with TPG might close in the next few weeks ahead of what we expected. Also, we're pleased with the new management team's ability to exceed operational expectations since we announced the transaction.

Our intention with WarnerMedia is the same. We want to hit a strong exit velocity for both of these businesses, at which point the combination with the right partner only expands the respective opportunities for success going forward. And we continue to invest at strong levels. More than $60 billion in the last 12 months in 5G wireless, including spectrum, fiber and premium content.

Finally, we announced or closed a number of noncore asset dispositions, supporting our path to balance sheet flexibility. At the same time, we've positioned each of our 3 major businesses, AT&T Communications, WarnerMedia and DIRECTV, the right capital structure, the right assets, the right management team. And in the case of the latter 2, the right partners to optimize their returns to drive material value creation going forward. These decisions were not easy. And in some cases, they compelled us to rethink how to best deliver returns to our shareholders, leading us to balance long-term value creation with an attractive dividend.

As our second quarter results demonstrate, the momentum in our strategic areas of focus is real, supporting our view that we have the right business strategy and capital structure in place for longer-term success. Today, we're updating our 2021 outlook for our consolidated business, but our work is far from over. We know that consistent execution is the only way to win and keep our investors' confidence in the strategy we put forth. I couldn't be more pleased with the progress we're making.

I'll turn it over to Pascal to discuss the details of the quarter. Pascal?

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

Thank you, John, and good morning, everyone. In the second quarter, we saw impressive growth across Mobility, Fiber and HBO Max. We added nearly 800,000 postpaid phones. That's our best second quarter in more than 10 years. Subscriber momentum continues to be strong, and we continue to take share. The gross adds are up, churn is at record low levels, and our average promotional spend per net add is significantly lower than a year ago, thanks to the consistency in our offerings.

The story with Fiber remains much the same. We continue to see solid subscriber growth with most of those customers new to AT&T. And broadband revenues grew more than 8%. HBO Max continues to exceed our expectations. Having surpassed the lower end of our global subscriber target 6 months ahead of plan, we are now raising our expectations to 70 million to 73 million global subscribers by the end of the year. We also launched our domestic ad-supported version of HBO Max as well as our international offering in 39 Latin American territories at the end of the quarter. That sets us up for additional customer growth as our addressable market expand.

Let's now turn to Slide 7 for our consolidated financial results. Last year, we saw the brunt of the pandemic's impact on our Q2 results. While the pandemic is still having some impact on our results, we're seeing our businesses emerge stronger than before, with growth accelerating in our market focus areas. Revenues were up more than $3 billion or 7.6% from a year ago. Gains in WarnerMedia, Mobility and Consumer Wireline more than offset declines in video and legacy business services. Adjusted EBITDA declined mostly due to pandemic impacted timing of sports cost in last year's second quarter. We'll talk more about that in a moment, but we expect most of that to reverse itself next quarter. In fact, we expect consolidated EBITDA to be flat to up modestly next quarter and improving thereafter.

Adjusted EPS for the quarter was $0.89. That's up more than 7% year-over-year. This includes about $200 million of pretax gains, principally from mark-to-market gains on benefit plan investments. Adjustments for the quarter included a $4.6 billion pretax noncash write-down of the Vrio assets based on our sales transaction announced yesterday.

Cash flows continue to be resilient. Cash from operations came in at $10.9 billion for the quarter. Free cash flow was $7 billion, even with a $2.4 billion increase in WarnerMedia cash content investment. Our dividend payout ratio was about 55%. Cash flows this quarter were also impacted by the capitalization of interest of about $250 million associated with our recent C-band spectrum purchases, which are recorded as investing activities. This accounting treatment stops once the spectrum is deployed.

Let's now look at our segment operating results, starting with our Communications business on Slide 8. Our Communications segment grew revenues, driven by gains in Mobility and Consumer Wireline. Mobility growth continues to accelerate, and we delivered another terrific quarter. Our simple postpaid phone offers continue to resonate with customers. Revenues were up more than 10%, with service revenues growing 5%. Postpaid phone churn marked a record low, and we continue to have strong customer growth, especially in our postpaid phone base. Our postpaid phone customer net adds improved by nearly 1 million year-over-year.

And EBITDA is up $200 million, our highest EBITDA quarter on record. This growth came without a material return in international roaming revenues and a difficult comparison to last year's Q2 that included more than $100 million of gains on tower sales. As you think about the balance of the year, keep in mind, we are expecting a normal handset introduction cycle in the third quarter versus last year's fourth quarter launch. Also, on the timing front, we expect our recent agreement with DISH to provide a boost to wireless service revenues in 2022.

Business Wireline continues to deliver consistent margins and solid EBITDA, even as customers transition away from higher-margin legacy services and products. We saw a sequential improvement in both EBITDA and EBITDA margins. Year-over-year comparisons were impacted by benefits related to the pandemic in the year ago quarter. We expect similar challenging comps in the third quarter. However, with continued product rationalization and cost management, we're very comfortable with maintaining Business Wireline margins in the high 30% for the remainder of the year.

Our Fiber growth continues to be solid. We added 246,000 Fiber customers in the quarter. Broadband ARPU grew by 6.1% year-over-year. Our aggregate fiber penetration rate is now more than 36%, up from about 31% a year ago. And nearly 80% of net adds are new AT&T broadband customers. We've reached a major inflection point in our Consumer Wireline business. Broadband revenue growth now surpasses legacy declines.

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This helped drive Consumer Wireline revenues up 2.9%. We expect broadband revenues to continue to outpace legacy decline. EBITDA trends are also expected to continue improving as we make our way through the second half of the year.

Let's move to WarnerMedia's results, which are on Slide 9. We feel really good about our execution at WarnerMedia coming out of the pandemic. Subscription, advertising and content revenues have accelerated. Customers love HBO Max, and subscriber growth is exceeding expectations. And we had a successful launch of both our ad-supported and international HBO Max offerings late in the quarter. Revenues were up more than 30%, thanks to higher subscription, advertising and content revenues. Direct-to-Consumer subscription revenues grew nearly 40%, reflecting the success of HBO Max. Advertising revenues were up nearly 50%, driven by sports. And upfront negotiations so far have been really strong. Content andother revenues were up 35%, reflecting the recovery of TV production and theatrical releases.

The return of sports had a big impact on advertising revenues and EBITDA in the quarter. In fact, sports contributed more than $400 million of advertising revenues, and we incurred sports costs of $1.1 billion in the quarter. So discrete losses from sport increased more than $600 million year-over-year due to last year's suspension of sports in the second quarter. We expect most of that to reverse itself in the third quarter as the prioryear third quarter included the restart of the NBA season.

We now have 47 million domestic HBO Max and HBO subscribers and more than 67 million worldwide subscribers, and domestic ARPU is just a little less than $12. Our ad-supported international offerings were launched too late in the quarter to have much of an impact on the second quarter results, but we're enthusiastic about their prospects, given the initial receptivity. As mentioned earlier, we are raising our subscriber growth expectations for the year. We're seeing good momentum, especially in our Latin American markets. We expect most of our subscriber growth for the remainder of the year to be from lower ARPU subscribers in that region. To lean into HBO Max fast start in Latin America, we may push backour launch in some European markets until early 2022. This shift is factored into our revised HBO Max subscriber guidance for the year.

Now let's shift to guidance. As John mentioned, we updated our consolidated guidance for the year. Let's discuss that on Slide 10. As a reminder, our guidance for 2021 is on a business-as-usual basis and includes a full year contribution from DIRECTV. Based on the momentum we're seeingacross our operations, we now expect consolidated revenue growth in the 2% to 3% range, up from the initial 1% guidance. We also expect wirelessservice revenue growth of 3% for the year, up from about 2%. Adjusted EPS is now expected to increase in the low to mid-single-digit range. That's up from our earlier guidance of stable with 2020. Gross capital investment expectations remain in the $22 billion range, and we now expect about $27 billion in free cash flows for the year.

Also, we now have better clarity on the projected close of the DIRECTV transaction. We expect the transaction to close in early August. Here is the expected impact from excluding 5 months of DIRECTV on the consolidated financial guidance we just laid out. Revenues are expected to be lower by $9 billion. EBITDA is expected to be lower by $1 billion. Free cash flow is also expected to be lower by about $1 billion, equating to $26 billion for the full year. We expect no change to our updated adjusted EPS guidance as benefits from the accounting treatment related to the NFL Sunday ticket are largely expected to be offset by certain fixed costs that were previously allocated to DIRECTV.

Capital investment guidance is also expected to remain the same. Obviously, the actual financial impact could vary depending upon DIRECTV's performance, the actual close date and other considerations. We recognize the financial structure of the DIRECTV transaction is complex. That is why we included some incremental details on cash and dividend distribution terms in our press release. Shortly after we close the deal, we plan on providing pro forma historical financials to help your modeling going forward.

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.

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QUESTIONS AND ANSWERS

Operator

And our first question today comes from the line of John Hodulik with UBS.

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

Okay. Great. Anything you could tell us about the details of the wholesale deal with DISH? Specifically, just any thoughts. I, know Pascal, you mentioned that it would affect revenues in '22. But just do you guys expect to take all of that traffic onto your network? And maybe if you could give us a sense on when it should start to migrate or over what time frame you'd see that? And then also, as part of that announcement, there was -- there's some details about some key spectrum that you guys could utilize from DISH. Is that the 700-megahertz spectrum that you'd have access to? And maybe if you could give us some details on how quickly that could be put into -- could be letup and sort of used by AT&T Mobility, that would be great.

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

Sure, John. So first, let me just kind of start out and step back and say having watched some of the comments over the last couple of days, let me frame one thing. We have been in the wholesale business since as long as I've been working for this company, and the wholesale business has been very good to our company, and it's a very important element of how we manage our returns and how we kind of think about attracting the right kind of scale in our business moving forward. And that is both true in the fixed and wireless business. And we've been cognizant of percentages of traffic that we have in various aspects of our business and always try to maintain a balance. And I would say my experience with this company and looking at the relationships we've had from a wholesale perspective, we've always managed to strike relationships that we think are win-win relationships for the parties involved.

Second thing I would say is I believe that DISH is going to be a company that, in their business model, what they choose to do moving forward is going to be successful, one way or the other. And my point of view, when we start thinking about the wholesale business is, when somebody is going to be successful, it's always nice for us to be successful along with them.

We think there's an accretive way to do that drives a reasonable return back into the business and, again, manages the balance of that traffic in the aggregate of the business. And I think we've achieved that in this case. And frankly, given the nature of their business and where they are in its maturity and what our interests are and ultimately aggregating as much traffic on our networks is possible, I'm looking forward to demonstrating to DISH that we can be a good partner, that we can carry the right kind of traffic, and we can do things to help them grow their infrastructure over time on parts of our network where they may not have ready access to infrastructure that we can ultimately support them with.

And I think that's a good thing for AT&T over the long haul, given the nature of our business and what we've done and the balance that we like to keep between retail and wholesale traffic. The construct around this particular agreement, as you should think about it is, as you know, it was set up so that, as DISH continues to build their own infrastructure for own and operate, they need places to put traffic. And so while this is a 10-year agreement that's discussed, I think, in the disclosures,it's a minimum commitment per year, one should think about this as probably being something that's more front-end loaded than back-end loaded in terms of how that commitment retires. And I think you should also think about it in terms of DISH has established with us a minimum annual commitment.

That's not the necessarily the annual commitment or the maximum annual commitment. And a lot of this will be based on our effective performance with them and ultimately what they choose to do in the market. But frankly, we aspire to possibly see that be something greater than what those minimum levels are that have been put in place, but this was a comfortable construct that I think both parties could agree to get started and establish all the practices and processes that are necessary to have an effective wholesale arrangement like this. And I think that we need to demonstrate that we can do well and ultimately see that grow.

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And I don't want to speak on behalf of DISH or Charlie. I'm sure he will, when he has a chance to comment on that. But I believe one of the reasons they view this as being a good move for them is their assessment of where things were in the industry is. They felt like we could be a very capable and more capable partner than their current arrangement. And they have motivations for a business reason to continue to deepen that relationship with us.

I would go on to say, as we think about what we do with them on this relationship going forward, there are a lot of options that we can explore. Spectrum is certainly one that's open. We have a variety of spectrum licenses where our existing radio infrastructure can ultimately deploy and put to use some of their spectrum. That's been done through the pandemic. We have options to do some of that as well as we move forward. And look,I don't think any of us know over the course of a longer-term relationship what's going to happen to other regs and specs on spectrum.

And I think parties will keep their mind open as those evolutions occur and look for some other options to pursue. But right now, we know what we need to do with the wholesale agreement. But frankly, it's really no different than any other wholesale agreement that's in the market like what maybe Verizon does with Cable or what we've done with other entities that have elected to use this on a wholesale basis. Jeff, do you want to add anything to that? Your team did a great job pulling it together. Is there anything you would add?

Jeffery Scott McElfresh - *AT&T Inc. - CEO of AT&T Communications LLC*

John, I think you covered the broad strokes of it. And I would just say the cadence between the 2 organizations and getting ready to begin migrating this traffic towards the latter part of this year and ongoing into 2022 has been very positive. I think the comments from the operation have been that the AT&T network has got the capacity and the coverage. With all of the investments that we have made over the last several years, we can actually afford to do something like this and not worry so much about our spectrum position. And our technology migration that we've got experience in and upgrading from 4G to 5G and making those transitions seamless is something I think the DISH organization is looking forwardto working with us on.

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

I don't think anybody around here is upset about taking $500 million a year out of a competitor's pocket either. So...

Operator

And we do have a question from the line of Sean Flannery (sic) [Simon Flannery] with Morgan Stanley.

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

I wonder if we could get a quick update on the WarnerMedia-Discovery deal. Any updates on timing, regulatory process, tax status, structure, et cetera? And then for Jeff, you did an interesting deal around the 5G core with Microsoft Azure. It would be great just to learn more about the details of that. Any numbers you can give us and the opportunities that, that gives you?

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

Is that a legal name change, Simon? Or you know, is it -- Simon 2.0?

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

We'll figure that out on the transcript, yes.

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

I think the net of where we are in the discovery process is no news is good news. We're basically tracking through the process as we would expect to do. And I think you're probably familiar enough with these things. But right now, it's a lot of work with the regulatory agencies and document production, and providing information that's responsive to their request so that they can begin their reviews. And all that is underway. There's nothing we see in that that's been particularly problematic nor is it far enough along, where I think you can effectively say that anybody has developed any position or point of view on something.

So we continue to move through, and I would tell you, internally, all the normal steps are going on to be prepared operationally for when we would expect an approval. I think, as I indicated when we announced the transaction, Simon, we expected it was going to be next year and probably close to a full year review to get this done. And I don't have any reason to suggest it's going to be anything other than that at this point.

We've had some interesting and pleasant surprises. In some cases, I think we moved through the DIRECTV process a little bit faster than what we had expected. It's not a complicated transaction. I think that certainly supports it. And if we were to be fortunate enough to do that because of the straightforward nature of the transaction. We'll take it, and we'll be prepared for that if that were to happen. But at this point, I'm expecting it's going to be a full and fulsome review. And we'll run through the process as we normally do and get to the end of it and probably have, as we approach the latter part of it, a little bit more insight for you as to what's going on. It's just a little early. Jeff?

Jeffery Scott McElfresh - *AT&T Inc. - CEO of AT&T Communications LLC*

Yes, Simon, on the Microsoft transaction, I think it's appropriate to point out that AT&T and Microsoft, we've got a very deep and wide-ranging strategic relationship between the 2 firms. And this particular deal that you referenced is just another example of how we choose to partner with companies like Microsoft who have expertise in doing things. They do this day in and day out for a living, and that is scaled compute. And as you know, over the last several years, our labs, organizations and our network team has been hard at work virtualizing our core network functions.

What this deal essentially does is it brings Microsoft to the edge of our network and supporting our network workloads at a scaled level for efficiency. And as a partner in this, our engineers and their engineers are developing this solution on a broad scale across the business, across the network. We're going to enjoy some anchor tenant benefits from that. We're not disclosing any specific financial details. But one thing that we are not doing, and I've kind of read this in the trade and the press a bit, is we're not outsourcing our core network functions. We are relying upon Microsoft to develop scale compute and storage capabilities at the edge, while we retain control of our network stack and the kinds of services and products that we're going to offer to the market.

And as John has shared over the last 4 quarters, our focus here is to put our energy on the things that differentiate our service. And by doing this, it enables us to reallocate resources that we want or attempting to build. Scale, network, cloud compute capabilities, we rely on Microsoft for that in their Azure for Operators capability going forward. And our product development teams, our engineers really work on a service layer and the kinds of products and services that we intend to provide with our fiber and 5G network to consumers and to our enterprise customers.

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

Any color on timing?

Jeffery Scott McElfresh - *AT&T Inc. - CEO of AT&T Communications LLC*

No. We've not disclosed our product launches or capabilities. This deal just got announced, and it's in the process right now of the integration of the 2 teams.

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

We'll know more at the appropriate time.

Operator

And we do have a question from the line of David Barden with Bank of America.

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

Maybe two, if I could. The first question is, Pascal, thanks for the information about what the prospective impact to the DTV disposition might be. I guess a helpful mirror image of that would be, what kind of EBITDA and free cash flow from DTV is baked in your current outlook as you've laid it out here today? And the second question is, obviously, 2 new factors impacting the earnings outlook. One is changing Vrio from operational to assets held for sale and the benefit from depreciation there, and then the new kind of approach towards capitalized interest and having taken down the interest expense. Can you talk about what those 2 factors are doing to inform the new earnings growth outlook?

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

Sure thing, Dave. On DTV, we have not provided detailed guidance yet. But as we said, once we -- once the transaction closes, we will provide details to help with your modeling. In terms of Vrio, you said that -- you asked about the impact of stopping depreciation and amortization. Think about it as $0.01 to $0.02 for the balance of the year, so not significant. And capitalized interest, we -- as you saw in my remarks, I said that it's about $250 million in Q2. So think about that as being the zone you should model going forward.

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

So if I do that math, it kind of suggests that the -- that for the balance of the organization, it's still kind of more stable is EPS while you kind of drive the top line. Is that fair?

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

I think that's fair. But remember, we are stepping up our investments significantly across the board in Mobility, Fiber and HBO Max. So that -- some of this is self-imposed by the investments we're making. And you're seeing the delivery of the return through the top line over time. Over time, we expect the continued transformation effort and continued revenue growth. We're going to drive operating leverage, which should translate into EBITDA improvement. And I said this in my comments, we expect next quarter EBITDA to be flat to up modestly. And so this is really, really a good outcome. The business is -- we're investing fully in our businesses, and we're delivering returns as evidenced by the revenue growth. And we're optimistic that all of that is going to translate into profit growth and cash going forward.

Operator

And we do have a question from the line of Phil Cusick with JPMorgan.

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

First, John, there are a lot of questions about the retention promo you launched last year and it keeps running. But maybe talk about what else has changed in the wireless go-to-market strategy aside from the retention promos in the last year. And then what do you see driving the industry strength this quarter as well? And then a quick follow-up. Do those Boost customers, will most of them need new phones to come to your network? Or can you just convert them without a new phone?

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

So Phil, since I have Jeff right here, I'm going to go ahead and just have him address it since he lives this day in and day out.

Jeffery Scott McElfresh - *AT&T Inc. - CEO of AT&T Communications LLC*

Phil, appreciate the question on the wireless business. We've been operating in this go-to-market model for the past 4 quarters. And I've got to tell you, it just continues to prove to be sustainable. When I think about it, and I'd encourage you to think about it as 3 simple elements. And the first is we have simplified our offers in the market, and we remained consistent in our offer constructs over the last 4 quarters, despite really a highly active and a competitive environment.

But the second element that I think is sometimes overlooked is our persistent focus on the customer experience. And that is execution across our sales and distribution channels, our newly formed a year ago customer advocacy teams working the grind on, improving the experience of our products and our services. And then our network organization, it just continues to put the capital into the ground and drive, for a third year in a row, the nation's best network.

And those 2 things combined have responded and continued positive responses from the market and the end customers, both our existing subscriber base, as I think all are aware of, but also those of other competitors who are choosing to join the AT&T network. And we've been able to achieve and sustain taking share in multiple segments. It's across the board. It's not in any one particular segment. We're growing in consumer. We're growing in small business.

We're growing with our FirstNet position. We're growing in enterprise. And as Pascal mentioned earlier, we've set a 10-year record for net add growth here in the second quarter, but we've also set a record for our churn and the NPS results that customers are giving us for our wireless products and services. And so in short, the customers themselves are telling us that we're doing something right.

When you grow the top line revenue growth through the subscriber growth, remembering that we are third place in market share. We've got just a little over 27.5% of the market. Our growth trajectory right now is roughly 35%, 36% share of net adds. We're doing it also efficiently. And through our transformation program and our distribution optimization, we're able to mine dollars out of the operations to support this growth and drive EBITDA growth at record levels here in the second quarter, year-over-year as well as sequentially. And so this operating leverage that we've achieved gives us confidence that this model is sustainable but we've got a lot of work to do. So I mentioned, we sole have a third place share position in the market. We haven't made our way fully through upgrading our existing customer base on unlimited plans.

We still are early in the cycle of upgrading our base on to the 5G devices. And so teams are doing a great job, we are satisfied, very -- I feel very strong about our position in the market, but we're staying focused on what customers want. And as long as we're getting the positive response, we're going to stick with it.

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

And in terms of the overall strength in the market, Phil, I probably -- I don't think there's any one particular thing I'd look at, but there's a number of factors. One, obviously, many people are flushed with probably incremental cash than what they might have otherwise have had for a variety of different reasons. And they look for things to spend the money on. And I would say that, generally speaking, these are high-value, high-utility services that we sell. And I can understand why on the margin people may make a decision around that. I think, secondly, the postpaid strength, clearly, there's been some suppression in the prepaid market as I think value when things occur, there has been some movement in that direction. Third, look, you got to adjust some of these numbers in the industry when you think about how many customer lines are actually what I would call an economic decision to pay for versus not pay for. And that probably is having a little bit of an impact on the aggregate numbers. Jeff, I don't know if you think there's anything else that you would point to.

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Jeffery Scott McElfresh - *AT&T Inc. - CEO of AT&T Communications LLC*

No, I wouldn't. I think you covered it.

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

Okay.

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

And then on the Boost conversion?

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

Yes. There's -- obviously, there -- I think Boost, and we've got a situation where DISH will work through whatever the arrangement is commercially with T-Mobile on this. And I think there's been some public discussion around what that entails and what's happening. And we're not in the middle of that debate and what's occurring. And I think it still has a little bit of path to play. But yes, there is a segment of those customers that, ultimately, if they were to come over to our network, will require a device change out. Exactly what the pace of that is and when that's necessary and how it occurs and the total numbers of that, I think, is yet to be played out. Jeff, is there anything you would add on that?

Jeffery Scott McElfresh - *AT&T Inc. - CEO of AT&T Communications LLC*

Yes, 100% required device conversion. Some require SIM swaps, and they're a little easier transition, but you've covered it appropriately.

Operator

And our next question comes from the line of Michael Rollins.

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

Two questions, if I could. First, when you take the planned investments in 5G and fiber altogether, can you share the percent of homes over the next 3 to 5 years in the U.S. where AT&T can deliver better than DSL performance in the home? And secondly, just going back to the DISH transactionthat you were describing earlier. As I think about from the history, John, that you were sharing, when AT&T entered into some of those larger wholesale deals years ago, it felt like it was more resellers and MVNOs that were complementary to the AT&T focus. A lot of it on prepaid before AT&T was a larger provider in the prepaid category. So when you evaluated the deal this time with DISH, how did you consider whether or not DISH would be a competitor that may be more complementary to the addressable market that you're going after, relative to a competitor that may be going directly after this same broad set of customers and revenue that AT&T currently pursues?

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

Michael, so why don't I have Jeff go ahead and answer your question on how we think about footprint for coverage of broadband and then I'll come back and touch on your point of view on the wholesale piece.

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Jeffery Scott McElfresh - *AT&T Inc. - CEO of AT&T Communications LLC*

Yes, Mike, we've disclosed we've got investment plans over the long term to reach 30 million homes passed with fiber, which is clearly in excess of speeds capable by copper, cable or DSL. I would point to today, our 5G network delivers speeds over 250 million POPs covered that exceed that of DSL. We have not made the choice or decision to launch wide-scale fixed wireless Internet, but rest assured that the strength of our wireless network is providing options for us as we migrate some of our legacy wireline DSL customers off of that technology over to a better technology, served up with fiber or wireless. And where it doesn't make sense for us to invest in fiber for the long term in certain demographic areas or market areas, we choose to serve that with wireless, and we'll leverage the 5G existing network that we've got with our sub-6 spectrum strength. Outside of that, we're not disclosing the number of homes covered by the wireless network. We generally measure that in terms of POPs.

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

So Mike, on your comment, I think I probably disagree at the front end of your premise. I think we do things that are complementary in terms of we think they're accretive opportunities to bring profitable traffic on the network. But our portfolio of owned and operated services, frankly, covers the breadth of whatever a customer needs. I mean there isn't really a customer base that we couldn't go out and sell an owned and operated service to. And we've been in that position for some period of time. We have a very strong prepaid business, which plays in the value segment. We have a variety of different prepaid offers that are out there. We have great postpaid offers that cover a full gamut of things. So yes, there are other operators out there that on a resale or MVNO basis go and attack other market segments, but I'd like to compete for those customers on an owned and operated basis as well. And that's always been the case.

Now I think where we're at in the U.S. market maybe a little bit different than others is there is kind of a direction towards more owned and operated competition and resale and MVNO operation. And as a result of that occurring, the number of wholesale options, I would say, moving forward in the future, are going to become a little bit more concentrated. And so you're probably going to see where you choose to put that wholesale traffic on your network to be fewer options to go out and pursue different partners. And as a result of that, if you want to continue to have an element of wholesale consistency in your market -- and to Jeff's point, if you have some excess capacity that you can put to use and use it for either a fixed cost coverage or driving up incremental traffic in a place where you have some valid capacity, you're going to obviously choose to do that. And I think that's the case here.

And as I would also tell you, when you think about this relationship, a broader wholesale capability beyond just the wireless business is a part of this, which is really attractive to us as an infrastructure provider. It's something we do in our core. And there are opportunities for us to think about,again, as we deploy -- as DISH deploys network infrastructure and where they go, for us to do some things that I think are complementary andhelpful to both businesses.

Jeffery Scott McElfresh - *AT&T Inc. - CEO of AT&T Communications LLC*

Yes, I would just only add, John, to your earlier comment during the call that we expect DISH to be successful in the market. And so the competitive dynamics are unchanged here. And rather, we get to participate in their success at this point. So that's how we analyze it strategically.

Operator

And that question comes from the line of Doug Mitchelson with Credit Suisse.

Douglas David Mitchelson - *Crédit Suisse AG, Research Division - MD*

One for Jeff and one for Jason, actually. Jeff, you we refocused so much on promotions and subscribers and revenues in wireless. And you mentioned on a few occasions the ability to mine for cost efficiencies to support acquisition. What specifically are you addressing in the cost structure? How much is less there? Would be interesting to hear.

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Jason, I know you were super excited about the Latin America launch for HBO Max. What are the learnings from the launch in LatAm so far? What percentage of existing HBO subs have moved over to HBO Max? And as we track the app downloads, I think it's upwards of 6.5 million since launch. And we're just trying to figure out how much of that is new subscribers versus HBO Max existing customers pivoting over.

Jeffery Scott McElfresh - *AT&T Inc. - CEO of AT&T Communications LLC*

Doug, in terms of our transformation agenda, I'd say we're roughly about 1/3 of the way through. We've got 2/3 of the way to go. So we're in the early innings of it. Key themes around our transformation and cost takeout are things like optimizing our distribution elements, be it stores and retail locations and indirect agents as well as our digital and our online buy flows. Second area, the transformation is we're now at a point in time where we're managing a higher percentage of our volume through digital than we ever have. And because we perfected some of the elements inour product experiences of the past, we're able to enjoy a lot more self-install and customer self-serve capabilities. And that's required us to work through not only the buy flow experiences online, but also some of the platforms and the technologies that are behind the scenes supporting our frontline resources.

Third, our call center operations and our IT organization are hard at work at just getting plain and simply more efficient per transaction. And as I said, I think we've got probably 2/3 of the way left to go. It will take time. These initiatives are funded. They're inside of our outlook and inside of our guidance, and the teams are just hard at work, in the grind, day in and day out to drive it.

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

Jason?

Jason Kilar - *AT&T Inc. - CEO of WarnerMedia LLC*

Doug, thanks for the question. In terms of learnings from LatAm so far, at an overall level, we're feeling very good about the launch, albeit it was only 2 days before the end of the quarter. And so obviously, we're not sharing details for this call. But in terms of the biggest lessons, number one is the content and the stories that we have on the service. The team did a remarkable job in terms of planning for this launch and making sure that we put our best foot forward in terms of not only original new productions, but also an incredible library.

And then the other 3 things I'd mention is distribution, obviously, is key. And we certainly lined up a healthy distribution partnerships ahead throughout Latin America. The tech and product works, and it's a modern experience that we're very proud of. And finally, you've got to have the value. It's the value proposition, it's a very strong one in Latin America. And so to your last question, Doug, in terms of incrementality in HBO migrations. We're seeing material incremental subscriber additions. And so again, not for this call and not at this moment, but certainly for the next quarter.

Operator

And our next question is from the line of Brett Feldman with Goldman Sachs.

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

Two, if you don't mind. First on Fiber, you've had pretty consistent net adds, but you're still underpenetrated. You're going to be meaningfully expanding the footprint. You've got a better service. You can match anybody's bundle. Can you help us think through whether there's an opportunity or the time line for an opportunity to maybe step up that cadence of fiber net adds? Because it certainly seems like that's an opportunity for the company. And then just as a follow-up on the WarnerMedia side, you're 6 months into going day and date with the theatrical slate on HBO Max and in the theaters. I know that was a strategy that was unique to this year, but I was hoping you could give us some insight into what you've

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learned from that and how that might shape your view on what a more permanent strategy should be in terms of thinking about the theatrical release slate going forward.

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

Jeff, go ahead. Why don't you tackle the first one?

Jeffery Scott McElfresh - *AT&T Inc. - CEO of AT&T Communications LLC*

Yes, Brett, so the first 2 quarters of this year have essentially been built selling into our aged fiber footprint from the prior bill. We are currently deploying some of the early stages, our next 3 million bill that we've disclosed for this year. As we cited earlier at Analyst Day, the bulk of that inventory is going to come online towards the back half of the year. And so my expectations are that our net add performance takes a step up as that inventory comes online. Having said that, the thing that's really strong for us and exciting is: one, product continues to be durable, as you point out. It's the best technology. It's a great price value proposition. It's got the highest NPS scores in the industry. Two, 80% of our net performance here in the first half of the year is actually new relationships to AT&T. And that's given us an opportunity to move into those households with the best-in-class fixed broadband service as well as offer up some of the other products and services like wireless. And so each of these execution elements, we believe, are going to continue to perform and continue to improve. This is not a quarterly game. This is a long-term plan, and we're just building momentum quarter-to-quarter.

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

Jason, do you want to touch on the day-and-date issue?

Jason Kilar - *AT&T Inc. - CEO of WarnerMedia LLC*

Sure thing. Brett, thanks for the question. In terms of what we've learned, there's probably 2 things I'd highlight. One is that the motion picture format absolutely matters, and it matters in a number of ways, but I'll highlight 2. It matters in theaters. Godzilla vs. Kong, which we released this quarter, it's done over $463 million in revenue at the theaters. And so clearly, motion pictures matter and will continue to matter when it comes to theatrical exhibition. They also matter at home. And absolutely, in terms of the response that we've gotten not just from that title, but from all of our day-and-date titles. We feel very good about the response that consumers have given it in the home.

In terms of the things in terms of where things go in the future, I think it's fair to say that -- and I've said this before publicly. I certainly don't anticipate us going back to the way the world was in 2015 or '16 or '17, where windows were quite lengthy between theatrical and home exhibition, whether it was an a la carte transaction or something else. So we'll have shorter windows for a portion of our slate, 45 days specifically. But then Warner Bros. is also going to be producing for 10 motion pictures that will be on HBO Max on Day 1. And so I think that what you're going to see is this industry continue to evolve and to continue to innovate in ways that not only works for consumers and fans, but also works for our business partners.

Operator

(inaudible)

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

Great. Maybe follow up a little bit more on the Consumer Wireline. At what point do we think that can really start to see the consistent top line growth with basically on all the fiber and broadband you pushed out? And secondly, on FirstNet, where are we on penetration there? And can you comment on the FirstNet base and what percentage of that are -- have been net new customers to AT&T?

Jeffery Scott McElfresh - *AT&T Inc. - CEO of AT&T Communications LLC*

Frank, we have achieved revenue growth in our Consumer Wireline business. And as Pascal pointed out, we expect that to continue to accelerate, already looking at the 8% to 9% only in the broadband business. And so we've got confidence we've made that pivot now. In terms of FirstNet, we're over 17,000 agencies. We're ahead of all of our commitments with FirstNet Authority and all the IOC build-out commitments and payments as a result of that. And the subscriber base has peaked over 2.5 million. I'm not going to comment on what percent of that base is incremental or new to AT&T. I would just leave you with we are growing market share in a highly competitive wireless business. And FirstNet has been a critical element for us to take share and unseat possibly other carriers who have long held a strong position in public safety and as part of the community. And so that program continues to perform very strong, and we don't see any signs of that slowing down.

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

Frank, one other thing that I would add on Consumer Wireline. As we -- as I said in the first quarter, we expect profitability trends to improve. We saw they improved from Q1 to Q2, and we expect that to continue as we make our way through the back part of the year. And we will -- similar to what we've done with revenues, we will make the pivot on profits as we get through the back half of the year.

Operator

And our next question comes from the line of Colby Synesael with Cowen.

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

I think one of the debates for investors coming off the WarnerMedia announcement was how you actually get to that $20 billion in free cash flow in, I think, 2023 that you've guided to. And when you just run the EBITDA on the businesses that remain, you don't quite get there. And I think that the 2 things that you guys have outlined is number one, the cost synergies you've talked about, I think, $1.75 billion to $2 billion by that time. And now you've also mentioned the $1 billion plus in distributions from DIRECTV. I guess 2 questions there. Number one is that, as it relates to Jeff's response in response to Doug's question being 1/3 through the cost transformation, is that effectively 1/3 through getting the $1.75 billion to $2 billion and -- any color there?

And then secondly, I guess, as it relates to the components, is there anything else worth flagging besides those 2 things, the cost synergies and the distribution that helped to kind of bridge that gap to that plus $20 billion?

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

Yes. A couple of points to keep in mind. One, when you look at interest, once the WarnerMedia transaction closes, our net debt will go down significantly, and the interest savings for that are fairly meaningful. You can do the math. Just think roughly $45 billion of cash coming in, and that's after our DIRECTV cash that we expect to come in beginning of August. So overall, we expect a meaningful savings in interest, one. Two, currently -- and we've said this on a number of occasions, currently, we are -- the contributions from WarnerMedia are not as meaningful as you may believe right now, given the step-up that we are experiencing in our content spending. So those 2 factors, I think, are things you have -- when you consider those factors relative to where we are today and the other factors you mentioned, I think that should get you to how we get to $20 billion.

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

I'll just reinforce the things that we shared previously, Colby, that we're on a $6 billion march on the cost structure, of which, as we've described to you just -- correct, we're about 1/3 of the way through that. We've been reinvesting a lot of the improvements that we've been able to drive into the operations so that we can accelerate our market momentum. As we go through the back half of this [march], at the second 1/3 and then the final 1/3, we do expect some of that's going to start hitting our bottom line. We have some of it targeted for how we want to continue to moveinto the market, but some of it is going to move through our bottom line. And it's going to ultimately be accretive to what we do on cash as wemove through that. And that's part of our calculus on this.

And Jeff gave you a little bit of a description of some of the things that we're working on, but I would also tell you that a major part of these efforts and some of the stuff that comes on the back end is restructuring parts of the fixed asset inventory of our company. If you want to think about it in terms of the geographic footprint that we cover on the products that were associated with it, the operations that are necessary to keep those products up and running, these are pretty fundamental hard things to do. They take a little bit of time. The business is doing them. And when they're done and we move through them, they have a meaningful impact on the cost structure as we move forward. And that's an element.

And then I -- look, we have some market momentum in places as we just described to you. You heard our comments about where we are in the consumer space and the pivot we've made there. We like what we're seeing in the wireless business and think we have the sustainable equation that we can take forward that's going to drive growth in those things, and that's what's going to get us out to those numbers.

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

Yes. Remember, the guidance is for 2 years from now, so the first full year after the WarnerMedia transaction closes. So we believe we will grow our remaining business between now and then, given the dynamics that we're seeing in the marketplace.

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

Great. And then just one quick point of clarification. You were saying then that the 1/3 done, that's off the $6 billion broader cost savings target?

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

That's right.

Operator

And that question comes from the line of Tim Horan with Oppenheimer.

Timothy Kelly Horan - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

John, congratulations on some pretty radical transformation of the company and strategy. And I just in the same vein, would it be possible for DISH to light up their spectrum on your passive as well -- sorry, nonpassive infrastructure wireless fees, the RAMs and the antennas relatively quickly, if they wanted to do so and if you thought that needs some sense?

Jeffery Scott McElfresh - *AT&T Inc. - CEO of AT&T Communications LLC*

Yes. That is technically possible. As John pointed out, the industry, during the pandemic shared in spectrum to bring it to life to support the needs for broadband. And so there are certain spectral assets that are already engineered with our antennas and our radios that are deployed today.

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Timothy Kelly Horan - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

And would that meet the FCC requirements on build-out that DISH has at this point?

Jeffery Scott McElfresh - *AT&T Inc. - CEO of AT&T Communications LLC*

I'm not going to comment on that.

Timothy Kelly Horan - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

And then lastly, just on the whole go-to-market strategy, there's something that they may partner with AWS and other hyperscale has just done a phenomenal job digitizing the customer experience. Have you thought about the point of the same type of radical digitization for customers? AWS can do same-day delivery, obviously, and it would really reduce the need for the number of stores that you have and a lot of other processes you have.

Jeffery Scott McElfresh - *AT&T Inc. - CEO of AT&T Communications LLC*

We have done much of the very same thing in our operation over the last 18 months. In fact, I call it to a higher percentage of our volumes are flowing through digital. We are getting higher gross adds than we ever have before with fewer doors as a result of our operations and our transformation of our distribution channels. And so yes, we've got teams that execute against those opportunities day in and day out.

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

Yes. Tim, I would tell you there is a fundamental reengineering going on right now of our supply chain and how we think about the logistics around that supply chain. And an element of that is, of course, as we've learned during the pandemic, folks have changed behavior. We've accommodated a lot of that, frankly, in terms of how effective we are in our omnichannel approach, but we also realize that probably elements of more in-home servicing and day-and-date kind of approach to it are going to be what we need to address going forward, and there's a lot of work underway with that.

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

Thanks very much for the question. Turn it over to John for final comments.

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

Look, I'll be real brief. I would say this, I think, with yesterday's announcement on Vrio and those that came before it, I would say we put the bulk of the framework in place to optimize our execution and performance in the business. And it's as simple as that, and that's what we're focused on. And I'm pleased with the momentum as we begin this chapter. I'd like to thank you all for joining us this morning and your interest in the business. I hope you enjoy the rest of your summer. And I look forward to speaking with all of you very soon.

Operator

And ladies and gentlemen, that does conclude our conference for today. Thank you for your participation and for using AT&T Conferencing Service. You may now disconnect.

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These risks, as well as other risks associated with the proposed transaction, will be more fully discussed in the proxy statement/prospectus that will be included in the registration statements that will be filed with the SEC in connection with the proposed transaction. Discussions of additional risks and uncertainties are contained in AT&T's and Discovery's filings with the Securities and Exchange Commission. Neither AT&T nor Discovery is under any obligation, and each expressly disclaims any obligation, to update, alter, or otherwise revise any forward-looking statements, whether written or oral, that may be made from time to time, whether as a result of new information, future events, or otherwise. Persons reading this announcement are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date hereof.

Additional Information and Where to Find It

This communication may be deemed to be solicitation material in respect of the proposed transaction between AT&T, Spinco, and Discovery. In connection with the proposed transaction, AT&T, Spinco and Discovery intend to file relevant materials with the Securities and Exchange Commission ("SEC"), including a registration statement on Form S-4 by Discovery that will contain a prospectus of Discovery and Spinco that also constitutes a proxy statement of Discovery, and a registration statement by Spinco. This communication is not a substitute for the registration statements, proxy statement/prospectus or any other document which AT&T, Spinco or Discovery may file with the SEC. STOCKHOLDERS OF AT&T AND DISCOVERY ARE URGED TO READ ALL RELEVANT DOCUMENTS FILED WITH THE SEC, INCLUDING THE

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REGISTRATION STATEMENT AND PROXY STATEMENT/PROSPECTUS, BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED TRANSACTION. Investors and security holders will be able to obtain copies of the proxy statement/prospectus (when available) as well

as other filings containing information about AT&T, Spinco and Discovery, without charge, at the SEC's website, http://www.sec.gov. Copies of documents filed with the SEC by AT&T or Spinco will be made available free of charge on AT&T's investor relations website at https://investors.att.com. Copies of documents filed with the SEC by Discovery will be made available free of charge on Discovery's investor relations website at https://ir.corporate.discovery.com/investor-relations.

No Offer or Solicitation

This communication is for informational purposes only and is not intended to and does not constitute an offer to sell, or the solicitation of an offer to subscribe for or buy, or a solicitation of any vote or approval in any jurisdiction, nor shall there be any sale, issuance or transfer of securities in any jurisdiction in which such offer, sale or solicitation would be unlawful, prior to registration or qualification under the securities laws of any such jurisdiction. No offer of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended, and otherwise in accordance with applicable law.

Participants in Solicitation

AT&T and its directors and executive officers, and Discovery and its directors and executive officers, may be deemed to be participants in the solicitation of proxies from the holders of Discovery capital stock and/or the offering of Discovery securities in respect of the proposed transaction. Information about the directors and executive officers of AT&T is set forth in the proxy statement for AT&T's 2021 Annual Meeting of Stockholders, which was filed with the SEC on March 11, 2021. Information about the directors and executive officers of Discovery is set forth in the proxy statement for Discovery's 2021 Annual Meeting of Stockholders, which was filed with the SEC on April 30, 2021. Investors may obtain additional information regarding the interest of such participants by reading the proxy statement/prospectus regarding the proposed transaction when it becomes available.

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