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EDITED TRANSCRIPT

T.N - Q4 2021 AT&T Inc Earnings Call

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OVERVIEW:

Co. reported 4Q21 adjusted EPS of $0.78. Co. expects 2022 consolidated revenue growth in the low-single-digit range and 2022 consolidated adjusted EPS to be $3.10-3.15.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to AT&T's Fourth Quarter 2021 Earnings Call. (Operator Instructions)

And as a reminder, this conference is being recorded. I would like to turn the conference call over to our 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 fourth 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.

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. In addition, the FCC Spectrum Auction 110 results have been announced, but we're still in the quiet period, so we're limited in what we can say.

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. I hope you're all doing well, and a belated happy new year to all of you.

1.5 years ago, we began simplifying our business strategy to reposition AT&T for growth. As you can imagine, this was a significant undertaking requiring us to not only focus our operational efforts toward growing customers, but also doing so in a manner that set us up for an improved profit trajectory in the coming years.

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Simultaneously, we took on the task of structuring our communications, video and media businesses in a manner that ensures their future success with the right capital structures, access to capital and most importantly, the ability to drive better returns in a manner consistent with their respective market opportunities. I'm pleased with the results our teams delivered last quarter, last year and for the last 6 quarters while this repositioning was underway.

We finished last year with strong momentum in growing customer relationships, achieving outstanding yearly subscriber growth across Mobility, fiber and HBO Max. In Mobility, strong network performance and a consistent go-to-market strategy helped us lead the industry with about 3.2 million postpaid phone net adds. That's more customers than we added in the prior 10 years combined. We achieved this growth the right way with full year Mobility EBITDA up about $1 billion.

In fiber, we ended the year with a great build velocity, passing more than 2.6 million additional customer locations. We added more than 1 million fiber subscribers for the fourth consecutive year, and full year broadband revenues were up 6.5% as we returned our Consumer Wireline business to revenue growth.

We also surpassed our high-end guidance for global HBO Max and HBO subscribers, adding 13.1 million subscribers in 2021, more than any year in HBO's history. HBO Max and HBO now reaches a base of 73.8 million subscribers globally. WarnerMedia is well positioned as a dynamic global business.

In addition to growing customer relationships, we also continue to make great progress in repositioning our operations to be more effective and efficient. We achieved more than half of our $6 billion cost savings run rate target, which we've reinvested into operations supporting our growth. This includes simplifying and enhancing our customer experience, which has resulted in higher customer self-service, lower customer churn and greatly improved mobility NPS and industry-leading fiber NPS.

We also continue to rationalize our low-margin Business Wireline services as we reinvest savings into segments that support improving returns. And you're familiar with the significant steps we've taken to reposition the company's assets for future success from our U.S. video assets in Vrio to our pending WarnerMedia transaction. Together, these and other asset monetizations will generate more than $50 billion, and AT&T shareholders will own 71% of one of the world's foremost media companies in the new Warner Bros. Discovery at close.

We also continue to generate meaningful levels of free cash flow, nearly $27 billion in 2021, a number we feel good about when looking at our business after the WarnerMedia transaction. So to summarize, we did what we said we were going to do last year. I'm really proud of what our team has accomplished, and we're very pleased with the momentum we have.

Turning the page to this year, we'll be consistent in focusing on these same 3 operational and business priorities. Now that our asset disposition initiatives are largely complete, I expect we'll take our execution to the next level.

To that end, we're encouraged with how the process for the WarnerMedia deal is progressing and now expect the transaction to close in the second quarter. Going forward, we aim to be America's best broadband provider powered by 5G and fiber and defined by greater ubiquity, reliability, capacity and speed.

We're confident we can achieve that because in wireless, our focus will be continuing our subscriber momentum while increasing the pace of our 5G deployment. We're confident in our ability to compete with 5G and our disciplined approach to selectively targeting and taking share in underpenetrated segments of the consumer and business marketplace.

While we're still in the quiet period, I can share that we're very pleased with the results of Spectrum Auction 110. We received 40 megahertz of quality mid-band spectrum that we can begin to put into service this year, and we plan to efficiently deploy it with our C-band spectrum using just one tower climb.

We're on track to cover 200 million [POPs] using mid-band spectrum by the end of 2023. And our network is only going to get better as we effectively deploy our new spectrum holdings.

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In wired broadband, we have the fastest-growing fiber network and expect to capitalize on the expansion of our fiber footprint and accelerate subscriber growth. The best-in-class experience we provide is getting even better with our multi-gig rollout, which brings the fastest Internet to AT&T fiber customers with symmetrical 2-gig and 5-gig speed tiers. This will truly differentiate how our customers experience the Internet.

Coming off an outstanding year with HBO Max, we plan to hand off the business with a strong exit velocity, and we look to further our international momentum and deliver more world-class content for viewers. When the deal closes, the investments made in both content and HBO Max growth, coupled with strong execution by the team, will ensure Warner Bros. Discovery is positioned as a leading global media company with the depth of content and the capabilities required to lead in the next era of media.

As we expand our customer base, we'll continue to responsibly remove costs from the business. We have a clear line of sight to achieving more than 2/3 of our $6 billion cost savings run rate target by the end of this year. And importantly, we expect the CD savings start to fall to our bottom line beginning in the back half of the year.

Our increased ability to reinvest in our business will fuel growth and allow us to deliver an even better customer experience as we further improve NPS and sustain low churn levels. As we expand our fiber reach, we'll be orienting our business portfolio to leverage this opportunity and stabilize our Business Wireline unit by growing connectivity with small to midsized businesses.

We also plan to use our strong fiber and wireless asset base, broad distribution and converged product offers to strengthen our overall market position. We're now at the dawn of a new age of connectivity where customers want more consolidated and integrated offers, and we're well positioned to meet that demand.

Our 5G network is already the best and most reliable. And it will be enhanced by our accelerated fiber expansion in 5G spectrum deployment, a great reputation for advanced and reliable networking and our expertise to bring it all together for the customer.

We remain laser-focused on reducing debt, and we'll strengthen our balance sheet by using proceeds from the WarnerMedia transaction to achieve a 2.5x net debt to adjusted EBITDA by the end of 2023. We also expect to remain a top dividend-paying company after deal close, with a dividend payout in the $8 billion to $9 billion range where anywhere in that range should rank us among the best dividend yields in corporate America.

We're now in the middle innings of our transformation, and the momentum we have is real and sustainable. We're well positioned post deal close to have a capital structure and balance sheet that puts us in an attractive position relative to our peers.

In addition, we believe it provides us with the financial flexibility to invest significantly in our business and the flexibility to pursue additional shareholder value creation initiatives over time. We look forward to giving you more detail at our virtual analyst event, which we expect to host in March.

Now I'll turn it over to Pascal. Pascal?

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

Thank you, John, and good morning, everyone. Thanks for joining us. Slide 6 should look familiar. As our pre-release earlier this month already indicated, we continue to deliver growth in postpaid phones, fiber and HBO Max.

John just highlighted our full year results. We're really pleased with them and expect the momentum we've built in 2021 to carry over to 2022.

Let's now take a look at our financial summary on Slide 7, starting with revenues. On a comparable basis, excluding DIRECTV and Vrio from both periods, consolidated revenues were up more than 4% for the quarter and about 6% for the year, thanks to growth in our market focus areas. Adjusted EBITDA was down 8% for the quarter on a comparable basis. Growth in mobility was more than offset by a decline at WarnerMedia from the increased HBO Max investment, the new DIRECTV advertising channel arrangements and lower contribution from basic networks.

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Our consolidated operating income results continue to be impacted by certain retained costs from DIRECTV that are in the process of being rationalized. Apart from WarnerMedia's contributions, our Communications segment EBITDA was up approximately 2% for the quarter.

Adjusted EPS for the quarter was $0.78. In addition to merger amortization, adjustments for the quarter were made to exclude our proportionate share of DIRECTV intangible amortization and a gain in our benefit plan. For the year, EPS was up nearly 7% with strong organic growth in mobility, lower interest, lower benefit costs and higher investment gains.

We exceeded our free cash flow guidance for the year. For the quarter, cash from operations was $11.3 billion, spending increase year-over-year with CapEx of $3.8 billion and gross capital investments totaling $4.9 billion. Free cash flow for the quarter was $8.7 billion even with a year-over-year increase of $1.4 billion in CapEx.

For the full year, free cash flow was $26.8 billion despite an increase in CapEx of about $900 million and more than $4 billion in higher cash content costs. Our total dividend payout ratio was about 56%. This included cash distributions from DIRECTV of $1.9 billion.

Let's now look at our segment operating results, starting with our Communication business on Slide 8. For the second consecutive quarter, our Communications segment grew both revenues and EBITDA. A big part of that growth was driven by our increasing strength in mobility, which turned in another solid quarter.

Service revenues were up 4.6% for the quarter and 3.7% for the year driven by postpaid and prepaid subscriber gains. Postpaid phone churn continues to run at low levels and in fact, hit a record low for the full year.

Our strong subscriber momentum continues with industry-leading postpaid phone growth. Prepaid also continues to deliver impressive results with phone churn less than 3% and revenues up mid-single digits. Cricket momentum continues with strong ad and phone churn substantially lower than 3%.

Mobility EBITDA was up more than $300 million driven by growth in service revenues and transformation savings. This growth comes without a material return to international roaming and with 3G shutdown costs of about $130 million during the quarter. We remain on track to successfully shut down our 3G network next month and expect 3G shutdown impacts to peak in the first quarter of 2022 at about $250 million.

In addition, we expect another $100 million of expense in the first quarter associated with investment in our FirstNet operations and the completion of support funding for the CAF II program.

Business Wireline EBITDA margins continue to be stable as we rationalize our portfolio of low-margin products. In fact, margins were up 50 basis points year-over-year, thanks to our transformation process. This rationalization process will continue in 2022. And as we lap the beginning of this process, we should see improving revenue trends in Business Wireline in the latter part of 2022.

We believe we're really well positioned in the enterprise space. And there is an interesting dynamic as public and private networking stock (inaudible). We have the account management infrastructure, the consulting expertise and the capabilities to support those businesses through that evolution as converged wireline and wireless solutions become the norm. At the same time, we're energized by the opportunities that our fiber expansion creates in the small to midsized business segment, and we plan to be more active there going forward.

Turning to Consumer Wireline. Our fiber customer growth and fiber network expansion continues. And we continue to win share wherever we have fiber. We added 271,000 fiber customers even in a traditionally slow fourth quarter, and our fiber network continues to get even better with our new multi-gig speeds for AT&T fiber.

Driven by our strength in fiber, total Consumer Wireline revenues were up for the third consecutive quarter. We had sequential EBITDA growth in the fourth quarter. Segment EBITDA did decline year-over-year due to a onetime pandemic-related benefit in last year's fourth quarter and higher network costs, including storms in the quarter.

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Let's move to WarnerMedia's results, which are on Slide 9. WarnerMedia revenues were up 15.4%, led by strong content licensing and D2C growth. D2C subscription revenues grew 11%, reflecting continued success of HBO Max, partially offset by lower wholesale revenues related to the termination of our arrangement with Amazon at the end of the third quarter.

Content and other revenues were up 45%, reflecting higher TV licensing and theatrical releases. Advertising revenues were down about 13% primarily due to lower audiences with tough comparison to the political environment in last year's fourth quarter.

Costs were up year-over-year due to a significant increase in programming and marketing, including the international launch costs for HBO Max. Incremental HBO Max investments for the quarter was approximately $500 million.

The fourth quarter also included the impact of about $380 million in DIRECTV advertising revenue sharing cost. We also launched some incredible content in the fourth quarter, including the premiere of the hit series And Just Like That and the third season of Succession. With the production team operating close to full throttle, we expect peak content investment in 2022 with an even stronger release schedule, including Batman, Winning Time: The Rise of Lakers Dynasty and the highly anticipated Game of Thrones prequel House of the Dragon.

Now let's look at our 2022 guidance on Slide 11. What we're showing you today is a full year view of our consolidated revenue outlook excluding DIRECTV and Vrio from both periods. Our outlook does include a full year of expected results for WarnerMedia and Xandr. We also included our full year expectation for WarnerMedia's stand-alone contribution to help you model post close.

We now expect the WarnerMedia Discovery transaction to close in the second quarter. Given this, we plan to update guidance for Remainco at our upcoming virtual analyst event in March. Until then, let me walk you through our expectations for the year.

First, we expect consolidated revenue growth in the low single-digit range with wireless service revenue growth of about 3% plus for the full year. Mobility EBITDA is expected to grow low single digits plus over the course of the year as we continue to take disciplined share of subscribers with attractive long-term value.

As noted earlier, several onetime related impacts such as peaking 3G network shutdown costs are expected to impact year-over-year EBITDA trends in the first quarter. Consumer Wireline revenues and EBITDA are expected to grow on improving fiber subscriber trends. However, we expect front-end loaded investments to impact first quarter year-over-year EBITDA trends as we ramp up promotional efforts around our new multi-gig offering.

As noted earlier, we expect year-over-year comparison pressures to ease in our Business Wireline segment through the course of the year. However, we expect product rationalization to peak in the first quarter, resulting in more pronounced margin pressures in the first part of the year before recovering in the back half of the year.

Consolidated adjusted EPS is expected to be in the $3.10 to $3.15 range. This guidance reflects WarnerMedia's declining contributions due to anticipated investment initiatives, a 200 basis point increase in our effective tax rate and no anticipated investment gains. We also expect adjusted equity income contributions from DIRECTV to be about $3 billion for the year. Look for more details on our earnings outlook during our upcoming virtual analyst event.

Gross capital investment is expected to be in the $24 billion range and capital expenditures in the $20 billion range. Free cash flow is expected to be in the $23 billion range. That includes expected DIRECTV cash distribution of approximately $4 billion and $2 billion in higher expected cash taxes in 2022, reflecting the expiration of the immediate expensing of R&D and lower limitations on interest expense deductions starting this year.

We expect WarnerMedia's full year contributions when including Xandr to be: revenues in the $37 billion to $39 billion range; EBITDA in the $6 billion to $7 billion range and free cash flow contribution of approximately $3 billion as we expect 2022 to be the peak investment year for HBO Max.

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

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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)

And our first question today comes from the line of Simon Flannery with Morgan Stanley.

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

John, good to hear the updated timing on the deal close. Can you perhaps update us on your conversations with the regulators, and what gives you the confidence to move that up? And when do you expect to give us the clarity on how the deal will be structured, what the dividend policy will be? Is that going to be in the March meeting?

And then if you could just give us color on what we should be expecting with the CapEx this year. What's the 5G build-out this year? What's the fiber build-out this year? Any color there would be great.

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

Simon, so first of all, where we are when we set the transaction up and announced it, I think I indicated it was really important for us to put a transaction out there that we felt like we had a high degree of confidence that we could work through the regulatory process. And I'm really pleased the team has done exactly that.

And if you kind of looked at the prototype of the time frame and when we expected various approvals and processes to work through, we have tracked right to the likely case analysis on that. And as you are aware, we've had several milestones over the last couple of weeks, including clearance in the EU. We've gotten through our filing process with the SEC.

You kind of look at where we are in other international regulatory domains and what our exchange has been with domestic regulators, and all that is going right to pattern as we expected. And we don't see anything that causes us concern and consequently raising our confidence level that we can tighten that time frame of when we believe we'll have everything kind of line up and be ready to go sometime during the second quarter.

So I'm really pleased about that. I think everybody feels pretty good about where things stand. There's still work to be done, always is. There's a lot of moving parts. But based on how these things go, I feel about as good as I can feel at this point in that time.

And we're now moving into the mode of the cycle where we're making what I'll call the final preparations as opposed to anticipating what we have to work through.

In terms of clarity on structure, I would tell you, we're pretty close to giving you some guidance on that. I would certainly expect by the time we get together with you in March that you would have some understanding of where we're going, at least that's what I would expect.

Ultimately, the Board has to make a call on that and has to make a final decision. Looking at it, handicapping it and my sense of where they are in that cycle and what we know about how the markets have performed over the last couple of months, I think we're at a point right now where we're almost ready to call a question on that.

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Our desire and our posture on that is we'd like to let you know as soon as we conclude. So once the Board makes a final decision, we will carry it forward. And I think we're tight enough to the close window right now that we could probably do that as soon as the Board is comfortable with the decision and what we want to do around that.

They've, as you would expect, put a lot of diligence into this over the last several months. They've carefully considered a lot of different options. There are pros and cons to going either with a spin or a split.

Certainly, it's attractive and we're -- the reason we kept this option open is at some point, I'd like to get the share count circulated on AT&T down. And this was an opportunity for us to evaluate whether something like that could occur in order to do that.

It's a bit of an unprecedented transaction in size. There's never been a split off of anything close to this number of shares with this kind of a base. We also have a very large retail base, and we have to be mindful of the fact that, that retail base sometimes doesn't go as deep on the puts and takes and ins and outs of things as the institutional base does. And we need to make sure it's transparent and clean for everybody involved in this.

And as I step back and look at it, we need to be very thoughtful about what we started with is our watch word around this transaction, which was we want the shareholders to get value out of this. This is all about driving shareholder value.

And given the size of the split, we know that there would have to be some leakage to kind of get that structure properly. So as we kind of step back, we want to do something that's clean. We want to do something that's delivered.

The Board hasn't decided right now. There's pros and cons of both. But I think we'll be probably giving you some sense of what we want to do around that in fairly short order. And we wanted to be transparent and claim.

Here's what I would tell you is kind of where I start this. Markets are pretty good. They'll eventually settle to the right place. And as I said when we announced the transaction in May, this isn't going to be something that's going to ultimately manifest and unlock the value overnight.

We knew that this restructuring would take a little bit of time, both through a regulatory process and then the reordering and combination of the new assets. And so being mindful of keeping true to the best way to get value back to the shareholder and being patient as the markets wear out over time, I think that's kind of where my head is at, at this juncture right now. And we'll finish the final touches on this and ultimately let you know fairly quickly.

At the same time we do that, we'll let you know about the dividend policy and where we're going on that. We've already told you it's going to be between $8 billion and $9 billion. And I think we know enough about the market where it stands right now that no matter where we are in that $8 billion to $9 billion range even at the low end of that range, we're still going to be paying out at the top of corporate America from a yield perspective.

So it makes for a very attractive value in the stock right now. There's a lot of optionality and upside, especially when I think about how the media asset is performing and what's going on in the growth of the direct-to-consumer business and what we have for value accretion that can occur as we start to move up the kind of multiples that are warranted in that business. So I think that there's a good play either way around that.

On the CapEx side, Simon, we're not going to break out specifically what we're doing in specific categories of the spend. What we've tried to give you a sense of is first of all, we've given you the guidance for the year. We told you in terms of how we're staging this. Our spend starts to get more aggressive in the wireless transition into the C-band in the Auction 110 spectrum when we hit midyear.

And the reason behind that is we are in a unique position to be able to deploy both 40 megahertz of our A block from the C-band and our 40 megahertz from the Auction 110. I want to be careful about how far I go, but it's public and then the public domain that we've won 40 megahertz nationwide in that auction.

Those radios become available in the early part of the summer, late spring. And so to do that together at one time with one tower climb, that allows us to start really going what I would call good guns on this and scaling that up.

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And we'll be at 200 million POPs for mid-band deployment, which will be an 80 megahertz mid-band deployment by the end of next year. And so that's how you can think about the scaling and how we're going to deploy around that.

And I think typically, when we've looked at an air interface change, it's been an $8 billion-ish round number to kind of get through that transition over a number of years. And I expect that, that will probably be the case as we work through the next 3-year deployment of this air interface change.

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

Great. And on the fiber side?

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

Look, we've given you the direction of where we're heading. They're going to be at 30 million homes by the end of '25. You saw us pick up the pace in the fourth quarter. We wound up 2.6 million passed locations.

We feel like we're through the supply-related issues. The organization is executing in the field operationally at a very good clip on that. And so I feel very, very comfortable that we're going to hit that 30 million direction that we've given you by the end of '25.

As I told you last quarter, I'd like to get off of the number of homes passed in any 90-day period discussion. And I think what you should be looking at is are we selling more end users. And you are going to see us start to sell more end users each quarter as we move forward, and you're going to see our subscriber count start to ramp as that footprint gets larger.

And I couldn't be more excited, given our announcement this week on 2-gig and 5-gig offerings. We are going to be out in the market with a superior product. We've had great momentum finishing another year of 1 million-plus adds. Now with a product that's going to be even better, it's going to clearly demonstrate the superior capabilities and the infrastructure we're putting out there plus the footprint expansion, I feel really good about the moment you're going to be seeing in our subscriber counts as we move through '22.

Operator

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

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

Your simplified mobile offers have obviously had a lot of traction in the market. At the same time, they've been out there for about 1.5 years. And so it seems like consumers who are uniquely attracted to that have had a lot of opportunity to avail themselves.

And so the question would be, how are you thinking about evolving your mobile go-to-market strategy or your value proposition? Or maybe another way of asking that would be, what do you think the AT&T brand means to the mobile consumer? What do you think it should mean? And what is your tactic for driving that perception shift?

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

It's a good question, Brett. As we move through this year, I think you'll see us very definitively rotate into a position.

First of all, I would tell you the strength of the offers that we've been on for a period of time is, in fact, that we've been on these offers for a period of time. And I don't view that as being something I'm concerned about. I actually view it as something that we're really pleased about.

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It's basic, fundamental, easy for the customer to understand that we see no evidence whatsoever that we're losing traction in the value proposition that we have. And in fact, I would point to what we did this week on our broadband offer and trying to go in with an everyday simple pricing construct.

And the reason we're doing that is based on what we learned from our wireless business, which is something that's very straightforward for the consumer to understand over time allows us to gain the right kind of momentum in the market that's sustainable. It drives up customer satisfaction. It allows us to be consistent in our messaging that we carry out to the market.

It ensures that every one of our employees knows the line and doesn't have to relearn something every 30 days, 60 days, 90 days. And so we're very comfortable with the messaging we have right now. We're very comfortable that it still has room to run.

And when we talk about a focused, simplified business moving forward, part of what we're attempting to do is move our entire product portfolio into a position that we can represent it in a similar fashion. And so this week's move in our fixed broadband products is really important when you think about lining that up and carrying that message forward.

When I think about how we communicate more effectively around the brand, I think you've heard me allude to this in some previous conversations that there's a lot of things that I think the AT&T brand is very strong and does very, very well in the market: reliability, reputation of consistency, there's a perception within the business community about advanced networking and the strength that we have around that, trusted in those regards.

But I also believe we can do some things to start to manifest to the consumer some of those characteristics we just talked about in a more real way, which is a more straightforward, simplified, credible, reliable expert. And I don't want to take away anybody's thunder, but I think you should expect after we close the WarnerMedia Discovery transaction that you will see us maybe start to refine a little bit of the messaging around the brand moving forward in the market that will carry forward the kind of characteristics in a little bit more pointed fashion that we want to carry forward. I think that is underneath your question.

And we've been doing a lot of work around this. I've alluded to it in previous remarks. This isn't an advertising campaign. This is about structurally what we do behind the business to operate in a way that we think is going to be relevant with the consumer and get the operations lined up around that. So that what we tell the customer is, in fact, represented in our product offers, our service support, how they experience AT&T moving forward.

We've been working really hard on that over the last year. We still have a little bit of work to do to finish that up. But I think by the time you get into the mid part of the year, you will see what that definition looks like and where we're going.

Operator

And our next question 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*

First, Pascal, thanks for the -- all the color on the guidance and per segment. But can you give us -- can you let us know what the guidance for '22 assumes for Remainco EBITDA growth?

And then drilling down a little bit further, obviously, you guys cut the losses on the business side. And it sounds like you expect sort of further improvement maybe in the second half of next year. Could you walk us through sort of what's going on in that business segment to sort of rationalize it? And do you foresee the possibility of that segment returning to EBITDA growth by the end of the year?

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And then maybe for John, just maybe following up on those comments. When do you expect to have these converged offers in the market? And is that what you're talking about in terms of refining the message around the brand, selling a package of fixed and mobile services?

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

So let me do the front end of this, John, and then I'll have Pascal just kind of walk you through the EBITDA dynamics. So let me step back. We're going to spend a lot of time on this in March when we're together with you to give you some color on the business market and where we're going.

But here's what I would tell you, you should understand we've been executing on over the course of the last year and the process we're in. One, we've backed away from sales of revenues that are low margin, low strategic value products. And we've kind of been culling that out of the business profile. And some of that culling has been manifested in the results that you've seen over the course of the last year.

And where I want the organization to move to is a much more crisp and intense focus on what I call owned and operated infrastructure. I want the foundation of what we're doing in the business segment to really start from we're always putting the customer on facilities and infrastructure that we own and operate, whether it be a wireless network or a fixed network.

And we've made really good progress in our distribution in emphasizing wireless distribution into those segments. And we're now coming in behind that with some of our fixed capabilities as well. And that partly is making sure we have the right fiber products available as well as getting the footprint engineered correctly.

So as we're out there deploying, are we doing the right things to pick up the business segments where we can grow in the small and midsized segment? We've been sharpening our engineering in order for us to do that.

And so at the macro level, that's kind of the reorientation that's going on. And it doesn't mean we're backing away from the top end of the market. We want to still be that consulting expert for large enterprises and complex networking for those that need it. And those that need it are typically broad distributed companies, not ones that operate 2 data centers based on how SD-WAN is developed, et cetera. But it's those that have a lot of branch offices or many stores to support or restaurants to support.

That distributed networking is kind of our strength and what we do and where we'll focus. But we can be a lot stronger in the mid and low end of the market. And tuning our distribution where we had that strength so that we can be in with both wireless and fixed solutions is really the reorientation that we're working in that segment of the market and where we need to -- where we're making that pivot to ultimately get back to the kind of growth that we need.

I don't expect in aggregate that we're going to see EBITDA growth in the business segment this year. I do expect we're going to see that turn next year. And we're going to talk a little bit about that in March when we get together.

But that's kind of what I would say is the macro point of view of what's occurring. And the converged offers in some cases are actually happening today, especially in the mid and upper part of the market is we bundle both wireless and fixed together on the same paper.

And I think you're going to now start to see things that are occurring in private networking that extend into the business space. We already are starting. I can't disclose a couple of the larger customers we've signed with yet at this point. But you're starting to see that combined fixed wireless converged networking that I think is going to be relevant in the upper part of the business space.

And then I believe you will see as we get into the latter part of the year us starting to do a better job of using both our fixed wireless capability to pick up segments of the business community early to accelerate revenues and then back in behind it with fixed facilities as we gain scale over time. But that should be something that really becomes more transparent to the customer where they're buying bandwidth from us and they're not caring about how we deliver. Pascal, do you want to give the EBITDA guide?

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

Sure thing. Look, as you know, John, we did not give specific EBITDA guidance, but I think you can get pretty close with some of the information that we've given.

Here are some of the dynamics to think about in each of our major businesses for Remainco. Mobility, while we expect some comparison issues early in the year, we feel really good about the organic trends in that business. We expect continued growth in wireless service revenues. We -- transformation continues, and we expect some operating leverage from that. So we feel really good about the trajectory that the Mobility business is on. I think you can get a pretty good sense for where that should land given our wireless service revenue growth, given our fourth quarter performance, we feel really good.

Consumer Wireline, the word here is scale. As this -- we feel really good about the build we had in 2021. As that business scales, the operating leverage is really good. You couple that with transformation, the Consumer Wireline segment is also expected to grow. As you just heard from John, Business Wireline, we expect losses to moderate as we make our way through the year, but we don't expect that segment to grow. You layer on top of that an expectation of continued transformation savings on corporate and other. You can get a pretty fair sense that overall, the business is going to be, on an EBITDA basis, flattish to up modestly.

Operator

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

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

I'm curious if you could dive a little further into the wireless business. And specifically, if you could unpack the wireless service revenue growth guidance of 3% plus, with respect to how you're thinking about volume, the opportunities to improve ARPU and any contributions that you would expect from a DISH wholesale deal that you previously announced? And then just separately on a higher level in terms of the asset mix. John, you mentioned that you were largely done with asset disposition. And just curious if there's any further exploration of optimizing the wireline footprint or thinking about the future opportunities for your DTV business, and where that may better fit strategically over time?

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

Mike, I -- let me start. Here's the way you think about it. First and foremost, the market remains really healthy. Now for planning purposes, as you would expect, we are planning that the industry will continue to grow the way it has the last 1.5 years. But overall, the market remains healthy. And in that environment, we're going to be disciplined, and we believe we will continue to take share in a very disciplined way.

But for planning purposes, we have assumed that the overall industry normalizes to where it's been historically. That's one. In terms of ARPU, and I think we've said this previously, the way we think about this is as we make our way through the year, we have every expectation that we should see continuing recovery in international roaming.

And also, what we're also seeing is our elite unlimited plan is our highest-priced ARPU plan, and it's our fastest growing. And as a result of that, we expect to continue moving up the ARPU stack. That's going to be partially offset by the amortization of some of the promotional expenses. But all in all, we feel really good about the trajectory of mobility.

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

So Michael, on your second question, so we set up the DIRECTV structure deliberately. And when I say we're through the asset disposition, I think the distinction I would draw there is the management team that -- of AT&T Remainco is not going to be distracted with having to work through additional work on restructuring the asset base of the company in the near term. And that doesn't mean that the independent DIRECTV company

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and the management team that is operating that over there might not choose to do something in their business. I don't know of anything. I'm not announcing anything.

But what I'm trying to distinguish is if that entity decided that there was value to be created to restructure their business in some way, shape or form, it is a distinctive group of individuals that would be involved in doing that and executing it. And it would not cause the AT&T management team to have to spend cycles and energy working through those kinds of issues. And so I think that's the distinction I'm trying to draw, not to suggest that the DIRECTV asset per se is frozen in time or not.

In terms of your question on the wireline footprint. We spend a lot of time far back as 2012 and constantly revisiting and relooking how we wanted to work through the transition of our business. And I'm not a big believer right now that us going out and taking the less utilized parts of our wireline footprint; and sending them out to somebody at a steep discount; and continuing to have to do things like operationally provide services to that entity for many, many years to come on infrastructure, IT systems, et cetera, that have to be maintained, is the right thing for a healthy and sustainable business.

My point of view is that as a management team that runs networks and what we do around here, our job should be to rationalize those assets in an effective way and do it in the best interest of our shareholders. And you've heard me talk about that.

When I talk about transformation and shutting down products and thinking about how we become a company that offers products on fiber, what's going on behind the scenes on that is actually backing away and moving deliberately through a process of taking products that served us incredibly well. That have been the mainstay of this company for a period of time. And doing in a very, very smart and tactical way this shutdown and sunset of those. And as we sunset them, take the high cost operating model that supports them away.

And so when we talk about transformation and we talk about getting savings from shutting down applications and IT infrastructure and product sunset, that's really synonymous with us actually walking away from square miles and infrastructure and costs and all the things that have seen their better day. And so we intend to ultimately capture that value and return it to the shareholder. Not do it in a front-end loaded transaction that's highly discounted, that leaves us saddled with distracting operating models that don't allow us to be a focused broadband fiber provider, offering the best products available in the market.

Operator

And our next question comes from the line of David Barden with Bank of America.

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

I guess my first one for you, John, we saw about 2.5x more fiber homes passed in 2020. But over the course of the year, fiber net adds didn't really accelerate. And so as we look at even more acceleration in fiber, when should we start to see the acceleration in fiber net adds? And what's the typical lag time from a passing to a selling opportunity?

And Pascal, I guess I was a little surprised to see the $4 billion growth capital investment premium over CapEx because I think over most of the year, we've been talking about maybe weaning ourselves off of that number. And I think that it raises the question as we look into 2023 and people have been, as you know, trying to bridge from this year's 26 to the 2023 $20 billion guidance given the higher CapEx and the loss of the $3 billion WarnerMedia cash contribution, how much vendor financing is baked into that 20 that maybe we hadn't been thinking about?

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

So I'll take the front end, Dave, and then you can get the color from Pascal on the EBITDA dynamic and cash flow. The answer to your question is, from the time we say go to about the time we're actually in the market selling is currently running about a year. And that's literally when we say go that we're going to start engineering and go into a particular area.

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I'd like that at maturity and the challenge I've got to the team is I like that to be 9 months. What's worked against us to do better than a year right now has been a little bit of spottiness in the supply chain that we've shared with you. It's really what drove some of the challenges to get to the 3 million objective last year that we ultimately ended up at 2.6.

And as a result of that, we were back-end loaded in the turnup of the 2.6. That inventory came available for sale very late in the year. And now it's out in the market and available. And as we shared with you, what we have improved fairly dramatically over the last several years is a rate of penetration once it becomes available for sale. And we're walking up that penetration dynamic faster.

And so my goal had been, and what I'd still like to work the management team to, is from time of engineering to time of availability 9 months and then achieving what we're actually doing right now on the penetration rates. And so you are going to see that acceleration start to happen because we have put that inventory in the market. A lot of it came on late last year.

And you should expect that as we start working through the quarter here and into second quarter, third quarter that we start crawling up that dynamic of putting 3 handles routinely on our net add numbers for broadband. And that's where I want to see us get, and we should be able to get there as we move through this year.

So that's kind of the color on it. But what we've been characterizing for you on our rate of penetration, teams made a lot of progress on that. And that's a huge economic driver of return, given the pace and the rate we're doing right now. But I wouldn't mind if at steady state, we got 3 more months of the build cycle. Supply chain has kind of been working against us right now and making that happen and maybe that clear sometime this year, we'll have to see.

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

Got it.

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

Dave, on your free cash flow question, you'll hear more from us at Investor Day, but here's what -- just to reiterate some of the piece parts. For 2022, we are guiding to $23 billion of -- the $23 billion range of free cash flow. WarnerMedia is contributing, call it, around $3 billion. And we expect vendor financing to continue to be around $4 billion for this year.

You are correct in your recollection that look, we were going to look really hard to make sure that as we are doing these vendor financing transactions that we are getting the best possible terms, and to the extent we felt we can get better financing sources otherwise, we would do that instead of taking vendor financing. But we have found that more and more of our vendors are willing to provide us at very attractive terms and we're taking advantage of those.

With all that said, the guidance we've given here anticipates $20 billion of CapEx, $24 billion of overall gross capital investment. Other piece parts are, keep in mind, as we close the WarnerMedia transaction, we should see a meaningful savings in interest expense and cash interest.

And then as we make our way through the year and next year, we're going to hold ourselves accountable to continuing to grow EBITDA at Remainco. So those are all the piece parts to think about as you think about our $20 billion guidance for this year, and you'll hear more from us at Analyst Day.

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

And Pascal, if I could just -- a quick follow-up on that. So if -- what you're saying is that in March of 2021, when you were contemplating not using as much vendor financing and you set the $20 billion free cash flow guide for 2023, are you saying that now that vendor financing is too attractive not to take that whatever CapEx number was in that $20 billion free cash flow number will fall, replaced by vendor financing, and that $20 billion free cash flow guide is actually going to be higher?

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

I said, Dave, you will hear from us. Today, we are giving guidance on 2022. You'll hear from us on 2023 at Analyst Day in March.

Operator

And our next question comes from the line of Phil Cusick with JPMorgan.

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

It's funny. I know you're not going to own this forever, but the -- a lot of moving pieces in the Warner side. Can you talk through what's going on in HBO and how we should think about this going forward? Obviously, a lot of issues with Amazon sort of volatility through the quarter. But should we think of this HBO ARPU run rate as a good level going forward? Or is there still expected to be volatility there? And how do you think about the potential growth rate domestically for HBO from here now that the ad-driven product is launched? You also said peak content investment in 2022. Should we expect this to be a sort of negative EBITDA all year? Or do you think by the back half, we've got enough growth to get that back to positive?

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

Sure, Phil. Let me give you maybe some color on the front end and then we can go through. So first of all, as you know, there's a lot of moving parts on the ARPU side of things. One moving part is international ARPUs are different than domestic ARPUs. And if you think about the growth internationally where that's going to be a large part of the growth moving forward, given the new markets we're opening up and the natural penetration that occurs, given the product is sized differently and starts from a different place, you're going to see that have an impact. Generally speaking, those ARPUs internationally are a bit lower than the domestic ARPUs.

Second point, we've had launched, as I said earlier in my comments, the ad-supported product. And I expect the ad-supported product as a percentage of mix domestically in the U.S. to increase this year. Part of that will be because the products had a little bit of a different characteristic where the subscription product had access to first-run movies, the ad-supported product did not. Effective January 1, products are identical now. And as a result of that, I expect there'll be some customers that choose to go the ad-supported route that may have gone the subscription route before.

However, what will happen is it's not that one is less accretive than the other. The subscription line will possibly dilute a bit, but the advertising line will increase. So when you look at the customer overall, they're no less profitable. It just books to 2 different places on the P&L. And our goal, and in fact, what we are seeing today, we are indifferent as to what the customer chooses. Frankly, maybe in some cases, it's a bit more accretive if they go the ad-supported route. So I think you just need to look at your geography of how that plays out more than anything else relative to the domestic side.

Look, we expect domestic growth to be more suppressed than international growth as we move forward. We're in a great position. We are sitting at a large domestic base with a very high ARPU. And the nice part about that is we said this was going to happen, and it happened. We said the market was going to come to us on pricing. And lo and behold, we are no longer the high-priced offer in the market. And the nice part about that is we think it will allow us to have domestic growth as we move forward. But the base is in a really, really good place as a result of that.

We don't have the struggles that maybe some other products that came in at very low prices are going to have to kind of try to move up that ARPU continuum. It's about being very diligent in adding customers at a moderated pace. And I think if you go back to our Analyst Day in 2019, whenever we did that, and we gave you our domestic point of view about what that growth is going to look like, it was a very measured and moderated point of view because starting with mid-40 million-ish customers allowed us to be very different given the ARPUs that we had around them.

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And then finally, we made that hard decision on Amazon to your point. We felt it was the right decision. I feel it was the right decision. I think it will even be more the right decision in a post discovery environment as the offer only gets stronger that's in the market and the content that's available. At the end of the day, you want full control of your customers. And I'm confident with the strength of the offer that will be in the market, those customers are all going to come back into the offer. It may take a couple of quarters for that to happen. But there will eventually be a product out there that they're going to look at and say they want to be part of.

And better to have them there where you have direct access, control of them, can market to them, know what they're doing than to have it be in some black box where you absolutely have no idea what somebody else is doing with aggregating your content and your exposure to the customer. And I would point that out again. That is what our customer base is. There are a lot of entities out there growing "direct-to-consumer customers" that are behind the screen of the Amazon marketplace that really are Amazon's direct-to-consumer customers. They are not the media company's direct-to-consumer customers. Pascal, did you want to add anything on the EBITDA side?

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

Look, we provided you with guidance for WarnerMedia, what the contributions for the full year. And keep in mind, we are launching in a number of European territories as well as we plan to launch CNN+ this year. So we are going to be in the investment cycle. But overall, we feel really good about the underlying trends of our direct-to-consumer business. And the balance of the business is performing exactly as you would anticipate.

Operator

And that last question comes from the line of Kannan Venkateshwar with Barclays.

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

So Pascal, maybe one on free cash flow and a bit on the tender. But probably on the free cash flow side, if you think about the $20 billion kind of a number for this year, could you help us understand the breakdown? I mean, there's been some pushback, obviously, as you're aware, that the $20 billion number may not be a real number clearly on the back of the telecom business.

So if you could help us understand how much of the contribution comes from the DIRECTV, the Xandr bit as well as potential cash flow reversal because you might now get paid for HBO distribution instead of absorbing the working capital impact. So if you could just help us understand that, that would be useful.

And then the other source of confusion, I think, has been the impact of vendor and the relationship across the 3 assets, across DIRECTV, AT&T as well as WarnerMedia. So if you could just understand the puts and takes. I mean, what went away with the Microsoft transaction, how much of cash flow comes in to AT&T and what moves out to DIRECTV, that would be useful to contextualize the cash flow number.

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

Okay. So Kannan, I appreciate the question. So here is for 2020, let me try to break down free cash flow for you is that, overall, we are guiding to $23 billion. The contribution from WarnerMedia is about $3 billion. The remainder of the company, including the contributions from DIRECTV, are making up the balance of this. And those both will continue post separation.

The piece part to think about this year, relative to the past, we're going to have higher CapEx. And as John explained earlier, that CapEx is related to our formula spectrum as well as our continuing an accelerated rollout of fiber. So we're going to have higher CapEx. But we do expect, as we make our way through the year, that our cash interest costs should decline because of the delevering that is happening at the company.

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And of course, we are growing our -- as I said, we're flat to up modestly on EBITDA for the overall Remainco. Those are the big piece parts. The way to think about Xandr separately, Xandr has the way to think about historically 2 pieces. You have the AppNexus business, which is in the midst of being sold to Microsoft. We have an agreement in place for that. And then you have the DIRECTV advertising inventory.

The DIRECTV advertising inventory prior to the separation was managed and included within WarnerMedia's results. Upon separation, there was a new agreement struck that, whereby, Warner Media would continue to sell DIRECTV advertising inventory through the -- until close. And in exchange for that, WarnerMedia would not -- would receive an ad share. And so the vast majority of the economics of DIRECTV advertising inventory is going back to DIRECTV. Only a commission is staying with Warner Media. So that's -- those are the piece parts for Xandr and the free cash flow dynamics.

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

Okay. And could I just ask one follow-up on HBO? On the Amazon deal, that probably caused some volatility in the quarter, but revenues were sequentially down even though subscribers were up and the ARPU was also quite weak sequentially. But when you think about the sequential impact -- sequential revenue trends from here on, is that decline a onetime kind of a decline? How should we think about the cadence from here on?

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

Yes. Kannan, yes, we expected that we were going to take a -- we're going to be decelerating as a result of Amazon. It is a onetime decline. As we move forward and continue to grow subscribers, we would expect that growth from here.

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

Thanks very much, Kannan. I'll turn it over to John for some final comments.

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

So thank you very much for joining us today, and I just couldn't be more pleased with how 2021 turned out. As I started in my opening comments, we outlined for you what we intended to do through the course of the year, and I think we checked the box across the board on every commitment that we made to you.

I'm really proud of the team. I'm proud of Jason. I'm proud of Jeff. I think they've done a remarkable job, given that we've got a number of moving parts going on in restructuring this business to get the kind of operational focus that we asked them to do. And I think 4 quarters of results here demonstrate that.

And I'm really pleased that we're on the doorstep of being able to complete the transactions that we have in front of us and allow both management teams to focus on moving things forward in the way they can with a clean operating environment. I think the best days are ahead here as a result of that.

Thanks very much. Hope you all have a good year. We'll see you in 90 days.

Operator

And that does conclude your 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, are more fully discussed in the proxy statement/prospectus included in the registration statements 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, on November 18, 2021 AT&T, Spinco and Discovery filed relevant materials with the Securities and Exchange Commission ("SEC"), including a registration statement on Form S-4 by Discovery containing a preliminary prospectus of Discovery that also constitutes a preliminary proxy statement of Discovery, and a registration statement on Form S 4 and Form S-1 by Spinco containing a preliminary prospectus of Spinco. The information in each preliminary prospectus and the preliminary proxy statement is not complete and may be changed. 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 REGISTRATION STATEMENT AND PROXY STATEMENT/PROSPECTUS, BECAUSE THEY CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED TRANSACTION. Investors and security holders will be able to obtain copies of the proxy statement/prospectus 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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