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PRESENTATION

Operator

Thank you for standing by. Welcome to AT&T's Fourth Quarter 2022 Earnings Call. (Operator Instructions) 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 of 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 today on the call 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 as well as our earnings materials are available on the Investor Relations website.

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

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

Thanks, Amir, and Happy New Year, everyone. I appreciate you joining us today, and I hope you enjoyed a restful and healthy holiday season. And at the conclusion of this call, I'm declaring the statute of limitations on this being the new year has run out. I'll share upfront that our commentary is a bit longer than usual. However, we thought it was important to provide a bit more clarity on our business today, primarily our fiber strategy since we haven't had an opportunity to discuss our December GigaPower joint venture announcement. Still, we'll ensure we have enough time to get to most of your questions.

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As I reflect on not only this past year, but the past 2.5 years, it's clear that our teams have worked diligently to refocus AT&T around a connectivity strategy has simplified our company and positioned it for sustainable growth. Our results over the past 10 quarters demonstrate we are on our way to delivering the full promise of the strategy. We're operating a streamlined and return-focused business with an improved profit trajectory that's committed to generating sustained cash earnings growth while delivering an attractive dividend.

Underpinning all of our actions is a deep desire to connect our customers with greater possibility through 5G and fiber. And importantly, we're assembling the right assets, talent and capital structure to offer an experience and value proposition that customers appreciate. Our fourth quarter results are the latest example of how our teams continue to consistently deliver for our customers. We finished 2022 with strong momentum in growing customer relationships. As you can see from our profitability trends, we're growing them in the right way.

So let me highlight some of our progress. Let's start with wireless. We delivered 656,000 postpaid phone net adds in the fourth quarter and nearly 2.9 million postpaid phone net adds for the full year. And over the past 2.5 years, we've increased our postpaid phone base by nearly 7 million to 69.6 million subscribers which represents our best 10-quarter stretch of wireless growth more than a decade. During the same 10-quarter time span, we've grown wireless service revenues, EBITDA and also increased our postpaid phone ARPU by nearly $1.

And while others may have jumped the gun, they claim that they were the only ones to reduce churn in the fourth quarter on a year-over-year basis, we also lowered our fourth quarter postpaid and postpaid phone churn without offering richer promotions or free line giveaways. We consider this yet another data point highlighting that our comprehensive approach to improving the entire customer experience is working from our simplified go-to-market strategy, to our better network experience, to our focused market segmentation practices.

On top of that, our growth was not only robust but profitable with 2022 being the most profitable year ever for our mobility business. We expect profit growth to continue in 2023 as we benefit from the investments we've made in our business over the last 2.5 years. Our network teams have also consistently outpaced our mid-band 5G spectrum rollout objective. In fact, we now reach 150 million mid-band 5G POPs, more than double our initial 2022 year-end target. Our goal remains to deploy our spectrum efficiently and in a manner that supports traffic growth. In the markets where we have broadly deployed mid-band 5G, 25% of our traffic in these areas already takes advantage of our mid-band spectrum.

Now let's move to fiber where we build fiber, we continue to win. We had more than 1.2 million AT&T fiber net adds last year. The fifth straight year, we've totaled more than 1 million AT&T fiber net adds. And after 2.9 million AT&T fiber net adds over the last 2.5 years, we've now reached an inflection point where our fiber subscribers outnumber our non-fiber DSL subscribers. The financial benefits of our fiber focus are also becoming increasingly apparent as full year fiber revenue growth of nearly 29% has led to sustainable revenue and profit growth in our Consumer Wireline business. As we scale our fiber footprint, we also expect to drive margin expansion.

In summary, we're enhancing and expanding our networks while extending our long runway for sustainable growth. And I'm very happy with the high quality and consistent customer adds we achieved last year. We've emphasized that our plan was to grow customer relationships in a thoughtful and responsible way grounded by an enhanced value proposition that resonated with customers. That's exactly what our teams have done, quarter after quarter. In addition to growing customer relationships, we've executed some of the most challenging actions associated with repositioning our operations. We've doubled down on our cost transformation. We've now achieved more than $5 billion of our $6 billion plus cost savings run rate target.

In 2023, you can expect the benefits from these efforts to increasingly fall to the bottom line. In fact, you've already seen the benefits of this cost transformation beginning to translate into operating leverage despite inflationary pressures. Our teams did an excellent job implementing pricing actions and business efficiencies to offset continued inflationary impacts, the impacts we anticipate will be with us in the near to midterm. Part of tapping into these efficiencies entails improving acquisition costs and further streamlining our operations and distribution. Another part entails rationalizing our Wireline copper infrastructure and reinvesting those savings into fiber and wireless where we're seeing improving returns.

As we look at our last priority, we also continue to generate meaningful levels of free cash flow even with record levels of investment. This gives us confidence in our ability to continue delivering an attractive dividend today and in the future, while also improving the credit quality of that dividend as we expect to increase our cash generation over time. We strengthened our balance sheet last year, reducing our net debt by about $24 billion. So as we close 2022, I'm proud of what the AT&T team accomplished despite a competitive market and challenging macro environment.

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Turning to 2023, what's our strategy? Well, it's simple. Do it again. What exactly does that mean? It means we're focused on the same 3 operational and business priorities we set in place 2.5 years ago. As I've mentioned time and again, our north star remains solely focused on becoming the best connectivity provider with 5G and fiber. We're confident we can achieve this because in wireless, we'll maintain our focus on building durable and sustainable customer growth in a rational, return-focused manner.

Just as we've done over the past 10 quarters, we'll continue to take a disciplined approach to selectively target underpenetrated areas of the consumer and business marketplace and improve the perception and execution of our value proposition. We also expect to continue our 5G expansion, reaching more than 200 million people with mid-band 5G by the end of 2023. In wired broadband, we have the nation's largest and fastest-growing fiber Internet, and we expect continued healthy subscriber growth as we grow our fiber footprint. As we keep expanding our subscriber base will drive efficiencies in everything we do. This includes consistently elevating our customer experience through the improved durability and reliability of our 5G and fiber networks.

When we couple our evolving networks with further enhancements to our distribution and digital and self-service channels will make a competitive customer experience even more appealing. We expect to realize additional benefits from our consistent go-to-market strategy and lower cost structures we also benefit from our improved brand perception, strong fiber and wireless asset base, broad distribution and converged product offers.

Additionally, we have a clear line of sight to achieving our $6 billion plus cost savings run rate target by the end of this year. We expect even more of these savings to fall to the bottom line as the year progresses. With that improved performance, we remain focused on further strengthening the balance sheet by using cash after dividends to reduce debt as we progress toward our target of a 2.5x range for net debt to adjusted EBITDA. Our commitment to providing an attractive annual dividend also remains firm. As our CapEx is expected to moderate exiting this year, following the peak investment levels of 2022 and 2023, we expect the credit quality of our dividend to improve on the back of our higher free cash flow and improved financial flexibility.

In summary, we feel confident that our growth and profit trends are sustainable despite the uncertain macroeconomic backdrop. As I stated previously, we continue to expect that we will be operating in a challenging macroeconomic environment where wireless industry growth is likely to return to more normalized levels. The resiliency of the services we provide are time-tested and only growing in importance. When you couple this resiliency with the investments we've made to our networks and proven go-to-market strategy, we're confident in our ability to navigate potential economic headwinds that may emerge and our improving financial flexibility only further strengthens that confidence.

Now I'd like to take a moment to touch upon our fiber strategy by quickly level setting on how I'm thinking about the success we've had, our plans for the next few years and how we'll hold ourselves accountable.

Similar to the early days of wireless, we consider fiber, a multiyear opportunity that will transform the way consumers and businesses growing connectivity needs are met in the ensuing decade and beyond. For AT&T, we segment this opportunity into 3 distinct buckets based on the specific input parameters and return dynamics each one possesses. The first is our in-footprint build where we can take advantage of our existing infrastructure, deep insights on both the customer base and competitive landscape and our market presence in order to take share and deliver attractive returns. We believe our performance over the last few years supports the wisdom of allocating our capital to these opportunities with sustainable and solid return characteristics.

As we stated previously, we currently size this opportunity is passing 30 million-plus consumer and business locations within our existing wireline footprint by the end of 2025. We finished last year with approximately 24 million fiber locations passed, including businesses, of which more than 22 million locations are sellable, which we define as our ability to serve. Our build to these locations is providing great returns, as you can see from our growing fiber revenues and ARPUs. As a general rule, about 5% of consumer locations passed may not be immediately sellable, primarily due to timing factors such as building access, construction or vacancies. Over time, we expect more of this inventory to become addressable for sale.

We remain on track to reach our target of 30 million plus past locations by the end of 2025. The simple math would suggest 2 million to 2.5 million consumer and business locations passed annually moving forward. As we previously shared, build targets will vary quarter-to-quarter in any given year based on how the market is evolving. The second bucket is availing ourselves a partnership opportunities to not only expand but also accelerate

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our coverage in excess of that 30 million-plus location target. This is where our recent GigaPower joint venture announcement with a BlackRock infrastructure fund resides. While this deal is not yet closed, we're very excited about the expected benefits. Through this endeavor, GigaPower plans to use a best-in-class operating team to deploy fiber to an initial 1.5 million locations, and I would expect that number to grow over time.

This innovative risk-sharing collaboration will allow us to prove out the viability of a different investment thesis that expanding our fiber reach not only benefits our fiber business, but also our mobile penetration rates. But what makes me most enthusiastic about this endeavor is that we believe GigaPower provides us long-term financial flexibility and strategic optionality and what we believe is the definitive access technology for decades to come, all while sustaining near-term financial and shareholder commitments.

If I were to draw parallel to this partnership approach, I'm reminded the early days of wireless where the race to grow footprint was somewhat time-bound and facilitated by a similar approach ultimately culminating in today's national networks. The last bucket is framed by opportunities to connect people who previously did not have access to best-in-class technologies through broadband stimulus and BEAD funding. As I shared before, we truly believe that connectivity is a bridge to possibility in helping close the digital divide by focusing on access to affordable high-speed Internet is a top priority of AT&T. The intent of these government programs is to provide the necessary funding and support to allow both AT&T and the broader service provider community that means to invest alongside the government at the levels needed to achieve the end state of a better connected America.

As the year progresses, we expect to gain more clarity around additional opportunities that exist, none of which are included in the $30 million plus fiber location target I've mentioned. As we compete for the subsidy, we'll bring our operational and market experience to compete for contracts in a disciplined manner. In doing so, we may be the only participant that has the ability to bid as part of an embedded wireline operation, a scaled national wireless provider and GigaPower may participate as a focused and flexible commercial open access wireline fiber network.

We think this will prove to be a winning combination in pursuit of attractive growth. The bottom line is this. Our commitment to fiber is at the core of our strategy. In footprint, we're on track to deliver our $30 million-plus location commitment and we're building the strategic and financial capabilities to take advantage of further opportunities as they emerge.

To wrap up, regardless of what transpires in the macro economy in the year ahead, we remain confident in the resiliency of the services our customers depend on in their daily lives. I believe our plan for the year rings true to who we are at our core. For almost 150 years, AT&T has invested heavily into connecting our country. And in the process of doing so, we provided a spark for innovation that connects people to greater possibility. This year, we'll continue to honor this heritage by significantly investing in best-in-class technology to build on a foundation for the future of our country's evolving connectivity needs, needs that we expect to grow significantly in the coming years.

With that, I'll turn it over to Pascal. Pascal?

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

Thank you, John, and good morning, everyone. Since John already discussed the great momentum we have this past year in growing our customer base in 5G and fiber, I'd like to start by taking a look at our fourth quarter financial summary on Slide 8. First, as a reminder, with the close of the WarnerMedia transaction in April, historical financial results have been recast to present WarnerMedia and certain other divested businesses as discontinued operations. Therefore, where applicable, I will highlight our financial results on a comparative like-for-like basis.

For the fourth quarter, revenues were up nearly 1%. On a comparative basis, revenues for the full year were up around 2%, largely driven by wireless service revenue and, to a lesser extent, broadband in Mexico. This was partly offset by a decline in business wireline.

Adjusted EBITDA was up about 8% for the quarter. For the full year, adjusted EBITDA was up around 3.5% on a comparative basis as growth in mobility, consumer wireline in Mexico were partly offset by a decline in business wireline. Adjusted EPS from continuing operations was $0.61, up about 9% for the quarter primarily due to strong organic growth in mobility and lower interest and benefit-related expenses.

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For the full year, adjusted EPS from continuing operations was $2.57. I should note that we've taken a $24.8 billion noncash goodwill impairment charge in conjunction with our annual goodwill assessment primarily due to increases in discount rates associated with the overall rise in interest rates. We also took a noncash charge of $1.4 billion to abandon certain conduit assets related to the ongoing rationalization of our copper network.

Free cash flow for the quarter was $6.1 billion, including about $800 million in DIRECTV distributions. This is an improvement of $780 million year-over-year, even with a $1 billion lower distribution from DIRECTV and $500 million less in FirstNet capital reimbursements. We also delivered on our revised full year guidance with free cash flow of $14.1 billion for the year. Cash from operating activities for our continuing operations came in at $10.3 billion for the quarter, up $2.3 billion year-over-year. For the quarter, capital expenditures were $4.2 billion with capital investments of $4.7 billion. Full year capital investment marked an all-time high at $24.3 billion as we continue to make record investments in 5G and fiber.

Now let's look at our mobility segment operating results on Slide 9. For the fifth consecutive year, our mobility business grew both revenues and EBITDA. Revenues were up 1.7% for the quarter and 4.5% for the year. Service revenues were up more than 5% for both the quarter and the year, driven by continued subscriber growth. This exceeds the raised annual guidance we provided to you last quarter.

Mobility EBITDA was up about $740 million or more than 10% for the quarter, driven by growth in service revenues, transformation savings and the absence of 3G network shutdown costs versus the fourth quarter of 2021. This was partially offset by higher bad debt levels. For the full year, mobility EBITDA grew nearly 4%. Even as competitors introduce richer promotional offers during the holiday seasons, our consistent go-to-market approach once again drove our results. This gives us confidence that we have the right formula and structure in place to continue to grow customers, service revenues and EBITDA at a healthy clip this year.

Mobility postpaid phone ARPU was $55.43, up $1.37 or 2.5% year-over-year. ARPU growth continues to come in ahead of our expectation and largely reflects our targeted pricing actions, customers trading up to higher price unlimited plans and improved roaming trends. As John previously mentioned, postpaid phone churn of 0.84% for the quarter declined year-over-year even as we were less promotional compared to our peers. We believe that this decline is reflective of our improved customer value proposition.

In prepaid, our phone churn was less than 3% driven by cricket phone churn that was substantially lower than 3%. While we believe industry wireless subscriber volumes will continue to pace towards normalized levels this year, we also expect our consistent go-to-market strategy to help us deliver strong relative performance and ongoing customer growth.

Now let's move to Consumer and Business Wireline results, which are on Slide 10. Let's start with consumer wireline. As John mentioned, our fiber customer growth and network expansion continue. And wherever we have fiber, we win share. We added 280,000 fiber customers even in a seasonally slow fourth quarter that was impacted by lower year-over-year household move activities and challenging December weather conditions. The increasing mix shift from legacy products to fiber drove strong broadband results, and we expect these trends to continue. Broadband revenues grew more than 7% year-over-year due to fiber subscriber growth and higher ARPU from the mix shift to fiber. Fiber ARPU was $64.82, up $2.20 sequentially with intake ARPU now approaching $70. Consumer wireline EBITDA grew over 20% for the quarter and nearly 10% for the full year due to growth in fiber revenues and transformation savings.

Turning to business wirelines. EBITDA was relatively flat for the quarter due to $90 million in intellectual property transaction revenues and ongoing transformation savings as we continue to rationalize our portfolio of low-margin products. In fact, margins were up 110 basis points year-over-year, thanks to our transformation process. This rationalization process will continue in 2023 as we remain focused on the opportunities that our 5G and fiber expansion create in the small and midsized business category. Our Business Solution wireless services revenue grew more than 7%. This is very impressive given the fact that we already have the second largest share and are growing faster than our peers. FirstNet wireless connections grew by $377,000 sequentially.

Now let's move to Slide 11 for our 2023 financial guidance. Let me walk you through how we're thinking about operating expectations for 2023. First, we expect to continue to grow mobility subscribers against a return to a more normalized industry growth. We also expect continued benefits from a larger subscriber base and improving ARPUs. This should result in wireless service revenue growth of 4% plus for the full year.

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For broadband, we expect revenue increases of 5% plus reflecting a higher mix shift to fiber with improving ARPUs partially offset by continued legacy revenue declines. Overall, we expect to grow total revenues next year. However, as you all know, variability in equipment revenues driven by industry volumes could be a factor on consolidated top line trends as we think about EBITDA trends in 2023. We expect to grow mobility EBITDA mid-single digits as our disciplined approach helps us grow our valuable subscriber base.

In business wireline, we expect EBITDA to be down high single digits due to continued declines in legacy products, partially offset by incremental cost savings and increased fiber-based revenues. As you consider the first quarter for Business Wireline, it's worth noting that 2022 included a onetime incentive compensation benefit that will impact year-over-year comparisons. In Consumer Wireline, we expect to grow EBITDA in a mid-single-digit range, plus or minus, due to continued growth in fiber revenues and transformation savings, partially offset by continued declines in legacy copper subscribers. We expect to benefit from ongoing corporate cost reductions. Altogether, this yields consolidated adjusted EBITDA growth of 3% plus for the full year.

When you think about adjusted EPS calculations, note that our guidance reflects nearly $0.20 per share of headwinds associated with noncash pension costs related to higher interest rates and to a lesser extent, lower spectrum interest capitalization. Importantly, we have no need to fund our pension plans for the foreseeable future. We also expect to incur more than $0.05 of noncash headwinds related to a higher effective tax rate of around 23% to 24%. Combined, these headwinds aggregates to about $0.25 year-over-year.

Normalizing for these noncash items, our guidance would imply adjusted EPS growth consistent with our expected growth in adjusted EBITDA. Given these assumptions, adjusted EPS is expected to be in the $2.35 to $2.45 range. We also expect adjusted equity income from DIRECTV to be about $3 billion for the year versus $3.4 billion in 2022.

Here's what to consider when looking at our free cash flows for 2023. First, we expect adjusted EBITDA growth of 3% plus. Next, expect cash interest to be down about $500 million. Assume your cash taxes will be higher in 2023 versus 2022 to the tune of about $1 billion. And expected cash distributions from DIRECTV should be down about $1 billion. We continue to expect that 2022 and 2023 will be our peak investment year. So capital investment is expected to be consistent with 2022 levels.

We also expect about of $2 billion of working capital improvements, largely from lower deferrals and higher noncash amortization of deferred acquisition costs. As we mentioned earlier, we expect a more normalized industry growth volume which is expected to help working capital as well. When you combine all these factors, you get to a free cash flow expectation of $16 billion or better. This is about twice as much as our current annualized dividend and more than enough to cover other commitments.

Similar to last year, we expect greater free cash flow generation in the back half of the year based on higher capital investment levels and device payments in the first half of the year as well as the timing of the annual incentive compensation payout. We will use our free cash flows to pay out our dividend and to pay down debt as we continue to progress towards our target of 2.5x net debt to adjusted EBITDA, which we anticipate will take place in early 2025.

And lastly, the guidance we provided to you is based on our current reporting. We expect our segment reporting in 2023 will remain the same as last year. However, I'd like to note that we no longer plan to record prior service credit benefits to the individual business segments with a corporate elimination. Instead, it will only be recorded in other income.

Overall, we are confident in our plan for the year. And as John mentioned, it takes into account our expectations for a more normalized industry growth backdrop against continued challenges in the macro environment. Our confidence is underscored by the resiliency of the services we offer, the consistent strength of our go-to-market strategy, our ongoing momentum in core connectivity and most importantly, our team's unwavering commitment to deliver best-in-class services to consumers and businesses alike.

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) Our first question today comes from the line of Brett Feldman with Goldman Sachs.

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

I think I'll start off with a follow-up here on the outlook that you provided. I appreciate some of the color that Pascal provided about the different operating segments. Maybe at a higher level, could you give us a sense as to what you mean by a more difficult operating environment? In other words, to what extent does the outlook for this year anticipate maybe of a recession or ongoing inflationary pressures? And then I imagine one of the questions we beginning of the day are what are some of the key swing factors? And so if we were to use your adjusted EBITDA guidance as an example, what's the scenario that gets you to 3% growth? And what could be the swing factors that might take that into the or higher category?

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

Brad, let me go ahead, and I'll start and then Pascal can jump in. So first of all, look at the foundation of what we're telling you is we've been -- I think, very conservative and thoughtful in the guidance we pulled together. It is a tough environment to predict. There's a lot of geopolitical things going on that I think anybody would have a hard time seeing and do a crystal ball on, and that's probably the most difficult wildcard that I think we've tried to take a conservative stance of what we see in the economy today and what the foundation that's rested on is. We know that the services that we provide to customers are pretty resilient even during more challenged economic times. And so we have a reasonably high confidence level that our customers are going to continue to want to use the product and pay us for it.

I think if you go back and look at my public comments probably over a year ago, I've had a relatively conservative view of where I thought the economy was going to go. I've been fairly vocal that I think inflation is a tough thing to have a healthy economic environment and that's good for everybody and it creates some challenges in places. And ultimately, a lot of that came to pass. The good news is I think we're through the worst of it, and we see it easy. But as you heard from my comments, we've expected that we're going to continue dealing with some of that pressures we move through this year.

So we don't have an outlook that says that we've solved the problem. We have an outlook that says we're going to continue to deal with the pressures that are hitting some of our line items economically that we've got to account for and things like energy and some of the continued wage and employment pressures that we've had to deal with that will carry through, and we have some longer-term contracts that didn't come up during the last year that we know are going to hit us this year in renewals that we have to factor into that. And I think we've tried to do the best we can around it.

I see the economy being relatively stable right now. We're not seeing anything that's causing us to be extremely concerned about it. But what happens later in the year, who knows. The point we've made is we've kind of assumed that we're not going to be in a robust growth environment as we make our way through the year. And I would tell you if you're asking kind of what the swing factors are, I think the swing factor, frankly, is if there's some kind of a geopolitical disruption that's something significant that none of us anticipated or that we hope would never happen. It creates a disruptive event. That's probably the thing I'd look at and say, I couldn't predict it. I couldn't plan for it, and that's going to be the issue that we have to deal with that just pops up and isn't going to be just an AT&T issue.

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Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

Yes. Brett, the only other thing I would add is, look, we've assumed in our outlook a more normalized industry growth environment. So to the extent it's more than that or less than that, that could be a swing factor. But the thing that I think is important, and I said this in my commentary is whatever the environment is, we expect to perform relatively well versus the peer set.

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*

Maybe just a couple of quick follow-ups on capital uses. Pascal, you may have said this in your remarks, but what's driving the $2 billion in working capital savings this year? And what are your confidence behind that?

And then could you remind us on the working -- on the CapEx side, obviously, $24 billion again this year. But just what was the longer term sort of view? When can we expect that to start to come down? And what do you guys think of it a more normalized sort of CapEx, especially given what you have now with GigaPower and all the fiber initiatives?

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

Sure thing, John. Here is the way I think about the $2 billion that I flagged in our guidance for 2023. The last several years, we've been growing our subscribers in wireless with that came some upfront acquisition costs. We've said for a while we expect that to level out in 2023. And so once you have that leveling out, we are no longer going to be spending more each and every year than the prior year in acquisitions. So that leveling out, there is assets that are on the books associated with the deferred acquisition costs of those subscribers. That's going to be amortized. We have great visibility into that amortization, and that's obviously noncash because we spent the cash in the prior year. So that we have very good visibility too.

And look, if we grow more than last year in terms of wireless subscribers, that could be a swing factor, but I don't anticipate that.

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

Got it. And then the CapEx?

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

CapEx, the thing to keep in mind is we plan to be at peak levels in '22 and '23 because of the significant contributions that we are getting from DIRECTV. In '22 and '23 CapEx -- is fairly meaningful amounts for spectrum deployment and transformation that will begin to moderate as we exit this year. We haven't updated the guide we provided at Investor Day. But clearly, we expect to trend down towards more normalized capital intensity as we exit this year.

Operator

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

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

Turning to fiber. GigaPower was a great announcement, but a little smaller than we had expected. John, how do you think about the $1.5 million versus the potential of that venture or for others in that model? And your own on-balance sheet fiber construction of 2 -- I think you said $2 million to $2.5 million annually. It seems like a slower pace than we had been discussing. Is there anything changing there?

And then finally, just to John's question, one quick clarification on the free cash flow. Pascal, is that working capital going to contribute $2 billion to free cash flow in '23? Or is it just offsetting what had been a $2 billion drag, I think, in '22?

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

Phil. So first of all, as I mentioned in my comments, I view the fiber portfolio as that, a portfolio. It's a portfolio of options for us to look at where the return characteristics are most optimal and how we deploy capital around that. And I'm trying to be pretty overt in my commentary to all of you that we understand that we need to be very disciplined in demonstrating to all of you that each of those portfolio decisions and how we put capital against that is, in fact, driving acceptable returns.

I'm very mindful of the fact that the GigaPower announcement is a model that the investor base is unfamiliar with. This is something different and something new. And I want to be very sensitive to the fact, just like we did when we were deploying in Region Fiber and stepping up our investments. I've tried to be transparent with all of you around what our progress has been on the key drivers of the economic return of that investment. We've been sharing pretty aggressively things with you like ARPUs and penetration rates and a variety of other things that give you the confidence that in fact, that's a sustainable, smart long-term investment.

This new GigaPower model is a bit different. And I think it would be normal for any of you to look at it and (inaudible), it's going to return at the same level. And so to demonstrate to you that I'm serious about ensuring that every incremental investment decision we make in this look, 1.5 million homes, you may say, well, that's not a lot. It's over $1 billion of investment to be able to go do this. We set up this first tranche to be able to come back to you over the course of 18 months and give you information that raises your confidence and in fact, we are driving the returns on this in the way that we anticipate them to be attractive.

And the management team that has been put in place and how the partnership is set up is intended to do exactly that. We will be in the market very, very soon right after the announcement. I intend to have 12 months of penetration information that I can bring back to you. And you can bet that when we're successful doing this and we demonstrate to you that we have the numbers to back it up that it won't necessarily still be $1.5 million. I would also tell you, I want to be thoughtful about, as I've made the comment what is it that we should own and operate 100% to ourselves and what we want to do within the partnership, just like we might have done when we were building wireless infrastructure a couple of decades ago.

And if we hit the ball out of the park and things are great, we may choose to do some of this in-house and on our own and not necessarily subjected to a partnership. On the other hand, if we need more scale and we need to move faster, we have a vehicle now that's set up that we can move very quickly to increase the amount of funding and the amount of capacity that's in that entity to take advantage of that. And so we're going to have data that we can come back to you with, and we'll, I think, do the right thing and try to make sure that you're moving along with us every step of the way. And I just see this as another tool that gives me a lot of flexibility and a lot of options. Relative to the in-region fiber side of things. As I said, I'm looking for a portfolio of returns. And what I tried to stress in my opening remarks is I'm giving you a characterization right now of what we think are high-return options within the 30 million passings that we committed to and what that looks like, and I've tried to clarify because I know some of you have been trying to do the math on it.

But we have these other options now and want to balance out what I think the return characteristics will be through the GigaPower initiative and we are going to now see some volume and capacity coming in out of region -- or excuse me -- out of the $30 million build that will be subject to BEAD funding. And some of that subsidy may have a very different return characteristics than some of the stuff we're doing organically in region right now. And I want to have options open to understand that and look at that aspect of the portfolio as well. And I think we'll get clarity on that

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as we're end of the third quarter of this year that we start to see where we're successful in bidding for that money, how much it is, what kind of a build line do we put on the business in terms of having to add capacity to get the build accomplished and how does it fit into the kind of operating territories that we think set us up for a geography and a footprint that's intelligent for us to operate moving forward. So that's kind of how I think about it in aggregate, and I'll let Pascal pick up your question on the free cash flow clarification.

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

Hey, Phil, the simple way I think about the majority of the $2 billion is this. We have deferred acquisition cost that's on the books where the cash went out in prior years. That amortization -- it's going to continue to be amortized against EBITDA in 2023. That is noncash expenses burdening. So when you -- just the sheer mechanics of adding that back to our free -- to our EBITDA will elevate the cash EBITDA that the business produces.

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

John, if I can follow up on one start to be 2 split. Do you look at GigaPower and BEAD spending as alternative places to spend your capital and effectively now slowing the organic pace to get to that $30 million?

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

I've given you the pace of how we get to the $30 million. And so I don't see that changing. I think we're committed to what I just articulated to you. So if you're asking am I going to see -- am I going to come back and give you an incremental revision of that $30 million to substitute? No.

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

But to be clear, Phil, this -- the BEAD money and the GigaPower are incremental to the $30 million.

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

Yes, if that's your question, that's 100%.

Operator

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

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

Great. If I could just stay on the broadband theme, if I could. Perhaps I think you talked perhaps about providing extra color on the financial construct of the BlackRock JV? Are you contributing any capital? Any assets how exactly should we expect that to flow through the financials? And John, on the BEAD, perhaps you just give us a reflection on the status of the process, the timing, how this is going to play out. I think there's been a lot of concerns about delays, the mapping process, the challenges and also some of the state broadband offices maybe not being ready to stand this up. So how do you see this evolving? And when do you think you can actually get shovels in the ground to get know what funding been awarded?

And then just finally, getting to 30 million locations is great. What about the prebuilding with fiber -- with fixed wireless in some of those locations. I think you've talked about that. And how does fixed wireless play into some of that other 30 million plus locations that won't be getting fiber in the near term?

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

Sure. So Simon, I'll be -- I've got to be careful about how much the partnership. It's a partnership structure, it's an entirely separate partnership structure, so you shouldn't expect to see any of the financials pull-through. On a balance sheet structure for us, you should expect it to come in as investment income. We'll give you characterizations of the success of that and as it carries forward and you should think about this as both partners carrying equal weight in the execution of the entity. I think that probably gives you a good enough sense of how it carries through, and if you have something else you want to push on, I can try to give you a little more color.

The BEAD timing, my point of view is I think there is -- there's been enough information put out there right now. We're going to go through a clarification cycle on the first set of data. I think that's moving along at a reasonably good cliff right now. And I think, frankly, the bigger states, those that have a more robust staffing capability are being pretty prompt and aggressive in working through getting that data set squared away. I would agree with you that there's going to be some states that are maybe a little bit slower than others, but my gut is when you're thinking about kind of the 80-20 rule, the bigger states, they're going to have the bulk of the funding are pretty zoned in on this, and they're moving pretty aggressively to get the process underway.

And while there may be some smaller states that take a little bit longer to get their act together or are waiting to see how models develop in some of the more lead states that have bigger staffs to consider these things and then kind of be fast followers. I don't think that's going to inhibit some of the more aggressive states and being in the process and us being in a situation where in the third quarter, there's going to be -- money is starting to flow down from the federal government and being turned back to the states for execution. So I don't think you're going to see any substantial shovels on the ground and certainly, customers being served to any substantial way this year, but I do think you're going to see projects and monies awarded before we exit this year, and you will see those volumes start to come online as we move into periods of 2024, and I expect that those will be concentrated in some of the bigger states that have more robust staff that can move through this fairly quickly.

And pretty much have a view of how they want to go about doing this. They're just trying to get the data to fit into the process. As I've said before, we view fixed wireless as being a tool in the toolbox that we can use to deal with opportunities in areas that are less densely populated. We'll have our next rendition of the product in the market this year. There will be places where we view it as being an acceptable substitute for fiber deployment. They tend to be -- they are going to be less densely populated areas where it makes sense to do that. We have a plan as to how we want to test our assumptions around that. We will deploy and take advantage of that. I think it can have an opportunity to help us on some of the long-standing hybrid fiber copper base that we have that maybe has some speed challenges, and it will probably help us manage some of the churn characteristics associated with that, and I would expect to use it in that case.

And then I would also add, look, there's a lot of businesses that maybe aren't in those less densely populated areas where this will be a perfectly acceptable and strong product, given the nature of how their business runs and what they need for their daily data needs and service needs. And so I do expect that we're going to have an opportunity to complement some of our strength in wireless distribution into the business market to provide a more robust fixed broadband alternative, fixed wireless broadband alternative to those customers in bundle and package it in where it makes sense.

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

Simon, one other point on the capital structure for the JV to consider is that we do expect it to carry a meaningful amount of debt funding as well.

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

Okay. Great. And are you contributing anything to it? Any capital any assets?

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

We did. We have contributed some into the partnership. The reason you're going to see it get off the ground as quickly as it will and bring its first customers on in a relatively short orders because while we have been structuring and negotiating this, we've been doing a fair amount of work in parallel quietly. And so the partnership, as we've indicated, is already structured with the management team that's in place that has been doing a lot of work on the offer that knows the markets we're going to be in that has infrastructure and system setup that they can be ready to go on. And I think this is probably one of the things our partner found attractive about this. It's a first-class management team with a lot of capabilities behind it, and we will take some credit for the contribution of that work that we've done within the scope of this year.

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 first, I just wanted to go back to the notion of wireless postpaid phone market "normalizing". I think a lot of people look at the relatively high correlation between the substantial step-up that we've had in the industry to roughly 9 million postpaid phone nets a year for the last couple of years and AT&T's kind of resuscitated growth, as John pointed out, over the last 10 quarters. And as such, when people consider the industry "normalizing," there's a pension out there, I think, to disproportionately assume that whatever amount of tide comes out on industry growth will be disproportionately allocated to AT&T because it disproportionately benefited over the last couple of years.

I was wondering if you could kind of talk about that and whether you think that's realistic and that informs some of your working capital benefits that inform the cash flow or whether you think that, that's wrong and that you can kind of -- if there is a tide that goes out, it's more pro rata across the industry? That's number one.

And then number two, John, you touched on something in the prepared remarks that we haven't talked about a lot here in the U.S., largely because we haven't been moving in this direction until you guys really started this fiber initiative, which is copper decommissioning. And for instance, in markets like Canada, it's a huge topic where they've widely overbuilt their copper plant and we're talking about timing and magnitude of the benefits that you start to get there. Could you kind of elaborate a little bit? Is it a little too early to start really talking about this as a tailwind in something like '24 or is it really with us?

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

Sure, Dave. I don't agree with your thesis at its point. I absolutely 100% dismiss your thesis. And I don't think that's how the market is structured and functioning today by any stretch of the imagination. I think our -- I go back and I look at our performance over the last 2.5 years. First of all, I would tell you, I think the industry is a lot more healthy than many who would like to trying to come up with this narrative? Is competition up? Or is it destroying itself? I mean I see a pretty consistently competitive industry over this period of time. And I tend to look at it not just on the customer counts, but I look at things like both wholesale and retail revenues and how that's flowing through to service revenues. And I see a relatively balanced dynamic in the industry, but the math would tell you that balance dynamic would suggest we've been picking up a bit of no share when it's all said and done.

And I don't think that's a benefit of the number moving from whatever you assume the normal stasis is $7.5 million to $9 million. In fact, I would say of customers that are paying a reasonable monthly bill, we've taken more than our fair share, and I'm more interested in taking revenue share and profitability share than I am necessarily just taking a subscriber share. And I think our numbers would suggest that we've seen an ever improving trend over the 2.5 years in our ability to do that. So I don't submit to your point of view that if the industry "normalizes" we revert back to kind of where we were 3 years ago. I think where we are is because of how we're performing today, not what was going on 3 years ago, and that's kind of how I think about it.

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What I would tell you, Dave, is I don't think there's a windfall that comes in on restructuring of legacy costs. And I've I think I've been on this theme for a little while. I mean we've been working this issue pretty aggressively since the day I came into the job, and I would say we had to start formulating the plans when I came in, but now we have a very robust and functioning organization that we're doing this kind of day in and day out. And I spend more time talking about investing in the new business and the growth that we can get on sustainable fiber and a 5G infrastructure than I do on talking about what we are taking out of service, but we are taking stuff out of service.

And so when we start managing things like our energy costs down, it's because we're decommissioning equipment and taking it off the copper grid when we are able to manage our dispatches down and show you improvements in our operating dynamics on dispatches. It's because we have a smaller footprint to manage. We are doing this day in and day out. And our pace at which we're doing it is accelerating. We've -- I've given you some hints along the way about the number of products that we've shuttered and when we shuttered those products, it starts to take operating costs out of the business. This is part of what we have in our forecast to you to continue to improve our operating costs. So you're seeing this operating leverage start to come into the business, and it's partly contributed to the fact that we're managing through these legacy costs. And as we give you the forecast for cash this year, when we talk about improvements in our overall cost structure, some of it is coming on the backs of what we're doing here.

And I'm very well aware of where our cost structure is on a comparative basis to others that we compete with in the industry, some of which do not have the hybrid asset structure that we have of both fixed and mobile. And we are on this mission to ensure that we're not operating any of that at a disadvantage over the next 3, 4 and 5 years. And I think you're going to just see this ratably come in over that period of time as we work through what is -- it's frankly a bit of a painstaking process to go through. It's central office by central office, line-by-line, customer by customer, but it needs to be done. I think it can be done in a way that makes us a better and healthier business where we have a great hybrid of a fabulous fiber footprint with a fabulous wireless network that is ultimately the future of how customers are going to buy together, and I like that.

I think that hard work will be rewarded in that regard, but I will fully admit, we are creating new intellectual property here around how you get to this space. And I'm choosing to do it organically internally, not through a front-end private equity transaction that puts a little bit of cash from my pocket but ultimately has the value of it accrue to somebody else over the hard work of 3, 4 and 5 years.

Operator

And our next question comes from the line of Craig Moffett with SVB Moffett Nathanson.

Craig Eder Moffett - *MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst*

I want to stay, if I could, with this topic of your portfolio of broadband, John, if I think about your kind of overall mobility national footprint, it sort of maps with today roughly call it, 16%, 17% of the country already overbuilt with fiber, another 10% or 12% to be overbuilt with fiber. Can you just talk about how you think about the consumer value proposition in those different segments where you have wireless that doesn't have a fiber component where it does? And then -- and what role fixed wireless might play to sort of round out that consumer value proposition.

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

Yes. The way I think about it, Craig, is -- and I tried to use this reference earlier is, I think it's a bit of a -- I don't want to use the term [LAN] rush, because it's not that easy to put fiber and it takes a little bit longer than a LAN rush, but we are definitely in a window right now where I do believe a good portion of the United States will ultimately have a fiber connection to it. And I believe there will be -- if you think about this over the long haul that we're moving to an industry, and I've been pretty clear about this, it ultimately, customers are going to want to buy connectivity from one place. They don't necessarily love making a distinction between their fixed provider and their mobile provider.

And I think over time, we're going to see an ordering of industry assets that leans more toward that. And my point of view to be in a strong position as you -- if you have the best technology out there and you ultimately build the largest footprint fastest, you're going to be in a better position to ultimately play in the outcome of how that restructuring gets done, and you're going to have the strongest customer base on a relative basis and

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owning and operating those assets and having the ability to control the product offering and control the cost on it will be the best way to control your progress going forward.

So yes, it's a deliberate process to continue to build fiber infrastructure and ultimately overlay it with the wireless business, but that's a process that I think is incredibly durable and sustainable. And my job is to make sure I'm doing it faster and better than anybody else and I think it'll come out in an okay place as a result of that. And as I said, my job is to ensure that people who give us money to go and allow for us to make that investment feel that on a marginal basis, on an incremental basis, we're doing that in a way that's driving successful returns.

I think fixed wireless, as I said, has its place in the portfolio. I don't see it's place long term in dense metropolitan areas, and I don't see it in reasonably well populated suburban areas. I don't see the dynamic of that product, and I've been pretty clear about this, if I start to think about consumer behavior and demand of consumption. And I start to take those curves out over 3 years. I don't see that as the optimal way to service a customer in the near term. So I think the mobile network's role in life is to ensure that whenever somebody is away from a fixed location, they can still get the same kind of capabilities that they get while they're at home, but there's only a certain amount of bandwidth that a mobile network will ever be able to foster and support in that regard.

Mobile bits are going to be higher-value bits. They're going to need to be engineered differently. They should sell at a premium because of the supply and demand dynamics on it. And I want to ensure that my mobile network is, in fact, delivering that premium solution on those mobile bits when they need to be provided. And it's absolutely 100% there to do that. And I think at the end of the day, if your mobile network is doing that mad fashion, then you're going to have an opportunity to work in the high-value mobile space for what are going to be emerging capabilities that people need to facilitate the true promise of 5G and real-time transmission ubiquitously any place anywhere.

Operator

And that last question comes from the line of Michael Rollins with Citi.

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

Just thinking a little bit more about the wireless growth opportunity. Can you share with us how AT&T is doing with the appearing of customers onto unlimited and premium unlimited plans? And then given some of the comments on inflation, are there opportunities for AT&T to update wireless and fiber pricing again this year? And are any of those opportunities included in the guidance?

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

Mike, so I'm not going to -- look, it's just not good hygiene to talk about what our plans are on pricing, and I don't intend to do that today. I would just maybe point you back to -- we have a management team who is very good at understanding where we have great value to our customer and where we're selling in that market. And are we getting the maximum value and value exchange back from the customer. And that's across all of our products and services.

Last year, I mean, you can see we saw an area where we felt like -- we had some customers that weren't taking advantage of the best plans that we had to offer with the most recent features, and we decided to work in our customer base to help them understand that there were better places they could go where there was maybe an exchange for them to pay us a little bit more, but to get a lot more for what they were paying us. I think we executed that incredibly well. We just gave you churn numbers that were incredibly strong churn numbers, all while we did that, and I think you should step back from that and say that's pretty good execution. I'm not sitting here telling you about I grew service revenues and I'm dealing with a customer flight problem. I dealt with lower churn. And I think that's a testament to the fact that we were able to get a win-win proposition on our customer base with the customers walked away feeling better about the circumstances, and we'll continue to look for those opportunities.

Anywhere in our portfolio on any product where we think we can do those types of things, that's just part of being good management. I would expect that there's always opportunities for us to look into that -- where I think we are on our ability to walk people up the value continuum. We

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still have room. We're not -- we're not through the 5G replacement cycle. As you know, when a customer comes in and chooses to do that upgrade, that's a great opportunity for us to talk to them about what product and services that they have and to help them understand that maybe buying a more robust plan or fine-tuning how they're buying plans from us might fit into their portfolio and give them the best value.

And we do expect we're going to continue to make headway on that. That's part of that service revenue growth the past call guided due to. I don't think anything that we've got in there is Herculean. We've been talking about this for the better part of 3 years with you. Every year, we've managed to do what we said we were going to do, and it's been consistent with the service revenue numbers that we forecasted for you. I think you should also understand that the global economy is not completely recovered from the pandemic. We still expect that as travel continues to normalize itself that we're going to see a little bit of uptick in relief coming from the likes of more global visitors coming in on roaming and people going places.

I think Asia is still going to be suppressed for a period of time, but let's hope the back end of recent policy changes that have occurred in Asia means that we will eventually hit a normalization there that will ultimately get us back to kind of pre-pandemic norms at some point, which is it's good to be going down that path as opposed to having a major footprint that is kind of trying to create a fortress and not allow people to move back and forth between their borders. So we started at the beginning of the end there, which is good.

So I don't feel any concern around whether or not we can effectively move people up that continuum. We still have room to grow we're banking on that in our guidance and we'll execute around it just as we have any other years. I don't know if you want to add anything there, Pascal.

Pascal Desroches - *AT&T Inc. - Senior Executive VP & CFO*

No, I think that's all well said.

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

So again, I appreciate your time this morning. I'm really pleased with the year. I thought it was a strong consistent execution year. I'm just equally as pleased that we've done the right things to set us up for continued growth as we move through '23. I hope you feel the same. I know the management team is very focused on delivering what we shared with you this morning is our expectations. I feel really good about where our customer base is. As I mentioned just a few moments ago, to have churn levels in our wireless business running at the position they're in with the competitive intensity that is occurring in the industry to have the position we have with our broadband base on fiber and the customer satisfaction is coming with it, I think, bodes incredibly well even in an uncertain environment as we're moving forward. And the good news is, I think we can grow in both those places to continue to drive the kind of tempered indirect growth that we shared with you.

So we're looking forward to doing it again next year. I think we've got the right opportunities in place. I think there's a lot more that we know we can still do to run this business better, and we're about doing that to ensure that we deliver improved performance for you moving forward.

So thank you very much. I hope you all have a great '23.

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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