



Company Profile

BUSINESS OVERVIEW

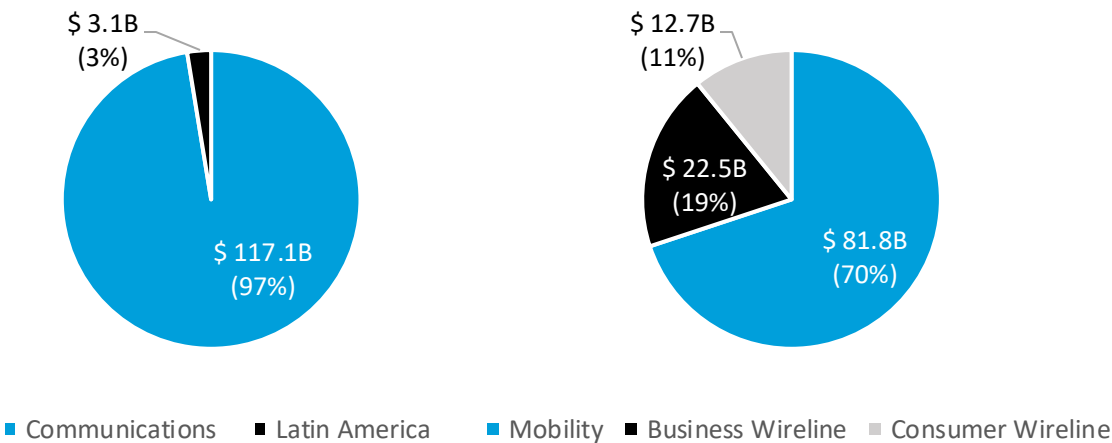
- Headquartered in Texas, AT&T competes against large U.S. internet service providers, Comcast and Spectrum, as well as against large wireless telecommunications carriers such as Verizon and T-Mobile
- AT&T is focused on having the fastest, most reliable and secure 5G network. The Company plans to deploy mid-band 5G spectrum to 200+ million people by the end of 2023
- With over 150,000 employees, AT&T is one of American’s largest companies. The Company has a rich history dating back to 1877 when Alexander Graham Bell started the Bell Telephone Company

SUMMARY FINANCIALS

	2021A	2022A	2023E	2024E	2025E
Total Revenue	134,038.0	120,741.0	122,588.17	124,183.1	125,681.22
<i>Growth Over Prior Year</i>	<i>(6.3%)</i>	<i>(9.9%)</i>	<i>1.53%</i>	<i>1.30%</i>	<i>1.21%</i>
Gross Profit	73,631.0	69,893.0	75,696.4	77,201.5	74,813.0
<i>Margin %</i>	<i>54.9%</i>	<i>57.9%</i>	<i>61.75%</i>	<i>62.17%</i>	<i>59.53%</i>
EBITDA	49,707.0	44,519.0	42,870.06	43,969.66	45,075.15
<i>Margin %</i>	<i>37.1%</i>	<i>36.9%</i>	<i>34.97%</i>	<i>35.41%</i>	<i>35.86%</i>
EBIT	34,764.0	29,470.0	24,508.82	25,557.95	26,658.5
<i>Margin %</i>	<i>25.9%</i>	<i>24.4%</i>	<i>19.99%</i>	<i>20.58%</i>	<i>21.21%</i>
Earnings from Cont. Ops.	23,776.0	(6,874.0)	-	-	-
<i>Margin %</i>	<i>17.7%</i>	<i>(5.7%)</i>	-	-	-
Net Income	20,081.0	(8,524.0)	17,900.38	18,473.12	19,107.25
<i>Margin %</i>	<i>15.0%</i>	<i>(7.1%)</i>	<i>14.60%</i>	<i>14.88%</i>	<i>15.20%</i>
Diluted EPS Excl. Extra Items	3.03	(1.1)	2.45	2.52	2.58

OPERATING SEGMENTS

- AT&T’s **Communications** division provides 100+ million U.S. consumers with communications experiences across mobile and broadband. It also serves nearly all of the Fortune 1000 companies – with high-speed, highly secure connectivity. The division encompasses three core business units:
 - Mobility**: provides nationwide wireless services to consumer, business, and wholesale subscribers located in the U.S.
 - Business Wireline**: provides advanced IP-based services, as well as traditional data services to business customers
 - Consumer Wireline**: provides broadband internet, including AT&T Fiber, and voice communication services primarily to residential customers
- AT&T’s **Latin America** division offers mobile services to consumers and businesses in Mexico. AT&T is the fastest-growing wireless provider in Mexico and the Company’s 4G LTE network in Mexico covers 100+ million people



Management



John Stankey

Chief Executive Officer (July 2020)

- Experience:
- 37+ years at AT&T
 - Former CEO of Warner Media; Chief Strategy Officer, AT&T; and Chief Technology Officer, AT&T



Thaddeus Arroyo

Chief Strategy & Development Officer (May 2020)

- Experience:
- 16+ years at AT&T
 - Former CEO - AT&T Consumer; CEO – AT&T Business; CEO – AT&T Mexico,



Pascal Desroches

Chief Financial Officer (April 2021)

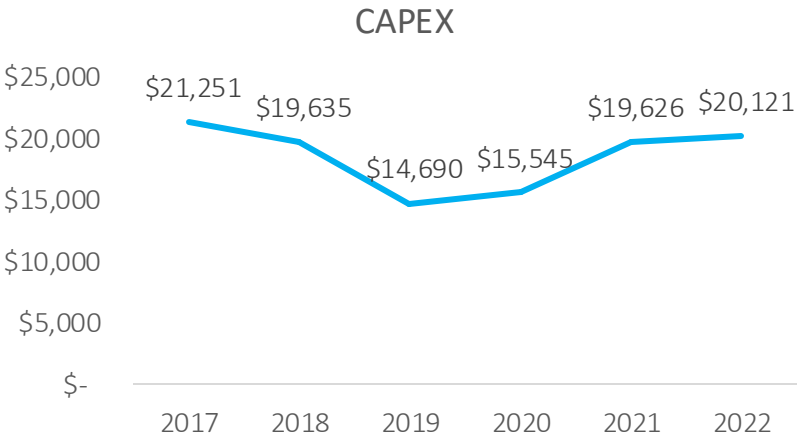
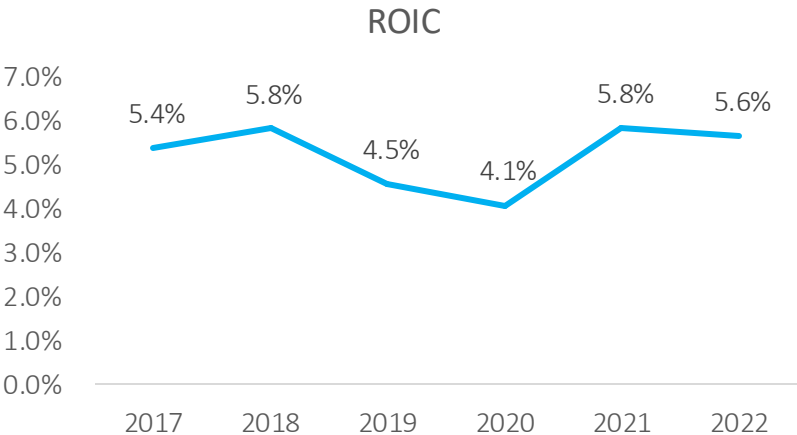
- Experience:
- 2+ years at AT&T
 - Former CFO Time Warner Inc.



Jeff McElfresh

Chief Operating Officer (April 2022)

- Experience:
- 27+ years at AT&T
 - Former CEO - AT&T Communications



Telecommunication Services Overview

Description

- Provides communication services through fixed line, cellular, wireless, and fiber optic cable networks
- Sub-sectors: Telecom Equipment, Telecom Services, and Wireless Communications

Dynamics

Strengths

- Stable earnings
- High/Increasing Barriers to Entry

Weaknesses

- Mature Industry
- Capital Intensive
- High Competition
- High Technological Change

Structure

Networking Companies



JUNIPER
NETWORKS



Qualcomm



NOKIA



Telco Carriers

verizon

T Mobile

Infrastructure

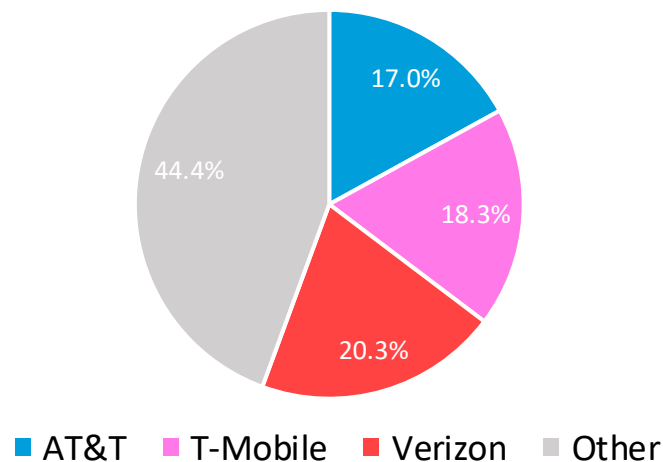


Telecommunication Industry Analysis

Threat of New Entrants

There are significant capital and regulatory barriers in the way of new entrants. New players face massive CAPEX and R&D investments to stand a chance of taking market share. Development of a telecommunications network and acquisition of permits is likely unfeasible. As the largest Telco Provider in the world (by Revenue), AT&T faces a low threat of new entrants.

Wireless Telecom Carriers Market Share U.S.



Threat of Substitutes

Threat of substitution is high. Within its industry, AT&T struggles to differentiate its services from Competitors (Verizon, T-Mobile) as cost of switching for customers is low. External pressures like alternate forms of communication also pose threats.

Mitigants:

- 5G and Fiber expansion strategy (See Slides 11-14)
- Industry Leader by Churn Rate: AT&T regularly boasts industry leading churn rates, with an average churn rate of 0.94% since 07' compared to industry average of 21% (Statista). Last Quarter, AT&T lead the industry with a churn rate of 0.84% to VZ's of 0.89% and T-Mobile's 0.92%

Telecommunication Industry Analysis

Customer Bargaining Power

AT&T holds 201.8M wireless subscribers and 14.2M broadband connections. Maintaining market leadership requires development that improve service while offering the lowest prices available. AT&T, like their competitors, mitigates customer bargaining power with use of contracts that significantly increase cost of switching between carriers.

Effects on AT&T:

- High R&D/CAPX in constant pursuit of improving offerings for customers
- High customer acquisition costs



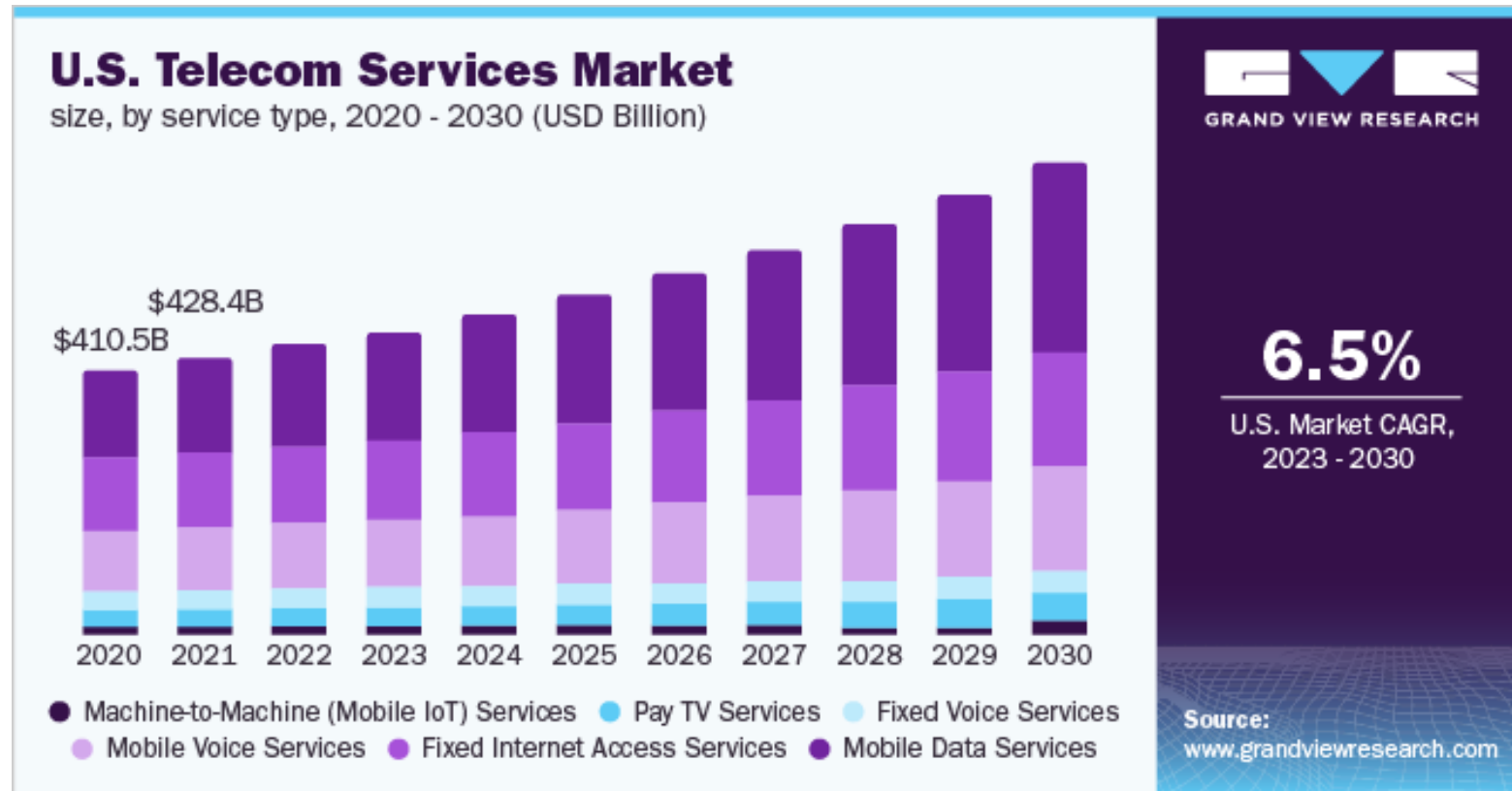
Supplier Bargaining Power

AT&T manages its suppliers through use of partnerships and acknowledgement programs. For example, its partnership with Apple compensates it 10% for sale of iPhones in exchange for paying Apple 10% of its charges generated from those phones. Such agreements ensure loyalty, and uniform quality in products.

Competitive Rivalry

The high threat of substitutes, customer bargaining power, and barriers to entry results in AT&T and its few rivals engaging in fierce competition to differentiate and improve their product. Such competition poses a risk for AT&T's profitability by depleting its margin.

Telecom Industry Growth Ahead



The 5G Revolution

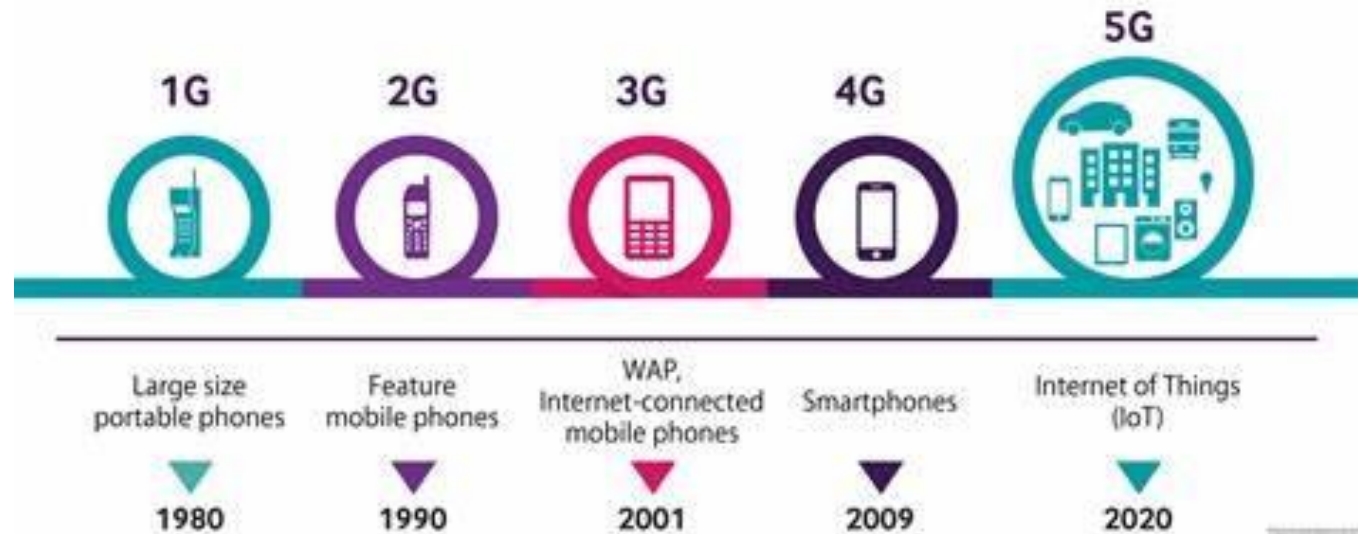
1G - Use of analog technology to transmit wireless voice.

2G – Digital transmission of voice, allowed for encryption of phone conversations, SMS text messaging and higher bandwidth (more users)

3G – Provided mobile broadband access to allow for mobile internet use, video calls, and streaming capabilities.

4G LTE – x10 faster than 3G by using message and packet switching, higher frequency band, and different network structure

THE EVOLUTION OF MOBILE COMMUNICATIONS FROM 1G TO 5G



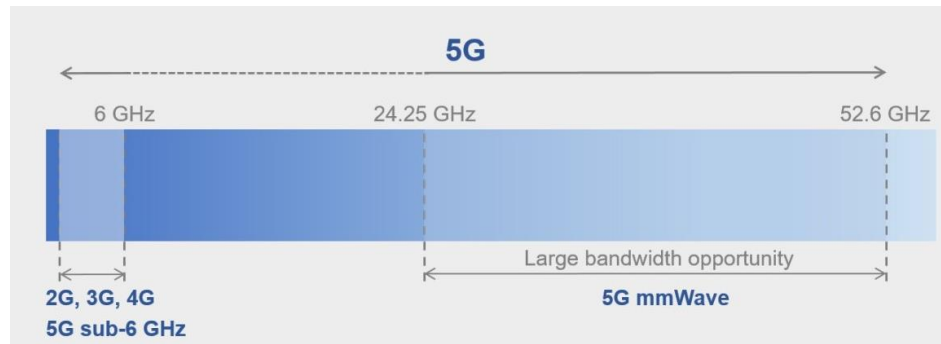
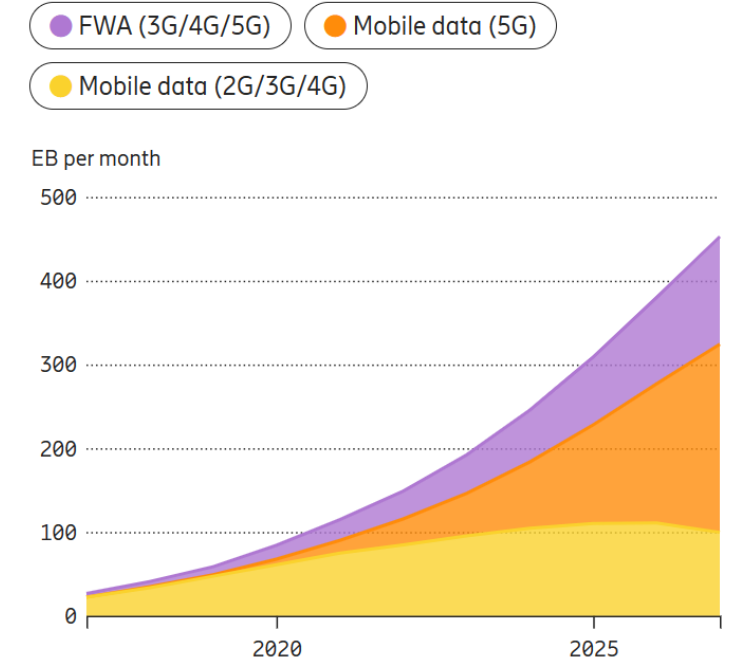
5G – Leverages higher frequencies, Multi-Input Multi-Output technology, and Edge Computing to achieve speeds **up to 100x faster than 4G**.

The 5G Revolution

Network traffic is expanding uncontrollably and expected to triple over the next three years (Statista).

Telcos need 5G's cutting edge speeds to retain customers.

Global mobile network data traffic



[Ericsson Mobility Report](#)

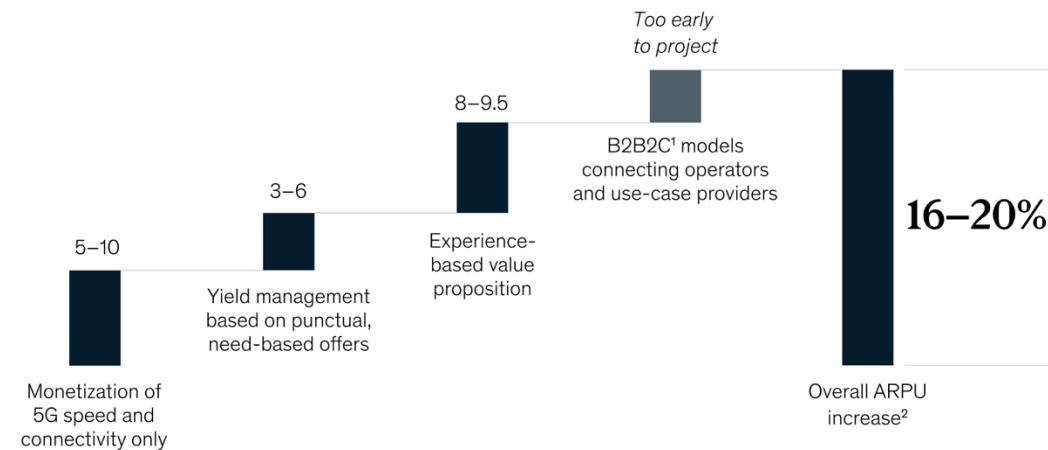
The FCC voted to exempt Telecoms from use of small cell towers in 5G networks in 2018. Lower frequencies can transmit data over longer distances, but lag behind higher frequencies, which transmit data faster. 5G frequencies offer the optimal balance between high-frequencies (for fast transmission), and long wave lengths (for most geographic coverage).

5G Growth Opportunities

Higher Pricing

In addition to providing increased bandwidth and speed, telcos can pursue innovative models to monetize 5G in the B2C sector in the near term.

Potential increase in average revenue per user (ARPU) from 5G monetization,
% on total customer base



¹Business to business to consumer.

²The ARPU increase between the different innovations is overlapping; total ARPU increase is net of those overlaps.

McKinsey
& Company

More Speed = Higher Cost

Network Slicing enable operators such as AT&T to “speed tier”, creating networks that cater to specific needs. This approach allows them to shed the one-size-fits-all approach and charge by performance.

1. Speed correlates with higher customer satisfaction in 74% of customers
2. Simply upselling traditional offerings, selling “experiences” with 5G speed can increase ARPU by 3-6%. Impulse purchasing from slow WIFI frustration can increase ARPU by 1-2%.
3. Partnerships with service providers can expand these benefits by enabling more 5G experiences.

AT&T's 5G expansion and superior coverage sets them up to increase ARPU by up to ~20%.
Furthermore, AT&T is trading at historically low multiples and is fundamentally undervalued.

AT&T's 5G Competitive Edge



T Mobile has focused its 5G expansion around mid band. After acquiring Sprint, TMUS is using FWA expand 5G and is the first provider to offer freestanding 5G. TMUS' phone plans all offer 5G. This strategy has paid off by accelerating TMUS' unveiling of 5G but will hinder it in the future as competitors offer larger and faster coverage.



Verizon is pursuing a “5G done right” strategy, focusing on mmWave and C-Band coverage while providing poor nationwide low band coverage that is comparable to 4G. These frequencies will take longer to develop but will offer much faster WIFI once implemented. Without a strong low band backbone and hindered profitability, Verizon will struggle to compete. In the short term, Verizon's customer acquisition costs will rise as it struggles to appease customers.



AT&T has acquired an even spread across all high mid and low band spectrums. Its strong portfolio of high band will allow it to offer high-speed WIFI while leveraging mid and low bands to extend coverage beyond competitor's reach. Together with its expansion of Fiber and investment in Gigapower, T's 5G expansion is poised to be the most complete offering for customers.

AT&T 5G Rollout Plan

CAPEX Plan

- ~\$20 /year: \$3-4 Billion/year is just for fiber buildout
- Targeting +2-2.5M out-of-footprint fiber builds per year by using Gigapower (JV with BlackRock) and leveraging BEAD (\$42.5 govt funding from Broadband Equity, Access and Deployment Program)

5G

- +200M people covered with mid-band 5G by end of 2023
- Already reached 150M in 5G coverage at EOY 22 (double analyst expectations)

Fiber Broadband

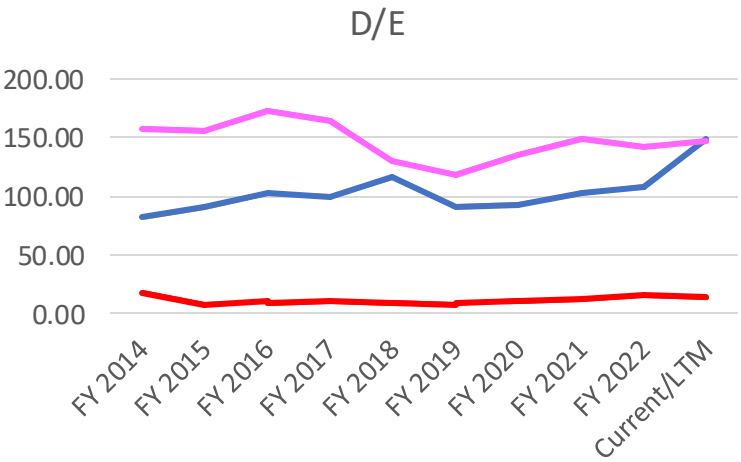
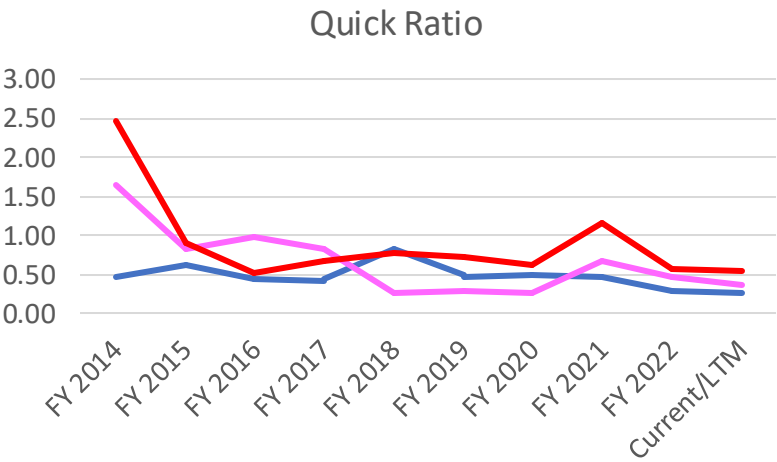
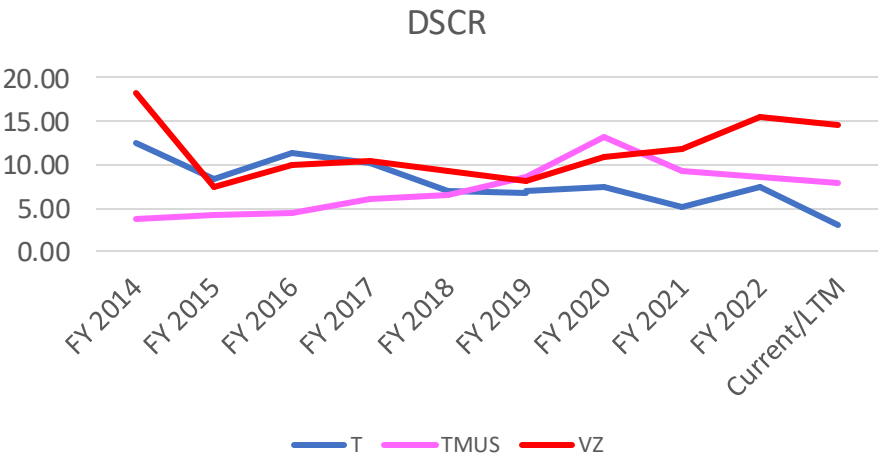
- +30M consumer and business locations in wireline footprint by end of 2025
- Reached 2.9M Fiber net adds, resulting in more fiber subscribers than non-Fiber copper cable subscribers (leading to 29% revenue and profit growth for Consumer Wireline)
- 50% increase in wireless market share in fiber footprint and 16% reduction in copper maintenance trouble ticket repairs

Financials

Take-aways:

AT&T has taken on **significant leverage** compared to its peers, which could restrain growth and hurt its bottom line.

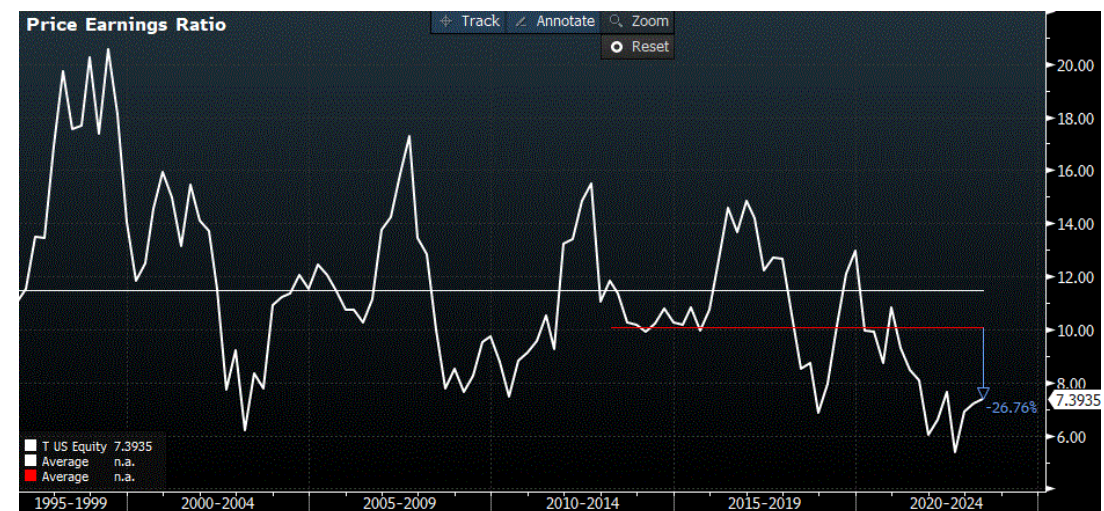
However, it remains in good standing (**BBB+**), and is remains comparable to peers from a liquidity standpoint.



Historical Trends



AT&T's P/E has dropped during the development of next-gen tech, as its outdated tech reaches maturity. During implementation though, P/E starts to rise again. T is currently trading at a P/E of 7.22, a 27% discount relative to its historical 10-year average (11.44) P/E. (3G release is white, 4G release is red, 5G release is green). T has also seen an uptick in insider transactions since change in mgmt.



DCF Valuation – Base Case

	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Total Revenue	143,050.0	134,038.0	120,741.0	122,689.5	124,220.5	125,996.4	128,286.9	130,745.7
<i>Annual Growth</i>	(21.1%)	(6.3%)	(9.9%)	1.6%	1.2%	1.4%	1.8%	1.9%
Cost of Revenue	65,651.0	60,407.0	50,848.0	53,308.6	53,973.8	54,745.5	55,740.7	56,809.0
<i>Margin</i>	45.9%	45.1%	42.1%	43.5%	43.5%	43.5%	43.5%	43.5%
EBITDA	43,610.0	49,707.0	44,519.0	43,614.9	44,159.1	44,790.5	45,604.7	46,478.8
<i>Annual Growth</i>	(17.2%)	14.0%	(10.4%)	(2.0%)	1.2%	1.4%	1.8%	1.9%
<i>Margin</i>	30.5%	37.1%	36.9%	35.5%	35.5%	35.5%	35.5%	35.5%
Less: Depreciation and Amortization	28,516.0	17,852.0	18,021.0	18,887.0	17,835.4	16,933.3	15,997.4	14,969.6
<i>% of Capital Expenditure</i>	194.1%	114.8%	91.8%	93.9%	95.9%	98.0%	100.0%	102.0%
EBIT	15,094.0	31,855.0	26,498.0	24,727.9	26,323.7	27,857.2	29,607.3	31,509.2
Less: Income Taxes	(2,877.3)	(6,072.5)	(5,051.3)	(4,713.8)	(5,018.0)	(5,310.4)	(5,644.0)	(6,006.5)
Unlevered Net Income	12,216.7	25,782.5	21,446.7	20,014.1	21,305.7	22,546.8	23,963.4	25,502.7
Plus: Depreciation and Amortization	28,516.0	17,852.0	18,021.0	18,887.0	17,835.4	16,933.3	15,997.4	14,969.6
Less: Capital Expenditure	(14,690.0)	(15,545.0)	(19,626.0)	(20,121.1)	(18,595.8)	(17,286.7)	(15,997.4)	(14,669.7)
<i>Margin</i>	(10.3%)	(11.6%)	(16.3%)	(16.4%)	(15.0%)	(13.7%)	(12.5%)	(11.2%)
Less: Increase in Working Capital	(4,000.0)	(4,236.0)	(1,849.0)	(4,942.3)	(5,004.0)	(5,075.6)	(5,167.8)	(5,266.9)
<i>Margin</i>	(2.8%)	(3.2%)	(1.5%)	(4.0%)	(4.0%)	(4.0%)	(4.0%)	(4.0%)
Unlevered Free Cash Flow	22,042.7	23,853.5	17,992.7	13,837.6	15,541.3	17,117.8	18,795.5	20,535.7
<i>Annual Growth</i>	39.5%	8.2%	(24.6%)	(23.1%)	12.3%	10.1%	9.8%	9.3%
Discount Factor - End-of-Period Convention				0.71	1.71	2.71	3.71	4.71
PV of Yearly Cash Flows				9,377.3	14,037.0	14,565.8	15,067.4	15,509.3

WACC	
Market Risk Premium ($R_m - R_f$)	8.0%
Multiplied by: T Regression Beta	0.769
Adjusted Market Risk Premium	6.2%
Add: Risk-Free Rate of Return (R_f)	3.5%
Cost of Equity	9.7%
Multiplied by: $T E / (D + P + E)$	46.4%
Cost of Equity Portion	4.5%
T Cost of Debt (R_d) - Average of Last 5 Issued Bonds	3.8%
Multiplied by: $T D / (D + P + E)$	53.6%
Cost of Debt Portion	1.6%
WACC	6.1%

DCF Valuation – Base Case

Terminal Value	
2027 EBITDA	46,478.8
Terminal EBITDA Multiple	7.2x
<u>Undiscounted Terminal Value</u>	<u>334,647.3</u>

DCF Implied Per Share Value	
PV of 2023 Free Cash Flow Stub	9,377.3
PV of 2024-2027 Free Cash Flows	59,179.6
PV of Terminal Value	<u>252,737.0</u>
Enterprise Value	321,293.9
Less:	
Total Debt	(164,373.0)
Preferred Stock	0.0
Minority Interest	(8,957.0)
Plus:	
Cash and Equivalents	<u>3,739.0</u>
Equity Value	<u>151,702.9</u>
Shares Outstanding	7,153.5
Implied Per Share Value	\$21.21
Current Price	19.68
<i>Premium/(Discount) to Current Price</i>	<i>7.7%</i>

DCF Valuation – Bear and Bull

	Total Revenue by Case					
	2022	2023	2024	2025	2026	2027
T Rev (Bear)	120,741	122,690	124,220	125,424	126,196	126,503
Growth Rate	(9.9%)	1.6%	1.2%	1.0%	0.6%	0.2%
T Rev (Base)	120,741	122,690	124,220	125,996	128,287	130,746
Growth Rate	(9.9%)	1.6%	1.2%	1.4%	1.8%	1.9%
T Rev (Bull)	120,741	122,690	124,220	126,566	129,677	133,584
Growth Rate	(9.9%)	1.6%	1.2%	1.9%	2.5%	3.0%

	EBITDA by Case					
	2022	2023	2024	2025	2026	2027
EBITDA (Bear)	44,519	42,328	42,856	43,271	43,537	43,644
Margin	36.9%	34.5%	34.5%	34.5%	34.5%	34.5%
EBITDA (Base)	44,519	43,615	44,159	44,790	45,605	46,479
Margin	36.9%	35.5%	35.5%	35.5%	35.5%	35.5%
EBITDA (Bull)	44,519	45,237	45,802	46,667	48,786	51,258
Margin	36.9%	36.9%	36.9%	36.9%	37.6%	38.4%

	CAPEX by Case					
	2022	2023	2024	2025	2026	2027
CAPEX (Bear)	19,626	20,121	18,596	18,462	18,260	17,989
%Rev	16.3%	16.4%	15.0%	14.7%	14.5%	14.2%
CAPEX (Base)	19,626	20,121	18,596	17,287	15,997	14,670
%Rev	16.3%	16.4%	15.0%	13.7%	12.5%	11.2%
CAPEX (Bull)	19,626	20,121	18,596	17,365	16,171	14,988
%Rev	16.3%	16.4%	15.0%	13.7%	12.5%	11.2%

DCF Implied Share Price by Case

Bear	\$17.67
Current	\$19.68
Base	\$21.21
Bull	\$25.94

Upside (High to Low)	3.1x
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Comparable Company Analysis

Long Company Name	EV/Sales (LTM)	EV/Sales (EST)	EV/EBITDA (LTM)	EV/EBITDA (EST)	Price/Book	P/E (EST)
AT&T Inc. (NYSE:T)	2.57x	2.53x	6.97x	7.24x	1.32x	8.05x
Verizon Communications Inc. (NYSE:VZ)	2.52x	2.51x	6.88x	7.23x	1.79x	8.42x
T-Mobile US, Inc. (NasdaqGS:TMUS)	3.62x	3.58x	10.77x	9.82x	2.59x	20.48x
	2.80x	2.78x	7.85x	7.88x	1.99x	11.43x
	3.07x	3.04x	8.82x	8.52x	2.19x	14.45x
	3.35x	3.31x	9.80x	9.17x	2.39x	17.46x
AT&T Implied Share Price						
	24.77	25.16	26.41	\$24.74	29.65	27.98
	29.39	29.71	32.47	\$28.61	32.64	35.36
	34.01	34.26	38.52	\$32.49	35.62	42.74

Risks

Regulation – FCC has been pursuing a deregulatory agenda to help 5G expansion, by reducing regulatory and legislative measures that inhibit ability to offer services to consumers.

Changes in this regulatory landscape could impact the profitability of 5G expansion.

California and Vermont are imposing **net neutrality rules**

Mitigants:

- FCC has adopted policies to help streamline permit process for deployment of small cell equipment
- 5G competitiveness is considered a national security issue (Examples include sanctioning of Huawei and BEAD act) and is receiving heavy legislative support

Increased Competition – **Increased competition in wireless** threatens to decrease industry customer growth rates, and T's market share could be reduced due to **aggressive pricing** and promotional strategies from competitors. Heightened customer **demand for high-speed video and data services will constrain network capacity**, potentially increasing churn.

Mitigants:

- T's 5G and fiber broadband expansion will allow it to outcompete other players with improved coverage and speed

Allocation

Considerations

Upside	3 : 1
Beta	Low (0.77)
Duration	3-5 years
Consensus	Differ by Magnitude
Other	<ul style="list-style-type: none">- High Dividend- Div. Yield (5.68%)- IoT offers possible upside (unquantified)

What to Watch

Signposts:

- AARPU Growth
- P/E Growth
- ROIC/ROIIC Growth
- Successful CAPX implementation (construction goals met)

Pre-Mortem:

- Churn increase
- Increasing customer acquisition costs/lower margins
- CAPX Increases and construction roadblocks