MOODY'S INVESTORS SERVICE

CREDIT OPINION
3 May 2023

Update

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RATINGS

AT&T Inc.

Domicile	Dallas, Texas, United States
Long Term Rating	Baa2
Type	Senior Unsecured - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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AT&T Inc.

Update to credit analysis after AT&T's divestiture of Warner Media

Summary

AT&T Inc. (AT&T) benefits from leading telecom market positions, important brands, scale, valuable assets, predictable revenue, and healthy margins that result in substantial qualitative credit strength. But these qualitative strengths are offset by significant capital intensity, as AT&T has spent considerably on wireless spectrum and continues to spend on network 5G investment and fiber expansion. In addition, the company has historically paid a high dividend and operates in a very competitive landscape. To refocus on the company's historically core telecom businesses, the company sold 30% of DirecTV and deconsolidated it from its reported results (Moody's proportionately consolidates 70% of DirecTV's results into AT&T's for our calculations), and divested its Warner Media business in April 2022 by simultaneously spinning it off to shareholders and merging it with Discovery Communications to form Warner Bros. Discovery (Baa3 stable). The divestitures also resulted in material cash to AT&T which was used to reduce debt by about $40 billion in Q2 2022. The company changed its financial policy at the same time, including a cut in the company's dividend payout. We believe that the company's culture and experience are better tuned to its telecommunications franchises, and the transitional pressures in the media business have posed a distraction for management. We now expect greater singular focus and investment.

AT&T's credit metrics and positioning for its Baa2 rating are expected to improve over the next few years. AT&T's proforma leverage (Moody's Adjusted) is about 3.6x as of December 31, 2022.

Moody's believes management's financial policy will prioritize the following: 1) Invest in fiber/5G; 2) restore the balance sheet to historical strength levels; and 3) support the dividend. We believe that AT&T's $36 billion wireless spectrum investment over the last several years and plans to accelerate spending to bring it on line and add fiber is consistent with the first priority and a prudent strategy in the competitive wireless arena. We expect the company will reduce leverage to around 3.4x (including Moody's adjustments) by year end 2024.

Credit Strengths

» Diversified telecommunications business segments with strong scale advantages

» Valuable network asset base, solid market share, and well-known brands

» Considerable amount of owned network infrastructure and growing fiber footprint to support strong long-term IoT 5G expansion opportunities

Credit Challenges

» Significant capital investment to build out the company's 5G network limits financial flexibility, with returns unlikely until the intermediate-term at least

» High debt and leverage along with high dividend payout limits financial flexibility and exposes the company to rising interest rates over time

» Intense wireless competition and secular pay TV pressures in the company's 70%-owned DirecTV (Ba3) business

Rating outlook

The stable outlook reflects our expectation for continuing improvements in operating performance. It also assumes that the company will reduce leverage to about 3.4x (including Moody's adjustments) by year end 2024. Additionally, it reflects our view that AT&T's maturity towers will be managed to under expected annual free cash flow levels. Finally, it includes an expectation that the company will invest in 5G and fiber to advance its competitive position to sustain if not improve its wireless market share and reap the future benefits of IoT enterprise applications which we believe will be significant over the long term. Moody's also anticipates that the degree of structural subordination in AT&T's capital structure will be managed to moderate levels.

Factors that Could Lead to an Upgrade

Moody's could raise AT&T's ratings if the company's fundamental market share is stable or improves, including sustaining subscriber numbers, the company continues investing robustly in 5G deployment and fiber network, and leverage (including Moody's adjustments) falls and is sustained below 3.0x.

Factors that Could Lead to a Downgrade

Moody's could downgrade AT&T's ratings if leverage is sustained above 3.5x (including Moody's adjustments) or if free cash flow to debt metrics narrow materially. In addition, stronger credit metrics could be needed or ratings could be lowered if fundamentals for the company decline (i.e. subscriber and or margin erosion) materially due to competitive pressures. If liquidity materially weakens or the company faces moderate to high refinancing risks, rating pressure could also rise.

Key indicators

Exhibit 1
Key Indicators for AT&T Inc.[1][2][3][4][5]

US Millions	Dec-20	Dec-21	Dec-22	2023 proj.
Revenue	$143,050.0	$134,038.0	$120,741.0	$125,000.0
Debt / EBITDA	3.9x	4.2x	3.6x	3.5x
RCF / Debt	16.5%	13.1%	16.9%	17.2%
(EBITDA - CAPEX) / Interest Expense	4.1x	3.5x	3.1x	3.4x

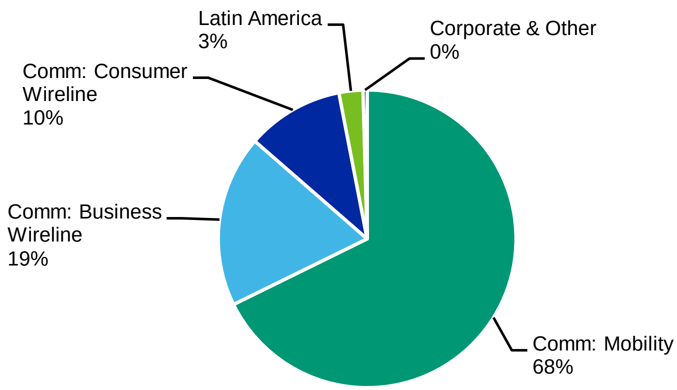
[1] All figures and ratios are calculated using Moody's estimates and standard adjustments.
[2] All figures are restated to reflect the disposition of WarnerMedia which occurred on April 8, 2022
[3] Revenue figures include DirecTV up until August 2, 2021 when AT&T sold a 30% stake to TPG. After that, revenue figures do not include our proportionate consolidation of DirecTV but all other metrics do.
[4]Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.
[5] Moody's Forecasts (f) or Projections (proj.) are Moody's opinion and do not represent the views of the issuer.
Source: Moody's Investors Service

Profile

AT&T Inc. (AT&T) is among the largest telecommunications companies in the US. Its headquarters are in Dallas, Texas. For the LTM period ended March 31, 2022, AT&T reported revenue of about $121 billion.

Exhibit 2

Revenue, by business segment [1]
FYE 2022



[1] Excludes AT&T's 70% owned DirecTV
Source: Company filings

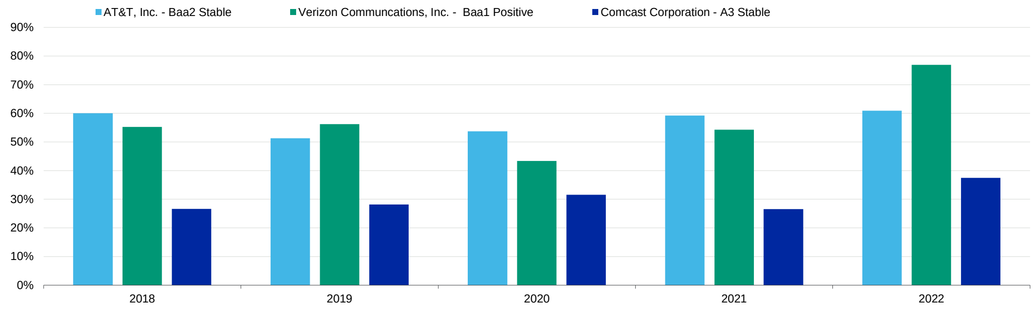
Detailed Credit Considerations

Refocused management on core telecom competencies

On April 9, 2022, AT&T simultaneously spun off its WarnerMedia business to its shareholders and merged it with Discovery Communications, LLC (renamed Warner Bros. Discovery, Baa3 stable). Prior to the divestiture, AT&T raised new debt which traveled with some WarnerMedia existing debt, and the proceeds from the new debt were transferred via dividend to AT&T. As a result, AT&T was able to reduce debt by about $40 billion in Q2 2022, and AT&T's shareholders received stock representing about 71% of the new company, Warner Bros. Discovery. Also, with the sale of 30% of DirecTV (Ba3, stable) to TPG, an independent management team was put in place. The two companies have joint control, and DirecTV was deconsolidated from AT&T's reported results (Moody's proportionately consolidates AT&T's 70% ownership for credit purposes). Moody's believes that the reduced sector diversity is more than offset by the return to full time focus on the company's core telecommunications competency in which they have deep expertise and long experience. We also believe that the reduced dividend will help accelerate 5G and fiber investment to be competitive as IoT opportunities ramp up over the intermediate term, and also to strengthen the company's balance sheet over time.

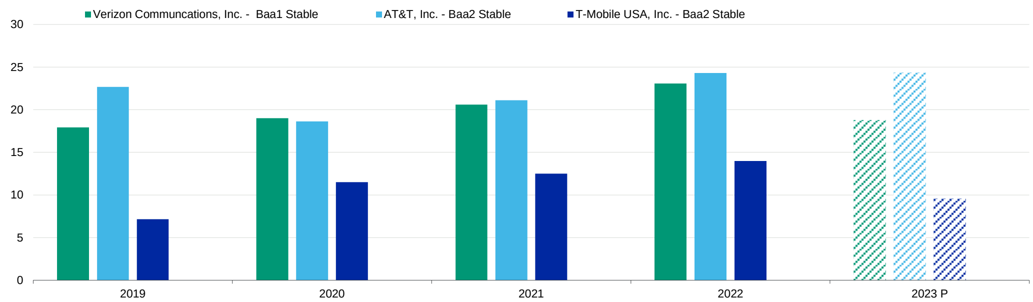
Before accounting for our proportionate consolidation of AT&T's 70% economic ownership of DirecTV, we anticipate AT&T will generate revenue of about $125 billion and adjusted EBITDA (management's calculation) of about $43 billion in 2023. The company has guided to mid-single digit revenue growth and 3% pro-forma growth in adjusted EBITDA and adjusted EPS from 2022 to 2024. We generally expect growth to remain challenged due to competition. However, the company's targets could be achievable as long as demand remains healthy and the company continues to take market share in wireless, though macro pressures could challenge these assumptions. Very important to the company's credit was AT&T's resizing downward of its dividend to account for the distribution of Warner Media to AT&T shareholders. The company cut its annual dividend payout from about $15 billion to about $8 billion. With the lower dividend, the company expects to increase capital investment for incremental and accelerated investments in 5G and fiber broadband and expects annual capital expenditures of around $24 billion for 2023. After capex and dividends, and with sizable distributions from DirecTV, the company is forecasting 2023 free cash flow of about $8 billion after dividends.

Exhibit 3
Dividends as a percentage of pre-dividend cash flow [1]



[1] T-Mobile is excluded from the chart because it does not pay dividends
Source: Company filings

Exhibit 4
Capital investment spend [1]
(in $USD billions)

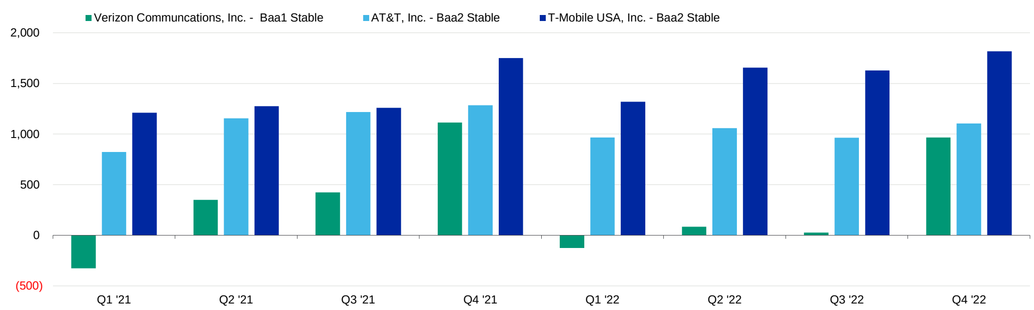


[1] Capital investment calculated as CapEx plus vendor financing
[2] All figures represent capital investment except VZ 2019 which only includes CapEx
Source: Company filings

Wireless service revenue growth improvement and 5G investment is key focus

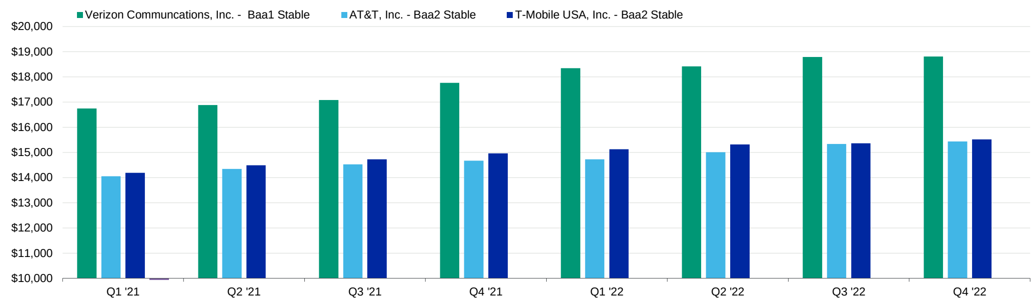
Wireless service revenue growth improvement has been good news for the company over the past few years. Over the last two years, the company achieved its highest postpaid net additions in a decade and has added 6.1 million postpaid phone net adds during this period. AT&T's mobility segment represents the largest and most important part of the company's business, and its biggest opportunity over the longer term when enterprise and municipal IoT use cases ramp up. Mobility accounted for 68% of segment revenues and 85.2% of segment operating contribution for the fiscal year ended 12/31/2022.

Exhibit 5
Total postpaid customer net adds only
(000's)



Source: Company filings

Exhibit 6
Mobile service revenues over the last 8 quarters
(in $USD millions)



[1] The X-axis begins at $10 billion to better illustrate growth trends
Source: Company filings

It is our belief that 5G technology investment lays the foundation for the Internet of Things commercial opportunities that lie ahead, and which will be a key driver of long-term revenue growth. While the company's heavy reliance on its wireless business magnifies the negative impacts from spikes in competitive intensity, the segment has benefited from industry service revenue growth trends and shrinking network costs for data. We attribute some of the industry behavior to likely rising future capital intensity for 5G investment, and not just in spectrum acquisition, but significant investment in fiber to support it. AT&T is now behind both its peers, T-Mobile (Baa2 stable) and Verizon Communications Inc. (Verizon, Baa1 stable) in terms of total wireless subscribers. AT&T, like Verizon, benefits over T-Mobile by network-owner economics which we believe will eventually provide benefits as fiber leasing costs rise with inflation as leases expire, and when demand for new enterprise private 5G networks materially rise. All three companies are focused on innovating and developing their 5G networks, however, only AT&T and Verizon are aggressively laying their own fiber, and all are racing for fiber and robust 5G expansion . On December 22, 2022, AT&T agreed to form Gigapower, LLC (Gigapower), a joint venture with BlackRock Alternatives, to provide a fiber network to Internet service providers and other businesses across the U.S. that serve customers outside of the company's traditional 21-state wireline footprint.

In the short to medium-term, we believe AT&T can maintain steadier wireless service revenue growth only with easing competition or sustaining its promotional pricing strategies and taking back market share which it has been doing successfully for the last two years. Recent promotional activity coupled with greater attunement to competition across all the company's business segments have bolstered subscriber additions in recent quarters and will be beneficial to the company's long-term growth strategy. The growing competition from cable companies offering competitively priced wireless plans poses another long-term threat in maintaining market share, as does the emergence of Dish Network as a potential disruptor. While unlimited pricing plans partially limit the magnitude of service revenue growth, AT&T's mix and match unlimited offerings have helped buttress service revenue with tailored customer options. With rising mobile video consumption, unlimited pricing plans will continue to drive AT&T and the industry to direct some capital investments to augment capacity through the company's spectrum purchases deployment, network densification efforts, and of course, ramping 5G software and architecture investment.

In Moody's view, over the medium to long-term, IoT will lead to significant commercial opportunities due to the need for massive connectivity and data collection and edge compute capability with AI digestion of the data to generate predictive power. True 5G, including small cells, private networks, and near ubiquity will be the foundation for this, and once it begins, the use cases will prove strong. However, much of the cost to build this infrastructure foundation is upfront, and much of the small cell last mile investment will be delayed due to great difficulty forecasting the timing and amounts of returns on investment. We believe the opportunity is still at least five years away.

Future service growth depends on the medium to long term opportunity of 5G wireless

As stated above, we believe that the potential of 5G to drive new commercial service applications afforded by significantly increased capacities and speeds, as well as rekindled pricing power as a result, remains a critical lynchpin for future wireless growth of the industry over the long term. However, 5G for consumers is currently already touted across larger markets across the US, and AT&T and its national competitors already brag of nationwide coverage. However, we believe that this is more marketing than effective true 5G coverage and density. We believe the early promise of lightning speeds and capacity is still three to five years away in most markets.

The first phases of 5G have taken place already in the US, as carriers densify networks with small cells in high traffic areas. Emerging network technology will boost wireless speeds towards 1 Gb/s using 3.5GHz to 6GHz spectrum, or mid-band spectrum (licensed and unlicensed). The second phase of 5G in the US will incorporate millimeter wave frequencies in the 24 GHz to 39 GHz range and result in even faster speeds but across shorter transmission distances. AT&T has significant spectrum capacity which gives it more time to contemplate the necessity of millimeter wave capacity verses optimal mid-band spectrum such as the C-Band spectrum acquired in 2021.

AT&T has 60 MHz of spectrum currently being deployed into service: 20 MHz of AWS-3, 20 MHz for FirstNet, and 20 MHz of WCS. This also allows AT&T to move more deliberately with small cell deployments and prudent large-scale fiber deployments. AT&T enhanced its spectrum position following the conclusion of FCC Auction 102 and Auction 110. The company was the top spender of Auction 102 with about $980 million spent and won 24 MHz of spectrum, and also the top spender in Auction 110 with about $9.1 billion spent and won 40 MHz (the maximum allowed in the auction by a single bidder) of spectrum that will bolster its 5G mobile strategy. This spectrum gives AT&T stronger nationwide coverage and additional spectrum depth and capacity in many top markets. In the FCC Auction 103, which included 3,400 MHz of spectrum in the Upper 37 GHz, 39 GHz and 47 GHz bands, AT&T completed the acquisition of about $2.4 billion of high-frequency 37/39 GHz spectrum, covering an average of 786 MHz nationwide. The company is currently deploying the first phase of C-band spectrum as it becomes available.

Higher success-based capital intensity is the assured outcome for wireless providers as commercial 5G networks are initially deployed. High capital spending is primarily driven by the dense overlay of fiber optic transmission capacity required to be constructed to connect small cell base stations, particularly in the last mile where the major wireless carriers have little network footprint beyond macro tower connectivity. The pace of small cell and millimeter wave deployments will vary across competitors, driven by their individual abilities to invest and need for capacity. The company reported that it now covers over 160 million POPs with mid-band 5G spectrum, far exceeding its 2022 end-of-year target of 70 million.

AT&T has a deep fiber footprint today. We expect the company's aggressive fiber buildout to continue through 2023 as the company is accelerating its build to support its purchased spectrum. In addition, AT&T's U-verse network investments pushed fiber deeper into its traditional copper network and will serve as a base for additional small cell connections. We estimate that AT&T's ILEC service territory covers 50 million to 60 million households, or 40% to 50% of the US. AT&T also has extensive fiber assets outside of its ILEC footprint that support its enterprise business and macro cells, which will serve as a starting point for its non ILEC territory urban 5G coverage. The company has stated that nationwide, more than 10 million business customer locations are on or within 1,000 feet of its fiber. AT&T delivered fiber subscriber growth near record levels with more than 1.2 million net adds in Consumer Wireline during 2022. This brings total net additions over the past two years to nearly 2.3 million, including 13 straight quarters of more than 200,000 net adds. The company now has the ability to serve fiber to 19.7 million consumer and more than 3 million business customer locations in more than 100 U.S. metro areas.

Dividend cut and reduced debt towers helps de-risk the balance sheet

The company lowered its annual dividend payout to $8 billion from $15 billion in 2022. This provides AT&T further financial flexibility to reinvest capital into its wireless and fiber business opportunities and pay down additional debt to strengthen the balance sheet once its accelerated capital spending for spectrum deployment is complete. Proceeds from the WarnerMedia divestiture were used to reduce debt and further reduce maturity towers after other successful major efforts over the last two years. This removes considerable potential market liquidity risks and removed AT&T from the very top of the list of the companies with the largest medium-term maturities.

Debt-financed Spectrum Auctions contribute to high leverage

Since 2021, AT&T spent/committed to about $36.5 billion on new wireless spectrum at auctions. On February 24, 2021, AT&T won bids for wireless spectrum in the C-Band auction (total bidding reached $81 billion) that totaled $23.4 billion plus relocation costs of about $4 billion for a total of $27.4 billion. Most of the cost was funded with debt, along with cash on hand and eventual proceeds from asset sales. We consider the company's relocation cost obligation to be debt and it will be paid through 2024 and therefore can be met with free cash flow generation. On November 16, 2021, the 3.45 GHz (aka Auction 110) mid band spectrum auction concluded reaching nearly $22 billion, the third highest proceeds level in US history. AT&T was the biggest winner, spending $9.1 billion on near nationwide spectrum (1624 licenses in 406 of 416 license areas). There are no major auctions being planned by the FCC, therefore we see the risk for future material debt financed spectrum expenditures to be low.

DirecTV deconsolidated and independently managed; results improved

On July 31, 2021 AT&T sold 30% of its wholly owned DirecTV business to TPG. The sale included DirecTV, U-verse, and all of AT&T's virtual MVPD business. The transaction valued DirecTV at about $16 billion, which was down considerably from the $67 billion that AT&T paid (including debt assumption) to acquire DirecTV in 2015. TPG paid $1.8 billion for its stake, which included TPG receiving senior preferred equity yielding 10%. AT&T also received junior preferred equity in DirecTV that PIKed until TPG's senior preferred equity is redeemed. The new company incurred about $6.0 billion of new debt plus the assumption of $200 million of old DirecTV stub debt not exchanged after AT&T acquired DirecTV. AT&T also agreed to fund up to $2.1 billion of net losses from the NFL Sunday Ticket contract for the 2021 and 2022 seasons, the remaining balance was approximately $350 million as of December 31, 2022, which we include in our debt calculations until fully paid which we expect occurred in Q1 2023.

Since the transaction closed, DirecTV has outperformed Moody's early projections, experiencing better than expected subscriber retention and stronger than expected free cash flows. In addition, DirecTV did a $1.4 billion debt add on in November 2021, and given the better than expected performance, it did not impact leverage as compared to our original forecast. As a result of the strong performance, and along with the additional debt raise, DirecTV has been able to redeem all of TPG's 10% preferred stake, and has begun redeeming AT&T's 6.25% junior preferred equity. The remaining balance of AT&T's junior preferred as of 12/31/2022 was $0.7 billion. Going forward, AT&T will continue to benefit from all of the future after-tax free cash flow from DirecTV aside from debt repayments, until its junior preferred and $4.20 billion of catchup equity are fully redeemed. Afterwards, free cash flow will be divided in accordance with their 70%/30% equity ownership.

The significant decline in DirecTV's valuation was largely driven by the secular pressure hitting the linear pay-tv industry as consumers switch to over-the-top (OTT) MVPDs, subscription video on-demand (SVOD) and advertising video on-demand platforms, such as Netflix, Inc., Disney+, Amazon Prime, Paramount+, etc. Moody's believes that DirecTV was a drag on the company's overall equity valuation, and that it is logical that management would sell a part of this declining business and structure the sale such that it is deconsolidated from AT&T as voting control is equally shared with TPG. However, we are proportionately consolidating DirecTV when calculating AT&T's credit metrics given its significant 70% economic interest in the company as long as the credit impact is material. We are not including the preferred or catch up equity in DirecTV as debt, as we consider them to be substantively a structured distribution schedule of free cash flows for the next several years, with excess cash flows used to redeem them, and thereafter, we anticipate distributions consistent with the 70%/30% economic ownership. We anticipate the proportionate consolidation to have moderately positive repercussions on AT&T's credit metrics due to the low adjusted leverage range targeted by DirecTV which we expect to be sustained at or under 1.5x.

Credit metrics improvement expected with debt reduction

Over the past decade, the company has made material acquisitions which have led to downgrades of the company's long-term debt and short term ratings from A2/Prime-1 to Baa2/Prime-2. These acquisitions pushed the company's balance sheet to uncharted territory having thrust AT&T to become the most indebted non-financial corporate in the world. Following those acquisitions, the company also spent tens of billions on wireless spectrum, much of which was also debt financed. However, with the new management team, the company is pursuing a new direction, returning its focus to telecom and charting a course to restrengthen its balance sheet and build a buffer against any further slide in the company's credit. The large and small dispositions help to achieve both of these targets as most of the disposals were outside of the telecom sector, and proceeds and dividends have been used to help fund the spectrum purchases and reduce balance sheet debt. Additionally, the cut in the dividend will provide more financial flexibility to pay down debt in the future once the investment capital intensity abates over the next few years. The decline in leverage since 2021 was mainly caused by declining debt levels. Gross pro forma leverage as of December 31, 2022 was 3.6x (including Moody's adjustments and excluding OID) and 3.8x (including Moody's adjustments and including OID). Moody's does not make a standard adjustment to debt to add back original issue discount (OID). Adding back the OID would have the effect of increasing Moody's adjusted leverage by close to 0.2x given the company's over $9.5 billion of OID. Since OID is large for AT&T and will be added back to debt as it amortizes over time, we will look at leverage both ways.

Under the company's new leadership, the company has indicated that in addition to the important priorities of investing in wireless 5G/fiber infrastructure, and supporting the company's dividend, the company is also focused on restoring the company's balance sheet to its historical strength. We project that the company will reduce leverage to 3.4x with Moody's adjustments by year end 2024. Reconciling the company's target 2.5x leverage with our forecast largely depends upon the amount of adjustments the company will have in two years. Today, we make adjustments that add around 0.35x to the company's leverage calculation. The reason is largely due to the company's historical more aggressive financial policies such as use of preferred stock at subsidiaries to fund pension obligations and future potential asset monetization (i.e. wireless towers and Telco preferred), which Moody's views as debt-like obligations.

Liquidity Analysis

AT&T's short-term rating is Prime-2 (P-2). Moody's expects that AT&T will maintain good liquidity over the next 12 to 18 months. As of December 31, 2022, AT&T held about $3.7 billion in cash, which was augmented by a $12 billion revolving bank facility which was undrawn at 12/31/2022. The company had about $866 million outstanding under its commercial paper program as of December 31, 2022. Debt and debt-like items maturing within a year totaled about $10.2 billion, including commercial paper, $2.67 billion of Mobility preferred securities that may be put to the company in October 2023, and the current portion of long term debt and financing leases. We believe that cash on hand, free cash flow generation, and availability under the company's bank revolver provide ample liquidity to meet its short term obligations. Moody's expects AT&T to remain comfortably in compliance with the leverage covenant.

Structural Considerations

As of December 31, 2022, AT&T's capital structure included about $34.7 billion of obligations that were structurally senior to the debt issued by the parent company entity, AT&T Inc. ($201 billion of total Moody's adjusted debt obligations). The company has $3 billion (of which about $0.2 billion has a parent guarantee) at wireline and wireless subsidiaries, and $13.3 billion of preferred equity interest in subsidiaries. In addition, the company's growing mobile handset securitization program which represents a senior claim on certain receivables was approximately $8.5 billion as of December 31, 2022 . We view this capital source positively from a liquidity and diversity of capital sources perspective, but it could further worsen the subordination of unsecured creditors of AT&T Inc.

The approximate $34.7 billion of structurally senior debt of AT&T represented about 17% of total indebtedness at December 31, 2022, a sizable portion of total indebtedness. If structurally senior debt at AT&T's operating companies continues to increase rather than fall back over time and is sustained at a level greater than 20% of total indebtedness, there could be pressure on the company's credit ratings in the future. As medium-term maturities consist of mostly AT&T Inc. debt and with the high cost of 5G wireless handsets potentially leading to drive higher handset securitizations, there is the potential for a rise in structurally senior indebtedness.

Exhibit 7

AT&T debt structure
as of December 31, 2022

in USD billions	12/31/2022	%
AT&T Inc. Unsecured Notes	$140.2	69.9%
Commercial Paper	$0.9	0.4%
AT&T Inc. Pref. Equity	$2.6	1.3%
DirecTV NFL Sunday Ticket Guarantee	$0.4	0.2%
Total Parent Level Debt	**$144.0**	**71.8%**
C-Band Spectrum Relocation Cost	$2.5	1.2%
Wireline Opcos	$1.5	0.8%
Wireless	$1.5	0.8%
DirecTV	$5.4	2.7%
Pension Defecit (net of taxes)	$2.0	0.8%
Pref. Equity at Subsidiaries	$13.3	6.6%
Securitization	$8.5	4.2%
Total Structurally Senior Debt	**$34.8**	**17.1%**
Lease Adjustment	$22.2	11.1%
Total Adjusted Debt	**$201.0**	**100.0%**

Notes:
DirecTV figure represents 70% of DirecTV debt.
AT&T Inc. Preferred Equity is after 50% equity treatment.
Source: Company Filings, Moody's Financial Metrics TM

AT&T Inc. irrevocably and unconditionally guarantees approximately $0.3 billion of debt (as of December 2022) issued by subsidiaries ($0.1b at AT&T Corp. and $0.2b at Pacific Bell). All remaining wireline and wireless subsidiary debt (approximately $2.7 billion) have no parent guarantees and are not rated by Moody's due to lack of stand-alone financial disclosures.

AT&T made a voluntary pension plan contribution of a preferred equity interest in its Mobility II subsidiary with a face value of $8 billion during 2013. Moody's views the preferred equity to be debt-like due to its cash interest payments and embedded put and call options, which Moody's views as inconsistent with permanent equity capital given our expectations that they will be redeemed for cash. The preferred equity ranks senior to AT&T Inc.'s equity stake in Mobility II and all cash distributions or loans from Mobility II are prohibited if the preferred dividend is in arrears. The senior ranking of the preferred equity stake, specifically its priority claim to cash flows from Mobility II, effectively subordinates unsecured debt at AT&T Inc. One-third of the preferred stock were put to the company in 2022, with the remaining thirds puttable in October 2023 and October 2024. Additionally, the company issued $6 billion preferred interests in its Tower Holdings subsidiaries in 2019 and another $2 billion in a Telco subsidiary in 2020, both of which Moody's views to be debt-like.

ESG considerations

AT&T Inc.'s ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 8

ESG Credit Impact Score

CIS-3

Moderately Negative

NEGATIVE IMPACT

POSITIVE IMPACT

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.

Source: Moody's Investors Service

AT&T's Credit Impact Score reflects exposure to pressure from secular societal trends in some of its businesses and history of execution missteps is mitigated by its moderately conservative financial policies and commitment to an investment grade rating.

Exhibit 9

ESG Issuer Profile Scores

ENVIRONMENTAL

E-2

Neutral-to-Low

SOCIAL

S-3

Moderately Negative

GOVERNANCE

G-3

Moderately Negative

Source: Moody's Investors Service

Environmental

The geographic diversity of AT&T's US telecommunications network footprint results in limited exposure to physical climate risk and very low emissions of pollutants and carbon, in line with exposures of the telecommunications industry. The company's objectives to increase renewable power usage is in line with telecommunications industry trends.

Social

AT&T's is a wireless provider which finances mobile handsets for consumers. As it collects sensitive consumer data, it is exposed to cyber security risks which could impact its brand. Though the company's pay television distribution services (including through its 70% owned DirecTV) face risks from social and demographical trends as consumers move to less costly direct-to-consumer video-on-demand streaming services and drop their traditional linear bundled pay TV service, this risk is mitigated by the diversified nature of the company's operations which includes wireless and broadband services.

Governance

AT&T's management and board of directors have a mixed track record, with material acquisition missteps as evidenced by its acquisitions of Time Warner and DirecTV, respectively. These missteps resulted in a material loss of capital and underinvestment in network investment priorities, however, the company has become better focused following divestitures and is investing significantly in its network . The company's organization structure is complex which leads to significant adjustments to management's credit metric calculations and weak transparency. Mitigating these risks are moderately conservative financial policies, and commitment to investment grade ratings as evidenced by the company's recent financial policy changes including a material dividend cut.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factor

Exhibit 10

AT&T Inc.

Telecommunications Service Providers Industry Scorecard [1][2]	Current FY 12/31/2022		Moody's 12-18 Month Forward View [3]	
	Measure	Score	Measure	Score
Factor 1 : Scale (12.5%)				
a) Revenue (USD Billion)	$120.7	Aaa	$125.0	Aaa
Factor 2 : Business Profile (27.5%)				
a) Business Model, Competitive Environment and Technical Positioning	A	A	A	A
b) Regulatory Environment	Baa	Baa	Baa	Baa
c) Market Share	A	A	A	A
Factor 3 : Profitability and Efficiency (10%)				
a) Revenue Trend and Margin Sustainability	Baa	Baa	Baa	Baa
Factor 4 : Leverage and Coverage (35%)				
a) Debt / EBITDA	3.6x	Ba	3.5x	Ba
b) RCF / Debt	16.9%	B	17.2%	B
c) (EBITDA - CAPEX) / Interest Expense	3.1x	Ba	3.4x	Ba
Factor 5 : Financial Policy (15%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Rating:				
a) Scorecard-Indicated Outcome		Baa2		Baa2
b) Actual Rating Assigned		Baa2		Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 12/31/2022
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures
Source: Moody's Financial Metrics™

Ratings

Exhibit 11

Category	Moody's Rating
AT&T INC.	
Outlook	Stable
Sr Unsec Bank Credit Facility	Baa2
Senior Unsecured	Baa2
Pref. Stock	Ba1
Commercial Paper	P-2

Source: Moody's Investors Service

Appendix

Exhibit 12

Moody's-Adjusted Debt Reconciliation for AT&T Inc.

(in US Millions)	FYE Dec-21	FYE Dec-22
Unadjusted Debt	**176,876.0**	**144,137.7**
Pensions [1]	2,811.0	1,954.0
Operating Leases	22,349.0	22,206.0
Securitizations	6,644.0	8,519.0
C-Band Spectrum Relocation Cost	2,500.0	2,464.0
DirecTV NFL Sunday Ticket Loss Guarantee	1,341.0	350.0
DirecTV [2]	5,416.6	5,444.6
Preferred Securities		
Mobility	8,000.0	5,340.0
Tower Holdings	6,000.0	6,000.0
Telco LLC [3]	2,000.0	2,000.0
AT&T Retail Preferred [4]	2,565.0	2,565.0
Moody's-Adjusted Debt	**236,502.6**	**200,980.3**
As reported Debt / EBITDA [5]	3.3x	3.0x
Moody's adjusted Debt / EBITDA	4.2x	3.6x

[1] Pensions are calculated net of taxes
[2] 70% proportionate consolidation of DirecTV debt
[3] Telco LLC was formed to hold telecom-related assets
[4] 50% equity treatment for AT&T retail preferred
[5] FYE 2022 EBITDA includes the Asset Impairments and Abandonments adjustment in the calculation of Debt / EBITDA in order to show consistent comparison of metrics
[6] All figures are calculated using Moody's estimates and standard adjustments.
Source: Moody's Financial Metrics TM

Exhibit 13

Moody's-Adjusted EBITDA Reconciliation for AT&T Inc.

(in US Millions)	FYE Dec-21	FYE Dec-22
Unadjusted EBITDA	**53,739.0**	**21,035.0**
Asset Impairments and Abandonments	0.0	27,498.0
Pensions	(5,842.0)	(1,608.0)
Operating Leases	5,363.0	5,437.0
Securitizations	28.7	275.5
DirecTV [1]	2,474.0	2,563.0
Moody's-Adjusted EBITDA	**55,762.7**	**55,200.5**
As reported Debt / EBITDA	3.3x	3.0x
Moody's adjusted Debt / EBITDA	4.2x	3.6x

[1] 70% proportionate consolidation of DirecTV EBITDA
[2] FYE 2022 EBITDA includes the Asset Impairments and Abandonments adjustment in the calculation of Debt / EBITDA in order to show consistent comparison of metrics
[2] All figures are calculated using Moody's estimates and standard adjustments.
Source: Moody's Financial Metrics TM

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