S&P Global
Ratings

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AT&T Inc.

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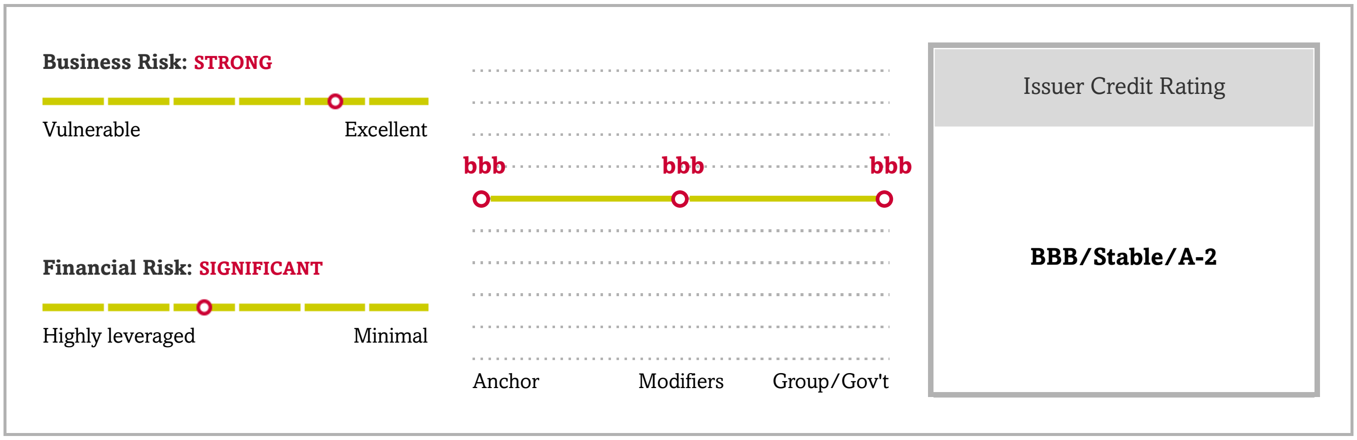


Credit Highlights

Overview

Key Strengths	Key Risks
Large size and scale, including its position as the third-largest wireless operator and broadband service provider in the U.S.	Mid-band spectrum disadvantage relative to peers, which is critical for 5G network deployments.
Solid wireless service revenue growth from postpaid market share gains and healthy margins.	Elevated near-term capital expenditure (capex) to support its fiber-to-the-home (FTTH) and mid-band spectrum deployments.
Growth prospects from fiber-based broadband services.	Secular industry challenges in business wireline and mature wireless industry conditions.
Strong portfolio of assets, including its dense fiber network and spectrum license holdings.	Leverage is elevated for the rating at around 3.8x.

AT&T's leverage is somewhat elevated for the rating and we only expect modest improvement over the next couple of years. In 2022, following the spin off and sale of Warner Media, AT&T reduced its reported debt burden by about $41 billion. S&P Global Ratings-adjusted debt declined around $51 billion, the difference primarily due to the transfer of $6 billion of receivable securitizations to Warner Bros. Discovery and lower unfunded pension and other postretirement obligations (OPEBs). While AT&T's S&P Global Ratings-adjusted debt to EBITDA of 3.8x is still somewhat high for the rating, we believe that leverage should decline below our 3.75x downgrade threshold in 2023 due to low-single-digit percent earnings growth and improving discretionary cash flow (DCF) generation. Our base-case forecast assumes that leverage improves to 3.6x-3.7x in 2023 and 3.5x-3.6x in 2024.

Capital allocation should favor debt reduction. Management stated that it plans to use all excess cash flow after dividends for debt reduction and that capital expenditures (capex) should peak in 2023. However, AT&T also suggested that it would not achieve its net leverage target of 2.5x until 2025, implying a slower pace of deleveraging than previously expected when management said it would reach its net leverage target in 2023. We believe this change is likely the result of higher capex, which we view favorably for the company's longer-term business prospects, rather than allocating excess cash flow to share repurchases.

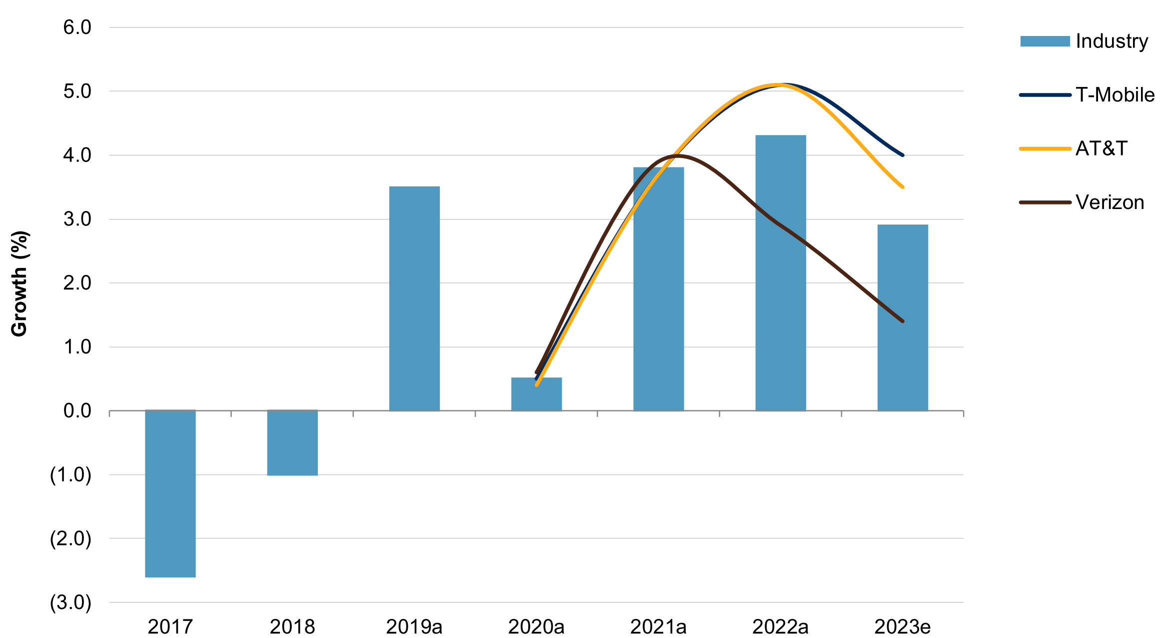
AT&T also updated its free cash flow guidance to about $16 billion in 2023, up $2 billion from pro forma 2022 free cash flow. The improvement is due to lower interest expense following its recent asset sales and subsequent repayment of debt, EBITDA growth, and working capital improvements, partly offsetting lower distributions from DirecTV and higher cash taxes. That said, the updated free cash flow guidance was lower than its previous expectation of around $20 billion when it closed on the sale of Warner Media.

Despite aggressive competition, AT&T continues to take share in the wireless market. AT&T has been very successful over the past couple of years in growing its postpaid phone subscriber base, including 2.9 million postpaid phone net adds in 2022, partially due to aggressive promotional activity as well as more simplified service plans. Despite cost inflation and its device promotions, whereby AT&T essentially covers the cost of a handset for both new and existing customers, AT&T has managed its cost structure well. The mobility segment maintained its EBITDA margin at 40% in 2022 while growing service revenue and EBITDA 5% and 4%, respectively.

However, we expect industry postpaid subscriber trends to moderate in 2023 due to mature conditions with cable taking an increasing share of new customers. The industry reported about 9.2 postpaid phone net subscriber additions in 2022 and while we expect postpaid net adds will remain positive in 2023, our base-case forecast assumes the rate of growth will decline 15% with cable taking over 40% of new customers. In line with market trends, we expect AT&T's postpaid phone net adds will slow relative to 2022, although we forecast service revenue to increase 3%-4% as customers migrate to higher-tier data plans from 5G handset upgrades.

Chart 1

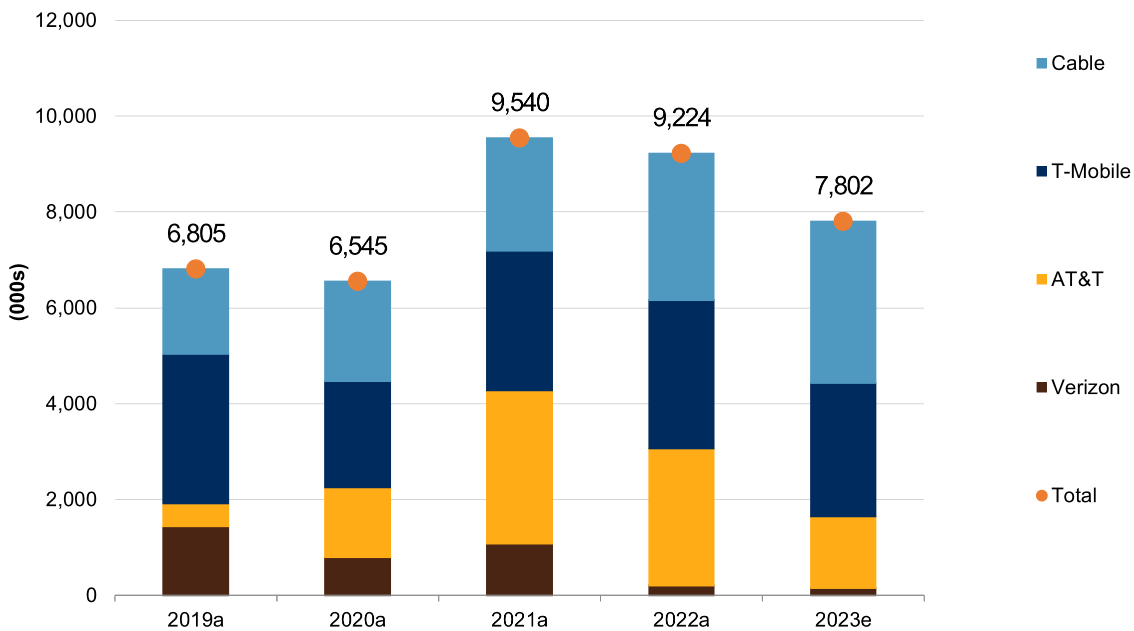
U.S. wireless annual service revenue growth rate



a--Actual. e--Estimate. Source: S&P Global Ratings.

Chart 2

U.S. wireless industry postpaid phone net subscriber additions



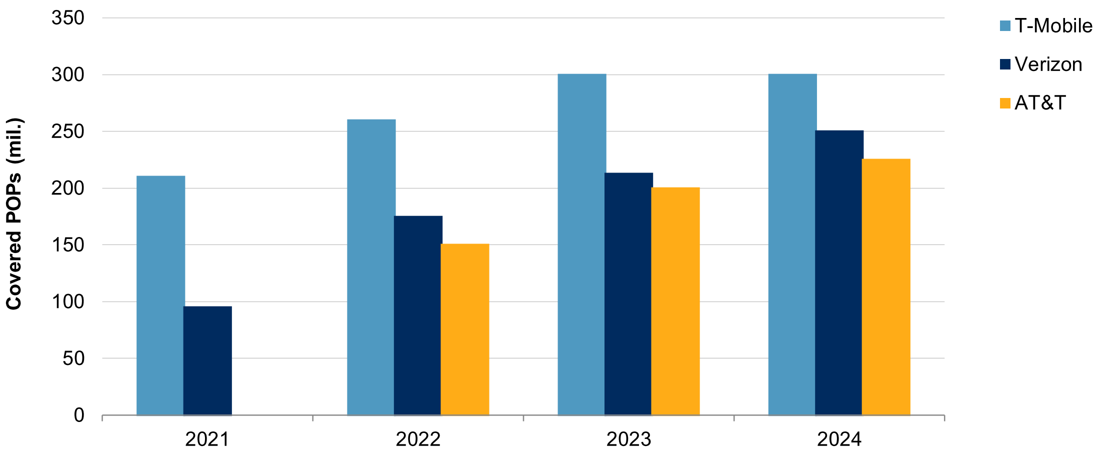
a--Actual. e--Estimate. Source: S&P Global Ratings.

AT&T lags its peers in the deployment of mid-band spectrum. AT&T spent $36 billion in aggregate in the C-band auction and Auction 110 but is still at a mid-band spectrum disadvantage relative to its peers. We believe mid-band spectrum (2.5 GHz-6 GHz) is critical for 5G wireless network deployments since it has very good throughput characteristics, which is important for delivering faster data speeds to customers.

We estimate that AT&T will have about 120 MHz of mid-band spectrum available by the end of 2023 compared with Verizon's 177 MHz and T-Mobile's 197 MHz. Furthermore, T-Mobile has a significant edge in its time to market since it acquired most of its mid-band spectrum (the 2.5 GHz band) from Sprint in 2020, enabling it to deploy these licenses prior to any of the mid-band auctions, whereas a lot of the spectrum that Verizon and AT&T purchased won't be available until later this year, thereby limiting their ability to differentiate 5G network capabilities.

Chart 3

Mid-band 5G deployment-covered PoPs



PoP--Points of Presence. Source: S&P Global Ratings.

Fiber deployments contribute to solid top-line growth in the consumer segment, but we expect the pace of build activity to slow. AT&T has been aggressively building out fiber-to-the-home (FTTH) broadband service across its footprint of about 60 million homes. It aims to reach about 30 million passings, including 25 million homes (42% coverage) and five million businesses by 2025. While the company deployed fiber to about 3 million homes in 2022, we expect it to scale back its build plans to around 2.0 million-2.5 million passings annually over the next three years. That said, growth from FTTH subs did not sufficiently offset declines in non-fiber subs in 2022, resulting in a net loss of 12,000 high-speed data customers despite its aggressive expansion. Its total broadband customer base was essentially flat from the prior-year period at 13.8 million.

Notwithstanding the product's high capital spending requirements, we view AT&T's FTTH strategy favorably since fiber is the best conduit for transmitting data and is a superior product to hybrid fiber coaxial cable with comparable download and upload speeds, essentially future proofing a telecommunication company's (telco) network. Despite headwinds from legacy voice and data services, the company's FTTH product contributed to solid consumer segment revenue and EBITDA growth of 2% and 10%, respectively, in 2022, and we believe AT&T can achieve longer-term penetration rates of at least 40% from fiber.

AT&T entered into a joint venture (JV) agreement with Blackrock called Gigapower LLC to build out FTTH to about 1.5 million locations outside of AT&T's footprint. While financial terms of the JV are not public, we do not expect it to meaningfully affect AT&T's credit metrics given its small size. AT&T will have joint control and we view the transaction favorably since it will reduce the risk associated with fiber builds.

Despite inflationary pressures, AT&T's cost reduction program should support stable margins. Industrywide inflationary pressures started to emerge in 2022. We believe AT&T's biggest exposure is labor and energy expense and estimate these two buckets account for 25%-30% of its cost structure. AT&T has a large, unionized workforce where collective bargaining agreements are renegotiated with various unions on an annual basis. We expect wages to rise as these agreements are renewed given persistent inflation and low unemployment.

During 2022, inflation contributed to $1 billion of incremental cost pressures from wages, equipment, supplies, transportation, and energy, affecting all business segments but most detrimental to margins in the business wireline. Management also called out cost increases in wholesale network access charges to provide services outside of its footprint. To combat higher prices, AT&T implemented price hikes on some of its legacy mobile plans, although higher prices could prompt more switching activity. It is also in the middle of a $6 billion expense reduction program, of which $5 billion of run-rate savings have already been achieved. That said, if cost inflation remains elevated for an extended period, AT&T may not be able to expand beyond its $6 billion in cost savings initiatives, leading to lower margins.

Outlook: Stable

The stable rating outlook reflects our expectation that low-single-digit percent earnings growth coupled with improved DCF generation should enable AT&T to reduce leverage to 3.6x-3.7x in 2023, below our downgrade threshold of 3.75x.

Downside scenario

We believe a downgrade is unlikely over the next 12-24 months, but we could lower the rating if leverage exceeds 3.75x with no expectation for improvement. Any downgrade scenario would likely result from a change in financial policy, deteriorating wireless operations because of increased price-based competition, or greater-than-expected EBITDA declines in the business wireline segment. However, AT&T has several levers it can pull to maintain leverage below 3.75x, including expense reductions, cutting the dividend, or reducing capex.

Upside scenario

While also unlikely in the near term, we could raise the rating if AT&T reduces leverage to comfortably below 3x, with DCF to debt sustained above 5%. However, an upgrade would be contingent on a stated financial policy that keeps leverage below 3x while successfully executing its various operating strategies, including the expansion of its FTTH network and monetizing its 5G investments. Because AT&T's net leverage target of 2.5x equates to our adjusted leverage above 3x, AT&T's current financial policy might not support a higher rating in the longer term.

Our Base-Case Scenario

Assumptions

- U.S. GDP growth of 0.7% in 2023 and 1.2% in 2024.
- U.S. unemployment rate at 4.1% in 2023 and 5.0% in 2024.
- Wireless service revenue growth of 3%-4% in 2023. We expect postpaid subscriber net adds of around 2.3 million-2.5 million during the year and higher revenue from its mobile virtual network operator (MVNO) deal with Dish, which will partly offset flat average revenue per user (ARPU) from device promotion amortization. In 2024, we expect service revenue growth of 1.5%-2.5% due to moderating subscriber growth.
- Broadband revenue increases 4%-6% in 2023 and 3%-5% in 2024 due to higher ARPU as the customer base shifts to fiber-based broadband services as well as modest customer growth. We also expect legacy voice and data services to decline around 11%-14% over the next couple of years, which contributes to low-single-digit percent growth in the consumer wireline segment.
- Business wireline revenue declines 5%-7% in 2023 and 4%-6% in 2023 as growth from strategic services is more than offset by declines in legacy products and competition from cable.
- AT&T's reported EBITDA increases about 2%-4% in 2023 and 1%-3% in 2024 due to modest earnings growth in the mobility segment, improving trends in consumer wireline because of growth from higher margin fiber-broadband revenue, and portfolio rationalization, which partly offsets lower earnings in business wireline and costs associated with network investments.
- Capex of around $20 billion in 2022 and 2023. We do not include vendor financing payments of around $4 billion in capex, instead classifying it as cash flow from financing activities.
- An annual common dividend of around $8 billion.
- Cash distributions from DirecTV of around $2.5 billion-$3 billion in 2023 and $1 billion-$2 billion in 2024.
- Satellite relocation costs and incentive payments of around $2 billion in 2023.

Key Metrics

Key Metrics

	2022a	2023e	2024e
Revenue growth (%)	2	1-3	0-2
Adj. EBITDA margin (%)	41	41-42	41-42
Mobility service revenue growth (%)	5	3-4	1-3
Postpaid net Adds (mil.)	4.1	2.3-2.5	1.6-1.9
Broadband Net Adds (thou.)	(92)	75-125	150-250
Broadband revenue growth (%)	6.4	4-6	3-5
Debt to EBITDA (x)	3.8	3.6-3.7	3.5-3.6
DCF to debt (%)	6.1	7-8	8-9
FFO to debt (%)	20.6	23-25	23-25

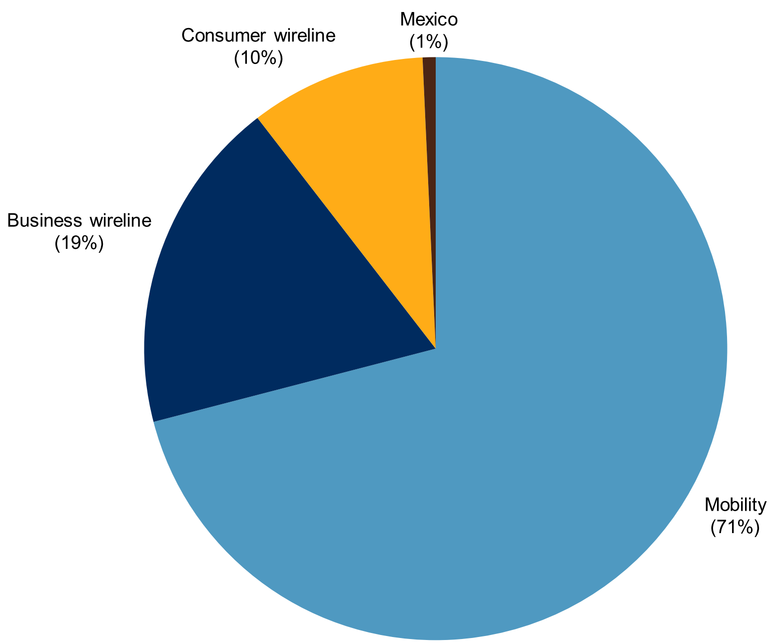
A--Actual. E--Estimate. DCF--Discretionary cash flow.

Company Description

AT&T is the third-largest provider of wireless services in the U.S. with about 110 million postpaid, prepaid, and wholesale customers. The company lags both Verizon and T-Mobile in terms of high-margin postpaid phone subscribers with about 69.6 million. It is also the third-largest provider of broadband services in the U.S. with about 13.8 million subscribers. Its geographically diverse operations include about 21.6 million wireless subscribers in Mexico. AT&T's mobility segment is the largest contributor to its operations, accounting for about 70% of EBITDA.

Chart 4

AT&T EBITDA composition



Source: S&P Global Ratings.

Business Risk: Strong

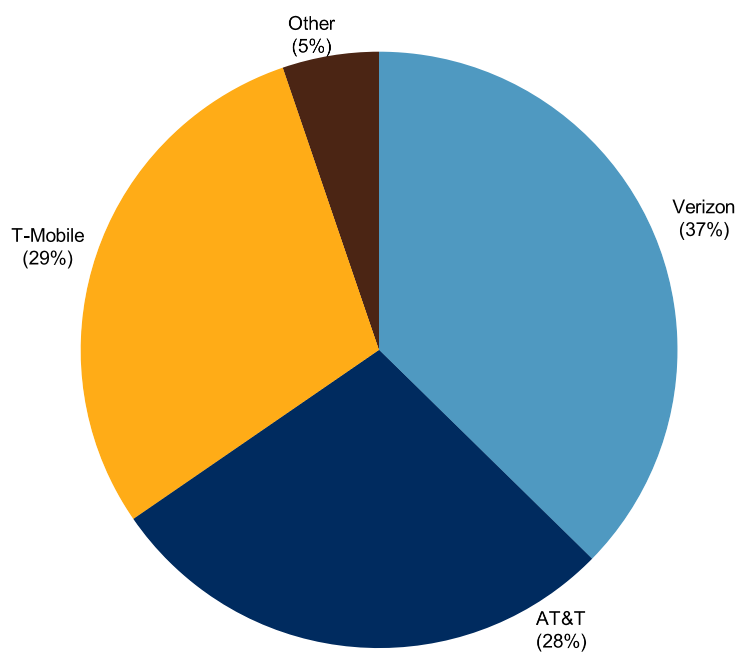
Our assessment of AT&T reflects its solid market position in most of its business lines, including its standing as the third-largest wireless operator and provider of broadband services. It also reflects a strong portfolio of assets, which includes its collection of spectrum licenses and dense fiber-based network, significant size and scale, and healthy wireless EBITDA margins. Its subscription-based business model and increasing importance of connectivity provides solid earnings visibility. These factors partly offset secular industry pressure and aggressive competition in its business lines.

AT&T's wireless business provides support to the rating. Its mobility segment has steady revenue and cash flow given the subscription-based, recurring revenue stream, and is the largest contributor to the company's consolidated EBITDA. Despite inflationary expense pressures, aggressive competition, and costs associated with the buildout of its mid-band spectrum, AT&T has demonstrated the ability to maintain stable earnings in wireless.

AT&T has a solid position in the U.S. wireless industry, including approximately 28% of the U.S. retail postpaid phone market, which is smaller than that of its largest competitor, Verizon, and modestly lower than T-Mobile's. Despite aggressive competition and mature industry conditions, its churn metrics remain low and in line with those of peers, including postpaid phone churn of 0.85% in the fourth quarter of 2022. To grow its market share, AT&T has been aggressive with handset promotions, essentially covering the cost of the device for existing and new customers. While this strategy contributed to solid postpaid share gains over the past couple of years, it is also dilutive to ARPU and wireless profitability because of promotion amortization.

Chart 5

U.S. wireless postpaid phone market share



Source: S&P Global Ratings.

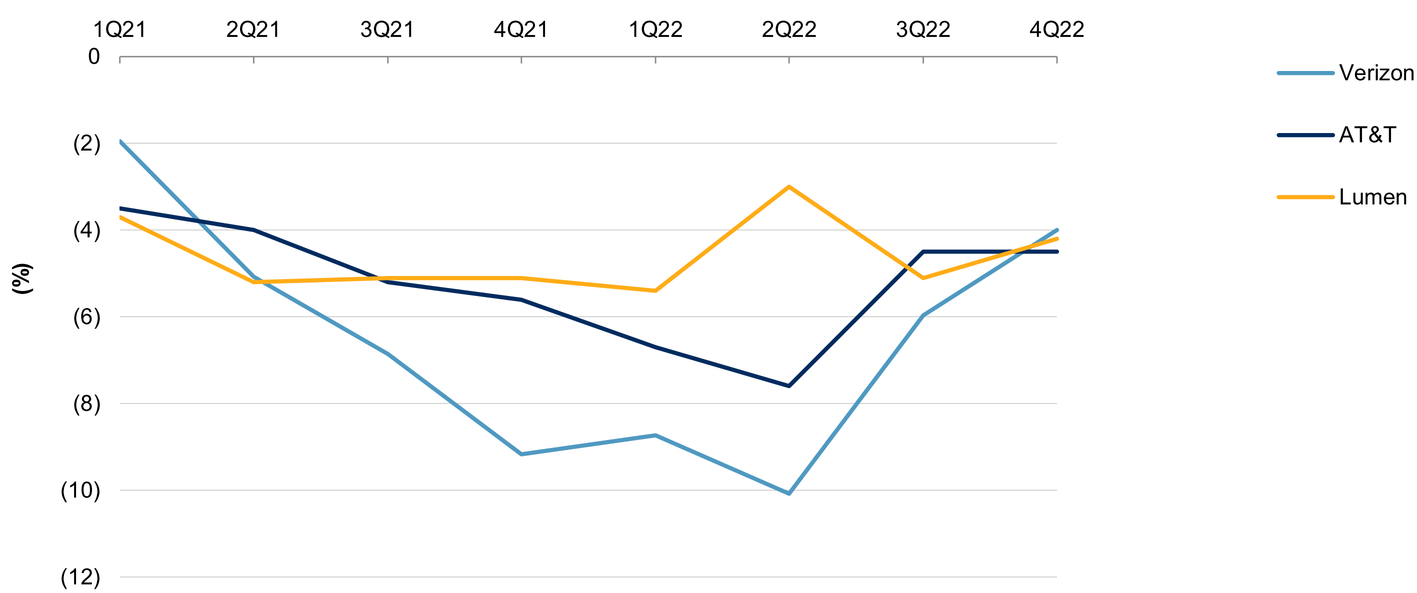
5G use cases have been slow to materialize. In addition to its spending in recent auctions, AT&T also increased capex, partially to build out these acquired licenses. However, most of the potential use cases for 5G have been slow to materialize and the industry has yet to find the next "killer app" that will drive future revenue growth. As such, monetizing 5G investments will be challenging, in our view, and there are limited opportunities in the retail wireless market given its maturity, other than migrating customers to higher-tier rate plans or market share gains in the SMB segment. Potential 5G internet of things (IoT) and enterprise revenue opportunities include virtual and augmented reality, driverless cars, machine-to-machine applications, smart cities, monitoring solutions, mobile edge computing, smart homes, private networks for enterprise customers, and health care. However, we believe these new revenue streams are likely at least several years away from making any meaningful contribution to revenue, if at all.

Unlike its peers, AT&T has steered away from fixed wireless access (FWA) as an in-home broadband solution. However, management believes FWA can be an alternative in certain markets where it is not economical to deploy fiber and can displace copper-broadband services. That said, we do not expect FWA to meaningfully contribute to revenue or cash flow in the near-term.

Business wireline is in secular decline. We expect revenue from business services will continue to fall over the next few years due to competition from cable and a migration from legacy products such as multiprotocol label switching (MPLS) to less expensive, software-defined technologies. Management expects business wireline EBITDA to decline in the high-single-digit percent area in 2023. However, we believe revenue and EBITDA could decline more than expected if economic conditions deteriorate as customers reduce headcount and IT budgets.

Chart 6

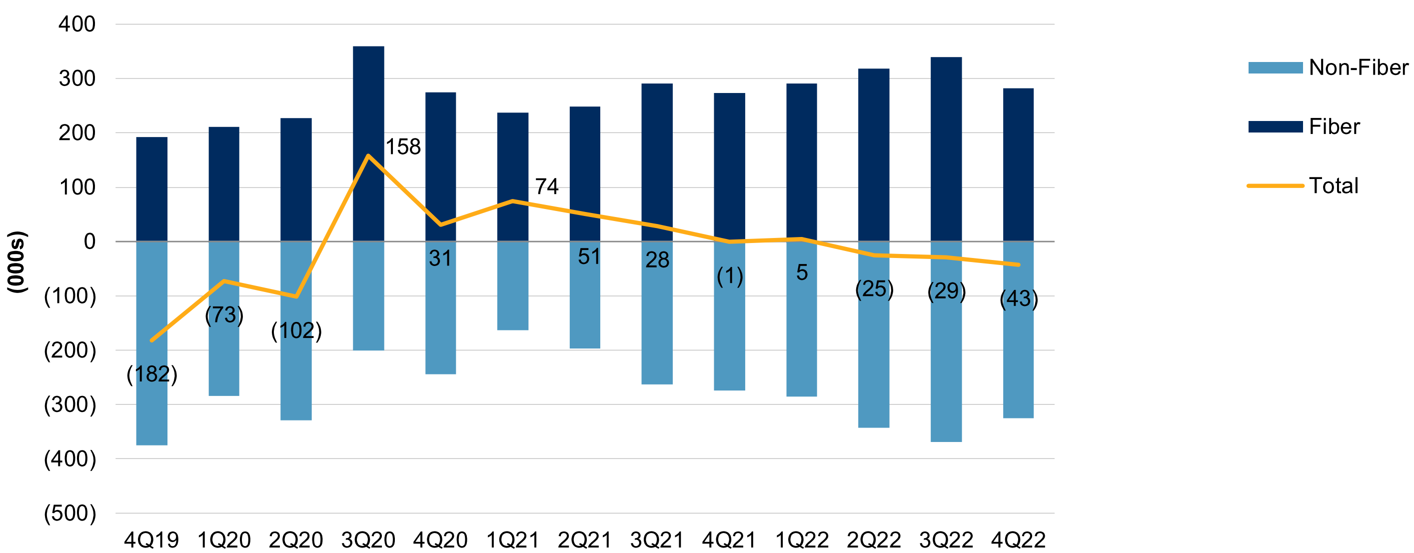
U.S. telecommunications business wireline trends



The consumer segment benefits from FTTH deployments but is still constrained by legacy services. In the consumer segment, AT&T is building out FTTH across a portion of its footprint to better compete with cable and has had good success to date. However, the company's digital subscriber line (DSL) and IP-broadband customer base are in secular decline, and growth from FTTH customers has not offset this trend to date. Success in the consumer segment depends on AT&T profitably increasing fiber broadband revenue, which offers faster data speeds and is more expensive than copper broadband services. AT&T covers about 31% of its footprint and plans to expand its FTTH footprint to about 42% of its homes passed by 2025. While revenue growth from fiber broadband is outpacing declines in copper-based broadband services because fiber has higher ARPU, its FTTH customer net additions have not improved meaningfully and overall broadband net add growth has been somewhat muted.

Chart 7

AT&T broadband net adds



Source: S&P Global Ratings.

Peer comparison

We view AT&T's business risk profile as one of the strongest in the U.S. telecom sector (see "U.S., Canadian, And European Telecom, Media, And Cable Majors Ranking", published Jan. 10, 2022 on RatingsDirect), given its strong position as one of the largest providers of mobile and fixed-line services in the U.S. and its considerable size and scale benefits. Our view of AT&T's business is more favorable following its divestiture of DirecTV and Warner Media. Wireless now accounts for about 70% of the company's EBITDA compared with 90% for Verizon and 100% for T-Mobile. Notwithstanding an increasingly competitive environment, the U.S. mobile market is relatively stable given its recurring, subscription-based revenue stream and growing importance of connectivity for consumers and businesses. However, AT&T's weaker mid-band spectrum position relative to peers, secular industry declines in legacy consumer and business wireline, and costs associated with its FTTH network highlight some of its business challenges.

AT&T Inc.--Peer Comparison

Industry Sector: Diversified Telecom

	AT&T Inc.	**Verizon Communications Inc.**	**T-Mobile US Inc.**
Ratings as of April 5, 2023	BBB/Stable/A-2	BBB+/Stable/A-2	BBB-/Positive/--
	--Fiscal year ended Dec. 31, 2022--	--Fiscal year ended Dec. 31, 2022--	--Fiscal year ended Dec. 31, 2022--
(Mil. $)			
Revenue	120,145.3	135,885.2	79,571.0
EBITDA	49,555.9	52,843.8	28,194.0
Funds from operations (FFO)	38,921.2	43,917.7	23,288.5
Interest expense	8,274.7	6,487.1	4,773.5
Cash interest paid	9,938.7	6,190.1	4,829.5
Cash flow from operations	43,240.3	39,611.9	26,868.5
Capital expenditure	18,332.0	21,057.0	13,909.0
Free operating cash flow (FOCF)	24,908.3	18,554.9	12,959.5
Discretionary cash flow (DCF)	11,494.3	7,749.9	9,716.5
Cash and short-term investments	3,701.0	2,605.0	4,507.0
Debt	189,176.6	164,497.3	110,726.7
Equity	94,365.9	90,082.3	69,656.0
Adjusted ratios			
EBITDA margin (%)	41.2	38.9	35.4
Return on capital (%)	7.1	12.1	4.9
EBITDA interest coverage (x)	6.0	8.1	5.9
FFO cash interest coverage (x)	4.9	8.1	5.8
Debt/EBITDA (x)	3.8	3.1	3.9
FFO/debt (%)	20.6	26.7	21.0
Cash flow from operations/debt (%)	22.9	24.1	24.3
FOCF/debt (%)	13.2	11.3	11.7
DCF/debt (%)	6.1	4.7	8.8

Financial Risk: Significant

We expect AT&T's adjusted leverage will decline to 3.6x-3.7x in 2023 from 3.8x in 2022. DCF to debt was low at around 6% in 2022, but we expect it to improve to 6%-8% in 2023. We also expect funds from operations (FFO) to debt to remain in the low-20% area, which supports our financial risk assessment.

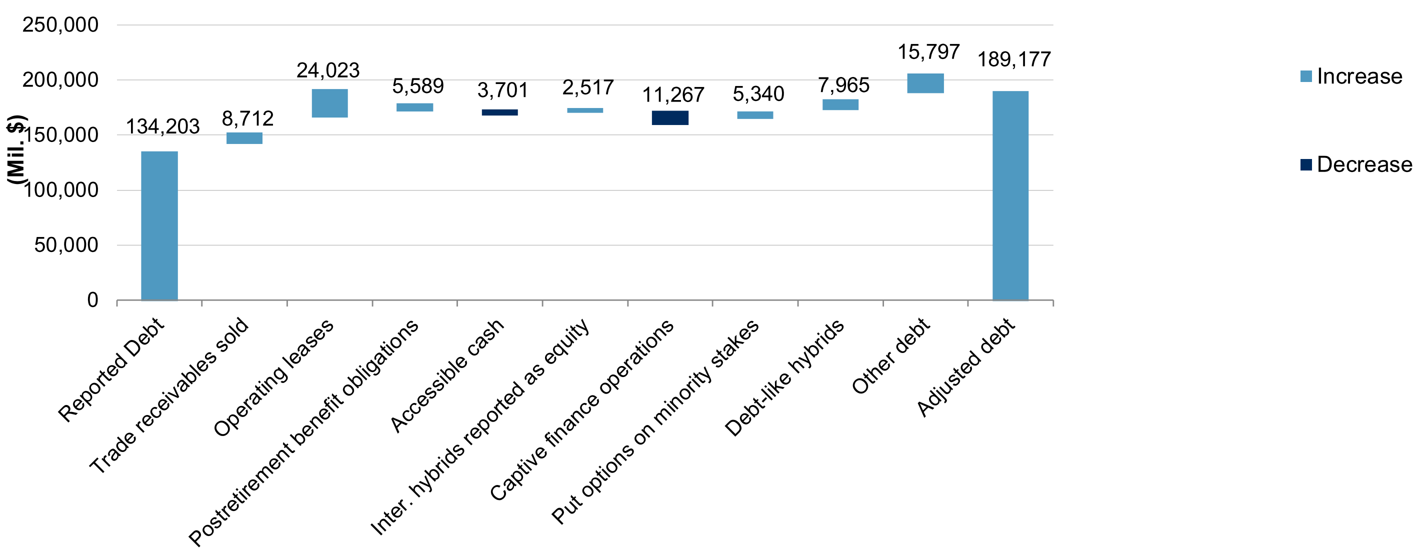
Our leverage calculation includes adjustments for lease obligations and postretirement liabilities. Additionally, we net surplus cash against debt. AT&T's reported lease obligations totaled about $24 billion, which includes operating leases of $22.2 billion and finance leases of about $1.8 billion. The EBITDA add-back to calculate our adjusted leverage is about $5.4 billion.

Unfunded pensions and postretirement liabilities, on a tax-adjusted basis, add another $5.6 billion to reported debt, down from $9.6 billion in 2021. The reduction in the net unfunded obligation was due primarily to changes in the discount rate, which was 5.2% at year-end 2022 for both the pension and OPEB obligation compared with 3% for the pension and 2.8% for the OPEB in 2021. The company also repaid $2.6 billion of the AT&T Mobility II LLC preferred stock, which is used to fund the company's various pension plans; however, we treat the preferred instrument as debt in our adjusted leverage calculation. We also add off-balance-sheet receivable securitizations, which total about $8.7 billion, to reported debt but apply a captive finance adjustment associated with company's equipment installment plans (EIP). Our captive finance adjustment reduces total debt by $11.3 billion and EBITDA by $536 million.

AT&T issued $6 billion of preferred stock issued out of its tower subsidiary and $2 billion in a subsidiary that holds telecom-related assets, all of which we treat as debt. The company also placed about $5 billion of perpetual preferred stock in various tranches. We ascribe intermediate equity credit to these issues.

Chart 8

AT&T debt reconciliation bridge



Source: S&P Global Ratings.

AT&T Inc.--Financial Summary

Period ending	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	$	$	$	$	$	$
Revenues	159,885	170,101	180,577	171,176	168,305	120,145
EBITDA	51,318	58,718	63,579	59,810	58,947	49,556
Funds from operations (FFO)	40,176	48,282	52,204	49,411	48,682	38,921

AT&T Inc.--Financial Summary (cont.)

Period ending	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Interest expense	8,814	9,928	9,683	9,093	8,776	8,275
Cash interest paid	9,136	10,789	9,954	9,405	9,565	9,939
Operating cash flow (OCF)	40,389	45,787	48,109	48,399	44,124	43,240
Capital expenditure	20,647	20,758	19,435	15,552	15,573	18,332
Free operating cash flow (FOCF)	19,742	25,029	28,674	32,847	28,551	24,908
Discretionary cash flow (DCF)	7,241	11,010	11,369	10,443	13,281	11,494
Cash and short-term investments	50,498	5,204	12,130	9,740	21,169	3,701
Gross available cash	50,498	5,204	12,130	9,740	21,169	3,701
Debt	158,726	213,445	210,280	221,107	228,497	189,177
Common equity	140,316	192,298	193,858	167,319	171,991	94,366
Adjusted ratios						
EBITDA margin (%)	32.1	34.5	35.2	34.9	35	41.2
Return on capital (%)	7.3	8.4	7.2	6.1	7.5	7.1
EBITDA interest coverage (x)	5.8	5.9	6.6	6.6	6.7	6
FFO cash interest coverage (x)	5.4	5.5	6.2	6.3	6.1	4.9
Debt/EBITDA (x)	3.1	3.6	3.3	3.7	3.9	3.8
FFO/debt (%)	25.3	22.6	24.8	22.3	21.3	20.6
OCF/debt (%)	25.4	21.5	22.9	21.9	19.3	22.9
FOCF/debt (%)	12.4	11.7	13.6	14.9	12.5	13.2
DCF/debt (%)	4.6	5.2	5.4	4.7	5.8	6.1

AT&T Inc.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts

	--Fiscal year ended Dec. 31, 2022--								
AT&T Inc. reported amounts (mil. $)									
	Debt	Shareholders' equity	Revenue	EBITDA	Operating income	Interest expense	S&P Global Ratings' adjusted EBITDA	Cash flow from operations	Capital expenditure
	134203.00	97500.00	120741.00	38246.00	(4587.00)	6108.00	49555.87	35812.00	19626.00
S&P Global Ratings' adjustments									
Cash taxes paid	--	--	--	--	--	--	(696.00)	--	--
Cash interest paid	--	--	--	--	--	--	(7772.00)	--	--
Trade receivables securitizations	8712.00	--	--	--	--	--	--	4158.00	--
Reported lease liabilities	24023.00	--	--	--	--	--	--	--	--
Operating leases	--	--	--	5437.00	872.70	872.70	(872.70)	4564.30	--
Debt-like hybrids	7965.00	(7965.00)	--	--	--	--	--	--	--
Intermediate hybrids reported as equity	2516.50	(2516.50)	--	--	--	--	--	--	--
Postretirement benefit obligations/deferred compensation	5588.46	--	--	--	--	--	--	--	--

AT&T Inc.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (cont.)									
Accessible cash and liquid investments	(3701.00)	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	--	1294.00	(1294.00)	(1294.00)	(1294.00)
Share-based compensation expense	--	--	--	518.00	--	--	--	--	--
Dividends received from equity investments	--	--	--	4457.00	--	--	--	--	--
Captive finance operations	(11267.38)	(1609.63)	(595.70)	(536.13)	(536.13)	--	--	--	--
Nonoperating income (expense)	--	--	--	--	2163.00	--	--	--	--
Noncontrolling interest/minority interest	--	8957.00	--	--	--	--	--	--	--
Debt: Put options on minority stakes	5340.00	--	--	--	--	--	--	--	--
Debt: Other	15797.00	--	--	--	--	--	--	--	--
EBITDA: Gain/(loss) on disposals of PP&E	--	--	--	1413.00	1413.00	--	--	--	--
EBITDA: Other	--	--	--	21.00	21.00	--	--	--	--
Depreciation and amortization: Impairment charges/(reversals)	--	--	--	--	24812.00	--	--	--	--
Total adjustments	54973.59	(3134.13)	(595.70)	11309.87	28745.57	2166.70	(10634.70)	7428.30	(1294.00)
S&P Global Ratings' adjusted amounts									
	Debt	Equity	Revenue	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Capital expenditure
	189176.585	94365.875	120145.3	49555.87	24158.5705	8274.7005	38921.1695	43240.2995	18332

Liquidity: Adequate

AT&T's liquidity is adequate, and the short-term commercial paper (CP) rating is 'A-2'. We expect sources of liquidity to cover uses by about 1.5x for the next 12 months and for net sources to be positive even with a 15% decline in our forecast EBITDA. Our analysis incorporates qualitative factors, including our view that the company can withstand high-impact, low-probability events, has sound banking relationships and access to capital markets, and demonstrates prudent financial risk management.

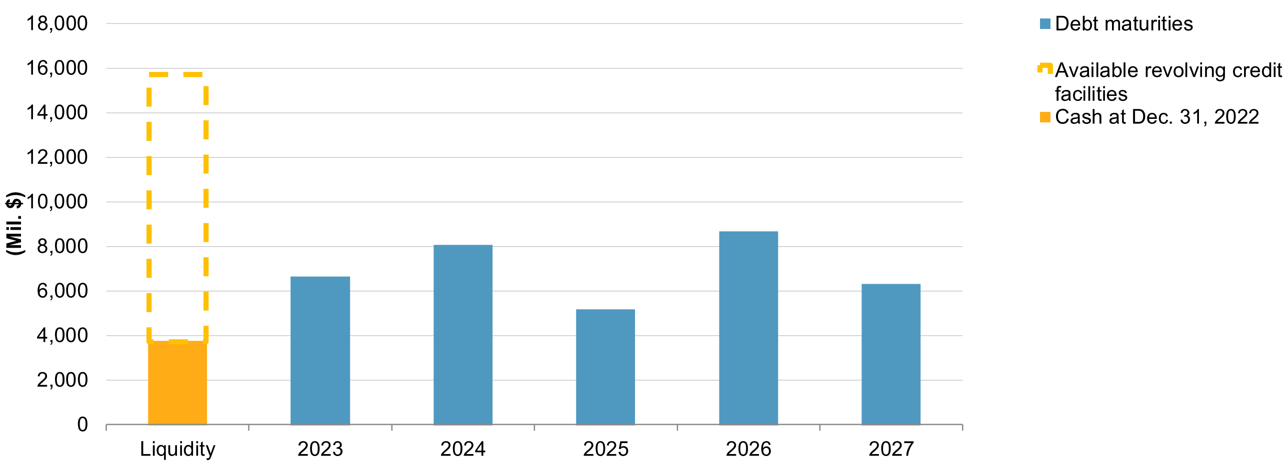
Principal Liquidity Sources	Principal Liquidity Uses
• Cash and equivalents of $3.7 billion as of Dec. 31, 2022; • Full availability under $12 billion revolving credit	• Debt maturities of about $6.6 billion over the next 12 months; • Capex, including vendor financing payments, of

facility that matures in November 2027; and • Estimated cash FFO of $42 billion-$44 billion over the next 12 months, which includes distributions from DTV.	around $24 billion over the next 12 months; • Negative working capital of $2 billion-$4 billion over the next 12 months; • About $2 billion of satellite relocation expense and incentive payments; and • Annual dividend payments of about $8 billion.

Debt maturities

Chart 9

AT&T liquidity and debt maturity profile
As of Dec. 31, 2022



Source: S&P Global Ratings.

Covenant Analysis

AT&T's senior unsecured revolving credit facility and other loan agreements contain a 3.75x net debt to EBITDA covenant.

Compliance expectations

We expect the company to have at least a 15% cushion of compliance with its financial covenants over the next year.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors have no material influence on our credit rating analysis for AT&T.

Issue Ratings - Subordination Risk Analysis

Capital structure

AT&T's capital structure as of Dec. 31, 2022 consists of about $2 billion of debt at its operating subsidiaries and $141 billion at the main holding company AT&T Inc. It also includes structurally senior obligations, comprising the $5 billion of preferred stock at its wireless subsidiary, $6 billion of preferred stock at its tower subsidiaries, $2 billion of preferred stock at its telecom subsidiary Telco LLC, and $8.7 billion of off-balance sheet securitizations.

Analytical conclusions

We do not apply any notching to the group's debt since priority obligations, including subsidiary debt, represents about 16% of total debt, well within our 50% threshold for notching.

Ratings Score Snapshot

Issuer Credit Rating

BBB/Stable/A-2

Business risk: Strong

- **Country risk:** Very low
- **Industry risk:** Intermediate
- **Competitive position:** Strong

Financial risk: Significant

- **Cash flow/leverage:** Significant

Anchor: bbb

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)

- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions , March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- General Criteria: Group Rating Methodology , July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments , April 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers , Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions , Nov. 19, 2013
- General Criteria: Methodology: Industry Risk , Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology , Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities , Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	**bbb**	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of April 13, 2023)*

AT&T Inc.	
Issuer Credit Rating	BBB/Stable/A-2
Commercial Paper	
Local Currency	A-2
Preferred Stock	BB+
Senior Unsecured	BBB
Issuer Credit Ratings History	
18-May-2021	BBB/Stable/A-2

Ratings Detail (As Of April 13, 2023)*(cont.)	
04-Mar-2021	BBB/Negative/A-2
15-Jun-2018	BBB/Stable/A-2
Related Entities	
AT&T Corp.	
Senior Unsecured	BBB
AT&T Mobility II LLC	
Senior Unsecured	BBB
Indiana Bell Telephone Co.	
Senior Unsecured	BBB
Pacific Bell	
Senior Unsecured	BBB

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.