REFINITIV STREETEVENTS

EDITED TRANSCRIPT

T.N - Q2 2025 AT&T Inc Earnings Call

EVENT DATE/TIME: JULY 23, 2025 / 12:30PM GMT

OVERVIEW:

Company Summary

REFINITIV

CORPORATE PARTICIPANTS

Brett Feldman *AT&T Inc - Senior Vice President-Finance and Investor Relations*

John Stankey *AT&T Inc - Chairman of the Board, President, Chief Executive Officer*

Pascal Desroches *AT&T Inc - Chief Financial Officer, Senior Executive Vice President*

CONFERENCE CALL PARTICIPANTS

John Hodulik *UBS - Analyst*

Peter Supino *Wolfe Research - Analyst*

Benjamin Swinburne *Morgan Stanley - Analyst*

Michael Rollins *Citi - Analyst*

Sebastiano Petti *JPMorgan - Analyst*

Bryan Kraft *Deutsche Bank - Analyst*

Kannan Venkateshwar *Barclays - Analyst*

PRESENTATION

Operator

Good morning, everyone, and welcome to AT&T's second-quarter 2025 earnings call. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the floor over to your host, Brett Feldman, Senior Vice President-Finance and Investor Relations. Please go ahead.

Brett Feldman - *AT&T Inc - Senior Vice President-Finance and Investor Relations*

Thank you and good morning. Welcome to our second-quarter call. I'm Brett Feldman, Head of Investor Relations for AT&T. Joining me on the call today are John Stankey, our Chairman and CEO; and Pascal Desroches, our CFO.

Before we begin, I need to call your attention to our Safe Harbor statement. It says that some of our comments today may be forward-looking. As such, they're subject to risks and uncertainties described in AT&T's SEC filings. Results may differ materially. Additional information as well as our earnings materials are available on our investor relations website.

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

John Stankey - *AT&T Inc - Chairman of the Board, President, Chief Executive Officer*

Thanks, Brett. I appreciate everyone joining us this morning. Five years ago, we laid out a goal of becoming the best connectivity provider in America. To accomplish this, we set out a clear strategy built around putting the customer first and building the best network experience.

We continue to make steady progress, and we're seeing the accumulating benefits from remaining consistent in our beliefs and investing in the most advanced and cost efficient technologies, while providing customers with the services and experiences they want.

Halfway through the year, we've delivered growth in service revenues, adjusted EBITDA, and free cash flow. And were positioned to deliver on our full-year consolidated financial guidance for 2025. Pascal will cover the details of our second quarter results and update updated outlook, including the expected impacts of recent tax legislation in just a moment.

So I'll use my time to discuss how we put considerable effort into building the business that's well-positioned to win across different operating environments, thanks to our leading investments in 5G and fiber.

Before I do that, I'd like to acknowledge the recent Texas floods. Our heart goes out to all the families and communities affected by this devastating tragedy in our home state. I'd like to thank all of our employees who stepped up and worked tirelessly to support the many first responders and government agencies with FirstNet.

As public safety's partner, our support and obligations go beyond ensuring the continuity and availability of their purpose-built network to include meeting the special and dynamic needs of these vital public safety resources in a manner unique to our industry. This is a role that commands the highest attention and resources from our company, and one that we're proud to serve.

Now shifting back to the state of our business. Our second quarter results highlight consistent trends across our operations. In Mobility, we added over 400,000 postpaid phone customers, driving service revenue growth of 3.5%. We also added 243,000 fiber subscribers in the second quarter, in addition to 203,000 Internet Air Net additions. This represents nearly 450,000 new subscribers to our most advanced broadband services, driving further acceleration on the pace at which we're growing our base of home Internet customers.

In fact, we nearly tripled our quarterly total broadband net adds in only one year. Customers continue to choose AT&T because of the simplicity of our offers, the quality of our services, and increasingly, because they want to be served by one connectivity provider.

Our convergence trend accelerated in the second quarter, driven by growth in new customer relationships that subscribe to both our fiber and 5G services. As we've discussed in the past, our Mobility share is higher in areas where we offer fiber. We're all seeing the high rates of converged service adoption among our Internet Air customer base, as well as lower churn and improved lifetime values compared to standalone services. We view this as further evidence that our brand can attract broadband Internet customers nationwide while also driving share gains and Mobility where we offer fiber or AT&T Internet Air.

Our customers' preferences are being served by one connectivity provider and it's the key reason we launched the AT&T Guarantee earlier this year. Our guarantee is a promise to our customers that we will provide them with the connectivity they depend on, the deals they want, and the service they deserve guaranteed or we'll make it right. We make this promise because we know our customers increasingly rely on AT&T as a trusted provider for all their connectivity needs.

The early data points indicate that this promise is resonating with our customers. For example, since launching the AT&T Guarantee in January, we've seen improved net promoter scores among our wireless and fiber customers following a network event. It's clear that we're winning with customers. And our performance through the first half of the year highlights the returns we're achieving as we accelerate our fiber deployment and complete our wireless network modernization.

These initiatives are supported by pro-investment provisions in the One Big Beautiful Bill Act. Thanks to the policies in this legislation, we intend to invest more rapidly in next generation networks. This includes plans to invest a portion of these savings into our network, primarily by accelerating our fiber deployment to a pace of 4 million new locations per year, a run rate we expect to achieve by the end of 2026. This will support good-paying middle class jobs all right here in the US.

As a result of our stepped-up investment, we now expect that by the end of 2030, we'll reach approximately 50 million customer locations in more than 60 million fiber locations when including the Lumen Mass Markets fiber assets we've agreed to acquire, our Gigapower joint venture, and agreements with other commercial open access providers. This would double our fiber reach from more than 30 million total locations, a milestone we reached ahead of schedule during the second quarter.

This bill also creates a pipeline of mid-band spectrum that will help meet soaring consumer demand and keep the US technologically competitive with other countries. Paired with the tax provisions in the bill, this legislation paves the way for the stated goals laid out by FCC Chairman, Brendan Carr, to unleash high-speed infrastructure builds and restore America's global lead in wireless technology through smart policy.

The sustained growth in our customer base and free cash flow, paired with our strong balance sheet, positions us with ample financial flexibility to make opportunistic growth enhancing investments in fiber and spectrum that result from these policies, all while delivering on the capital returns we outlined in our Analyst and Investor Day last year.

In addition to investing a portion of these cash tax savings into our network, we intend to contribute $1.5 billion to our pension plan by the end of next year. This, coupled with the job creation associated with our stepped-up investments in world-class US communications infrastructure, demonstrates why the One Big Beautiful Bill Act is great policy for American workers.

We're also making progress retiring our inefficient legacy copper infrastructure. I'm pleased to report that we filed with the FCC to discontinue service across approximately 10% of wire centers in 17 states. This is a key step towards our target of discontinuing service across the large majority of our copper footprint by the end of 2029.

We feel great about the steps we're taking to be the best connectivity provider in America and how this industry is positioned to evolve over the next decade. Investment and policy tailwinds are as strong as I can remember since maybe the Telecommunications Act of 1996. We're significantly expanding or we're able to offer next generation 5G and fiber connectivity services, allowing us to provide exceptional customer experiences that are more efficient to run and maintain.

We expect the result to be faster growth, higher operating leverage, and lower capital intensity as we complete the large majority of these network investments and transformation initiatives over the remainder of this decade. This is why I strongly believe AT&T's best days are in front of us.

And with that, I'll now turn it over to Pascal.

Pascal Desroches - *AT&T Inc - Chief Financial Officer, Senior Executive Vice President*

Thank you, John. And good morning, everyone. At a consolidated level, total revenues and adjusted EBITDA each grew 3.5% year-over-year during the second quarter. Adjusted EPS was $0.54 in the quarter, which was up approximately 6% from $0.51 the prior year. Second quarter free cash flow was $4.4 billion, which was up from $4 billion the prior year. Capital investment came in at $5.1 billion, which was up modestly year-over-year. Looking forward, we expect third-quarter capital investment in the $5 billion to $5.5 billion range with free cash flow in the $4.5 billion to $5 billion range.

During the second quarter, we repurchased approximately $1 billion of stock, and we have bought back about $300 million so far this quarter. Towards the end of my comments, I will provide an update on the expected impact of recent tax legislation on our full-year and long-term financial outlook and capital allocation.

Turning next to our business unit results. Starting with Mobility where I want to spend a moment sharing our perspective on the operating environment and wireless and why we believe our differentiated strategy has enabled us to perform well across market cycles.

Over the course of the year, activity has picked up across the sector and our outlook assumes the operating environment remains similar during the second half of the year.

Against this backdrop, our Mobility business performed very well in the second quarter. On the top line, we grew Mobility service revenue 3.5% with EBITDA growth of 3.2% year-over-year. We delivered 401,000 postpaid phone net adds in the second quarter. The subscriber growth was ahead of our own expectations, driven by postpaid phone gross adds that increased more than 20% versus last year.

I'd also like to remind you that our postpaid phone net adds do not reflect prepaid customer migrations. These are new high value paying customer relationships which are fueling our strong growth in Mobility service revenues.

Additionally, our Mobility subscriber growth is increasingly fueled by customers taking both our wireless and broadband services. We continue to see a high adoption of our lead offers with our most valuable cohort of customers, which are converged subscribers.

Postpaid phone's churn up 0.87% and was up 17 basis points versus last year. A key driver of this trend was the portion of our base reaching the end of device financing periods, as well as the increased activity in the marketplace. Based on this operating environment, we're planning for postpaid phone churn to follow seasonal patterns in the back half of the year which typically sees more switching during new device launches and the holiday period.

While the cost of acquiring and retaining subscribers has increased, our success at adding high-value customer relationships points to the attractive returns we're driving through our offers. As a result of the tailwinds in our Mobility business, we are increasing our full-year guides for Mobility service revenue growth to 3% or better, from our previous outlook for growth in the high end of the 2% to 3% range. We expect this will result in higher growth-related spending in the near term. And we now expect that Mobility EBITDA growth will be approximately 3% this year versus our initial outlook for growth in the high end of the 3% to 4% range.

As a reminder, our third-quarter Mobility results last year, included a $90 million non-cash benefit to the service revenue and EBITDA related to certain administrative fees.

It's also worth noting that higher Mobility equipment costs related to higher volumes and spending on the launch of AT&T Guarantee were the primary drivers of higher cash operating expenses in our Communication segment during the first half of the year.

In the aggregate, all other cash operating expenses across Mobility and Wireline business units declined year-over-year. This was a result of our cost initiatives, and we expect this trend to continue during the second half of the year. This is allowing us to partially reinvest these savings into high-value customer growth, which we expect to improve our growth profile over the long term.

Also, improved cost trends are among the reasons we are increasing our full-year EBITDA guides for both Wireline business units. I'll discuss why in a few moments. But the key point is that our cost initiatives and Wireline outperformance are helping offset higher near-term growth related investment in Mobility. Accordingly, we continue to expect consolidated adjusted EBITDA growth of 3% or better.

Consumer Wireline reported another quarter of strong financial performance. Total revenue grew 5.8% year-over-year, driven by approximately 19% growth in fiber revenue. We added 243,000 fiber customers in the second quarter, up slightly versus last year.

As a reminder, the second quarter is typically our lowest quarter for subscriber growth, and we expect higher fiber net adds in the third quarter. The pace at which our fiber customers are adopting our Mobility services accelerated during the quarter. We ended 2Q with a fiber and 5G convergence rate of 40.9%. This represents a 70-basis-point improvement from the first quarter and 140-basis-point improvement versus a year ago.

Our success driving broadband growth and adoption of converged offers is not limited to our fiber customer base. During the second quarter, we also saw acceleration in our Internet Air net adds, which exceeded 200,000 for the first time ever. As a result, we exited the second quarter with over 1 million consumer Internet Air subscribers.

One driver of our ramp in AT&T Internet Air customers has been our wireless network modernization efforts, which have materially expanded the coverage of our mid-band spectrum and therefore, the regions where we can offer the service.

Our broadband strategy is and will remain fiber first. However, we are increasingly able to offer Internet Air today in areas where we intend to offer fiber in the future. This positions us to leverage Internet Air's creative funnel of broadband customers that we can migrate to fiber over time as we expand Fiber as a Service areas where these customers live.

Based on the expanded availability and strong demand, we expect a higher level of Internet Air net adds in the second half of the year, as compared to the first half.

Consumer Wireline EBITDA grew 17.8% for the quarter and is up more than 18% through the first half of the year. This represents a greater than 100% conversion of revenue growth into EBITDA growth despite ongoing declines in legacy revenues. The key drivers of this high operating leverage are the efficiencies from scaling our fiber network and customer base, as well as the traction we're seeing with cost savings initiatives, including progress with our legacy copper network retirement.

It's also important to note that while our Mobility business carries the bulk of the costs associated with growing our converged customer base, such as the cost of device offers, the positive impact of higher broadband revenues is reported within Consumer Wireline.

This is an example of how our stepped-up investment in Mobility growth positions us to drive long-term returns, not only in our Mobility business, but to our business overall.

Based on the momentum we're seeing in broadband and our improved operating efficiencies, we are increasing our full-year guidance for consumer fiber broadband revenues to growth in the mid to high teens from our previous outlook for growth in the mid-teens. We are also increasing our outlook for Consumer Wireline EBITDA growth to the low to mid-teens from our initial outlook for growth in the high single to low double-digit range.

Similarly, in Business Wireline, we are outperforming our initial outlook midway through the year, thanks to slightly less legacy wireline pressure than expected and solid execution of cost-takeout initiatives. In the quarter, Business Wireline revenues declined 9.3% year-over-year with Business Wireline EBITDA declining 11.3%.

Business Wireline operating and support costs were down nearly $275 million year-over-year due to lower costs and contractor costs. We expect to reinvest some of these savings in the third quarter to drive future growth in fiber and advanced connectivity revenues. While this will put some incremental sequential pressure on third-quarter EBITDA, we now expect full-year Business Wireline EBITDA to decline in the low double-digit range versus our initial outlook for a mid-teens decline.

Before we take your questions, I want to spend a few moments providing you with an update on capital allocation and the impact of recent tax legislation. Overall, we feel really good about the strength and management of our balance sheet based on current operating trends in our outlook for the business.

We continue to operate within our leverage target of net debt-to-adjusted EBITDA in the 2.5 times range, ending the second quarter with net leverage of 2.64 times, which was essentially unchanged compared to 2.63 times at the end of the first quarter.

Net debt increased slightly by $1.2 billion sequentially. A key factor driving this increase was a $2.8 billion non-cash re-measurement of our foreign debt related to the weakening of the US dollar. As a reminder, we fully hedge the FX impact on our foreign bonds, with the offset reported in other liabilities and other assets.

At the start of July, we closed the sale of our full remaining stake in DIRECTV to TPG. Of the original $7.6 billion in cash proceeds, we have more than $4 billion remaining, and we expect to receive the significant majority in 2025. These proceeds will be reported within investing activities in the statement of cash flow, and will continue to be excluded from our reported free cash flow.

Our approach to capital investments remains largely driven by our fiber deployment and wireless network modernization, consistent with the priorities we outlined at our 2024 Analyst and Investor Day. With that said, based on the passage of recent legislation, we'd like to provide a few key updates to how we're thinking about our long-term outlook as we see things right now.

We expect to realize between $6.5 billion and $8 billion in cash tax savings from 2025 through 2027, as a result of the tax provisions included in the legislation.

As a reminder, the initial guides we provided at our Analyst and Investor Day implied an outlook for cash taxes of approximately $3.5 billion in 2025, and approximately $4.5 billion in both 2026 and 2027. Relative to that guidance, we now expect has taxes to be lower by $1.5 billion to $2 billion in 2025 and $2.5 billion to $3 billion in both 2026 and 2027.

As John noted, we intend to invest a portion of these savings in our network, primarily by accelerating the pace of our fiber deployment. This process is already underway and is expected to result in about $0.5 billion of additional capital investment in 2025, and about $3 billion of additional capital investment across 2026 and 2027 combined compared to the guides we provided at our Analyst and Investor Day.

We also intend to contribute $1.5 billion of these savings into our employee pension plan by the end of 2026, with more than half of that coming in 2025. This contribution would elevate the plan's funded status to approximately 95% based on the last reported valuation. Our goal is to fully fund the employee pension plan by the early part of next decade.

The remainder of the tax savings will be reflected in our free cash flow. In 2025, most of these savings will be reinvested. But we do see full-year free cash flow trending slightly ahead of our initial outlook. We now expect free cash flow in the low to mid-$16 billion range versus our prior guide of $16 billion plus.

For 2026 and 2027. We expect approximately $1 billion of upside to the annual free cash flow guides we provided at our Analyst and Investor day. This will add to our financial flexibility, and we are evaluating options for allocating this capital, including strategic investments that complement or accelerate our organic growth strategy, additional capital returns, and debt reduction.

In the near term, we intend to accelerate the pace of share repurchases under our $10 billion authorization and now expect to buy back $4 billion of stock by year end.

So in summary, we're really pleased with the team's performance at the midway point in the year, as we continue to make progress on becoming the best connectivity provider in America.

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

Brett Feldman - *AT&T Inc - Senior Vice President-Finance and Investor Relations*

Thank you, Pascal. Operator, we are ready to take the first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

John Hodulik, UBS.

John Hodulik - *UBS - Analyst*

Great. Thanks. Good morning, guys. If we could start with the wireless churn, you guys called out the 17-basis-point increase in phone's churn in the quarter. And Pascal, thanks for the comments about the seasonal patterns, but can you talk about whether you expect to see a similar increase in the second half of the year based on what you're seeing from competitive standpoint and from a cohort exploration standpoint?

And then secondly, thanks for the info on the decommissioning in the 10% of wire centers. Is there any way to quantify the savings from this initial filing? Or talk about the opportunity for savings as far as that initiative is concerned. Thanks.

Pascal Desroches - *AT&T Inc - Chief Financial Officer, Senior Executive Vice President*

Hey, John. I appreciate the question. As we think about churn, let's go back to what we said at the beginning of the year. We said that this year we had a higher percentage of our customers coming off of financing contracts. And we, all things being equal, expect a higher level of churn plus a more continued normalization of the number of net adds.

On top of that, in the first half of the year, I think it's fair to say we probably saw a little bit more impact from those than anticipated at the beginning of the year as well as probably a little bit of pull forward of demand on the consumer side because of tariffs. All those things together resulted in the first half that had higher activity.

As you look to the second half, I do believe there was some pull forward of demand, We haven't seen what the new device offer will bring. But for planning purposes, we are assuming that we're going to continue to have a competitive environment. And our outlook is underwritten in that regard. We're hopeful some of the activity does dissipate, but we're planning for a more active environment.

In terms of cost savings, here's what I would tell you, we're already seeing the benefits of cost savings associated with our legacy transformation happening. I'm really proud of the team and what you're seeing in our performance.

When you take out growth-related expenses, promotions, and our Guarantee advertising campaign, our expenses are down. And they're down because of all the great work that's happening across the board in field tech and importantly, in overall legacy transformation. Look, as you heard in my commentary, we expect that to continue in the back part of the year. And as more and more wirelines come offline, we're going to have the ability to continue to drive costs out. So we feel really good about our performance.

Brett Feldman - *AT&T Inc - Senior Vice President-Finance and Investor Relations*

We'll go to the next question, operator.

Operator

Peter Supino, Wolfe Research.

Peter Supino - *Wolfe Research - Analyst*

Hi. Good morning. A question going back to the subject of churn and then one on spectrum. On churn, I wondered if your outlook for the year should cause AT&T to rethink the velocity of price increases. I heard you loud and clear that the expiration of installment periods is playing a big role in this year's higher activity and wondering how you think about the other drivers.

And then on spectrum, I wondered about the budget in your long-term guidance for acquisitions. Is it possible that spectrum's worth much more than you've allocated for acquisitions will come to market in general? And I wondered, if you would, in that instance, would you regard the budget for acquisitions in your long term guidance as subject to review or as limiting? Thank you.

John Stankey - *AT&T Inc - Chairman of the Board, President, Chief Executive Officer*

Good morning, Peter. What I would tell you on churn as we kind of think about what's been going on, I don't view pricing as being our issue in terms of managing churn. Obviously, every time we take a pricing action, we're cognizant that there's going to be some dislocation that we have been historically pretty good at assessing, modeling, and managing.

We try to do our pricing in a way where we tie prices to values. So we find places where there's maybe recaptured value that we can price out differently so that the customer feels like it's not just the price increase, but they understand they've gotten something over time or in return for it, where they're less likely to go.

And it's not to say that we don't get some churn when we price, but we get churn that's been in line with our expectations. I'm not going to sit here and tell you right now that what we're seeing in our churn performance is the result of miscalculations in our pricing decisions.

That having been said, we're always mindful when we make a pricing decision of the environment that we're in. And I'm very mindful right now of the environment we're in that we've got segments of the consumer base that are not in the same position as other segments of the consumer base. And as a result of that, as we think about our strategies and how we manage things, we try to be deliberate.

Does that mean that on the margin we may make a decision here or there that's different at this moment in time given where the economy is and what's going on? Of course. I'm not going to tell you what those are because we never pre-discuss or give that kind of information out in a public forum like this. But I don't do pricing as kind of being our answer to churn issue one way or the other. And I think we've managed it pretty effectively over the last couple of years and we'll continue to do that.

On the spectrum side, I think I could go back to comments I've made multiple times that I've shared with you, and they usually come up in the context of why is 2.5 times adjusted net debt-to-EBITDA the right level for our business. And I think I've tried to articulate that there's a lot of reasons why we arrived at that number as being the right place for us to be including our bias organic investment in the business versus strategic M&A.

We feel pretty comfortable that we've got great opportunities to reinvest in the business as evidenced by the fact that we accelerated some of our capital investment, the key area where we're generating, I think, great long term value in the fiber space. And 2.5 times gives us an opportunity to go to market and pick up the kind of cash we need to pick up if in fact something that is non-strategic M&A that is what I would call asset acquisition presents itself to us like Lumen would be a great example of I thought what was an excellent asset acquisition opportunity that was in front of us, and we chose to do that.

I would put spectrum in that category. As I said multiple times, we're constantly evaluating spectrum options in the market. I think the spectrum market just became really interesting. The fact that there's now an FCC that's back in business that can auction and there's a stated pipeline means that we have a more secure supply of spectrum coming forward in the market and the more secure supply of spectrum coming forward is a disciplining issue on valuations of spectrum. And it gives a lot of choices of what we can do and how we think about this and how we time it out when there is a pipeline that's declared and it will happen over a number of years.

To be very deliberate in how we do our network planning where we carry forward to be sure spectrum is a lifeblood of our wireless business, we've always invested on it strategically, we always have been very satisfied with the decisions we've made on investment there, and I don't expect that to change. But what I would tell you is if something pops up, we have the opportunity within our capital structure today to go and take advantage of that. While at the same time honoring the commitments we've made back out to our shareholders and ensuring that we stay on the plans that were in place and not moving off of those or changing it. And that's why we engineered at the level we engineered at. And I think that's what you should take forward from that.

Brett Feldman - *AT&T Inc - Senior Vice President-Finance and Investor Relations*

Thanks, Peter. We're going to do the next question.

Operator

Benjamin Swinburne, Morgan Stanley.

Benjamin Swinburne - *Morgan Stanley - Analyst*

Thanks. Good morning. A bit of a bigger picture question on the fiber build, and then back to Mobility. Hit the 30 million fiber mark, now we're talking about 60 million-plus by 2030, can you talk about, since John you've been there the whole time, the returns you see in the 30 million ahead versus the 30 million look back? I mean there's sort of debates on whether you built the best parts of the country first. At the same time, I can imagine, your execution in fiber is improving as you build more expertise. I'd love to hear your thoughts on the returns and penetration profiles you see looking head versus looking back.

And then, just on Mobility, how do you guys think about returns you're generating in this business? I mean churn is a huge focus. But just one input into return, could you talk a little bit about how you feel the quality of your incremental Mobility customers are coming in now when you put all the pieces together in the business relative to the churn focus that we all have out in the market? Thanks so much.

John Stankey - *AT&T Inc - Chairman of the Board, President, Chief Executive Officer*

Good morning, Ben. So first of all, not every house is created equal. I'm not going to tell you that the 60 million home we built is as profitable as the first one we built. But what you should understand is they are very profitable. They all hit our return rates. And as we've talked about more and more, as you start thinking about a converged dynamic, it's not just the cost of building fiber, it's what you can do in putting multiple products in a household which over time, as that penetration level of converged customer increases, it's only going to improve the economic returns of having built a world-class fixed infrastructure.

When we look at building into an area, it is always carried 100% on the foundation of whether or not we can make the money pay on broadband only. And so the fact that we're able to pick up on wireless is kind of the icing on top of the cake.

I'm very familiar with a variety of different analyses that have come out over a period of time that talk about what the costs are to build, let's call it, the 60% to 80% range of the footprint versus the first 60% range of the footprint. I think I know my costs and my operation better than people who sit outside the business and I will tell you, what they report in many instances is patently wrong. It's not correct in terms of capturing what our relationships are with vendors, the costs of which we build, what we're doing in scaling economics, what we've been able to do to innovate and change things.

And yes, our cost per unit will go up as we move deeper into the footprint. But it does not go up at a level that deteriorates the competitive returns we need to offer back a fair return to our shareholder and the cost of capital that takes us to do those things. And I feel really confident about that and there's no reason for us to continue doing that if that were the case. There's probably other things we should be doing with the money like returning it back to the shareholder if we didn't think we can hit those hurdle rates.

On our Mobility returns, I think we've been pretty clear. I mean, the narrative that we gave you at the front end of this was all geared around us and we feel very comfortable with our growth. We feel that we're not going to grow for growth's sake. We're going to the right kind of growth. We're going to the kind of growth that first of all, customers are paying us for the lines. We're not out there giving away free lines. We're not adding the line to existing products and services that we have for free.

We are bringing in paying customers. You see what's happening in our service revenue performance. We shared with you that because we've done what we've done over the last couple of years and margin improvement is driven through this business and it's scale in a different way, lifetime values have gotten better. It's not a surprise that you're going to invest a little bit more at the front end to pick up something with a higher lifetime value.

And if you have some degree of confidence that a percentage of that base is ultimately going to be buying more than one product from you, which we do, and we're demonstrating with our results, then you invest to do that, and you invest to get those customers that you have the highest probability of consolidating.

And as we just shared with you in the narrative, our converged rate this quarter is actually accelerating. It accelerated at a faster rate than what we've seen at any point in our history. And so we feel good that we're executing on those strategies when we're investing in that growth that we are going to get the return.

And I'm particularly excited about, as we shared earlier in our comments, we've done really well at the top end of the market with a premium product like fiber. And pairing it with our postpaid, we're now starting to get our groove and understanding where we can put the low-end product which I consider to be fixed wireless. It's more to the price-sensitive segments of the market and the less industrial strength. I think that only gives us another play to do this and do this well as we move forward. And we feel really comfortable about that portfolio and what we can do with it.

Pascal Desroches - *AT&T Inc - Chief Financial Officer, Senior Executive Vice President*

Ben, one other point, I think it's really important, when you look at our returns, look at the service revenue in Mobility. We're up 3.5%. And that doesn't include the benefits of fixed wireless which are reporting in our Consumer segment. And it doesn't include the really strong benefits of convergence which are reported in Consumer Wireline. So look, this business is performing as well as ever had, and we are incredibly bullish on the future.

Brett Feldman - *AT&T Inc - Senior Vice President-Finance and Investor Relations*

Thank you. We'll take the next question, operator.

Operator

Michael Rollins, Citi.

Michael Rollins - *Citi - Analyst*

Thanks. Good morning. Two topics, EBITDA and the fiber footprint. So as a follow-up to your comments on the revised EBITDA growth guidance for Mobility, given that the first half is ahead of the full-year guide, are there additional pressures that you're seeing in the back half of the year relative to the first half that we all should be mindful of? And can you remind us where Mobility is on the journey to extract additional efficiencies and savings from the cost program? And then just on the fiber footprint, just curious if you have an update on the opportunities to expand the open access program to increase passings beyond the 60 million target that you outlined on today's call? Thanks.

Pascal Desroches - *AT&T Inc - Chief Financial Officer, Senior Executive Vice President*

Hey, Mike. I'll handle the first question. In terms of Mobility growth in the first half, we're really happy with it. As I mentioned in my commentary, when you look at the back half of the year, we're assuming that you're going to continue to have an active environment. We're hopeful that that's not the case. You'll see some dissipation in what's happening in the back half of the year because there was clearly some pull forward of demand related to the (inaudible) and all the uncertainty around that. With that said, we're planning for a more active second half, which is in line with seasonal pattern.

Keep in mind that last year in Q3, we had a one-time non-cash item that we called out that is also going to make comparisons in the back half particularly challenging. But other than those two cautions, we feel really good about the performance of Mobility and our ability to perform. So we're just being cautious because we don't know what environment we're going to be operating under.

John Stankey - *AT&T Inc - Chairman of the Board, President, Chief Executive Officer*

Good morning, Mike. Your question on the fiber footprint, there are places where we can pick up some more open access opportunity. I'll probably maybe take the liberty to broaden your question a little bit to think about. We've now given you a roadmap between now and 2030 as to how we're going to be far above 60 million homes and what I'll call our owned operating control footprint, all things that we have visibility to right now in existing relationships entrenched with it.

And job one to drive value right here is to execute really well on that set of strategies and Lumen is probably the next piece of that footprint that we need to bring that in under the umbrella and we need to do really well on how we execute around that and it can create a lot of value for us. And that kind of thing has some scale that can move some numbers.

I'm not dismissing the rest of the work, but a combination of open access and a combination overbuilders is a pretty fragmented space. And maybe it's better for me to comment on how I see over the course of this period, the 2030, the cards that we have and how we play them.

I control my ability to be a very strong footprint player through 2030 that we have now, since we came in five years ago and started to talk about this, and everybody said, well, what do you do with 20 million homes, what do you do with 30 million homes. We have a path outlined for you as we are going to be a scaled player on the best technology in the United States.

I think there's others that are going to really struggle in this market because as I've been very clear, I think we're in a converged market space, I think we're going to see, over time, combination of national players that need assets to do both fixed and mobile together. And that's going to result in customer expectations. And to be successful, you're going to need to be able to do both.

And if you're kind of an island-based overbuilder or you're an open access provider that has a small footprint, that's not a hospitable environment necessarily to be in when scale costs are important and distribution is important. And I expect in some cases, some of these overbuilders are not entirely well capitalized, you can see their business plans are a bit stressed.

Look, I like picking up assets in a way that we can drive value out of them. I'm not going to go out and overpay to buy stuff that somebody wants to sell at an asset premium and they haven't figured out how to operate and unlock the value in the business.

But to the extent that there's an opportunity that fits in with our existing footprint where we can continue to enjoy our economies of scale and our footprint and our operations footprint where we don't get fragmented, we don't get spread too thin, that's how I think about playing patiently over the long haul to take what I've already secured, which is a preferred footprint in the United States and maybe add a little bit to it over time.

Brett Feldman - *AT&T Inc - Senior Vice President-Finance and Investor Relations*

Thanks, Mike. We'll take our next question, operator.

Operator

Sebastiano Petti, J.P. Morgan.

Sebastiano Petti - *JPMorgan - Analyst*

Hi. Thank you for taking the question, just wanted to follow up on Consumer Wireline subscriber expectations for the back half of the year. I think Pascal said that you expect higher Internet Air adds, which is not surprising given the momentum. But typically, you would also see higher fiber net additions in the second half relative to the first half or a typical seasonality over the last several years with dictate that that would be the case. Any reason to think that that would not necessarily occur this year? And within that context perhaps, are you seeing any change in the level of competitiveness from the cable guys as they perhaps may lean in a little bit more on bundling, a little bit more on convergence? Thank you very much.

John Stankey - *AT&T Inc - Chairman of the Board, President, Chief Executive Officer*

Good morning, Sebastiano, I don't expect seasonality to be different this year. I mean, we're not planning on it being different this year. So I would expect because of that seasonality that you reference, you'll probably see historically our net add numbers on fiber adjust to that seasonality and move through it.

I think the other thing that I would just kind of counsel on, we tried to give you a little bit of a sense of if we're going to build 4 million homes a year instead of 3 million, we've kind of given you a ramp rate into that. And you can now think about if that doesn't all come online at the same time, we ramp into it through 2026 and we ultimately reach about 4 million homes per year build rate by the time we exit 2026, you should expect as that inventory step-up occurs, as that build starts to escalate, that will certainly help.

But I'd also like to point you back to something else. When you think about the mix of our fiber net adds today versus the mix of our fiber net adds three years ago, there's surprisingly small -- not surprisingly, I guess, you'd say there is a predictable smaller amount of migrations going on between our existing customers onto the fiber infrastructure from copper because we've worked through a lot of that. And we're maintaining these net add numbers, and we're increasing the share take that is effectively coming from cable. And we've been doing just fine. I'm very pleased with our growth rates of what we've been able to do given our inventory.

And as you see, we continue to march up our penetration. We're north of 40% penetrated now as we've been characterizing it for you, and we continue to march up that. And I've always said, the number between 40% and 50% is going to come slower than the number bid between zero and 20% and 20% to 30% and 30% to 40%. That's just the way it goes.

The good news is we're producing a lot of cash at 40%. And we can be very patient to work our way through the next 10% in an economical fashion. And I'm not seeing anything right now that's going on in the market that restricts us from being able to get our fair share every quarter. And I feel really good about how the team's operating around that.

Brett Feldman - *AT&T Inc - Senior Vice President-Finance and Investor Relations*

Thanks for the question. We'll go to the next one, operator.

Operator

Bryan Kraft, Deutsche Bank.

Bryan Kraft - *Deutsche Bank - Analyst*

Thank you. Good morning. I want to ask too if I could, I guess first, just how do you think this more elevated mobile churn and gross add environment across the industry impacts your ability to expand Mobility margins in 2026 and beyond? Do you continue to see that continued margin expansion opportunity? Or should we think about the healthy margins you have today as being more stable as opposed to increasing?

And then, I just wanted to check in separately on what you're seeing from a macro perspective. Anything to call out that you're seeing consumers or businesses, any potential impact from federal government cuts that might be coming that could impact Business Wireline or Mobility? Thank you.

Pascal Desroches - *AT&T Inc - Chief Financial Officer, Senior Executive Vice President*

Hey Bryan. Let me start. When you look at our Mobility business, a big part of what you're seeing is higher growth-related spending in the first half of the year. But it's coming with high-quality revenues. As John alluded to earlier, we grew service revenues 3.5% in the second quarter. We raised guidance on service revenues for the year because we feel really good about that trajectory.

As you know, growth-related spend will be lumpy, depending upon market conditions. Excluding growth-related spend, we expect the operating leverage to really be good in that business, and we would expect margins to continue to perform well. In any given quarter, it's going to be a function of the level of growth-related spend.

John Stankey - *AT&T Inc - Chairman of the Board, President, Chief Executive Officer*

Bryan, good morning. So on the macro perspective, let me start with this, let me reinforce what I offered in my opening comments. I can't remember who said it earlier, I guess Ben was making a comment about how long I've been around here and insulting me. But I've been around the industry a bit.

I don't know that I've ever seen, from pro-investment policy perspective that's out there right now in terms of incentives to invest organically in your business, a telecom policy perspective that's been laid out under this administration and where we see the SEC going, all the way from incentives to get out of old infrastructure and invest in new to spectrum pipelines that are in place, the desires to remove restrictions on useless regulations that drive costs in the business that the market takes care of now that we don't need to have around because we're no longer in common carrier models. I've not seen a situation where those tailwinds were all aligned and as strong as they are at any time in my career as they are right now.

And I'm surprised I don't see more commentary on that from those of you that watched the industry. I would even say the alignment of those policy things that are going on right now in the direction that's occurring and the lack of friction in getting some changes done is even more significant than when the Telecom Act of '96 was passed.

So I view that as a very good thing for this industry, especially at a time when there's a seminal change coming in the way workloads and traffic are generated like AI. And the need to be able to manage traffic across the fabric of fixed wireless networks for the purposes of securing performance into the cloud to be able to secure those packets in a consolidated way where you can manage those workloads for customers in both places, I think that macro dynamic is really, really good for our industry. And I feel good about it where we stand right now, being part of it as a result of that.

And that's one of the things that gives me confidence to redirect some of the benefits we've gotten from the Reform Act back into the business. I might not have felt that way four years ago with what was on the horizon, and I do at this juncture.

Now, the second thing I would offer, there are other policy things that are going on that are impacting some aspects of the macro environment. In particular, I would say the public sector in combination with federal government spending, that has had some dislocation. And some of that's moving down into other public sector entities, maybe it's universities, maybe it's local governments. Because as the federal government changes their allocations in various places, we see other entities having to evaluate their spending patterns of what they're doing.

And those numbers you're seeing a little bit and some of the softness in a couple of the areas that we've highlighted for you and they're showing in our numbers. But we also told you at the beginning of the year we expected some of that to happen. And we felt like we could manage through that and still meet our guidance to you.

And in fact, immigration is another one. If you look at what's gone on in the postpaid and the prepaid market this quarter, I do believe some of that falls through the immigration and some of the dynamics that are occurring there. Again, we told you that there was going to be an impact, we told you it was manageable given our exposure to that particular piece of the market. And I think we're demonstrating that we're kind of working our way through it.

The piece that remains out there that I continue to watch and want to understand is we're an animal, a small animal in a larger economy. And what ultimately happens in the larger economy is certainly going to be important to us. I would really like to see some of the uncertainty around tariffs start to dissipate. And that's a piece that's still a bit unknown to everybody in business, as I speak to my peers. I'm not going to pontificate or handicap that as to how that works out any differently than people who are far more expert on it than I am. But clearly, getting some of that uncertainty out is like taking a macro environment that is really moving in the right direction right now. And that's like putting a little bit of jet fuel on it if you can get that one off the table.

Brett Feldman - *AT&T Inc - Senior Vice President-Finance and Investor Relations*

Operator, we're going to take our last question.

Operator

Kannan Venkateshwar, Barclays.

Kannan Venkateshwar - *Barclays - Analyst*

Thank you. John, when you think about the scaling of both the fiber business as well as fixed wireless going forward, can you talk a little bit about how they fit together? I mean, are they mutually exclusive in terms of segments the way you're thinking about it or just fixed wireless to funding mechanism to reduce your (inaudible) for fiber? I mean, as both of these scale, how do they fit versus each other? It'll be great to get your thoughts on that.

John Stankey - *AT&T Inc - Chairman of the Board, President, Chief Executive Officer*

Morning. I guess you could say mutually exclusive or actually complementary is the way I would describe them. I think fiber is the scaled long-term solution at the top end of the market. But look, there is a price-sensitive segment and there is a less usage-intensive segment. And fixed wireless is a viable alternative to do that.

And given the dynamics of how spectrum is bought and how capacity is allocated, it'll be great if we never had to buy spectrum and end up with fallow capacity. But based on how licenses are done and the dynamics around those things, and based on how share plays out in certain parts of the country where -- we've been telling you, where we build fiber, we have great share position. Some places where we don't build fiber, we have lower share. Therefore, we have more fallow capacity in the network to possibly deploy because of the way we've had to buy licenses in instances.

And so I view them as highly complimentary. Our primary goal and objective is to put fiber where we can get the kind of workloads that justify that investment and offer the returns I addressed earlier. And we've given you a point of view of what that footprint is right now between now and 2030. Very transparent about that. We're very clear on where we're going to build those things.

On the flip side, any place where we're not doing that, why shouldn't we think about if we have fallow capacity and opportunity in our wireless business that we can deploy to converge a customer and we can attack the segments where the product is best suited.

And it's not for everybody. As I've said many times, there are many businesses where fixed wireless is the best solution for them. There are people living in studio apartments that are a consultants, that are at home two and three nights a week, that fixed wireless may be a really good solution for them. There are folks that can afford to buy some capacity, but they can't buy all the capacity, but they want something that's more reliable and higher performing dynamic at a lower price. Fixed wireless is really good for them. We should meet those customers where they are and we're now getting a lot better about doing that.

And look, when you know you're going to be building fiber in two years and you want to hold a particular segment where maybe you were doing business before or you want to early penetrate it and then enroll people, it's also a great tool to do that. You'll probably see us use that technique in parts of the Lumen footprint. But we have naturally little wireless share where we can go in a little bit more aggressively and know where we're going to be in three years to then upsell somebody to an even better solution.

So maybe they're mutually exclusive because you don't want to be selling both in the same area, but I consider them complementary because you want to use them to attack different parts of the market or use it to supplement what is ultimately the long-term scaled solution which is fixed infrastructure with fiber.

And I think it's why the story of organic investment is so strong and so important right now. We went at the top with fiber because it's a better product. And we take share and we can play at the bottom with a price-sensitive offer that hitting people at the top and the bottom is just a really good place to be and it feels really nice compared to where we were, say, 10 years ago.

Brett Feldman - *AT&T Inc - Senior Vice President-Finance and Investor Relations*

Thanks for the question, Kannan.

John Stankey - *AT&T Inc - Chairman of the Board, President, Chief Executive Officer*

Folks, thank you very much for your time this morning. I appreciate it. I think as you can see, we laid out a direction for our business five years ago as to how we felt like we needed to invest in infrastructure to secure the highest percentage of shares spend in this industry and do it better than anybody else. And I believe you're seeing the data points now establish themselves in our performance that demonstrate the approach we're using and the organic investment in our infrastructure and networks is paying off and how that has ultimately come to pass. And I believe when you look from a policy perspective and how our competitors are reacting in the market, it validates the direction we've been heading.

And I think I'm really proud of the team of what they've been able to do to demonstrate the results in that regard and move our business forward. As Pascal said earlier, we feel really good about the progress we made, but we know we're not quite all hitting on eight cylinders yet. And as a result of that, we feel really energized around what we can do to make the business even better and deliver strong results as we move forward. Thanks for your time this morning.

Operator

Ladies and gentlemen, with that, we'll conclude today's conference call and presentation. We do thank you for joining. You may now disconnect your lines.
