

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the AT&T Second Quarter 2019 Earnings Call. At this time, all participant phone lines are in a listen-only mode. Later, there will be an opportunity for your questions. [Operator Instructions] Just as a brief reminder, today's conference is being recorded.

And I would now like to turn the conference over to your host, Mr. Michael Viola, Senior Vice President of Investor Relations. Please go ahead.

Michael Viola

Thank you, and good morning, everyone, and welcome to our second quarter conference call. I'm Mike Viola, Head of Investor Relations for AT&T. And joining me on the call today is Randall Stephenson, AT&T's Chairman and CEO; and John Stephens, AT&T's Chief Financial Officer. Rand will provide an update of our key 2019 initiatives, and John will cover our operating results. And then, we will follow that up with a Q&A session.

Before we begin, I want to call your attention to our Safe Harbor statement, which says that some of our comments today may be forward-looking. As such, they're subject to risks and uncertainties, results may differ materially and additional information is available on the Investor Relations website.

I also want to remind you that we're in the quiet period for the FCC Spectrum Auction 103, so we can't address any questions about that today. As always, our earnings materials are available on the Investor Relations page of the AT&T website, that includes our news release, investor briefing, 8-K, associated schedules, etcetera. And one more item before I turn it over to Randall, we've scheduled our WarnerMedia Day for the afternoon of October 29 at Warner Bros. Studios in Burbank, California. We will discuss more details on the new streaming service, HBO Max, and more details will come, but go ahead and mark your calendars.

And so, with that, I'd like to turn the call over to Randall Stephenson.

Randall Stephenson

Thanks, Mike. Good morning. The headline of the second quarter and the first half of the year is we're hitting each of our commitments we made for 2019, and you can see those on Slide 3. I'll start with our new leveraging plans, which are right on track. Since we close the merger last June, net debt is down \$18 billion. We expect to further reduce net debt about another \$12 billion in the second half of the year, and that should get us to a 2.5 times net debt to adjusted EBITDA range by year-end. And to the extent

that we can overachieve on that objective, you can expect we'll take a hard look at allocating capital to share buybacks in the back half of the year.

Wireless is about half of our overall EBITDA and it continues to fire on all cylinders. Last quarter, we grew revenues, EBITDA, and phone subscribers both postpaid and prepaid. Wireless service revenues were up 2.4% in the second quarter and we're continuing to see the payoff on our investments with a world-class network.

Our wireless network has been named fastest, the best and the most reliable by independent testing services. FirstNet continues to be the driver of our network performance as well as our 5G leadership. And at the end of the quarter, we were about 60% complete with our FirstNet coverage, ahead of plan. And we are now targeting 70% completion by year-end.

And our FirstNet build is accelerating our 5G deployment, as we deployed FirstNet, we're installing hardware that can be upgraded to 5G with a simple software release. As a result, we're on track for nationwide 5G coverage by the first half of 2020.

Turning to WarnerMedia, there was another strong quarter, merger synergies remain on track and we had solid operating income growth across all three business units. This was a record year, 191 Primetime Emmy nominations for WarnerMedia and HBO alone scored 137 nominations. That was the most in its history. So, what was the result of all of this?

We had very strong HBO digital subscriber growth in the quarter, and we're setup really well for the second half of the year. Bottom line, HBO's stepped up investment in content is working. And this will be critical as we launched HBO Max next spring. And as Mike mentioned, we look forward to share a more about HBO Max in October.

Our Entertainment Group continues to make solid progress, we didn't just stabilize EBITDA, we actually grew it by 1.1% in the quarter. Later this summer, we'll beta launch AT&T TV in a few markets, that's our live TV service over broadband. We have some really high expectations for this product, and we're going to learn from the pilot, and then we'll expand to more cities as we go to the year.

IP broadband revenue growth remain strong, we continue to see a solid growth in our AT&T Fiber product. That product now reaches about 14 million customer locations or 22 million when you include businesses. So, all in all solid, steady progress against the commitments we made coming into the year. And appealing even more confident that we're going to meet or exceed each of those commitments for the full year. In fact, this morning, we've raised our free cash flow guidance for 2019 to the \$28 billion range,

that's up \$2 billion and we've reaffirmed all of our other guidance for the year.

So now for more detail on the quarter, I'm going to turn this over to John, and he'll take you through the results. So, John?

John Stephens

Thank you, Randall, and good morning, everyone. Let me begin with our financial summary on Slide 5. As Randall mentioned, we're on track with all our financial targets. And in many areas, we're ahead of plan. Adjusted EPS was \$0.89 in the quarter, including \$0.02 impact from a higher effective tax rate. We continue to expect low-single-digit growth for the full year, as we are set up for a solid second half of the year performance.

We grew revenue both on a reported and pro forma basis in the quarter. In fact, all segments are growing on a constant currency basis. Adjusted operating margin was up 90 basis points with the addition of WarnerMedia, strong growth in Mobility, and continued improvement in our Entertainment Group.

Our cash flows were very strong on the quarter. Let's look at this on Slide 6. Cash from operations came in strong at \$14.3 billion, that's up 40% and free cash flow was a record \$8.8 billion. The addition of WarnerMedia operations made an impact, as did adding their receivables to our securitization efforts. The securitization lifted free cash flow by \$2.6 billion. Our ability to generate cash continues to be impressive.

Over the last 12 months, we've generated \$29 billion in free cash flow or about \$4 a share. With the benefit of our securitization efforts, we have confidence to raise our free cash flow guidance for the full year to the \$28 billion range. Our strong cash position also allows us to continue to invest at industry leading levels. CapEx was \$5.5 billion and total capital investment was \$6.5 billion, when you include the \$1 billion of payments for prior vendor financing activity. And we reduced net debt by \$6.8 billion in the quarter.

Let me speak more to deleveraging on Slide 7. We paid-off \$18 billion in debt since we closed the merger, and we ended the quarter with our adjusted net debt to EBITDA ratio at just under 2.7 times. This is down from 3 times leverage ratio, when we close the deal. And we're squarely on track to hit our year-end target of being in the 2.5 times range.

Year-to-date, we've reduced net debt by nearly \$9 billion, that includes about \$7 billion from free cash flow and nearly \$4 billion in asset monetizations, offset by about \$2 billion of vendor payments and other

purchases of assets. And these sales have come from assets that contribute no EBITDA.

Looking at the remainder of the year, we're confident that we'll hit our year-end leverage target. To the extent, we can overachieve with that target you can expect will take a hard look at allocating capital to share buybacks in the back half of the year.

Let's now look at our segment operating results starting with our Communications segment on Slide 8. The story of our Communications segments this quarter is stable revenue [Technical Difficulty] EBITDA and margin growth, while adding phone subscribers.

Our Entertainment Group is delivering EBITDA growth. And Business Wireline revenue trends improved in the quarter, thanks to strength in strategic and managed services and about \$125 million from IP licensing. But even without those licensing proceeds, Business Wireline revenue trends were the best that we've seen in years. And when you factor in strong Business Wireless performance, our Business Solutions revenue grew 2.3%.

On the cost side between, the team is doing great work in controlling content, promotions and other operating costs. Solid cost management was evident throughout the business, especially in our Entertainment and Business Wireline units.

Let me give you some more details starting with Mobility on Slide 9. Our Mobility business continues to perform very well. Service revenues grew by 2.4%, EBITDA growth was even higher at 3.1% and EBITDA margins expanded by 80 basis points with service margins of 56.1%.

We had a strong quarter with 355,000 phone net adds, including 72,000 postpaid and 283,000 prepaid. And we added 388,000 smartphones in the quarter further strengthening our customer base. Postpaid phone trend was up slightly to 0.86%, but was down sequentially.

And at the same time, our prepaid business, especially Cricket continues to perform at strong consistent levels. Prepaid revenues were up nearly 10%, we had our 18th consecutive quarter of phone growth, and churn hit an all-time low at both cricket and AT&T prepaid. With the network leadership and FirstNet expansion that Randall talked about earlier, we're confident that our wireless business will get even stronger as we evolve to 5G. In short, our network investments particularly our spectrum deployment are paying off, and we're not done yet.

Now let's go on to our Entertainment Group results on Slide 10. Our focus on long-term customer value continues to impact our Entertainment Group.

EBITDA grew both year-over-year and sequentially. This was the second straight quarter of EBITDA growth. Year-to-date EBITDA was up about 4%.

Expense reduction outpaced revenue declines, setting the stage for EBITDA growth. Broadband revenue growth helped us as well as continued growth in video ARPU's. The number of premium TV customers on the two-year price lock declined by more than 600,000 in the quarter.

Video subscriber numbers were in line with what we said to expect for the quarter. Premium declined 778,000 and DIRECTV NOW declined 168,000. And as Randall mentioned earlier, later the summer, we'll begin piloting AT&T TV, our thin client broadband TV product, the best important milestone with our fiber deployment reaching \$14 million customer locations, and satisfying our fiber build commitments. This will be an important driver of growth going forward. In fact, we had more than 300,000 AT&T fiber net adds in the quarter, and IP broadband revenue grew by 6.5%.

We expect AT&T fiber penetration to grow as the service matures. Bottom line, we remain comfortable that we'll meet or exceed our Entertainment Group EBITDA that target for the full year. And lay the groundwork for continued stability beyond 2019.

Let's move to WarnerMedias' results, which are on Slide 11. WarnerMedia continues to be free cash flow accretive. Our expense management with merger-related synergies are on track. We expect to hit a \$700 million run rate by the end of this year. And HBO Max is slated to launch next spring. Overall, WarnerMedia had another strong quarter with 5.5% revenue growth and solid operating income growth. HBO revenues grew, thanks to strong content sales, driven by home entertainment and international licensing.

Turner revenues were up about 2% on subscription revenue growth, and this includes the advertising impact of not having the NCAA Men's Final Four championship this year. It will be back on Turner next year. And at Warner Bros., theatrical revenues increased due to home entertainment games and a highly successful release of Mortal Kombat 11, which drove game revenues.

With that, Mike, we're now ready to take questions.

Michael Viola

Operator, we're ready for the Q&A instructions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] And looks like first, we have the line of John Hodulik of UBS. Your line is open.

John Hodulik

Great. Thank you. Maybe some questions on the Entertainment segment. And specifically, on the video subs. John, you said you've got about another 1 million subs left on the promotions. When did those promotions expire? And maybe if you could comment a little bit on the programming disputes you're having with CBS and Nexstar. One, is this – is expectations for resolution there driving some of the belief and continued growth in EBITDA in that segment? And then, how do you expect that to impact the sub trends as we look into the second half of the year? Thanks.

Randall Stephenson

Hi, John. It's Randall. I'll take the carriage disputes that are going on with CBS and Nexstar first, and I'll hand it to John, let him just kind of reconcile the subscriber numbers for you. As everybody probably knows, CBS has pulled their signal off DIRECTV as has Nexstar. And there are two very different situations.

On CBS, it's kind of an interesting situation. The bid asked candidly is not that wide. But it's kind of an interesting dynamic with them. We sent – that was a reasonable fair offer over five days ago, and it's been Cricket's. We haven't heard anything, haven't yet had a response to the offer. When you're as close as we are, we find a little interesting that we're still sitting here dark and not having interaction with CBS. I'm guessing they're probably distracted with other negotiations right now, but I don't know.

Nexstar, it's a very different situation. Nexstar, as you know basically their product is broadcast, the four big broadcast stations free-over-the-air content, I might point out, and their opening bid in the negotiations like a 100% increase. And not only was it a 100% increase, but the assets that they're trying to acquire that they don't yet own yet. They were asking for a rather significant increase on assets they don't own. So, it began with kind of a nonstarter. They've pulled their signal and gone dark.

Now the spread is they're asking for a 50% increase on broadcast channels that again are free over the air. And so that one may take longer, but we'll just have to be a resolute on this one. We're just not going to impose those kind of price increases on our customers. And interestingly enough, unlike other times we have gone through these type of blackouts where companies have pulled their signal.

Our customers and world of streaming are finding other ways to access this content. And so, there's other technologies, these technologies can even flow right into the programming guide in our DIRECTV lineup and some customers are at a pretty significant rate finding other ways of getting to that content, so that one could take a while. CBS, I'm optimistic, but hopefully we're just going to back to the table and get this closed.

John Stephens

John, taking that forward, we've got about a 1 million customers left, as I mentioned on these price locks, and those price locks expire in the fourth quarter. Pretty much ratably I'd say throughout the second half of the year. But in November, as they closed out, and we expect to have through the process by the end of this year, so we'd expect to continue to see some of the impacts of getting to this value based long-term customer value approach that we've taken on those customers and continue to see some of the same trends we've seen.

Additionally, we have – as you've seen the EBITDA grow and the performance of the business being really solid, certainly stable, but solid in my mind. You can see that; we believe that this value of customer long-term value customer approach is working. So, on the intake side, we're going to continue to file that, and that will also continue to lead us to some working through the rest of this year.

But that being said, we're encouraged about our early insights in the AT&T TV. We're encouraged about the ability to get out of the beta, learn from it, and take it forward the rest of this year. So, when I look at 2020, and we've been through the two year price locks, we've been through a full year of adding a long-term value based customer and we have the potential to use AT&T TV.

We have more optimistic expectations for 2020 that gives us the basis to believe that our margins will continue to be stable next year.

Randall Stephenson

And just most importantly, what John just went through is, as we come out of back end of 2019 and the customer base is cleaned up. We will have a customer base that is going to be perfectly suited for HBO Max. And we really had a really strong second quarter with HBO. And I got to tell you what we saw on HBO in the second quarter, particularly on the digital subscriptions that were added, we're gaining more and more confidence that this DIRECTV base, as we come out of 2019 is going to be ideally suited for driving HBO, HBO Max penetration as we launch that next year.

John Hodulik

Thanks a lot, gentlemen.

Randall Stephenson

Thanks for the question, John. We'll take the next question, operator.

Operator

And next in queue, we'll go to the line of Phil Cusick with J.P. Morgan. Your line is open.

Philip Cusick

Hey, guys. Thanks. Following up there, you've given through the second quarter some thoughts about typical seasonality in video losses in 2Q versus 1Q, and it came through around that 100,000. How do you think about typical video losses in 3Q versus 2Q? And should we expect a continued sort of subdued level of promotion in video until you get to the wider AT&T TV launch?

John Stephens

Yeah, Phil. I think, you should expect – as you call it subdued or what we call at the long-term value focus promotional activity, I think that's right. You should expect that. We have some normal summer activity with video, I wouldn't expect that to change. What I would tell you though is the balancing of that with the same number of customers, the amount of customers getting off these two-year price locks.

Putting that together, what I'm trying to say is, we'd expect this level of losses to continue and are predicting what they are, but we need to get through this 1 million customers base and some of the other, if you will, less the value-conscious-focused promotions that we've done in prior years. We need to get through those that will take us through the end of the year to do that.

The positive side of that is, I don't know what AT&T TV is going to do for us. I think, it's going to be a focus of real results in 2020, because we're going to roll it out later this quarter and then we'll test it. But you can be assured, we're going to continue to focus on this long-term value of the customer.

Operator

And next up in queue, we have the line of Simon Flannery of Morgan Stanley. Your line is open.

Simon Flannery

Great. Thank you very much. Turning to the balance sheet on the buybacks, can you help us think about, how you're going to balance buybacks versus continued deleveraging once you get to the 2.5, where do you – where would you like to end up on the balance sheet and how are you going to divide your free cash flow between the two?

And then if you could update us on the \$6 billion to \$8 billion of net asset sales, you've obviously sold almost \$4 billion already. But where do you see that trending at this point? Thanks.

John Stephens

So, Simon, I want to take the asset sales first. Feel really good about where we're at. The – and I bucket them – I put them in two buckets. One is a straight asset sales, Hulu and Hudson Yards, and that was the \$4 billion. But we've also done a whole collection of other working capital impacts just like the WarnerMedia securitizations, a whole collection of that kind of activity. So, we feel really good where we're at.

With regard to the asset sales, we're – I think, it's public knowledge that we're out there selling our collection of about 1,300 U.S. cell towers that we still have, we still own. We have a whole collection over a 1,000 cell towers in Mexico. We probably have 250 parcels of real estate with a couple of \$100 million in the contract. We have an equity investment in the company called CME and their independent board is reviewing their strategic alternatives.

So, we've got a whole collection of things that's not all of them, but we've got a whole collection of things that gives us confidence in meeting that \$6 billion to \$8 billion range, and hopefully doing very well with regard to that \$6 billion to \$8 billion target.

And I'll remind you that that's on a net basis, too, so we're expecting to cover the investment we made in millimeter wave this year in the 24 auctions. So, the \$6 billion to \$8 billion target is going to include being to pay for that with the proceeds. We just got a lot of opportunities, we feel good about it, and I'll leave that with that.

With regard to the balance sheet, I think, if you can think about as we talked about after – the fourth year after the close of the deal. We look to be – I'd expect, we'd be somewhere around the 2.0 range or below that gives us great flexibility to pay down debt and take advantage of what now is a higher cash cost of equity capital than the cash cost of our debt capital. So, when you look at out of very methodical basis, right now, the cash flows of

the overall operation on an after dividend basis can be enhanced by shifting some of your focus from debt repayment to buyback.

But I want to make sure, we stay focused on the fact that we're going to achieve, we expect to achieve our guidance. And we'll get there and that is our focus – primary focus right now to make sure we look [ph] that. We're well on track, we feel good. I think you can tell that just by the fact that we just raised our guidance on free cash flow. But that's how we think about it. So, these are historically low interest rate environment, and operating at these levels has been something we can very reasonably do, periodically we do and feel very comfortable about.

Randall Stephenson

Thanks. Simon.

Operator

And next up in queue, we have the line of David Barden with Bank of America Merrill Lynch. Your line is open.

David Barden

Hey, guys. Thanks for taking the questions. I guess, the first one would be it's been a while since the Business Wireline side surprised to the upside, and I think that you guys have been trying to kind of just maintain it, but is there something structural or competitively that has evolved it, might be – this might be the first data point in the trend? Or is it more of an anomaly?

And then the second question, John Stephens, would be on the cash flow guide. Could you kind of parse down the increase in the free cash flow guidance? Is it related to lower CapEx, as you shift CapEx to vendor financing? Or is it related to the working capital benefits from the WarnerMedia asset sale or other things kind of that are going to come through the year? It'd just be helpful to kind of get a picture of that. Thanks.

John Stephens

So, they could – let me take that free cash flow one first. And quite frankly, we're at the \$26 billion range, feel very good about that. We did \$2.6 billion securitization that we told you about. And quite frankly some would suggest that raising the guidance to \$28 billion could have been raised even higher number than the \$28 billion range. But quite frankly, we're going to continue to invest in the network, our FirstNet team, our network team is [putting for sales] [ph] quite frankly ahead of schedule. They're being really efficient.

But if they need more capital, I want to have the flexibility to do that and still meet what we're – what our guidance is.

If we can get software releases out quicker with regard to 5G, and put those in place, I want to retain the flexibility to do that. So quite frankly, the raise in guidance is something that's very reasonable to achieve, and feel good about it. And yet retains flexibility for us. So, I understand the reason for your question, but we have retained some flexibility in this to make sure that if we can continue to build at this – the 60% achievement level that we're at is nine months ahead of schedule. If we can keep doing this and the impacts of that overall wireless business are really showing up at lower churn in customer. We've had a 1 million voice customers in the last year, 355,000 just in last quarter. So, feel really good about what it's doing. So, I want to be ready to support those really quality efforts, that's that aspect of it.

Randall Stephenson

On the B2B front, Dave. This is Randall. Look, U.S. business is pretty healthy, U.S. business is doing very, very strong. And we're now into since tax reform, I think, like our six quarter of really healthy fixed investment for businesses. And that tracks really, really well with what we do. And it's been a little soft in the last quarter or two with the China trade discussions. The administration didn't like to – for us to talk about that, but look business has pulled in and best with the last quarter or so as a result of the trade uncertainty.

But with all that said, it's been six quarters of pretty robust increase in business fixed investment and that tracks very well with us. Second is pricing has been pretty rational in this industry, and especially as we've worked off a lot of those whole legacy products, we had this incredible pricing pressure. We're now in the market. What's growing are the new IP type services. And the pricing there in the marketplace has been pretty reasonable and stable, and the new products sets are doing well. You saw special service as we call them, but I think those were up 6% plus for the quarter, which is a really nice healthy growth rate for those.

And then we had some IP sales in the quarter, and that profit up a little bit. So – but even without that, the trends are really, really strong here. We feel good – we feel about as positive on this segment as we have in quite some time. And as businesses keep investing, we'll continue to be really bullish on this segment. And the IP sales by the way, I mean, I know those are come in big blocks, but they're not one time. We've had these in the past had a couple in this quarter, and we'll have probably, I suspect, more in the future that's become a nice little opportunity for us.

And then, we haven't even talked about the Microsoft and the IBM deals that were announced just recently. And those are not inconsequential deals. Those have multifaceted implications. And predominantly, those deals addressed a particular area. The biggest cost item on AT&T's P&L are we call it the factory costs. But it's the network and the IT costs, the big iron costs. And as you have seen over the last few years, we have very consistently with all the activity in the network going on, we have very consistently driven those cost levels down on an absolute basis, 8%, 9%, 10% year-over-year very consistently.

We're kind of getting to a place where it's hard to continue getting those type of productivity increases. What we're doing with both IBM and Microsoft is leveraging their capabilities in large scale cloud deployments. And they're taking over a lot of applications for AT&T, moving those to the cloud. And what is going to do is allow us to continue at this type of cost reduction curve on the network and IT side of the house, and continue that momentum there. In addition, we are securing revenue opportunities with each of those companies, and actually have go-to-market strategies. That will allow us to continue to keep the momentum you're seeing on the wireline revenue side.

So, all in all, I would tell you, we're relatively bullish on the B2B side of the house, and hopeful that we continue to have economic growth, the trade situation doesn't become a distraction for businesses that we can continue and improve on this.

John Stephens

Thanks, Dave.

Randall Stephenson

Take the next question.

Operator

Next up, we have the line of Brett Feldman of Goldman Sachs. Your line is open.

Brett Feldman

Thanks for taking the question. For the last few quarters, we've seen a steady execution in the wireless business, and that's been without being fully deployed on FirstNet without really having had a chance to do a lot yet with 5G. But over the next year, both of those initiatives are going to be much more significantly deployed. Can you talk a little bit about how you

think about your go-to-market in Mobility and whether you think over the next few quarters, there's an opportunity to maybe step on the gas a bit more? Thanks.

Randall Stephenson

Yeah. Thanks, Brett. This is Randall, again. Yeah, look the wireless side of the house, we are feeling more and more confident every day as we execute through the network strategy in the FirstNet strategy. And as you think about growth in the future, you hit on the key elements. FirstNet is just in its infancy, and we have a few hundred subscribers that have moved to FirstNet. The first responder community is a rather large market, and it's a market where we come into it with very small share.

And so, our opportunity to grow share as we build out this First Responder Network is quite significant, and you're starting to see that play itself out. But that just as importantly is as we build out the FirstNet network, we're moving into markets where we have had a pretty thin presence in the past. These are rural communities. And as we move into these communities, we are standing up brand new distribution in many communities. And everybody on this call, who's followed this business for a while knows what the penetration numbers look like when a new entrant comes into a community.

The first market share goes quick. It comes to you quick; we're starting to see that as we stand up distribution in new communities. And we're at the very front end of this as well as we told you, we're 60% built out on our coverage. We have 40% more to go. So, there's a lot of opportunity left here.

And then the piece that's not inconsequential, in fact is probably the most important of all of this, is that AT&T now has claimed the network quality mantle. Network quality is ours, and we feel very strongly about this. And as I told you, we have been rated the best, the fastest and the high most reliable network by people who do this for a living on an independent basis. And as a marketing position, that's a great place to be.

And we're starting to see the impacts of this in key segment customer churn, we're starting to see it in terms of gross add capability. And just having a strong network quality brand and message in the marketplace by itself is a growth strategy. And so bottom line, we're feeling pretty bullish about the wireless business right now. John, would you add anything?

John Stephens

Brett, we think of the first responder community, has 3 million potential, to participate very little in that. We're growing it quickly now. But we also the

secondary first responders, the guys who going in and restore power and restore hospitals, and work in that environment that don't necessarily wear firefighter hats or police badges, that's another 8 million or brings that total almost – that adds about 11 million to it. So that brings that community totaled about 14 million. That's a huge – that's the opportunity we view.

And then you think about them having multiple devices whether it be a tablet or a phone, and then you think about them having family members. So, it really is a very large scale. We are making great progress in getting authorized with agencies and adding customers. And adding customers, that were previously served by somebody else, but we're also very, as Randall said, this network is outstanding, and it's going to serve our existing customer base. And so, it's going to give us this opportunity quite frankly to lower churn to get better quality service to this existing 80 million customers – phone customers we have today. That's a real benefit that I have a difficult time putting a price tag on or giving predictions for. But I know it's a real benefit for us and for the shareholders, for the customers. So, we feel really good about that.

And that leaves us just in a very smooth transition into 5G. This 5G Evolution is going on now to 5G Plus with our millimeter wave and our 20 markets that we're in today. And with the 5G in the core network, where we'll have nationwide coverage next year, we expect by the middle of the year. So, we really are leading in 5G. We really are – and FirstNet is enabling this, and it's going to have a lot of benefits to it. So, you can understand why we do feel good. We do feel good about what the team is doing and how they're performing, and optimistic about meeting targets going forward.

Last thing I'll say is the accounting side of it, you get 70% of this complete by the end of this year. And our network guys have surprised me on the positive side before. We're going to have a lot of the CapEx behind us on the build side. And the remaining piece would be software upgrades, so we feel really good about the financial aspects of this process also.

Randall Stephenson

Thank, Brett. We'll take the next question.

Operator

Will come from the line of Mike McCormack of Guggenheim. Your line is open.

Michael McCormack

Hey, guys, thanks. Randall, obviously a lot of news out there and it seems like the last game was about to change, I guess, fairly dramatically in the wireless business. Just sort of thinking, what are your thoughts over the next three to four years as you see potentially new entrants coming in? How does that change the AT&T strategy going forward? And I guess, secondly on the Business Wireline side, just to circle back on that, it feels like – it sounds like you guys are going to much more on retention efforts around that. Is there something there with regard to share loss being stemmed that's also having a positive impact? Thanks.

Randall Stephenson

I'm sorry, Mike. That last question, say it again, Business Wireline on retention...

Michael McCormack

Just on the Business Wireline side, it seems I've been hearing that you guys been doing a much better job in retaining customers and probably shared to competitors. I just want to see if there's any commentary on that?

Randall Stephenson

That's – and it happens to be accurate. We have done a very good job as new big deals come up retaining those, and as I've told you the pricing has been fairly rational in the marketplace. And so, yeah, we really have had not only on a retention basis, but also on an acquisition basis, picking up new logos. We've picked up a number of new logos in the last year or so. And so that business, again, I just won't dwell on it, but it continues to surprise us in terms of how it's doing. And I'd love to say it's all 100% great execution, but all of that was just good economic health. And American business is quite healthy right now.

In terms of industry structure, there's a lot of noise out there right now in industry structure. And the news this morning that maybe T-Mobile is close to having a deal with the DOJ. I just – there's a – there are so many ifs around industry structure and who's going to be in the market, and who's not. It's actually hard to respond to it. But to answer your question directly, if Charlie Ergen has wireless assets and distribution or Sprint T-Mobile happens or doesn't happen, candidly, it doesn't change anything we're going to do for the next three years.

Our strategy is pretty well baked, and I think the strategy is resilient as it relates to changes in industry structure. It's a strategy from a wireless standpoint that is, first and foremost, centered around FirstNet, getting the

FirstNet capability deployed, built, standing up new distribution, tapping that new market and just continuing to drive network quality.

And then, obviously, the 5G deployment is high, high priority. Also, then pairing that with a unique content in HBO Max. It's not even here yet, but HBO Max will be a key part of this wireless strategy as we get into next year and pairing a very unique premium video content with our wireless and our TV and broadband business. So, whether anything happens with that or not, it doesn't change our strategy.

Now the status of these deals, it's obviously one that we're watching very closely, but there are so many ifs around, does the industry structure change or not. And the interesting part is it's set up where the DOJ is probably not going to be the last say on this deal. And I've not seen this happen in M&A before, where the state AGs have positioned themselves, where they will be the last say on any deal that gets done and they're kind of in a position where they're going to be grading the DOJ's work as we go through this.

And so, thinking about state AGs and then the rumors and so forth in the marketplace, what level of comfort they'll take that the antitrust concerns and fix is Charlie Ergen coming into the wireless business, that's been decades in the making, so it'll be interesting to see how they react to that. So, a lot of things up in the air. It's hard to say which way this thing goes, but at the end of the day, it doesn't change anything we're doing.

Operator

Next up, we have the line of Michael Rollins of Citi.

Michael Rollins

As you consider balancing revenue performance and profitability, can you discuss the role that content exclusivities will play in the future for AT&T in 2 respects? First, on the content in sports rights, like NFL SUNDAY TICKET that you distribute through DIRECTV, and then second, separately, how you think about monetizing the content library in WarnerMedia on an exclusive basis, whether it's through HBO Max or other distributors like Netflix?

Randall Stephenson

Sure. Hi, Mike. Yes. So, start with the NFL SUNDAY TICKET exclusivity. That's something that served DIRECTV well for many years. However, unfortunately, right now, that content is tied to our satellite product. And so, it serves a good value as we come into the fall. It'll be an important retention tool. But in terms of an opportunity to grow our business with that,

when it's anchored to a satellite product, it's kind of hard to utilize it. So hopefully, over time, we can address that and move it on to our other platforms. And I think it can be a really important piece of growing our other platforms.

As you think about NBA, Major League Baseball, a lot of the content that – is – content rights that are held by the Turner companies, whether it be TNT or TBS and the NBA Final 4, and then playoffs fit that as well, those are obviously really important variables. And they've been very, very important in making Turner very unique content as we market it to other distributors, but also as we begin to put that content on our HBO Max platform. This will be at the early stages of HBO Max, but you should assume that ultimately, HBO Max will have live elements.

And those live elements, both unique live sports, premium sports, the ones we just went through, NBA, Major League Baseball, NCAA basketball, those are going to be really, really important elements for HBO Max. The same with news, and you can go through the areas of news that we think are very, very important, and will do quite well as an element of HBO Max.

So exclusive content has been important for as long as the TV business has been around. We don't see that changing, and you should assume that we will take advantage of opportunities, both within Turner and don't forget Bleacher Report. We have some great exclusive live content in Bleacher Report, from NBA to soccer, European soccer and so forth. So, a lot of opportunities to take advantage of the unique content deals that we have within WarnerMedia.

Operator

Next up, we have the line of Kannan Venkateshwar of Barclays.

Kannan Venkateshwar

If I may on the Entertainment Business, if you just look at the performance this particular quarter, despite losing subs, you, of course, did well on revenues and EBITDA relative to expectation then. So, I guess, it's getting to a point where the yield is better than the sub-losses overall. And therefore, when you look at some of these new product launches, the central line device going forward and even DIRECTV NOW, how are you thinking about – what's the product vision behind it? Is it more to manage that? Or is it more for growth? And is video growth from a subscriber perspective really important going forward? Or should we just assume that because the focus is margins and growth, margins and top line stability, the focus will more be on price and costs?

Randall Stephenson

Yes. Hi, Kannan. This is Randall again. You've nailed the equation. I mean, that's exactly what the equation is. It's – one has to ask, how is it that subscribers can decline like this and margins expand? And it says a lot about the customers that are staying on the network, that they tend to be very high-value customers, tend to be very valuable customers as you think about where we are going as a company. And that is distributing unique content through as many distribution points as possible.

And so, as you think about the product portfolio going forward, which is what you have teed up, it's interesting. The DIRECTV product is going to have a really long life, and they're going to be segments of the market for a long time, but that's how you'll address those segments of the market. This thin client product that were bringing to market, it literally takes the customer acquisition costs and cuts it in half. And the beauty of that is that you can begin to address a fundamental problem with the current linear TV business, and that is the price point, but the content costs just continuing to grow. You heard me talk about Nexstar wanting 100% increase on their broadcast rights and so forth.

We've got to find a way to get the cost curve down on this product, so we can keep people into the product for a longer-term basis. So, as you drive customer acquisition costs in half on AT&T TV, the new product we're bringing to market, then you can bring the price points down and hold margins and still have the same value equation from a customer standpoint. So, DIRECTV, good product, will be there for a long time.

AT&T TV, you should assume, this will be the workhorse over the next couple of years. And we will put our shoulder and our muscle behind AT&T TV, get a lower price point, shore up this customer base over the next couple of years. And then the part that shouldn't be missed, and we haven't given any subscriber numbers on HBO digital because we just had Game of Thrones, and we added a lot of digital subscribers. And we will, as we get to the WarnerMedia Day, we'll give some visibility into those. But until we kind of know what the churn characteristics of a product like this looks like, we're going to be a little guarded about giving subscribers.

But here's what we do know, and that is HBO – DISH stopped carrying HBO. And year-over-year, we're actually up HBO subscribers. That tells you how strong the digital subscriber performance of this thing was. And churn is hanging in there pretty strong in the third quarter because as Game of Thrones went off, the HBO folks, we gave them more capital to invest in content. So, in comes the new season of Big Little Lies. It's performed very

well. Chernobyl was a blowout success. After Big Little Lies ended last Sunday. Now we have Succession coming online.

The new season of Barry is coming into play, and this thing is just feeling pretty good. And so, as you think about a video portfolio, DIRECTV, AT&T TV, HBO, which we're getting more and more conviction that HBO Max is going to be meaningful, you can imagine that those are the places we're going to put our shoulder and our muscle as we move forward. And the implications of that to profitability, we think, are pretty important.

And so, we'll give more visibility on the WarnerMedia Day in October. But bottom line, we like how the video portfolio is shaping up here, and you can listen to that discussion and begin to appreciate where you would expect our marketing and customer acquisition muscle to go.

John Stephens

Randall, if I could, one thing to add. All that investment that Randall was talking about and all these new shows that's showing up, first of all, you've seen the 3% revenue increase at HBO ties exactly to what Randall said. How are you doing that without strong digital performance? It's like all these new shows that he's talking about, we've made those content investments. We continue to invest in content just like CapEx throughout the year. And that is in – that is already included in those free cash flow numbers that we've shown up through this year and included in our guidance.

So, we are making decisions to continue to invest. We're doing that today. You're seeing the build on 5G today. You're seeing this investment in content today. And with all of that, we're still coming back to this kind of \$4 a share of free cash flow, not only for the trailing 12 months, but for this year. So, I'd say this, we are investing in the business, particularly in the comments around I made on WarnerMedia and HBO and those types, but also across the board. It's just really important to keep that in mind, and we're still generating just tremendous cash flows, not only in total, but on a per-share basis.

Operator

Our last question will come from the line of Tim Horan of Oppenheimer.

Timothy Horan

Randall, can you dive into the 5G strategy a little bit more? It does feel like now you could be a few years ahead of your peers, and it seems like a great opportunity to gain share, maybe grow ARPU's here, but are you going to be able to deploy the 5G software as soon as the FirstNet build has gone by the

end of next year? And can you talk about maybe what the go-to-market strategy will look like? Will you look to gain share more so or will it be to grow ARPUs? And just practically speaking, from a customer perspective, how much more speed or network capacity or latency will they really see off the bat and starting in 2021?

Randall Stephenson

Yes. Hi, Tim. You bet. We are pretty consistent in talking about the advantages of FirstNet, and that it's allowing us to deploy this 5G hardware with one touch on the sales side. So, we climbed the sales side, and we're doing a number of things. We're turning up the FirstNet hardware and the FirstNet spectrum, and then we're turning up all this other latent data spectrum that we own as we climb the tower and putting the 5G hardware in place. And we've put the beta alpha tag on the phone for 5G Evolution.

And I know some of our competitors didn't like that, but it's proving to be exactly what we told the market that it would be. You turn up all the spectrum, you put the new technology in place and there is a speed enhancement. And we are unquestionably the fastest network in the market just because of that capacity served. And we are literally in the process of, by end of 2019, we'll have increased the total capacity of this network, John had a slide on this, by 50%. There are just inherent performance improvements from that alone that we're seeing and our customers are experiencing, and our churn is reflecting this.

Now 5G, to your question, will a software be ready? By mid-year next year, as we've turned all – put all this hardware in place, we will have a nationwide footprint of 5G. So yes, the software will be turned up. And by mid-year, we'll have a nationwide footprint of 5G. We are also in the process of market-by-market turning up our millimeter wave spectrum 5G into that spectrum band. And as you know, when you put 5G into that millimeter wave band, that's when you get these radical speed lifts, and that's when you start to get the gig-type speeds. And we have it up in areas here in Dallas, for example. And I have a Samsung phone that I carry around. And I routinely, when I do speed tests here in Dallas, get over 1 gig speeds, get 2 gig on some occasions.

And so, you're going to have some radical step-up in speed performance as we deploy this in the millimeter wave on top of our lower-band spectrum where we turn it up over the course of next year.

The really high-performance millimeter wave spectrum is going to come market-by-market, and it will take a while to deploy the really high-speed spectrum. As we turn it up, Tim, you should expect our focus will be a little

different to some of our competitors. It is a business-driven focus at the go-down. And we think it's really important because we can deploy this technology. If somebody needs a connected factory or connected plant, we're doing this in Austin now, you will see us do that. If somebody needs a Wi-Fi replacement for their business operations, we can deploy and we can replace that. If somebody has IoT applications, we can begin to deploy this and roll these services out kind of commensurate with the network deployment.

And so, it will be business-driven at first. As we get broad coverage of the millimeter wave, and this is really important, as our customers begin to get handsets into their hands that can use this technology, which right now, is pretty limited number of handsets, but as we exit next year there'll be a significant – they'll be in the dozen more handsets where people can use this technology, then you'll see us ratchet it up, the marketing and the promotion. We don't want to get too aggressive with the consumer right now where there aren't handsets in the marketplace and there isn't significant coverage. That will happen as we go through the course of next year.

And we do agree with you that we have an advantage here. We have a deployment advantage, and we think we'll have nationwide, this broad 5G deployment mid-year, and that's going to be important for our customers.

John Stephens

And let me wrap up, and then hand it over for Randall for some closing comments. But specifically, on the quarter, we had solid revenue growth. And we met our service revenue growth in mobility. Quality EBITDA growth, solid EPS, strong free cash flows and continued investment in both content and network that are showing up in our results. So, we feel like it was a very good quarter, and we are very – and we remain optimistic going forward. Our ability to generate cash and manage our balance sheet is without question, and we feel very good about it. Randall, let me turn it over to you.

Randall Stephenson

I don't have much to add. I would we just point, all of the commitments we gave to you last year, at the end of the year, we are hitting every one of those. And we're checking the box on each of them. I am gaining greater and greater confidence we'll hit each of those as we go through the course of this year. The debt we'll have at a very reasonable place as we exit this year, I'll be – I fully expect that we'll be buying some stock back as we go through this year and the cash flows continue to produce.

And look, I hope you're seeing in WarnerMedia why we thought this asset was so important for us to own. This is a great business, great talent, great

people running it. HBO is firing on all cylinders. Warner Bros. is doing terrific. And all this is coming together to give us great confidence that HBO Max is going to be something special in the marketplace. And we'll get more to that, more of that to you in October. We look forward to seeing everybody there. Thank you for joining the call, and look forward to seeing you.