Operator

Ladies and gentlemen, thank you for standing by and welcome to the AT&T third quarter 2017 earnings call. At this time, all lines are in a listen-only mode. Later, we will conduct a question-and-answer session. Instructions will be given at that time. And as a reminder, this conference is being recorded.

I would now like to turn the conference over to our host, Michael Viola, Senior Vice President, Investor Relations. Please go ahead, sir.

Michael J. Viola - AT&T, Inc.

Okay, thank you, Kathy, and good afternoon, everyone. Welcome to our third quarter conference call. I'm Mike Viola, Head of Investor Relations for AT&T. Joining me on the call today is John Stephens, AT&T's Chief Financial Officer. John is going to cover the third quarter results and then provide several business update. And we'll follow that with Q&A.

As always, our earnings materials are available on the Investor Relations page of the AT&T website. That includes our news release, our 8-K, investor briefing, associated schedules.

Now before we begin, I'd like to call your attention our Safe Harbor statement. That's on slide 2. The Safe Harbor statement says some of the comments today may be forward-looking. As such, they're subject to risks and uncertainties. Results may differ materially, and additional information is always available on the Investor Relations website.

And so with that, I now would like to turn the call over to AT&T's CFO, John Stephens.

John J. Stephens - AT&T, Inc.

Thanks, Mike, and thanks for everyone for joining us on the call today. Our financial summary is on slide 3.

Before we get to the results, this was an unprecedented quarter when it comes to natural disasters. Hurricanes pounded Texas and Florida and caused historic damage to Puerto Rico and the U.S. Virgin Islands, and earthquakes and storms devastated Mexico. Our hearts go out to all those that are impacted. Our team has coordinated with federal, state, and local officials to maintain and restore service throughout the impacted areas. I've heard some remarkable stories about the lengths our employees went to, not only to restore service, but also just to help others. Our legacy of service spans more than 140 years at this company, and it's being kept alive by dedicated employees dealing with situations like this. Senior management just wants to make a special thanks to all our employees for what they've done through these challenging times.

Now turning to our results, we've once again included both a quarterly and a year-to-date view to give you a more complete perspective. We continue to track well against our full-year guidance, and we continue to invest for the growth of our business and remain focused and optimistic about our long-term opportunities. After adjustments, third quarter EPS was $0.74, stable with last year and up more than 4% year to date. The adjustments include the impact of higher interest expense for the pre-funding of our Time Warner transaction and storm-related costs.

Revenues continue to be pressured by slow equipment sales and what were legacy services. We've had about 2 million fewer phone upgrades so far this year when compared to a year ago. That has a big impact on revenue but also reduces expenses. But year to date, adjusted consolidated operating margins were up 80 basis points over last year and third quarter margins were stable year over year, thanks to record margins for Mobility and solid performance from our Business Solutions group.

Cash flow also continues at a very strong pace. Cash from operations is up for both the quarter and year to date. That's helping us handle increased capital spending so far this year. Capital spending was $5.3 billion for the quarter and $16.5 billion year to date. Free cash flow was $5.9 billion in the quarter, or up more than 13% year over year. That's one of our highest quarters ever and provides ample support for our attractive dividend. It's even stronger when you consider the impact of FirstNet on free cash flow. Year to date, we've invested more than $200 million in FirstNet, with reimbursement for most of that to be received in the coming months.

Now let's take a look at our operations, starting with Mobility. Those details are on slide 4. As a reminder, AT&T's domestic Mobility operations are divided between the Business Solutions and Consumer Wireless segments. For comparison purposes, the company also is providing supplemental information for its total U.S. wireless operations.

Mobility turned in another great quarter, as we continue to execute efficiently and effectively while increasing the number of customers on mobile with video bundles. Margins continue to come in at record levels, helped in part by excellent cost management. We had our best-ever EBITDA margin of 42%, and service margin was also a record at 50.4%.

Postpaid phone churn set another record for the third quarter at 0.84%, and we continue to add branded phones and increase our smartphone base.

Revenue was impacted by fewer equipment sales. Customers are holding on to their phones longer, and others are bringing their own device, which shows our plans are providing customers the choices they want. Service revenue continues to be impacted by customers choosing unlimited plans and eliminating overage charges as well as some lower resale revenues.

While it's easy to get caught up in the day-to-day noise in the wireless marketplace, look at the bar charts where we show a two-year view of our Mobility operating statistics. During that time, our postpaid smartphone base is increasing, up by more than 1.5 million customers. And our prepaid phone base has the highest growth rate in the industry. We added 3.5 million new prepaid phone subscribers in the last two years.

Branded smartphones are our most valuable customers, and we've increased that base by about 6 million in the last two years. We've also lowered churn in that time, setting record low postpaid phone churn levels quarter in and quarter out. As you take a look on the lower right where we show historical service revenue for the four largest carriers, we've not only held our own when it comes to industry service revenue share during the last two years, we've increased it. And we've been very successful in convincing our feature phone customers to move to higher ARPU smartphones.

So in the last few years, as wireless companies have intensely battled for market share, we've grown our smartphone base, expanded margins to record levels, reduced churn, and grown our share of wireless industry service revenues. We're well positioned to compete and respond to customers' needs for the long term.

Now let's move to our Entertainment Group. The results are on slide 5. You know the headlines of our Entertainment Group from our 8-K filed earlier this month. Revenues were slightly down. Growth in IP, video service, and advertising revenues offset most of the legacy voice declines. But margins were under pressure in the quarter. Increased content costs, promotional activity, and video platform expenses impacted results. Management's decision to tighten our credit policy and focus on overdue accounts impacted customer counts. That and the losses from severe storms explain nearly half of our traditional TV decline. While these efforts are impacting customer counts, these steps are the right long-term approach for the business.

Even with these impacts, we expect a net addition to our total video customer base in the fourth quarter, with improvement coming from linear TV. While we continue to work to improve our linear video, we are very encouraged by the rapid deployment of our DTV NOW offering. We added nearly 300,000 DIRECTV NOW customers in the third quarter and have nearly 800,000 subscribers in total. That's incredible scale in less than a year of operation, and we expect that growth to continue. And most of those customers are new to our TV service, new to AT&T, about 700,000.

We continue to evolve our video model at this time. We've kicked off our beta trial for the next-generation software platform. This will enhance ARPU and margins and include additional functionality, such as cloud DVR, additional streams, pay-per-view movies and events. We expect to launch this new platform widely in early 2018.

We also have another revenue opportunity with targeted ads. We're very committed to building a data Insights business, which takes our scale and resources to give our customers and ourselves a very competitive targeted opportunity. In fact, we established a new organization and brought in Brian Lesser, one of the top minds in the advertising business, to help us build this business.

And DIRECTV NOW is only getting better. We've added live local channels in more than 75 markets, with more than 30% of the country now receiving all four of the major networks. And customer acquisition costs are a fraction of a traditional TV gross add. And while we increase our capabilities and ad reach even more, there will be some twists and turns along the way in this evolution, but we're confident in the direction we're heading.

At the same time, consistent with the original DTV merger plan, we're having success with our integrated offers. Our sales channels are great at coordinating bundled sales. Despite traditional video losses, we grew both the number of TV-and-wireless and TV-and-broadband customers. The number of TV-and-wireless bundles have grown by 20% since the DTV deal closed. Those 6.5 million video customers represent more than 20 million of our wireless postpaid subs. We only have about a quarter of the video base in these bundles, so we see considerable opportunity in our future. And that is significant because the churn rate of our DIRECTV homes who also have wireless is nearly half that of the standalone satellite subscribers, and it's about 30% lower when we bundle with IP broadband. And as you've seen previously, this is impacting our record low wireless postpaid phone churn as well.

We also had another solid quarter of broadband growth. Total broadband subscribers grew for the fourth straight quarter. We also added 125,000 IP broadband subscribers in the quarter and nearly 600,000 in the last year. Even more exciting are our plans to step up our high-speed Internet deployment and reach more than 50 million customer locations with competitive broadband speeds over the next few years. This includes our previously announced plan to reach 14 million customer locations with fiber-to-the-prem, our existing VDSL footprint, where we offer speeds of at least

50 megabits or higher, and the existing 8 million businesses who are either using or within 1,000 feet of existing fiber capabilities.

But it also includes a planned high-speed 5G deployment on a national basis, capitalizing on our dense fiber footprint across the country. This will make us one of the country's largest, if not the largest, high-speed Internet service provider, with more than half of those locations seeing near-gigabit speeds and strengthening our nationwide wireless and video bundles even more. We're seeing the impact of faster Internet speeds already. Penetration rates in markets where we have offered fiber for more than 24 months are approaching 50%, so we see a healthy growth opportunity developing there.

Now, let's look at Business Solutions results on slide six. Structural changes in the Business Solutions segment are impacting results, as we continue to make gains in margins even as we deal with legacy revenue pressures. Wireline revenues were down, as gains in strategic services helped offset some of the declines in legacy voice. Lower equipment revenues also pressured results. But we continue to drive hard on cost management initiatives while increasing the percent of revenues that come from wireless, and those two things together are driving higher margins.

EBITDA for the quarter was stable at $6.8 billion, with EBITDA margin improving by 150 basis points. Our move to software-defined networking is making an incredible difference with our cost efforts. About 45% of our network functions were virtualized at the end of the third quarter, and we're on track to reach 55% by the end of this year, with a longer-term goal of 75% or more.

Moving to our international business at the bottom of slide 6, we saw solid growth across our operations. Revenues were up nearly 12%, as both Latin America and Mexico showed gains. EBITDA did decline year over year, due primarily to additional customer acquisition expenses in Mexico and foreign exchange impacts in our DTV Latin America operations.

In Mexico, revenue grew both sequentially and year over year. Revenues were up almost 27% year over year. We continue to add subscribers in Mexico, about 700,000 new customers in the quarter, with a total approaching 14 million customers in service. We were able to accomplish this at a very difficult time for Mexico. The earthquake devastated parts of the country and some of our operations. We do expect fourth quarter sales to be strong and so forth to pressure – have some impact on margins. But we also expect to turn the corner with positive EBITDA in the next few quarters. At the same time, our Latin American satellite operations continue to be profitable. Revenues were up about 5%. Revenues were up more than 12% if you back out the impact of foreign exchange.

Let's now move to our business update on slide 7. First, we continue to expect to close the Time Warner deal by the end of the year. Brazil regulatory authorities have approved the deal, with approval from the Department of Justice the last step. The financing is set, and we're ready to close once we receive DOJ approval. And once the deal closes, we plan to file pro forma financial statements. These will include detail on intangible amortization, deferred production cost, and the impact of inter-segment eliminations. In the meantime, Time Warner continues to perform well, even better than our expectation. That's a tribute to Time Warner's management team and the quality of that overall company.

Next, the FirstNet opt-in process is underway. We've had a tremendous response so far. Already, 27 states and territories have opted in, and we are just a month into the 90-day opt-in window. The deadline for opting in is December 28. States that don't take action by that time will be automatically opted in. We expect to hit the ground running and issue work orders in January after the opt-in period closes. We've already committed more than $200 million in capital to the project in preparation for its start.

Third, in anticipation of the Time Warner deal closing, we have reorganized our business. We're streamlining our corporate functions and pushing costs directly to the business units to drive efficiencies and respond more quickly to customers' needs. And we've established a new advertising and analytics organization to enhance our overall business opportunities.

We also continue to review our portfolio of assets. We're always evaluating opportunities to monetize non-core assets such as real estate. We continue to have great optionality with our international portfolio and has been our practice for years. We manage our spectrum portfolio, adding to and divesting when the right opportunities develop.

The recent storms showed how well our network performs in challenging situations and bodes well for FirstNet. Our employees made heroic efforts to get cell towers operating virtually overnight, clear central offices, and restore services to literally millions of people. We've been through a lot of challenges, but I've never seen our teams work as hard to maintain and restore our vital services for our customers.

And while much of the media attention was focused on the U.S. mainland, the damage caused by hurricanes in Puerto Rico and the U.S. Virgin Islands was unprecedented, and so was our response. Recovery is progressing, with additional equipment arriving daily. We are seeing traffic grow daily on our network as service is restored. We currently have wireless services to about two-thirds of our customers in Puerto Rico and 93% of our customers in the

U.S. Virgin Islands, with daily call volumes now nearing three-fourths of the level of pre-storm activity.

We're doing whatever it takes to reconnect customers; working with authorities, competitors, and even new experimental ways of providing service. It's still a long road ahead for the people of Puerto Rico, but we plan to be there every step of the way. Sometimes an opportunity comes from difficult events, and that is how we are seeing our rebuilding efforts. This will be an opportunity to review our build plans and potentially replace older infrastructure with the latest technology. This will provide a more resilient network with more speed and capabilities for customers.

Moving to regulatory and tax reform, as you know, we're always keeping an eye on what's happening in Washington. We see a change in the mindset across DC in promoting lighter-touch regulation and pro-growth initiatives. We think this is incredibly positive for our country and could catalyze the economic growth we're looking for and the country desperately needs. The regulatory authorities have led the way with several positive moves. Controversial rules around business data services and set-top box regulations are off the table in support of the repeal of data privacy rules that apply only to ISPs and not other Internet companies. And there are hopeful signs that the FCC is going to reverse its controversial decision to extend the 83-year-old Title II regime to broadband services.

At the same time, we continue to be strong advocates for tax reform. The United States is not competitive with the world when it comes to the tax rate American companies pay, which is encouraging the placement of investment and jobs outside the U.S. We have the highest corporate tax rate in the developed world, and this is a once-in-a-generation opportunity to level the playing field for American workers and the businesses that employ them. If we can get this right, we not only help U.S. businesses compete globally, but it will drive greater investment and job creation here at home. It should shift investment to the U.S. and help generate revenue growth for U.S. service providers. This is the key to driving greater productivity and GDP growth.

Tax reform is the catalyst we need to spur investment. AT&T already invests more in the United States than any other public company, but we're ready to invest even more if tax reform becomes law. This is an opportunity that we can't let slip through our fingers. Recent developments are very encouraging, and we'll continue to work with Congress on this as well as add our voice to the business community supporting tax reform.

Now before we go to your questions, let's look at a quick recap of the quarter on slide 8. Obviously, it was another full quarter for AT&T. We have a lot going on in our business, but we are on track with all of our full-year guidance. Adjusted earnings and operating margins were stable, even as we dealt with pressures from legacy services and the Entertainment group. Cash flow continued at robust levels, including nearly 13% year-over-year growth in third quarter free cash flow. And our team is doing an incredible job handling the impact from natural disasters. Our Mobility group continues to turn in record EBITDA margins and the lowest-ever phone churn while growing our postpaid smartphone and branded phone base. And at the same time, our broadband business is showing growing momentum, and we're on track to deploy one of the largest high-speed Internet footprints in the country.

The video model is evolving, and we are very encouraged by the rapid deployment of our DTV NOW product. Our bundling strategy is working and gives us a unique value-creating opportunity. Our continued success with targeted data analytics and advertising is another positive sign. And with the closing of our Time Warner deal, we will gain significant scale in that business to build out new and innovative platforms and services. And we are very pleased with the momentum the FirstNet process is showing. We look forward to completing the state opt-in process at the end of this year.

We have a lot of work to do as we close this year and prepare for 2018. There are always challenges in our business, but we remain optimistic not only for the future, but also very confident that we will get this job done.

With that, Mike, I will turn it back to you for Q&A.

Michael J. Viola - AT&T, Inc.

Okay, Kathy, we are ready to take the first question.

Question-and-Answer Session

Operator

All right, thank you. Our first question will come from John Hodulik with UBS. Go ahead, please.

John C. Hodulik - UBS Securities LLC

Great, thanks, a couple of questions on the wireless market. First, John, service revenues have been accelerating – or the decline has been accelerating for the last couple of quarters, but the sub trends have improved a bit. Can you talk a little bit about whether we should expect to see that line stabilize – the service revenues that is? And then talk a little bit about the competitive environment here in wireless as we head into the iPhone X launch. Do you think that's going to drive volumes and drive more promotions? Just what you're seeing in the market would be great. Thanks.

John J. Stephens - AT&T, Inc.

So, John, let me take the first question. First of all when we came out with Unlimited – when Unlimited came out in the plans, we've got really smart customers, very direct, very simply we have real smart customers. Those that had overages quickly went to the Unlimited, and that's what generated some of the service revenue pressure. It's also generated high satisfaction and low churn, but it did generate some of the service revenue pressure. What we're also expecting is that some of the customers on some less expensive bucketed plans will buy up to the Unlimited plans and generate some revenue increases for those customers for us. That will come over time as data usage increases, as the capabilities of our network continue to improve and as well as customers use them. So we would expect that step-up and customer count step-ups to help service revenues going forward.

Secondly, as you've seen in our reseller business, we have chosen not to pursue some reseller accounts and to make sure we kept capacity available for our business. It was a better use of it for our smartphone customers than for reseller customers. And so we saw some pressure this year from reseller revenues. We'd expect that to ebb as we go into 2018 and improve. So from both those perspectives, there's some optimism on service revenues and changing in that trend.

With regard to the competitive environment, so far we've seen some rational activity through the iPhone 8 launch and most recently the activities that are going on, so we're optimistic. We're certainly ready. And as you can see, our margins are very solid and the performance has been great. But we believe we can compete and win based on our product offerings and that promotional activity of an extensive nature is not necessary.

John C. Hodulik - UBS Securities LLC

Got it, great. Thanks, guys.

John J. Stephens - AT&T, Inc.

Sure. Thank you, John.

Operator

Thank you. Our next question is from Phil Cusick with JPMorgan. Please go ahead.

Philip A. Cusick - JPMorgan Securities LLC

Hi, John. Thanks. I wonder if we can talk about the video strategy. First, I guess the comment that traditional TV will improve in the fourth quarter, is that from typical seasonality, or do you plan to promote even more aggressively? Because it seems like you guys have been pretty aggressive for the last few months.

John J. Stephens - AT&T, Inc.

So based on what we see in the marketplace, what our marketing studies tell us, it's also based on getting through the losses. About half the losses, or just under half the losses this quarter were from involuntary churn because we tightened our credit policies. They were from the storms and the customers that we lost because of the storms that we just did not – that we took off the rolls, because those houses were gone and so forth. And also because on the gross add basis, when we tightened credit policy, we shifted some of those gross adds towards DTV NOW as opposed to the linear. We see those impacts easing in the fourth quarter, as we also see some opportunities to grow the net add numbers – or improve, I should say, the net add numbers.

I wouldn't suggest it's from a significant change or movement in our competitive process or offerings or promotions. It's just what we are seeing in the marketplace. As I say, one of the key things is that the unusual or high nature of this quarter's losses had to do with some management decisions with regard to credit metrics and cleaning up some involuntary churn matters.

Philip A. Cusick - JPMorgan Securities LLC

Okay. And then if I can follow up, maybe the DIRECTV NOW side, how many of the new customers came in on that $10 add-in? I was surprised that 700,000 of those customers are new to AT&T. And so that would indicate that it didn't impact churn that much. So has this been more of a gross add engine than a retention engine?

John J. Stephens - AT&T, Inc.

It has been more of a gross add engine, more than – I don't think we're giving out details, but I'll say this. More than half of those customers, for example, are not bundled with our wireless service. That's a real opportunity for us going forward, but they're not as of today. And I think 700,000 of the 800,000 are new, what I would call new to AT&T, so this is definitely that opportunity.

We think as we look at it, of the customers that we have coming in, about half of them come from our competitors, switching off a paid TV service from our competitors. The other half – 10% or so come from ourselves, migrating from one of our services, U-verse or DTV. But the rest of it are cord-nevers or the MDU news (30:29), just a variety of opportunities that we had not previously tapped into.

I would suggest to you, though, going forward, we may more assertively utilize this for calls into our call centers for the full DTV. For those customers of a certain credit quality, we might look to push them or move them towards DTV NOW, just like we've done in the past with our successful offering of prepay, where we've looked to make sure that we have value-conscious customer offerings in both wireless on the prepaid side and in the DTV NOW offering on the video side.

Philip A. Cusick - JPMorgan Securities LLC

Okay, so you're seeing customers call up for existing DTV customers and moving to NOW, but that's only about 10% of NOW.

John J. Stephens - AT&T, Inc.

Not extensively. You're right, what you just said is right generally. 10% of those customers we don't think of as a significant level at this current time. But yes, it was about 10% or so.

Philip A. Cusick - JPMorgan Securities LLC

Okay. Thanks, John.

John J. Stephens - AT&T, Inc.

Sure.

Operator

Thank you. Our next question is from Amir Rozwadowski with Barclays Capital. Please go ahead.

Amir Rozwadowski - Barclays Capital, Inc.

Thank you very much. John, I wonder if we can continue on discussing the video business a bit. If we think about the margin pressure we've seen on a year-over-year basis, one would assume that's due to some of the traditional video offers that you mentioned, and also the transition increasingly to an OTT-centric business model. How should we think about the margin trajectory for the business going forward? You had mentioned that there are some new service launches going forward, the opportunity set around advertising, so I would love to hear your thoughts around that.

John J. Stephens - AT&T, Inc.

So on a long-term basis, when we come out with the new platform early in 2018, think about the opportunity on DTV NOW to get pay-per-view events, whether they be movies or some of the other events that are out there. Think about being able to provide features like cloud DVR, additional streams. And with all those opportunities go additional opportunities to raise revenues, and revenues that customers would be willing to pay for and improve the quality of the service. That gives us – that's how we're thinking about it long term.

In addition, the ability to get the data insights, to learn about what customers are watching, what's necessary, will help us put together new packages and packages more directed towards what customers -we think that will help us take market share and also help improve the financial results as we structure those packages.

And then third, all those data insights, whether it's information we take to improve our own marketing, we have a large marketing budget here. And if we could take that data insight and get that information and make it more effective, that's a huge opportunity for us for a company of our size, as well as selling digital ad insertion and doing digital advertising on the DTV NOW platform in selected situations. We believe that that is an opportunity.

So those are all the things that we look to as we, more importantly, build this platform and get the volume base of this platform up as we approach – approaching 1 million customers here, as we close out the quarter 800,000, and then building on that and having the scale to effectively do these other things. That's how we're thinking about it on a long-term basis.

I will tell you the quarter – your comment, Amir, on the video losses did affect the margins for the quarter is correct. The NFL coming out on a sequential basis, this being the NFL season, affects them. But I can also tell you we continue to spend money on platforms and improvement of the DTV NOW as well as our other activities. And so that as well as promotional activities also had an impact on margins, just to complete that story.

Amir Rozwadowski - Barclays Capital, Inc.

That's helpful, and then one question on the mobile side of the business. If we look at your year-over-year declines in phone-only net adds are easing, how should we think about the prospects for returning to growth, particularly as your smartphone base continues to expand?

John J. Stephens - AT&T, Inc.

So on postpaid, we're growing customer base. If you look at postpaid phones, if you take out the feature phone losses, we're essentially at flat or slight growth. So if you think about it from that way, we believe that we are getting to that turning point when you – the reason for the slide that shows that 92% of our phones are smartphones comes down to the fact that our flow share on smartphones versus feature phones is about 95%. That differential used to be about 10 percentage points or 1,000 basis points. It's down to about 300 or 3%, so we're getting to that point. That leaves us – provides us great optimism about the health of the business and about moving it forward. And when you put on top of that the margins we're seeing, we're really encouraged.

The bundling strategy, the video bundling with DTV is working, and we'll continue to use good judgment in providing customers what they want. But that's how I think about the mobile business. It's really quite stunning results when you think about EBITDA margins, EBITDA service margins, churn. It's really quite encouraging.

Amir Rozwadowski - Barclays Capital, Inc.

Thanks very much for the incremental color.

John J. Stephens - AT&T, Inc.

Thanks.

Operator

Thank you. We'll go next to Simon Flannery with Morgan Stanley. Please go ahead.

Simon Flannery - Morgan Stanley & Co. LLC

Thanks a lot, good afternoon. John, can you talk a little bit about 5G in more detail? You've got a number of trials going on. It looks like you're basically committing to a nationwide rollout here. So how are the trial results going, and how should we think about the shape of your deployment 2018, 2019, and 2020? It looks like you're increasing your locations, the high-speed locations 20 million, 8 million of those come from fiber. The balance of 12 million is I guess a mix of some of the things you describe, but it seems like 5G is going to be a big part of that. So talk us through what we've seen so far that gives you the confidence. And then what's the shape of that and the investment over the next couple of years? Thanks.

John J. Stephens - AT&T, Inc.

So we've done a couple of test overlays – more than a couple, a large number. We used LTE-LAA and other capabilities in our network out in San Francisco and got 750-meg speeds on the tests we did out there. Even if you take 10% of that to be normal fully loaded network speeds, you'd still have 75-meg speeds. We think that's pretty tremendous. We did a testing in Austin too, one in the same base where we combined carrier aggregation, MIMO, I think we used LTE-LAA there. And when we did that, we had phenomenal speeds, even I think as good if not better than we had in San Francisco. In addition, we did a millimeter wave, 28-gig millimeter wave test there and got a point-to-point test over 1-gig speed. So all of these things are things that the network team has already done, they've already been successful with.

Based on the tests that we ran in Austin and San Francisco, we're deploying out to 20 cities right now. We hope to have them done by the end of the year, near the end of the year. These capabilities with carrier aggregation, LTE-LAA, and MIMO capabilities, and with those we are optimistic that we're going to get flow-through speeds that could cap 400 megs even by the end of the year and with that, on a fully loaded market, use a lower percentage. But those things are going on now. When you take those plans out a few years, we have a plan to hit the largest 30 cities with that capability. That 5G capability will overlap some of the, if you will, IP fiber-based services we have. So we didn't want to double count, so those numbers are overlapping, but it will be very great.

When you talk about 5G from a millimeter wave perspective, we expect to continue testing that as we have in Austin and other places. I think everyone is aware we've got a transaction waiting for approval in front of the FCC on the significant holdings of a 39-gigahertz millimeter wave spectrum. We're moving forward on that. We expect the standards to be out in 2019 and equipment to be out. Following that, that is one that we will be one of the leaders on, and it will be in addition or in connection with the cities build-out that I just described. So I hope that gives you a sense of why we're so comfortable with putting that in greater than 50 million locations. Some of them will be served with both wireless or fiber-to-the-prem or fiber-to-the-business. But we are confident that in total, counting each of the locations only once, we'll have over 50 million.

Simon Flannery - Morgan Stanley & Co. LLC

Okay. And so you have you proved out the business model on the millimeter wave yet, or is that still something you still need to work through?

John J. Stephens - AT&T, Inc.

I'll say it this way. I think we proved out the business model that businesses need speed and capacity. That's been proven out. We need to do more specifically with the 39-gigahertz build-out. But from what we've learned in our Austin trial, we're optimistic that it will work out. Now remember, we have extensive fiber throughout the country, not only in our local exchange, our traditional service areas, where we have extensive fiber, fiber into neighborhoods, fiber nodes, fiber to businesses. But even on a national footprint, we have extensive fiber because of our legacy companies. And so we have a unique benefit compared to many others as we build out a wireless IP capability. Others do not have the ability to rely on the built-in fiber holdings that we have, and I think that's a unique advantage. We will continue to modify and adjust the build plans and the product offerings as customers direct us, but we're confident we're going to be able to do this in a very profitable way.

Simon Flannery - Morgan Stanley & Co. LLC

Great, thank you.

John J. Stephens - AT&T, Inc.

Thank you.

Operator

Thank you. Our next question is from Vijay Jayant with Evercore ISI. Please go ahead.

James Ratcliffe - Evercore Group LLC

Good afternoon, it's James Ratcliffe for Vijay., two if I could. First of all on targeted advertising, I understand in theory how you would target ads in the platforms you control. Can you talk about what the opportunity to target ads or improve CPMs is on the portion of TWX viewing that doesn't come over DIRECTV platforms?

And secondly, any thoughts regarding potential consolidation in the satellite business, now that you're fully into DIRECTV? It seems like the DIRECTV satellite business is likely to be shrinking over time. Thanks.

John J. Stephens - AT&T, Inc.

No comment on the satellite business.

With regard to the advertising opportunity set, let me say this. With the data insights we have off of our satellite-delivered video, off our wireline or IP video, off our wireless-delivered content, and over our broadband networks, we have extensive data. We can now marry that with a data insights business capability that we've been building over four years, a big data company. We're now hiring those quality resources under Brian Lesser to get the quality and the talent that knows this business and takes this business and develops the products and services that we'll be able to first, quite frankly, use internally. We are a very large advertiser, if not the largest in the United States. And so the efficiency opportunity of taking this new information and using it effectively is enormous inside our four walls.

But secondly, that also helps us with marketing activities. It helps us with efficiency in choosing content, making content choices, even marketing our programs, our films and so forth, because we have that knowledge. That's all internal and that's a very big deal. But if you think about the ad impressions that come over with Time Warner and add those to the impressions that we have on our network, they are literally, literally in the billions.

If you want a proof point insight that's out there, you can just look at our advertising business, and it's growing in double digits. And that's from the initial use here of addressable advertising focus with some additional data. I'd suggest to you that's, if you will, the best way to think about it and the way to analyze it. If we could get those kinds of advertising revenues that we are getting on the DTV and U-verse IP platform growth on the Time Warner business, that would be very, very good. And that's just if we can, but I'm not going to give you specific targeted numbers. But I would suggest to you the indications are that this can be effective based on what we've seen in our Ad Tech business and our Entertainment group on the advertising side.

James Ratcliffe - Evercore Group LLC

Great, thank you.

John J. Stephens - AT&T, Inc.

Sure.

Operator

Thank you. Our next question is from Brett Feldman with Goldman Sachs. Please go ahead.

Brett Feldman - Goldman Sachs & Co. LLC

Thanks, a couple follow-up questions around the broadband strategy that you outlined. I'll go slow here. You're talking about getting to delivering competitive speeds to 50 million customer locations. How many customer locations do you currently deliver those types of competitive speeds to? So in other words, how much do you think you're expanding your addressable market through the project? And then just along with that, can you break that down at all between in-footprint versus out-of-footprint? I've got to imagine some of that is outside your traditional footprint.

And then the last part of it would be you have to do 12.5 million fiber locations. Is that where you're going to stop, or do you think of that 50 million, maybe more than 12.5 million will ultimately be served by fiber? Thank you.

John J. Stephens - AT&T, Inc.

Sure. Sure, Brett. Let me try to answer this as directly as possible. First of all, we're going to do the 12.5 million because we committed to do that and we're on track and we're ahead of that schedule. Secondly, because of the way the 12.5 million is counted – and there are some limits on greenfield build, there are some limits on overbuild of existing capabilities and so on and so forth, I'd suggest when we're done with that we're going to be closer to 14 million. And I'm using that as a rounded number, but let's call it 14 million on that fiber-to-the-prem.

Secondly, we're right now at about 8 million business customer locations, business locations that either have fiber that's active in their buildings or within the industry-standard 1,000 feet where it's very effective to just go in and connect them. So that takes it up to 22 million. We have a VDSL footprint that serves at over 50 megs – or 50 megs, I should say, or better. Today, that's about 20 million. So those are the pieces. The additional pieces will be covered by 5G, and we're not going any higher than that.

To back up though and start, right now we're at 6 million I think with fiber-to-the-prem. We're at 8 million with business fiber. With business, that's 14 million. We're at 20 million with VDSL. That's 34 million. And we're not claiming today to be any 5G on the wireless, although we have some builds that have been effective in that area, as I described earlier. That's the starting point.

The additions, as I mentioned, will get up to 14 million with 8 million. The 20 million may change on the VDSL because we may upgrade it with fiber. We may do other things with it. So we'll see what happens with that. And then lastly is the 5G overbuild, which quite frankly might cover much of those same locations but won't be counted twice. We're only counting additional coverage.

Brett Feldman - Goldman Sachs & Co. LLC

And what's the timeline you think it's going to take to get to the 50 million, including all of those techniques?

John J. Stephens - AT&T, Inc.

I think we put in there that it would be around 2020 or thereafter, and I feel real comfortable about saying that's the way it's described on that on the slide. I feel very comfortable. The team is working very hard. The thing everybody's got to remember that one of keys to all of this is we're going to be out on our network doing FirstNet work. We've got 27 states and territories that have already opted in. We're 27-for-27 so far, and so we're going to have this opportunity – requirements to build out the 12.5 million, requirements to build out for FirstNet, but the opportunity to coordinate those builds and do it very effectively at the same time. So we're pretty optimistic with it, not to mention I'm optimistic because of the $6.5 billion contribution we get from FirstNet to fund this build.

Brett Feldman - Goldman Sachs & Co. LLC

Great, thank you.

Operator

Thank you. And we now have a question from David Barden with Bank of America. Please go ahead.

David Barden - Bank of America - Merrill Lynch

Hi, guys. Thanks for taking the questions. I guess two, if I could. John, just a higher-level question, I think a lot of people who watched your go-to-market evolution over the course of the summer and are looking at these results here would say that it appears that you've been willing to make an investment on the entertainment and video side, perhaps at a loss, in order to try to create a gain on the wireless side in terms of improved postpaid phone net adds, margin, churn, et cetera. And I guess if that's accurate, I'm wondering if you could grade yourself. How happy are you now with what you've achieved? And then is this the strategy that you want to keep doing at the rate at which you're doing it on a go-forward basis, thinking ahead to Time Warner?

And then the second question would be Business Services obviously is down year over year. But if you look first quarter to second quarter to third quarter, it's actually been pretty stable across the fixed line side of the house. So I was wondering if you could talk a little bit about if we've found a plateau in that, or if we should see some drop-off as other forces are at work. Thanks.

John J. Stephens - AT&T, Inc.

So let me take the last one first. We are starting to see some green shoots with regard to the pricing activity in-business. I'd suggest to you that there's more to come, but we are starting to see that. We continue to be optimistic about our product portfolio. We have a challenging business because we've got a lot of legacy voice and legacy analog data. But we continue to be convicted with regard to – and convinced that our IP-based products and services are a good long-term strategy. And as you point out, we are seeing some improvement in the pricing area. That's one.

With regard to our strategy, we are in a bundled strategy. We are not in a strategy to trade one business off against the other. What we are in a strategy to do is to utilize all of our assets to benefit our customers and grow our business. And so bundling of wireless and video, bundling of broadband and video, bundling of broadband, wireless, and video is definitely the strategy. We definitely believe that works, and we definitely believe that can add value for the overall customer base, shareholders and customers alike. So that is what we're doing. And we'll continue to believe in that. We think it's the right strategy and we think it's working for us.

I don't want to suggest, David, that there are any trade-offs or there are any views in that in the sense that we are looking at one business more favorably than the other. We look at the total value creation for the business and try to focus our minds on what the shareholders and the best long-term health of the business. And you know what, the strategy we established was the one we established when we closed the DTV merger. We expected, we hoped, and we planned that churn would improve, that broadband deployment would improve, that wireless would improve, and we're seeing all those things happen. So we feel good about that.

With regard to this quarter's video, linear video losses, remember the point. About half those losses were a decision based on creditworthiness and credit policies and credit standards as well as some pain from natural disasters. We still believe those were the right decisions in the long-term interest of business, but those are different decisions than others would imply, and I want to make sure that's clear.

David Barden - Bank of America - Merrill Lynch

And, John, if I could, just a very quick follow-up, so just to be clear, so when you bundle a $10 DTV NOW package that maybe has, many estimate, $30 or slightly higher in terms of content cost, that $20 a month that you're investing to subsidize that DTV NOW product, you're seeing the financial returns on the wireless side.

John J. Stephens - AT&T, Inc.

Our wireless customers are really valuable in the extension of their life through the lowering of their churn, and the ability to get entire families or entire groups of phones is really important to us. And so we strongly believe that that is value-accretive to the total operations of the total organization, and we monitor it on a very regular basis.

I will tell you, though, to make sure we have a – going back to a comment I think that Phil may have asked me about, and that is remember, these DTV NOW customers, much of them are new to us. And so not only do we have that new customer on the video side, but now we're going to get the opportunity to potentially get their wireless business and to potentially get their broadband business if we're in a position to do that. So we're very encouraged about that kind of opportunity that goes the other way, but we are convicted in the business proposition.

David Barden - Bank of America - Merrill Lynch

Perfect. Thanks, John.

John J. Stephens - AT&T, Inc.

Thank you.

Operator

Thank you. Our next question is from Frank Louthan with Raymond James. Go ahead, please.

Frank Garreth Louthan - Raymond James & Associates, Inc.

Great, thank you. Thank you very much. Can you give us an idea of your longer-term trends on the prepaid and on the wireless side in wholesale? Where are you trending? You said you made the decision to step away from some the wholesale providers. Are you looking to back off on that? And how quickly can you redeploy some of the network assets for your own brands?

John J. Stephens - AT&T, Inc.

The capacity is immediately re-deployable as it changes, so that's ongoing. With regard to the prepaid trends, we're continuing to see, as you saw, strong growth in our prepaid numbers. What we are seeing, for example – and we mentioned this in the 8-K with the reclass of our customer counts, if you think about it, we built this platform of a connected car. So we have millions and millions of connected cars out there, over 10 million connected cars out there. So we built this platform, and those are down in our Internet of Things in our connected device category.

But now what we're finding is that 65% of the people who drive cars aren't our wireless customers, so we're finding a real opportunity to connect tens of thousands of those, almost 100,000 this quarter, with a prepaid offering to the connected car. And when they do that, they will pay us. It's not a $4 or $5, it's a $15 or $20 connection. And so it not only gives us a really great revenue opportunity and high margin, and that's a lot better than a resale opportunity at a much lower, but it's also an opportunity to show them what we can do and then potentially get the rest of their wireless business or get the rest of their video business.

So that's how we're thinking about prepaid. It's not just the continued growth in the smartphones and the continued expansion of the base, as we've shown, 3.5 million customers in the last two years, pretty good numbers, but also in now building on these other platforms that we've built and use that as the opportunity, just like DTV NOW, to go out and see if we can make those customers a bundled or a complete customer of AT&T. And that's an opportunity that we're going to continue to pursue. That's a real value-creating and a win-win for the customer and for the shareholder.

Frank Garreth Louthan - Raymond James & Associates, Inc.

All right, thank you very much.

Michael J. Viola - AT&T, Inc.

Sure. Kathy, we've got time for one more question, and then John will have some closing remarks.

Operator

All right, thank you. That will come from Matthew Niknam with Deutsche Bank. Please go ahead.

Matthew Niknam - Deutsche Bank Securities, Inc.

Hey, guys. Thank you for getting me in, just one on bundling. If you can, help us maybe first think through satellite video performance, how that differed inside and outside of your ILEC footprint. And then maybe more broadly, in order to better bundle with a broadband product outside your footprint, how do you think about accelerating efforts like your G.fast trials and 5G, which you talked about a little bit earlier, to maybe go to market with a broadband pipe beyond the ILEC footprint and potentially better bundle relative to maybe a video and wireless bundle? Thanks.

John J. Stephens - AT&T, Inc.

Great. If I can, let me answer your question by just modifying it a little bit. It's not just inside or outside the footprint. It's really that ability, as you point out, as a standalone product, we have higher churn. As we pointed out in the slides, when we bundle satellite with wireless, the churn drops by 50%. When we bundle it with broadband, it drops by 30%. So either one of those, as you suggest, are very, very good strategies.

From a wireless basis, we've got a national footprint, so the opportunity to do that is there. The need to continually improve speeds and throughput on the wireless network is there. But first, that gives us the solution to do that and some financial wherewithal to do that. So the network team is working very, very hard. That's why our finance guy can talk about the tests that they've already run in Austin and San Francisco and Indianapolis so easily because the network team has been on this. And that's exactly what they're thinking about.

With regard to – and they'll do that across that national footprint. And then we will do inside. We believe that there's that opportunity to get these IP broadband speeds in that footprint, the 50 million build that we're talking, or 50 million potential or more really goes to exactly what you're talking about. So that is what we're trying. We're evaluating those builds on a regular basis. We're trying to balance capital needs and capacity capabilities as well as the desire to go out and build it once as opposed to build it with a tentative technology and then have to rip it out, as some would suggest, with regard to their claims to building out on millimeter wave even before standards are set. So it's balancing all of that. But you're right, that is what we're doing. That is our goal of enhancing speeds and coverage to more than 50 million locations.

Matthew Niknam - Deutsche Bank Securities, Inc.

Excellent. Thanks, John.

John J. Stephens - AT&T, Inc.

Thank you. With that, folks, I want to thank you all again for being on the call today. In closing, we had a strong quarter, and our quarter and our year-to-date activities are on track to meet guidance. Our Wireless business is performing at record levels. Our DTV NOW offering is growing extremely rapidly. Almost 800,000 customers for a business that's less than a year old is pretty dramatic. We've got work to do and plans in place to improve our linear TV business. Our business solutions and our international continue to meet expectations and perform extremely well. And we're excited about the opportunity that our data insights ad tech business and Time Warner will provide.

We continue to have strong cash flows, and we view that very positively, particularly as we have great coverage on our dividend. And as we go to that time of year, we want to make sure that we continue and we will be able to continue to provide our board the opportunity to continue raising our dividend if they so choose for the 34th consecutive year. We are positive about it, the future. We're optimistic. We've got to continue to work hard, but we believe strongly in what we're doing and our strategy.

With that being said, we thank you for your time and look forward to working with you in the future. Take care.