Operator

Ladies and gentlemen, thank you for standing by. Welcome to the AT&T Second Quarter 2015 Earnings Conference Call. At this time, all participants are in a listen-only mode and later we will conduct a question-and-answer session. [Operator Instructions] I'd now like to turn the conference over to our host, Senior Vice President, Investor Relations for AT&T, Mr. Mike Viola. Please go ahead, sir.

Mike Viola

Okay. Thank you, Lori and good afternoon everybody. Welcome to our second quarter conference call. Thank you for joining us today. As Lori said, I am 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 will provide an update with perspective on the quarter and then we will follow that with a Q&A session. Let me remind you that our earnings material is available on the Investor Relations page of the AT&T website and that's att.com/investor.relations.

I need to call your attention on Page 2 to our Safe Harbor statement. Before we begin, the Safe Harbor statement says that some of our comments today maybe forward-looking. And as such, they are subject to risks and uncertainties. Results may differ materially and additional information is available on the Investor Relations page of AT&T's website.

Before I turn it over to John, let me cover Slide 3, cover our consolidated financial summary. Adjusted EPS for the quarter was $0.69, that's up more than 11% over last year's second quarter. This includes adjustments for a non-cash charge related to Leap's network decommissioning and other merger-related costs, which include DIRECTV and Mexico. This strong year-over-year growth comes even with earnings pressure from our Mexican wireless operations as well as the impact from our divested Connecticut wireline business and our equity investment in América Móvil.

Consolidated revenues grew to $33 billion. It's up more than 2% when you adjust for the sale of our Connecticut wireline property. This growth was driven by continued solid performance in wireless as we repositioned our smartphone base. We had impressive gains in strategic business services and strong wireline consumer revenue growth. Cash flows also grew significantly in the quarter. Cash from ops for the quarter totaled more than $9 billion, up more than 13% over last year's second quarter. And free cash flow was $4.5 billion and more than $7 billion on a year-to-date basis and that brought our free cash flow dividend payout to 67% on a year-to-date basis.

And so with that overview, I will now turn the call over to AT&T's Chief Financial Officer, John Stephens and he will discuss our operational highlights. John?

John Stephens

Thank you, Mike and hello everyone. Thanks for joining us today and as always thanks for your interest in AT&T. As you can see in our second quarter results, our moves to transform the company are working and working well. We grew revenues, expand the margins and achieved double-digit adjusted EPS growth. Cash flows were strong allowing us to invest in our business, return substantial value to shareholders and strengthen our cash position. Our moves to reposition our smartphone customer base are working achieving the expected results. Almost 80% of the smartphone base is already on Mobile Share Value plans and 68% of our smartphone sales and upgrades were on AT&T Next. When you are adding the customers who brought their own device, nearly three quarters of smartphone sales were without subsidies. This helped drive strong postpaid phone-only with Next ARPU growth and best ever service margins.

In wireline, our transition to IT services continues at a strong cliff. U-verse services are more than 70% of consumer revenues and helped drive near 4% adjusted revenue growth. Strategic services are now a third of our wireline business revenues and continue to grow at a very strong pace. So, all in all, a very strong quarter as we begin the diversification of our company. Our growth in cost initiatives, such as Project VIP and Project Agile, are working. We are executing at a high level and we have a solid foundation for growth as we move forward.

Now, let's take a closer look at our operational highlights starting with wireless on Slide 5. Our wireless strategy is working. Our efforts to reposition the smartphone base to the no subsidy model have taken hold. We continue to see solid evidence that our efforts are paying off. First, the most significant shift of our smartphone customers to Mobile Share Value plans is behind us. This has helped stabilize service revenues, which were essentially flat for the quarter. There was heavy promotional activity on last year's second quarter, which pressured service revenues. So, our disciplined sales approach this year helped in our year-over-year comparison.

Second, as service revenues stabilized and the number of customers using AT&T Next increases, we have seen our postpaid phone ARPU with Next increase steadily. It was up more than 6% year-over-year. And our postpaid phone-only revenues increased sequentially reaching its highest level in three quarters. We are about halfway through the expected Next sales cycle as customers upgrade their smartphones. As they do, we expect continued

ARPU with Next growth as more customers upgrade. Our focus on costs, Cricket's operational efficiencies and other cost savings programs, such as Project Agile, help drive strong margin expansion in the quarter. Our adjusted wireless EBITDA service margin was 48.5%, our best performance ever and an almost 600 basis point improvement over last year's second quarter. The story of the last six quarters has been repositioning our smartphone base. This has moved subscribers away from the heavy handset subsidies in exchange for lower monthly pricing. For the last several quarters, customers on pre-Next pricing have been ahead of us, but we are starting to see the benefits of the strategy.

Let's talk more about that on Slide 6. We have made remarkable progress in transitioning our customers to Mobile Share Value plans. In a little more than a year, nearly two-thirds of our smartphone base has moved to the no subsidy discount pricing of Mobile Share Value. While customers continue to choose these plans, the growth rate is slowing as the penetration has been achieved. On the other hand, the revenue growth opportunity with AT&T Next has much farther to go. About 68% of our smartphone sales in the quarter were on AT&T Next, but our Next customer base is only about 37%. That gives us substantial opportunity to grow revenues as these customers upgrade their smartphones.

We expect penetration rates for both Mobile Share Value and AT&T Next to continue to grow. AT&T Next and Bring Your Own Device are about 90% of postpaid smartphone sales are company-owned stores and have programs – and we have programs in place to generate similar or better rates in our other channels. And the Mobile Share Value plans, continues to draw new customers. Only about 12% of our smartphone base is still on unlimited data plans and that has been steadily dropping as customers choose to move to our new Mobile Share Value plans.

We also continue to see growth in the percentage of our postpaid base on Mobile Share Value family plans or business plans. That total has reached 96% in this past quarter. These plans tend to be more sticky with lower churn. We also turned in another strong net add quarter as postpaid, prepaid and connected devices drove our highest net adds in more than 3 years. Those details are on Slide 7.

Total net adds came in at 2.1 million subscribers, including 410,000 postpaid subscribers and 1.4 million connected devices. Cricket is really kicking in the gear. Prepaid voice had a strong turnaround year from a year ago. We gained more than 330,000 prepaid voice customers after losing about that many in the year ago quarter.

Our process has been benefited by our ability to transition the Cricket customers to our new high-quality 4G LTE network. Our strong sales efforts and the near completion of the Cricket integration helped drive that turnaround. 97% of Cricket customers are now on our GSM platform as we continue the integration and as we shutdown the CDMA networks. These are premium prepaid customers, almost all are choosing smartphones when they go onto our GSM platform and about two thirds of the gross adds are choosing our highest value plans. Those are plans that have higher ARPU. In fact, those ARPU levels are similar and sometimes better than other carrier's postpaid ARPU. And we are doing this integration faster and with less churn than we originally anticipated even with our network conversion. We had our lowest ever prepaid churn, thanks to continued progress with Cricket even as we decommission the networks.

We also had our second largest connected device net add quarter ever. Our leadership in connected cars drove that growth. Our relationship with eight car manufacturers producing more than half of the new connected cars in the United States is driving this as more and more manufacturers make connectivity a key part of their new car strategies. The company had 7.2 million branded smartphone gross adds and upgrades in the second quarter. We increased our high quality branded smartphone base by about 1.2 million in the quarter. This includes branded upgrades and migrations, which we don't include in our net add number. The smartphone momentum, plus strength in prepaid, led to a positive branded voice net adds in the quarter. Churn continues to be solid. Postpaid churn was down slightly from the first quarter of this year. And for the year, we are still running below last year's best ever annual postpaid churn record of 1.04%. Total churn was also impressive. It dropped 16 basis points to 1.31% from 1.47% in the year ago quarter, driven in large part by the significant improvements in prepaid. And branded churn was also down year-over-year as we added more than 740,000 branded devices.

Now let's look at our wireline operation. That information is on Slide 8. The repositioning of our wireline base also is working. The challenge here is to maintain margins while transitioning customers to IP services from higher margin legacy services. That's not a simple task. But the team's extraordinary efforts to control costs and focus on profitability has helped stabilize or we can expand margins as we made this transition. That was true this quarter even with about $40 million or 30 basis points of additional pressure from spring storms that hit our network and our footprint. We have taken several measures to make this possible. You know of our efforts to exit low margin wholesale businesses causes revenue pressure, but it does improve the future of our business. Our customer service focus has helped to reduce cycle times in provisioning services for customers and added network on demand capabilities with our next generation network investments. These efforts were recently recognized by IDC, which named AT&T a leader in seeking new innovations to improve customer service.

Our Project Agile is more of a mindset than just a cost efficiency program. We are not only finding ways to take costs out of our business, but also working to make things simpler to start with for both our customers and us. Our transformation IP technologies continue to drive strong performance in both strategic business services and wireline consumer in the quarter. Adjusted strategic service revenues grew by nearly 14%. And when you adjust for the foreign exchange pressure, growth was even stronger, coming in at more than 16%. At the same time, we see the impact of IP with our data revenues. Total data revenues are nearly 60% of wireline business revenues and more than half of those revenues are from strategic services as we transition customers from legacy data services. This has helped drive total data year-over-year revenue growth for the third consecutive quarter.

Adjusted wireline business revenues were down 3.9%. However, if you adjust for the impact of our discontinued wholesale businesses and FX, the decline would have been 1.7%. There was revenue pressure across our wireline business operation, but was most pronounced in wholesale, where we have been focusing on profitable sales even if it meant a reduction in revenue. Small business revenue was down slightly over the first quarter of the year, but we continue to see fiber sales accelerate and we are very excited to hear that AT&T has been named the highest ranked brand in overall business wireline customer satisfaction performance in the J.D. Power small-to-medium business segment for 2015. That's quite a tribute to the business teams' efforts in this space.

On the consumer side, U-verse services are more than 70% of consumer revenues and adjusted revenues grew about 19% year-over-year. That helped drive our strongest consumer revenue growth in 5 quarters, growing by 3.7% when adjusting for the sale of Connecticut operations. You also see our focus on profitability and repositioning our customer base with U-verse. Video net adds dropped with fewer promotions and are targeting of high value subscribers. We did add about 240,000 IP broadband customers in the quarter as we continue to reposition our DSL base to IP. That work is nearing completion with less than 1 million eligible DSL subscribers left to transition.

Now, let's look at consolidated margins, which are on Slide 9. The strength in wireless and stable wireline margins had a positive impact on consolidated margins. In the second quarter, our adjusted EBITDA grew to $11.1 billion and the adjusted consolidated margin was 33.6% compared to 31.5% last year. That's more than 200 basis point improvement. Adjusted operating income also is showing continued improvement. It was $6.5 billion, up 12.4% year-over-year. And adjusted operating income margin grew to 19.6%, up more than 190 basis points from the year earlier second quarter. This was largely due to cost focus initiatives, which included Project Agile, our strength in wireless, growth in consumer revenues and gains in strategic business services. The company also benefited from lower trailing expenses from capital spending as Project VIP was completed. And our move to next generation networks is starting to make a real difference as well.

Now, let's move to cash flow, where we had an outstanding quarter. The summary is on Slide 10. Our ability to generate cash continues to be strong. Cash from operations totaled $9.2 billion, that's nearly four times our dividend commitment and our best cash generation in seven quarters. And we generated $15.9 billion in cash year-to-date. Capital expenditures totaled $4.7 billion and $8.7 billion year-to-date. We still expect standalone capital spending in the $18 billion range this year, but we are now including our expansion efforts in Mexico in that amount. Free cash flow was $4.5 billion and $7.2 billion year-to-date. We are well on our way to hitting our standalone free cash flow guidance we gave you earlier this year. We now expect standalone free cash flow, excluding any impact from DIRECTV in the $12 billion range or better and this includes the operational and capital impacts from our Mexican acquisitions.

In terms of uses of cash, dividends totaled $2.4 billion, which gives us a free cash flow to dividend payout ratio of 55% for the quarter and about 67% year-to-date. Our net debt to adjusted EBITDA ratio was 2.15, similar to the first quarter. We did issue debt in the second quarter to help finance our acquisition activities. Our long-range goal is to get these levels back to the 1.8 range and expect our cash focus to be on paying down debt in the near-term. The strong financial performance in the first half of the year sets us up well for the transformation and diversification of our business.

Now, let me close with a quick summary of the quarter on Slide 11 before we get to your questions. Our transformation plan is working. When you build the great network, develop next generation products and focus on the customer, good things happen. This focus drove strong results in the quarter that's all growing revenues, expanding margins and double-digit adjusted EPS growth, but just as important was our ability to generate cash from our business, which we did. All this is in line or better than guidance that we gave you earlier this year. These results add to our confidence that we are on track to hit our standalone guidance metrics.

Wireless financials were solid as we near completion of our shift to Mobile Share Value plans. Next take rates continue to increase helping drive increasing postpaid phone with Next ARPU. Our prepaid brands are doing great and our expense management helped drive our best ever service margins. Our move into Mexico positions us as the only company who owns and operates a North American mobile service area that will serve more than 400 million people with 4G LTE service. And we expect to reach 350 million people by year end. Owning these network assets not only provides a high level of service quality for our customers, but also gives us owner's economics advantages.

We are also very pleased that in order to approve our DIRECTV transaction with certain conditions, it's circulating at the SEC. We expect final approval at anytime. We won't be able to address any of your questions about the deal today during this call, but I can tell you this. First, as far as any conditions that Chairman Wheeler alluded to earlier this week, we feel very confident that we can make an adequate return on any investment we make as part of this deal. Our threshold for investment in determining what's best for our shareholders has not changed. Second, we still fully expect to achieve $2.5 billion worth of cost synergies from this transaction. That also has not changed.

We plan to webcast an Analyst Day from Dallas very soon after the deal closes to discuss our strategy in much more detail. We are more confident than ever about the opportunity this transaction brings. We are building a unique communications and entertainment company, that we believe will not only transform us, but transform our industry as well. And we are very anxious to talk with you about it.

With that, Lori, let's go ahead and take some questions.

Question-and-Answer Session

Operator

[Operator Instructions] We'll go to John Hodulik with UBS. Please go ahead.

John Hodulik

Okay, thanks. Good afternoon, guys.

John Stephens

Good afternoon, John.

John Hodulik

Hey, the two things I think that stood up the most in the report were the service revenue trends and the wireless margins. So, first, on the service revenue, given the trends you are seeing and the slowing shift to the Mobile

Share Value, do you feel confident that we can get to growth in that line item in the second half of the year given the competitive environment? And then on the margins, big improvement there, 600 basis points in the year-over-year basis. I mean, there were some add-backs, but is this – is that the kind of improvement we should see throughout the rest of the year? Thanks.

John Stephens

Yes, John, good question. Thanks. First, let me say this, we are pleased with the team's efforts on the cost containment and that really help push the margins up. They did a great job and they continue with that focus. On the service revenues, we did get a little bit of benefit this year or this quarter from the promotional activity that took place last year. So, the disciplined sales approach that the team took was really important to driving that good performance in the service revenues. While we are not giving specific guidance on either on service margins or on the specific amount of wireless margins, we are going to stay with our guidance that we did have out there that we continue to expect to grow overall revenues in our business and that we are going to continue to expect to grow margins both on the wireless and on the consolidated side. So, I will stick with that, but yes, we are very encouraged by it. The discipline that the team has shown is impressive and we see every reason to continue that focus and discipline.

John Hodulik

Alright, thanks, John.

John Stephens

Thank you.

Operator

We will go to Phil Cusick with JPMorgan.

Phil Cusick

Hi, guys. Thanks. I guess if you could talk about Mexico, can you expand for us on the plan there. You have talked about $3 billion investment. How does that split out across CapEx, OpEx? What's the timing? And when can we see those networks really integrated and ready to start ramping growth? Thanks, John.

John Stephens

Yes, so thanks, Phil. The $3 billion capital investment is capital dollars. It's expected over about a 4-year period. It won't – I won't suggest you and it will include updating 100 million POPs to LTE. But as I have said before that won't be linear, each additional POP won't have the same capital investment associated with it, because we will focus our efforts on those in best position to be upgraded and those best positioned to serve customers. That's how we will get the 40 million we are targeting by the end of this year. So the, if you will, capital will not be spread evenly or ratably over the cycle time. With that being said, I think you can view us as getting to that 40 million next year and at the end of, I think it's '18 we have talked about, we will get to the full 100 million. That's the spread plan that we have, Phil. But the $3 billion is capital dollars.

With regard to this year, what we really want to make sure is clear is as we spelled out in the separate international segment, the international business right now is requiring some investment. We are aware of that. We expected it. And we are going to make those investments. And with that investment and the investment in capital this year, we still believe two things will happen. We will be able to come through in the CapEx in the $18 billion range for the total company, including the Mexico CapEx and we will generate free cash flow in the $12 billion range or better, including both the capital and operational expense requirements of the Mexico business.

Phil Cusick

If I can just follow-up, the $18 billion in CapEx this year implies a nice downtick in the U.S. spending, what's driving that? Are you finding that you just don't need to spend it or are you sort of pushing that out to next year?

John Stephens

Well, I think a couple of things. And the simplest thing is to say network team did a great job in getting the work done and we've got 300, nearly 310 million POPs with LTE right now. And we are putting on a spectrum to use as opposed to building towers. And so that aspect of it is just a utilization of spectrum we own and capabilities we have that don't require as much CapEx. Secondly, the 57 million IP broadband and what is now approximately 900,000 business customer locations passed with fiber. Once again, the network guys have done a great job in getting the Project VIP initiatives completed. And when they are done, there is the additional spend isn't necessary, because the project has been concluded not for lack of anything, but for success. That's what's driving our changes. We continue to focus on working capital and construction work in progress and driving down cycle times and a whole host of other efforts, the team is doing really good work on and that's also helping out, but it's really positive things that are driving this capability. We are going to continue invest in capacity. We are going to continue to invest in successful sales. We feel very good about our ability to continue to respond to customers in a positive way.

Phil Cusick

Thanks, John.

John Stephens

Thank you.

Operator

And we go to Mike McCormack with Jefferies. Please go ahead.

Mike McCormack

Hey, guys. Thanks. I had just a quick comment on competitive positioning, thinking about the handset losses in the quarter. Clearly, it's seeding a little bit of share here at the benefit of probably margins and probably some of the ARPU trends, but just maybe a comment on those sub-losses you are seeing in the handset side, the quality of those subs. And then, secondly John, your thoughts on cash taxes as we look into 2016?

John Stephens

Couple of things. Mike thanks for the question. First only, let me say it this way, on a branded net add basis we were negative, on voice we were positive. We added voice customers. Now on the postpaid category, we did lose some feature phones, which have our lowest ARPUs. But on the prepaid side with both our Cricket and GoPhone brands, we added some premium customers. I think I mentioned that two-thirds of our Cricket customers are buying out of the higher plans. Those are $50, $60 month plans. Two thirds or more of our customers are buying those plans. And those ARPUs are higher than the feature phone ARPUs we are losing and quite frankly, higher than a lot of – some people in the markets postpaid ARPU. So we are getting great tradeoff. The beauty of that, though and the thing is helping margins. So, there is very low acquisition subsidy costs with regard to those customers. We did sell over 7 million smartphones through the – in the quarter. A lot of those were in our prepaid space, but we did sell that. Beauty of it is that the customers are satisfying the financial requirements of those phones such that it's allowing us to keep our margins up.

Mike McCormack

And John, we are seeing a meaningful amount of those sort of postpaid feature phones moving over to the Cricket brand or prepaid brands?

John Stephens

No, those will be migrations. So we would account for those as migrations, so you wouldn't have those in our net add numbers. The 330,000 voice net adds in prepaid were all customers we acquired that had not had service with anybody before or we took from other providers. So we feel really good about our competitive position and we are really excited about our prepaid brands and very excited about what's happening with Cricket and quality of the customers we are getting. And quite frankly, the great job the teams done in the accelerating the integration, getting us over on the – on our GSM or LTE networks, getting smartphones to these customers hands and really providing quality service. Churn is – the reduction in churn is really impressive. And you can see from our slides, overall churn – total churn was down 16 basis points, that's mainly driven by the improvements in our prepaid.

Mike McCormack

Okay. And the cash taxes in '16 as we look at it?

John Stephens

Yes, I think the key issue in cash taxes in '16 would generally be expected to go up because of the tax rules and currently in place right now. No legislation for bonus depreciation. With that being said, there has been a bill that came out of the Senate finance committee I think just last week. There has been a lot of activity in the house to extend the various tax extenders, research bill and credit and other things and include bonus depreciation. Some say for a 2 years cycle, others say 3 years to 5 years cycle depending upon which piece of legislation we are talking about. If those happen, we would see a significant benefit from a company who invest in the United States and invest in jobs through CapEx in the United States. So that's yet to be seen as what will happen.

Mike McCormack

Okay, great John. Thanks.

John Stephens

Thank you, Mike.

Operator

We will go to David Barden, Bank of America Merrill Lynch. Please go ahead.

David Barden

Hey guys. Thanks for taking the questions. I guess, first John if I could ask the wireless margin question another way, which is looking at the sequential change in the cost, there is about almost $750 million of sequential costs went away after you subtracted out the merger and integration expenses. So could you kind of parse down what happened quarter-over-quarter in the wireless business and can we expect this starting point to be where we should look at wireless margins for the rest of the year and in '16. And then, I guess, as a second question, it's no secret we are all trying to figure out the implications of the potential conditions here. But I think as the level is set in that conversation, could you kind of go through what you are able to talk about in terms of the scope of the current GigaPower initiative, the economics around that initiative, cost of home passed and so we can kind of all be on the same page in that conversation? Thanks.

John Stephens

So let me start with the wireless, right. There are a couple of things we need to be focused on. One is we made significant progress with regard to Cricket and the integration of it. So we have been able to free up a lot of spectrum over the year to take in capacity in a very efficient and low-cost way. So be able to serve customers more effectively get more LTE. Secondly, we have – the Cricket as you know the company we bought was operating at a – and it will say that challenge environment will challenge results from a margin and operating income perspective. The team has put in place integration plans and activated those and effectuated those. They are now improving and growing EBITDA and operating contribution in that piece of it. So if you go back if you look at the prior public company we bought the lead company and you can get a sense if you can turn those numbers positive, you can have a real improvement on your quarter, that's one.

Two, we have seen efforts in our customer tier and specifically in our mobility customer care centers, where we have done a whole variety of settings, whether it's the sales guys keeping consistent sales offers out there, with the – whether it's the retail stores having the sales agent spend more time to make sure customers explain it, whether it's moving towards getting it right the first time and getting the first call resolution or it's our extensive investments over the last few years in Digital First and allowing customers to, for example order, upgrade, buy different packages, pay their bills, those types of things on their smartphones. All that has driven, call volumes down significantly into our care centers to the tune of, we will probably have a drop for this year of about 10 million phone calls out of our mobility care centers alone. So that's another activity that's going.

Our LTE network is a lower cost network and we are continuing to see people use more data and buying up into bigger plans, that's helping.

Additionally, we are seeing our customers seem to want to hold their phones longer under the next plan, at least longer than we had initially expected. And with that, we are seeing cost savings there. So those are all part of what we saw in the second quarter. And we are optimistic that we will be able to continue much of that momentum maybe at different levels, but we are going to be able to continue that momentum going forward. So we are very optimistic about that.

With regard to the transaction, I won't make any comments. With regard to GigaPower, we have announced an effort to go into 25 major markets to place fiber to the prem in those. We have done it and started in some initial markets in Dallas and Austin, some others. Our initial results have been very encouraging. Our sales have exceeded our expectations. We are seeing great, if you will net promoter scores from our customers who take those services. And we are encouraged by that. And I think based on prudence how these – the comments with regard to it is that, but we are encouraged by what we have seen out of GigaPower and the capabilities it brings, not only to our customers, but to us as a service provider.

David Barden

Great. Thanks, John.

John Stephens

Thanks.

Operator

And we will go to Amir Rozwadowski with Barclays Capital. Please go ahead.

Amir Rozwadowski

Thank you very much. John, I was wondering if you could switch gears back to start assessing the competitive environment, particularly in the wireless arena, there has been a lot of discussions around levels of promotional activity in sort of the first part of the year, whether or not we are at elevated levels or sort of depressed levels versus last year. As you look out towards the remainder of the year, you had mentioned that you are taking a disciplined approach, I was wondering if you can give us a bit more color in terms of your strategy going forward here in terms of either from a promotional standpoint or if there is some new products coming on the line with this merger, the type of strategies that you are taking for customer acquisition?

John Stephens

Yes. So let me just say it this way. We are certainly evaluating and watching our competitor's moves in the marketplace. What I would tell you is that we are not responding to each and everyone from a discounting program. We have shown that kind of discipline. We have responded with – with an effort to make customer care easier, customer service easier, customer data situations, like rollover data, where we can meet some of the customers' pain points and satisfy them. And we have done a great job in providing value customer solution with our prepaid brand. Those are the kinds of things we are going to do and continue to do. I think you have seen it in our numbers that this disciplined approach has paid off. And as I mentioned, we did have positive voice net adds. So we feel good about what is done to positioning. Quite frankly, the biggest strategy play that we have had in that wireless base was probably acquisition of Cricket and giving us that capability that platform and the distribution to really serve those value customers in a different way. But if you will, yes, it's a competitive market, it continues to be noisy, a competitive market, but it's been that way for sometime and I wouldn't expect necessarily to change. But I do like our ability to compete with the tools that we have that are different than our competitors. Having that premium prepaid, having Mobile Share value, having Next, having connected cars and connected devices, having all those tools in this great network, I believe we are in the best position to compete going forward and are looking forward to that opportunity.

Amir Rozwadowski

Thank you. And then if I may one brief follow-up in thinking about sort of churn levels and then we have seen sort of a tick down from the prior quarter and in thinking about the scope of the competitive landscape, how do you think that sort of churn should progress through the course of the year?

John Stephens

Yes, we won't give any predictions, I mean, specifically on that. We are focused on churn as a way of giving good service, lowers churn, lowers churn, gives good profitability. So, we certainly value it. And we will continue to focus on it. I will just leave it to say that through 6 months, our churn on a postpaid basis is lower than last year's full year. And last year's full year was our best year ever. And then secondly, as I mentioned, if you peel through our numbers, you can see our total churn dropped 16 basis points, which means our prepaid churn, which I did mention had its best quarter ever for us. And our prepaid churns are improving. So, we are really focused on it. And we believe that gives us that opportunity to really generate value, still being very competitive in the marketplace.

Amir Rozwadowski

Thank you very much for the additional color.

John Stephens

Thanks, Amir.

Operator

We have Brett Feldman with Goldman Sachs. Please go ahead.

Brett Feldman

Thanks for taking the question. John, during your statements, you mentioned that you are increasingly focused on driving profitability in the wireline side and you know that there was a small loss of video customers against that strategy. It implies you saw something in the market that you just didn't want to respond to. So, if you could maybe give us a little color in terms of what you saw, what you didn't like, and where you are really focused strategically? That will be helpful. And just along those lines since the broadband numbers, we are just a little under run-rate on U-verse I think you talked about where you were from a penetration standpoint in an upgrade cycle, if you could revisit that? That would be helpful.

John Stephens

So, a couple of things. One with regard to we do have a tremendous focus on driving cost out of our wireline business. And as all of you know, when legacy services drop off, they usually have very high margins to go with them. So, as we are growing our strategic services, U-verse services, we are really focused on controlling costs, so we can replace – to maintain our profitability. With that being said, on the U-verse video side, the first point to make is second quarter is always seasonally a challenge. You got a lot of relocations. You got a lot of students returning from college. And with our currently limited footprint with regard to video capabilities, it's always a challenge for us. The issue then is do you go out and do a lot of promotional activities to stimulate growth? We chose to be very disciplined and very limited in those promotional activities. As you can see, it really had a unique impact in the sense that our revenues grew 3.7% or almost 4%. So, it was from this disciplined approach of not getting out of hand with regard to promotional pricing. That's how we think about it. When we are capable of bundling all our services together, we are very optimistic about our ability to compete.

With regard to our IP broadband, it really has more to do it this time, not only with the seasonality, but also with the fact that we were converting our DSL at a very high rate to our IP broadband or a high-speed broadband. That process has left – has achieved 13 million of these high-speed broadband. And we are only about 1 million left. So, coming from a number of years ago, where we had 14 million to convert, we are down to 1. And so you will see – it's just a different pool to draw from. Once again, as we have a somewhat challenged video footprint at the current time, the opportunities before us are clear with that high-quality broadband service that we have. So, I will leave it at that.

Brett Feldman

Alright, thank you.

John Stephens

Thank you.

Operator

We go to Simon Flannery with Morgan Stanley. Please go ahead.

Simon Flannery

Thank you very much. John, it sounds like the FCC is getting ready to put out the final rules for the broadcast incentive option. You have put out a commitment around $9 billion under certain conditions. Can you just review your perspective on the 600 auction? And then any color you can give us on securitization during the quarter? Thanks.

John Stephens

Yes. So, with regard to securitization, Simon, we did do some this quarter. They were about $1 billion this quarter and we did about $800 million in the year ago quarter, so a slight increase in the securitizations, I am assuming you are talking about the net securitizations, continue to see strong demand, continue to see a real interest in that investment by a number of banks at very attractive rates. And we are getting to the point now that we have lapped the full year and are building a history with regard to this program, which is very good for the company. This has to give us flexibility going forward. So, very pleased with it, expect we will continue to do it, but the differential year-over-year was not dramatic as it may have been in some prior quarters. That's one. Two as far as overall spectrum goes, we are always interested in looking at spectrum and the opportunities to improve our spectrum position and we planned for that on a regular basis. With regard to participation in the broadcast auction, we did offer to participate when we first announced our intention to acquire DTV. We will wait and see what the final terms and conditions with regard to any approval of that merger are, but in any event, I would suggest you that will be interested and prudent in investigating the opportunity see what's available and participate in an appropriate way as we move forward.

Simon Flannery

Great, thank you.

John Stephens

Thanks, Simon.

Operator

We'll go to Joe Mastrogiovanni with Credit Suisse. Please go ahead.

Joe Mastrogiovanni

Hi, guys. Thanks for taking the questions. John, so you are on track to bring the CapEx down to the $18 billion range, but this does follow some heavy investment the past few years. As you look out over the technology roadmap, like 5G coming down the pipeline, do you anticipate that we will see another period of elevated investment?

John Stephens

Good question, Joe. I would tell you that's kind of a longer term perspective. What we are seeing is our move to get this fiber deep into the network and getting LTE out deep into the wireless network and the solutions that we are finding in a software-defined network opportunity, we see a real opportunity to actually strive to bring investments, if you will, lower or more efficient from historical levels. Right now, I will tell you that this year's investment is going to be in that $18 billion range, which is about 15%. We are certainly – we are not going to give any guidance with regard to next year or the year after. And we will give an update on this year's guidance, if and when in our analyst conference if we get that opportunity. With that being said, I think there is a real opportunity with some of the activities are going on in software-defined networks on a longer term basis to actually bring that in capital intensity to a more modest level.

Joe Mastrogiovanni

Got it. Thanks.

Operator

Thank you. We go next to Frank Louthan, Raymond James. Please go ahead.

Frank Louthan

Great, thank you. Can you give us an update on how many homes you've passed with GigaPower and sort of what the cost is running on that right now? And then secondly, on the wholesale business, what exactly is the trend there? Are you losing share or is it just lower pricing or is lower volumes or where is that actually going?

John Stephens

So, on the wholesale business, first thing is we exited our mobile housing business. We have really turned that down, not pursuing it anymore. That's having a significant impact on the global – on the wholesale business. That's the first point. The second point we are saying is the continued – not only pressure on the legacy analog services, but a movement towards more efficient IP strategic services. So, when the customers move up, sometimes they have both services in place, but even after they shut off the legacy services, the strategic services oftentimes have more efficiency. And so until the volumes grow to absorb that, there is a disconnect between those revenue sources. But with that being said, we still feel very good about the – our win percentages and our ability to hold on to that business and our ability to grow going forward. The biggest first issue with regard to wholesale though is the fact that we have decided to get out of some business and on the second piece is some of this growing as they have transitioned to strategic services to Ethernet and other things. But we will continue to be positive. We will continue to be able to compete well in that wholesale space.

With regard to GigaPower, it's just we are not giving out cost per unit pricing this time. And let me give you some insights into why that would be challenging at this point. There is a difference between whether you do it to multi dwelling units or whether you do it to a single home and a single residence. So, all of those factors at this stage could mislead folks with regard to any kind of factual numbers. So we have chosen not to do that. But we are just getting started with the fiber to the prem activity. We are pleased with it. I can suggest you that we are probably still in the early stages of it. But the take rates, the satisfaction rates continue to outperform our expectations with our customers.

Frank Louthan

Okay, great. Thank you.

John Stephens

And Lori we will take one more question.

Operator

Very good, that is from James Ratcliffe with Buckingham Research. Please go ahead.

James Ratcliffe

Hi. Thanks for taking the question. I have two on the wireless side, if I could. First of all, can you give a little color about what's driving the improvement you are seeing in prepaid churn, just improving credit quality or better retention, something else going on there. And second, given the continued growth in Connected Cars, any insight you can provide around the economics around those what ARPUs running and if there are any subsidies or revenue shares involved? Thanks.

John Stephens

So on the prepaid business, there is a couple of things. One, great plan, great attention to our customers, but quite frankly, they are right now a great network. So they are getting great service with cost efficient plans. And we are able to do it because they are paying for their own phones. So it's really just a lot of hard work by our network team and getting these customers converted from the network that they were on the CDMA network they are on onto our LTE networks. So they are having a great experience, that's one. Two, we are giving a good pricing. We can do that because they are paying for their own phones essentially. So and then our sales team and our operations team is working very hard to integrate the quality of our networks, our backbone and our cost structure.

All of those things are what's driving, but the churn is really I am sure has a lot to do with these great networks that they are writing on. So I would suggest to that. On the Connected Car, there is kind of three relationships I think of when I think of that connected car and our revenue side. There is one of the wholesale relationship with the auto manufacturer/dealers and that's the ability to deliver on-time information, real-time information to the cars or take it from the cars for whether it would be design, marketing activities, analysis, upgrades to mapping and so on and so forth. That's a wholesale relationship we have with the auto manufacturers. And as we continue to develop applications and they continue to develop applications and information needs out of that process, we will continue – we are hopeful to continue to grow that revenue.

The key to that is much of that activity can be done off-peak hours. And so the auto manufacturers can gather that time and gather that data at times when it's very cost efficient for us to do it. So we can utilize our networks when they are somewhat under utilized and they can still a really good quality data. Two, there is that's ability to put it into a Mobile Share Value plan and part of our Mobile Share Value plans has had add-on service. We are just getting started with that. We are very optimistic about the opportunities there. But quite frankly, the cars first are just rolling off. And secondly, there are some promotional time and promotional activities where that capability is available before we sign them up to a retail package. So that process is just getting started. We feel very good about it. And I think it fits within the overall connected life strategy that our mobility team is running.

And then lastly, there is a prepaid opportunity for somebody who doesn't own the car, but yet wants to utilize that connectivity in their car. And we are seeing some utilization of that today and we will continue to see that develop. We are optimistic and very jazzed up, so to speak about the opportunities of the Connected Car. I would suggest the company that's our scale and size. We look to this to being not only a success in the today's net adds and today's relationships with our business customers, but a success going forward in revenue generation and margin generation improvement. Lori, I think we have time for one more question.

Operator

That will be from Tim Horan with Oppenheimer. Please go ahead.

Tim Horan

Thanks a lot. So John, a great job on the financial discipline, so you think the wireless expenses is a good run rate here. I know there is a lot of moving parts, do you think maybe you would a little light on the marketing this quarter or that was an impact then? Can you also just lastly give us some data usage statistics? Thanks.

John Stephens

Yes, I am sure, Tim. Well, let me say this, on the margins, there is always going to be seasonality and we are always going to have the challenges there in our business. We are going to have a much smoother seasonality. We may have because of the way we have shifted the business, flip some of the pressure quarters and the hiring quarters around. We will have more smoother. But we will have additional activities as we get into the holiday season with more units and more activities with regards to that. Secondly, while we are going to continue to be disciplined with all costs including marketing, I would suggest we will continue to market and believe we have been effective with our marketing, but have not shut it down. With regards to – Tim what was your last question?

Tim Horan

Yes, wireless daily usage and where maybe customers are in terms of utilization of their existing capacity of?

John Stephens

Yes, we continue to see data growth per handset to be significant. And it's been running at kind of the 50% year-over-year increase for a while. With regard to the data plans, we are seeing customers a couple of things. We continue to see customers go to bigger data plan, some of the 20 gig and bigger plans. And anything that's helped our service revenues this quarter was we continue to see people do some overages even though we gave – we gave roll over to our customers to help them manage their plans. They took advantage of it. We continued to see some over usage. So we view that opportunity to get customers to buy some bigger buckets and move themselves out of that stress opportunity. But usage continues to be a positive for our revenue opportunities and continues to be something and our guys watch very closely. So we keep this high quality service.

Tim Horan

Thank you.

John Stephens

Thank you. Thanks Lori. For everyone on the call, I want to thank you for being with us today. In closing, let me say this. For the last 3 years, we have laid a plan that deployed next generation networks, that develops some innovative products and services and that has been focused on repositioning our customer base. And at the same time, we have been focused on cost management. Second quarter results show that this strategy is working. We now stand ready to continue this process with our strategic investments, in spectrum, in Leap, in Mexico, as well as our pending transaction with DIRECTV. We are ready to take advantage of our new opportunities as we transform our business and our industry. Thanks again for being on the call. And as always, thank you for your interest in AT&T. Have a good evening. Thank you very much.