Operator

Ladies and gentlemen, thank you for standing by. Welcome to the AT&T second quarter 2020 earnings conference call. At this time, all participants are in a listen-only mode. If you should require assistance during the call, please press star then zero and an operator will assist you offline. Following the presentation, the call will be open for questions. If you would like to ask a question, please press one and then zero and you will be placed into the question queue. If you are in the question queue and would like to withdraw your question, you can do by pressing one and then zero. As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Amir Rozwadowski, Senior Vice President, Finance and Investor Relations. Please go ahead.

Amir Rozwadowski

Thank you and good morning everyone. Welcome to our second quarter conference call. I'm Amir Rozwadowski, head of Investor Relations for AT&T.

Joining me on the call today are John Stankey, AT&T's Chief Executive Officer, and John Stephens, our Chief Financial Officer. John will provide opening comments followed by John Stephens covering second quarter results and our liquidity and capital position. After that, John Stankey will come back with a business transformation update and discuss the HBO Max launch, then we'll take your questions.

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

As always, our earnings materials are also available on the Investor Relations page of the AT&T website.

I also want to remind you that we are in the quiet period for the NCC spectrum auction 105, so we cannot address any questions about that today.

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

John Stankey

Thanks Amir. I’m delighted to have you on board. You delivered that Safe Harbor statement much better than Mike Viola ever did. But seriously, we appreciate the great job Mike did leading our IR team for many years and working side-by-side with him. I’m going to miss seeing him around and wish he and his family all the best in their retirement.

Good morning everyone. I hope you’re all doing well as we continue to live with the impacts of COVID-19, which I expect are going to be with us for some time. We’re planning and operating under the assumption that significant accommodations for COVID will be the business norm well into next year.

The unfortunate reality simply sharpens our focus and strengthens our resolve on the business transformation path we’ve chartered and the investment focus we’ve adopted. Given that, let me walk you through our priorities moving forward.

As a company, our purpose is to create connection. We create connection with each other, with what people and businesses need to thrive every day, and with stories and experiences that matter. That purpose leads us to our market focus.

First, as a broadband provider, our high speed fiber and wireless broadband networks connect the people and businesses that form the foundation for how we live and work. Second, as a software-based entertainment provider, we deliver compelling entertainment experiences through HBO Max and ATT TV, giving us the opportunity to establish meaningful relationships with the majority of U.S. households. Third, the fantastic stories we tell and share on our platforms drive direct customer engagement and insights and create emotional attachments that can drive long lasting customer loyalty across our product set.

We’re executing our plans to provide great connectivity and great content along with better value and service to drive more customer engagement across all of AT&T. Our goal is to give our customers a reason to actively engage with us every day, in fact multiple times a day. Every touch point represents a chance to learn more about what they want, and bringing connectivity and engagement together will allow for the crucial insights to guide future investment and open new opportunities for subscription and advertising supported products.

That’s our set-up, and that’s the way you’ll hear us talking about things going forward. To grow, we know we have to be more effective and efficient in our execution. As part of our transformation initiative, we have more than 50 different work streams underway that will enhance not only how we work together but how we deliver improved service levels and greater value for our customers, including competitive pricing that drives market momentum and targeted investment to achieve growth in those key products I mentioned. Our success relies on AT&T becoming a more agile and efficient company that's able to meet our customers' needs in highly competitive and quickly evolving markets.

Our transformation began with the new operating model we put in place at WarnerMedia last year to organize our teams around entertainment networks, live programming, content production, and affiliate and advertising sales. That allowed us to work together across WarnerMedia and all of AT&T to successfully launch HBO Max.

A few months ago, we took the next step and moved Xandr to WarnerMedia so we could accelerate our progress in building software-based entertainment platforms supported by both subscription and advertising, like the AVOD version of HBO Max we plan to launch next year.

Last month, we made changes on how we're organized and operate at AT&T Communications to improve our focus on customer service, simplify and rationalize our product portfolio around our growth areas, and operate with more speed and efficiency. I fully expect that the AT&T that emerges from this transformation work will look different than what we know today.

We couldn't make this transition without a solid balance sheet and a deliberate capital allocation plan. We have strong cash flows that allow us to allocate capital effectively. We're continuing to invest significantly in our growth areas of fiber, 5G which is nationwide as of today, FirstNet and HBO Max.

We remain committed to our dividend, which we've increased by 36 consecutive years. We finished the quarter with a dividend payout ratio of about 50%. We expect to end the year with our payout ratio in the 60s, likely at the low end of that range.

We continue to reduce our near term debt obligations and maintain high quality debt metrics. Finally, we remain committed to an ongoing disciplined review of our portfolio of businesses and assets to identify those we can monetize because they're no longer core to our business.

Now let me offer my perspective on the quarter before I turn it over to John Stephens to walk you through the details.

Our core subscription businesses proved to be resilient in the face of the economic downturn. Our mobility and business wire line segments performed well, and we grew EBITDA margins in both areas. We continued to add new fiber customers though COVID limited our ability to go into some customers' homes for installs. Our software-based entertainment businesses performed well. ATT TV subscriber growth in its first full quarter was better than we expected and it's our highest performing video product o customer satisfaction, double the level of our legacy TV services. HBO Max had a strong launch, on track to hit its targets we laid out for you last fall. We're already seeing how HBO Max can increase our broadband adds and increase wireless ARPU.

Obviously COVID had a significant impact on our WarnerMedia segment with advertising revenues, content production, and theaters all shut down. We'll talk more about that a little later in the presentation, but I cannot imagine being at this moment absent the moves we made last year to reconfigure our WarnerMedia operations and refocus the business on the growing and important direct-to-consumer opportunity.

With that, I'll turn it over to John.

John Stephens

Thanks John, and good morning everyone. Our financial summary for the quarter begins on Slide 5.

Adjusted EPS was $0.83 a share. That included COVID impacts from incremental costs related to compassion pay and production delays and lost revenues from foregone international roaming and delayed theatrical releases. Combined, COVID had a $0.09 a share impact to second quarter EPS.

Adjustments for the quarter include an overall accrual for severance and a non-cash write-down of real goodwill based on the overall economic conditions in Latin America, foreign exchange rates, and COVID impacts. The severance accrual reflects the workforce adjustments we're making as part of our cost reduction and transformation plans. Cash impacts from these severances will occur over the next several quarters.

Revenues were down from a year ago, including an estimated $2.8 billion of lost or deferred revenues impact from COVID. This was mostly due to the absence of theatrical and television releases and lower advertising from delayed sports programming and a slow economy. Lower international roaming revenues impacted mobility.

In our reported results, foreign exchange had an impact of about $500 million in lower revenues, primarily in our Latin America segment. Corresponding expense reductions offset most of the impact on operating income. In fact, adjusted operating income margins were essentially flat but were up when excluding COVID impacts.

Cash flow was impressive even during the pandemic. Cash from operations came in at more than $12 billion and free cash flow came in at $7.6 billion. A variety of items supported cash, including solid accounts receivable collections and some benefits from the CARES Act, and we continue to invest in our growth areas. Capex was $4.5 billion with gross capital investment at around $5 billion, a difference primarily attributable to the timing of vendor payments, plus we invested an additional $1 billion in new 5G spectrum in the quarter and we invested nearly $4 million in HBO Max, in line with our full year estimate of $2 billion.

We were active in the debt markets during the quarter, managing our towers for financial flexibility and allowing us to take advantage of historically low interest rates. We'll talk more about that in a moment.

Let's look at our segment operating results, starting with our communications segment on Slide 6.

Our subscription business led by mobility, broadband and business wire line, remained resilient. Mobility had another good quarter, even with the impact of COVID. Equipment revenue helped to offset declines in service revenues, which were down due to a decline in international roaming revenue and waived overage and late fees. Without those COVID impacts, we estimate service revenue would have grown more than 2%. Even with many of our stores being closed during much of the quarter, mobility equipment revenues grew with growth in digital sales and a strong rebound as stores reopened late in the quarter.

Mobility EBITDA continues to be a solid story. EBITDA of $7.8 billion was up year-over-year with both EBITDA margins and service margins expanding, and that's inclusive of COVID impacts.

Our total reported phone growth was essentially flat. We had more than 135,000 prepaid phone net adds that helped offset a decline in postpaid phone. Our quarterly subscriber counts for the postpaid wireless, video and broadband reflect an estimate for customers who will likely disconnect service once the Keep America Connected pledge ends. In short, we're treating these subscribers as disconnects in the second quarter. While this impacts net adds, churn and service revenues, we believe this is the most transparent and accurate way to account for this.

About 340,000 of our postpaid phone subscribers were counted as disconnects, even though they were still on our network. If you add those back to our results, we would have had about 190,000 postpaid phone net adds and much lower churn.

Postpaid phone churn was down 2 basis points even with the Keep America Connected accrual. We also had a record low prepaid churn of under 3%. The popularity of our unlimited plans also increased thanks in part to our elite package that includes HBO Max.

In our entertainment group, we had lower video and advertising revenues. This includes an estimated $300 million impact on both revenue and EBITDA from COVID from lower advertising demand and lower commercial volumes. AT&T TV gains helped offset premium video losses and at the same time had about a 90% attach rate with our broadband services. Premium video losses remained about the same as the first quarter.

Broadband customers continue to look for faster speeds. We added more than 220,000 AT&T Fiber subscribers and the number of customers opting for gigabit speeds increased by more than 750,000 in the quarter. We now have 4.3 million AT&T Fiber customers with nearly 2 million of them on one gigabit speeds. I should point out our total broadband numbers do not include 159,000 subscribers who are counted as disconnects even though they remained active on our network through the Keep America Connected program.

We continue to drive ARPU growth in both video and IP broadband. In fact, premium video ARPU was up more than 6% as we continue to focus on long-term value customers. Business wire line performance was solid as enterprise customers trusted the reliability and flexibility of our network.

EBITDA was essentially stable year-over-year and margins expanded by 90 basis points. Revenues were consistent with recent trends as slower declines in legacy products were partially offset by growth in strategic and managed services. This EBITDA strength was even more impressive when you consider that a year ago, we had an IP sale which helped both revenue and EBITDA results. If you back that out, revenue would have been down just 1.7% and EBITDA would have grown.

Let’s move to WarnerMedia and Latin America results, which are on Slide 7.

As John mentioned, the COVID impact is most evident in our WarnerMedia results. Altogether, COVID had about a $1.5 billion revenue impact on the quarter. Lower expenses resulted in a favorable impact on EBITDA. The biggest news in the quarter from WarnerMedia was the successful launch of HBO Max, which John will cover in more detail in just a minute.

Turning to our Latin America operations, foreign exchange was a major factor as were slow economies and the onset of COVID. Mexico was impacted by lower equipment sales from COVID-related store closures. This also impacted prepaid customers' ability to renew their service. Even with this, Mexico EBITDA improved year over year. Rio also continues to work against economic and foreign exchange headwinds which have become even stiffer with COVID, but even in this challenging economic environment, Rio continues to generate positive EBITDA and cash flow on a constant currency basis.

We closed our Venezuela operations in the quarter to comply with sanctions of U.S. laws. This had minimal impact on Rio's financial results but did reduce its subscriber base.

Now let's go to Slide 8 for an update on capital structure.

We exited the quarter with a very strong financial position. Cash flows were strong, our capital allocation remained focused, and we made large strides in effectively managing our debt portfolio. Our strong free cash flow in the quarter gives us even greater confidence that we'll hit our full-year goal of a total dividend payout ratio in the 60% range, likely at the low end of that range.

We also continue to invest. We now expect gross capital investment to come in at the $20 billion range for the full year, consistent with our original 2020 guidance. The FirstNet build continues to run ahead of plan. We expect additional network benefits as our 5G build is expected to reach nationwide coverage today. The network and the entire FirstNet team has done a great job in building out our 5G network.

We've been active in the bond market. Rates are low, demand is healthy, and we used this opportunity to issue about $17 billion in long term debt at rates significantly below our average cost of debt. This allowed us to materially reduce our near term debt towers, making our debt obligations for the next few years very manageable.

We'll continue to be disciplined with debt management. Ongoing liability management strategies are actively being considered to maintain and improve flexibility and reduce risk. We have several other levers we can pull to optimize our capital structure. We expect to close about $2 billion in pending sales from CME, real estate, and tower monetizations this year. We also expect to close our Puerto Rico wireless sale soon, with those funds used to redeem some preferred interest. You should expect us to continue exploring other opportunities.

I now would like to turn it back to John for an update on our business transformation and HBO Max. John?

John Stankey

Thanks John. Let me give you more detail about our business transformation on Slide 9.

If anything, COVID has led us to ramping these efforts. We're moving forward on the 50 work streams I mentioned earlier, which we believe can generate $6 billion in savings over three years. We've made good progress in hitting our short term objectives, but there is much to do over the next couple of years.

Our workforce realignment and reduction of labor costs is underway. We restructured some of our benefit plans earlier in the year and we made several moves to streamline operations. Within the communications business, we're also streamlining our distribution. The closure of retail stores during COVID gave us the unique opportunity to review our retail and third party distribution capabilities. Some of our least productive stores won't reopen, other locations will shift to independent distributors, and we're enhancing our online and omni channel capabilities to align with how customers want to do business with us. Our market and product focus will drive simplification into our operations and resize our operating and technology footprint, all while taking further advantage of our evolution to cloud and virtualized services.

Our shift to software-based entertainment with ATT TV is validating our assumptions on customer self-install. We expect this coupled with the growth of our fiber-based broadband subscribers will improve service levels and reduce field operating costs.

We're also giving our call center representatives improved capabilities to streamline and enhance the sales and service function, and we're rationalizing and modernizing our billing and collection systems. Last, we're pursuing incremental opportunities to take out additional cost around corporate functions across the company. As I mentioned earlier, we've had some success in this regard but work remains to further streamline the functions that support those directly serving customers.

Bottom line, we're off to a good start on our transformation work. We have management teams in place on each of our major initiatives and a senior level governance structure to guide and resource this work. We're in great shape to do exactly what we said we're going to do.

Now I want to provide you with an update on the success of our HBO Max launch on Slide 10.

First, I want to give full credit to the entire HBO Max team, which put together a flawless launch. I'm extremely proud of their efforts and accomplishments. We effectively established a new distribution framework for WarnerMedia. The platform performed superbly, activations were strong and the content is world class, and the team developed and launched the service in a short time frame and managed to get it all over the finish line in the middle of a pandemic. We're right on track with the targets we discussed with you last fall for HBO Max subscribers, activations and revenues.

HBO Max's diverse library of content appeals to everyone in the family, letting us reach a much broader demographic than our traditional HBO service. With that broader appeal, we've been able to expand beyond the traditional HBO subscriber base. We finished the quarter with 36.3 million U.S. subscribers to HBO Max and HBO, up from 34.6 million at the end of last year.

Customer engagement has exceeded our expectations. It's the early days, but the average number of weekly hours spent viewing Max is 70% more than on HBO now, clearly demonstrating the strength of our library and our success broadening the appeal of the product to more family members.

It's our WarnerMedia owned content that's at the top of the viewing list, and that's driving the majority of the total hours consumed on the platform. In the streaming business, your content library is the key to keeping customers, but it's the new originals that drive subscriber acquisition. With COVID shutting down content production in March, we have been challenged to get all the originals on the platform that we'd planned, but we like the early reception of what we've been able to get in front of the customer base thus far.

We launched Max with six new originals. All were found in the top 25 viewed series on the platform. By August, we'll have 21 new original series on Max which we expect to sustain our near term acquisition efforts. Like everyone else in the industry, we're working on ways to resume production and we hope to see that engine start to fire back up next month.

Having said that, it's one of our more challenging things we're doing to respond to the pandemic and it's going to take time to return to our February production levels. We view getting our production back online as critical to making our 2021 subscriber plan.

One month after launch, HBO Max had about 3 million retail subscribers and 4.1 million subscribers had activated their Max accounts. Of those, more than 1 million were wholesale subscribers through AT&T. As you might expect, we're seeing more rapid activation with subscribers who are active users of HBO digital offers, but we still have work to do to educate and motivate the exclusively linear subscriber base and we'll continue to work with our wholesale partners to drive these activation rates.

We're also bundling HBO Max with some of our premium wireless and fiber plans. We're seeing a positive pull-through that's at or better than the wireless unlimited plan step-up assumptions we shared with you in October. You will recall this coupled with the 5G handset upgrade cycle is one of the key drivers to growing wireless service revenues in the latter half of the year.

Finally, we've worked hard to make HBO Max available to consumers through nearly every content distributor in the United States. We've tried repeatedly to make HBO Max available to all customers using Amazon Fire devices, including those customers that have purchased HBO via Amazon. Unfortunately, Amazon has taken an approach of treating HBO Max and its customers differently than how they've chosen to treat other services and their customers. We're glad to have agreements in place with, among others, Apple TV and Google Chromecast to give customers the right to stream HBO Max on those devices.

Amir, that's our presentation. We're now ready to go to the Q&A.

Amir Rozwadowski

Operator, we're ready to take the first question.

Question-and-Answer Session

Operator

[Operator instructions]

Your first question comes from the line of John Hudlick from UBS. Please go ahead.

John Hudlick

Thanks guys. Maybe if you could drill down into the entertainment segment a little bit. John Stephens, I think you mentioned some--about the non-cash piece that may have affected EBITDA on a year-over-year basis, maybe give a bit more color that, and then anything you guys can tell us on volume trends? I realize there's a real lack of visibility as we look into the second half, but the video losses got a little bit better, even with the KAC pulled out.

But just how you see video and broadband trends as we look out into the second half of the year would be great, thanks.

John Stephens

Thanks John, thanks for your question. Let me give you a couple of thoughts and have John join in.

One point is, we did get a little bit better on the customer trends, and that did include, I think it was 91,000, if you will, accrued disconnects, customers who we're still providing service. If you back that out, it was--there was a step down, it was an improvement. But we're in the middle of a pandemic, and so we're being real careful with how we address the situation.

Secondly, we were real pleased with the AT&T TV rollout. It has been successful and it comes--and it's working. Once again, because of the pandemic, some of the home installs and some of that activity has been limited, so once again we're cautious as we come out of that.

Third, to specifically reference, we amortize installment costs like the whole industry does, and because of AT&T TV, those installment costs from a cash basis are going down, but the amortization of prior year installment costs are still here, so we've taken a more conservative view on the lifing of those, so those costs are up year-over-year. When you adjust for that, we actually had cash EBITDA actually grow when you make that adjustment, but for COVID we would have seen an increase.

It's challenging business, continue to focus on cost savings, and continue to generate a lot of cash out of it, but the important piece is this utilization of AT&T TV now and taking into that overall strategy of software-based entertainment programs.

John, you want to add anything to that?

John Stankey

John, there is clearly gross pressure, and I'd offer a couple thoughts around this. Our churn on the base improved again sequentially, and that's even with the Keep America Connected adjustment in there, and so the base dynamic is actually getting better and the team is doing a nice job of keeping the right customers and servicing them in the right way. But the gross pressures are pretty significant and I would say to the extent that reason comes back for people to engage in pay TV, such as sports returning where there is some feeling of something that they're missing, if that doesn't recover, it's going to continue to pressure throughout the balance of this year.

Now, what I really like about what I see about our opportunity if we start seeing that gross recover is, as we shared with you, the ATT TV response has been really strong. Customers like the product, it's a much better product to use. It's clearly something that allows us to attack more of the market, given the lower SAC costs that John described, and the broadband attachment has been far superior to where we were with the previous product set, and I think that's one of the reasons you saw the sequential improvement in fiber as we move forward here.

So I think that dynamic is going to be good for us as we move through the year, but I really need to see some reason for a customer to want to get into the pay TV product, and that's going to probably correlate to what we see on the sports portfolio.

John Hudlick

Got it, thanks guys.

John Stephens

Thanks John.

Operator

Your next question comes from the line of Phil Cusick from JP Morgan. Please go ahead.

Phil Cusick

Hey guys, thanks a lot. Still on the pledge, what's been the response from those customers in July as you ask them for payment, and can you quantify at all how much revenue you didn't recognize from those customers in the second quarter?

John Stephens

Yes, let me give you the cheat sheet way of doing it. I think about it as--I think the most conservative way is just taking a month's revenue on a postpaid customer, and you guys have the ARPU numbers so you can understand what that revenue would be like, so I'd give you that focus. In our detailed schedules that we've provided, we provided a reconciliation of what we saw as revenue pressure in mobility from COVID, it's included in there and I think that revenue for the quarter was $450 million inclusive of international roaming and these kinds of payments. So what I would suggest to you is that's the easiest way to calculate it.

A couple of things. One, we're actively contacting, working with and trying to retain these customers, and certainly we haven't given up on that and they haven't given up on us. Clearly we are hopeful of retaining many of these customers, but since they're not paying us, our rules would--our processes, our transparency processes would tell us just to treat these as disconnects. I know some others in the industry have different views on it, they may push this off to the third quarter or later in the year, or may make base adjustments and so forth. We're just not doing that. We're just taking it upfront and laying it out for you, not only on wireless but on video and on broadband, and I point this out because the video and the broadband numbers are measurable also - 91,000 video and almost 160,000 on broadband.

Hopefully that explains--I mean, if you think about that postpaid number, one month's revenues, and a normal ARPU kind of gives you an indication of the kind of money we're talking about.

Phil Cusick

Yes, so I'm just curious, so three weeks into July, as I expect, you've been contacting these customers. What's been the response? Can you give us any kind of hit rate or what they look like in terms of responding with some ability to pay?

John Stephens

Yes, so it's been generally a positive response. We'll tell you, we assumed that we'd get some of these customers back in this accrual, just so you know that. There isn't a--there is this [indiscernible] that we would win some of those back. We're doing a little bit better than that accrual, but it's still too early. We still have a significant number out there, and quite frankly, I want to point out we refer to this as the Keep America Connected program or pledge. There is a number of them out there. There is not only at the federal FCC level, but there is a number of them out there at the state by state level, so this is something that will be with us through the whole quarter.

Phil Cusick

Okay, one other if I can-

John Stephens

I'm not going to give you a specific number, Phil. I just would tell you in all three segments, we are working really hard to retain those customers.

Phil Cusick

Okay, but doing a little better than your accrual, that's good. One other, if I can. Can you quantify at all the sports cost amortization that will probably come back, given the leagues' plans for the third quarter? We saw really great margins from Turner this quarter. I just want to make sure I understand where we should be ready for that to go in the third quarter.

John Stephens

Yes, I think if you look at what we spelled out in the--the best indication of that is going to be what we spelled out in the COVID schedules, where we listed out those impacts. But you're right, Phil - we will have a sports cost come back in for the NBA particularly, and we'll have those revenues come back, and as we expressed to you, those just two pieces of direct costs generally leave a pressure on the business, and we got relief of that pressure in the first quarter because of the delays and now we'll recognize that accounting in the third quarter here, so we will see that. I think you see the biggest piece to that really showing up in the COVID schedules that we disclosed.

Phil Cusick

Thanks John.

John Stephens

Thank you Phil.

Operator

Your next question comes from the line of Simon Flannery from Morgan Stanley. Please go ahead.

Simon Flannery

Okay, great. Good morning. Thanks so much.

John, I think you said COVID is going to be with us for a while. Can you just give us a little color on what's happening in the wireless stores today, how are sales comparing to year-ago levels? Are you getting back even with maybe some of the rollbacks we've seen in some of the southern states as well, and what's going on, on the business wire line side? Those results were very strong. How are those conversations going?

Then you outlined the transformation benefits, $6 billion. Perhaps just help us understand how--is that going to be fairly ratable over the next three years? Any color around timing would be great.

John Stankey

Sure. How are you doing, Simon?

First of all, traffic has bounced back in the stores pretty well. It's still not quite entirely back - you know, you have pockets where it's maybe back to normal, other pockets where it's suppressed a bit. Part of it is, as we've shared with you, we're now giving customers other options on how to fulfill, so in some cases using omni channel capabilities, they're doing work online and simply rolling by the front of the store to pick something up. But I'd say by and large, I don't feel in any way, shape or form we're impeded in retail relative to what customers wish to do with us, and it's just a matter of what we're seeing generally in the broader population of people being out and about.

We're starting to see a little bit of life coming back into the handset cycle right now. I'd expect a little bit later this year there will probably be some new product in the market from certain manufacturers that is going to further stimulate some store traffic, and feel like we're dealing with it fairly effectively, so not really worried about the retail dynamic at this point. I think it's recovering reasonably well.

The biggest wildcard on that is what's happening in states that are pressured a little bit with COVID. Hopefully as people try to get the infection rate under control, it's not an entire lockdown again. From my point of view, that doesn't seem to be necessary. My observation is we're able to manage the dynamics in retail pretty well in terms of safety and how people do business. There's other activities that are probably the higher risk things, but who knows? As we all know, the decision making is not always as clean and factual as it needs to be in those cases, so we're going to have to see where that goes.

On the business side, we had a strong quarter, and I would say that I would expect it will be hard to sustain that level into third quarter, and we expected--you know, we kind of forecasted that in how we've characterized for you how the year shapes up.

We're going to see pressure especially in the lower end of the business market. We've already taken a fair amount of it. If you look in the entertainment segment, we were really heavy in bars and restaurants and some of the pay TV services we have, and they've been hit really hard and a lot of them have not come back. Then in the data services side and telephone services side for the small end of the market, I expect there's going to be continued pressure there.

Now, if there's a silver lining relative to our portfolio, I think as you're aware, our enterprise segment is probably more oriented to mid and larger businesses generally speaking overall. I think they'll be in a better position to sustain what's going to be a tough economic environment, but that business does cycle with how the economy moves and we're going to see some pressure on that as we move into the third quarter and what that does for our performance there. I think we've got it [indiscernible] pretty well relative to how we've set expectations with you on cash moving through the year.

On where we are with our $6 billion efforts, I think what you--I wouldn't say it's ratable. What I would say is we've got probably some short term things we were able to do early in the cycle, so you're starting to see that momentum come in. You can clearly see we're doing some work right now on the reserves we set up for some restructuring that we put out, that is directly tied to our plans around what we're doing for some of the efficiency work and restructuring that's going on.

You kind of see the midterm or maybe it drops off a little bit as we're working some of the technology initiatives and business improvement initiatives that take a period of cycle as you move through software development that's necessary, and then as you get into the latter part, those bounce in and start to occur, so I'm not going to call it an inverted V - it's not that, but you get a lot upfront, you see a little bit of softening, and then it pops up in the tail end and comes back in, so maybe risk adjust it in that fashion.

Simon Flannery

That's helpful, thank you.

Operator

Your next question comes from the line of David Barden from Bank of America. Please go ahead.

David Barden

Hey guys, thanks so much for taking the questions. This one might be for either one of the two Johns. Could you guys address the timing and/or criteria and some of the political considerations about restarting the buyback program, and whether it's a certainty that that buyback program comes back in '21 or not?

Then the second question is related to the wireless business. Maybe this one is for John Stephens. The two forces are the pressure from overage and roaming at the revenue line offset a little bit by the equipment on the--the lower equipment velocities, and then also you had this hazard pay for the union forces. Can you talk about which of these forces is going to be stronger? Is it hazard pay going away and that's going to give you a lift? Is the equipment going to accelerate and that's going to be a pressure? When does the roaming come back? If we could get some color on those moving forces, it would be helpful. Thank you.

John Stephens

David, thanks for the question. Let me take the second one first.

With regard to mobility, think about it this way. John just mentioned that we felt good about our retail space. If you look at the equipment revenue in the second quarter, it actually grew and that was from a rebound in our retail stores, our equipment sales did rebound. That's because they're open and this hazard pay and some of the issues with regards to what we've done on mobility are ebbing, and we're opening.

Secondly, I would say that on the overall mobility, we grew EBITDA even with those costs of the pandemic, even with the pressure from international roaming, the pressure from waiving late fees or overage charges, and pressure from Connect America. So from my perspective, we're in very good shape with those things, to work through those even currently, but going forward, and the big piece of that is we've had a lot of cost initiatives that allow for us to grow that. Even with those additional costs from COVID, as you say, the battle pay, so to speak, we were able to keep costs in line and grow EBITDA, so from my perspective, I think we're in a very good position.

As we work through the Connect America--Keep America Connected groups, as we get to a more stable environment, we feel very good about where the mobility business is going. It's been a tremendous cash generator, so feel good about that.

John Stankey

On the question, Dave, regarding where we are on stock buybacks, I would tell you it's too early to call anything. The board is going to sit down in their annual planning cycle in September and, broadly speaking, we're going to look at capital allocation. We've shared with you that our concerns around visibility remain, clearly as I indicated in my opening remarks, with COVID being with us for a long period of time, and we're going to be in this up and down dynamic. It's too early to tell exactly what's going to occur, and I expect as we get into the latter part of the third quarter, maybe we have a little bit better visibility of what 2021 looks like and what the circumstances are, and we'll spend time with the board in September talking about that broadly and looking at the investment opportunities that are in front of us and how we want to deploy capital and the best way to give the right returns back. But I'm not going to prognosticate one way or the other on that at this point.

John Stephens

One thing to add, we've been really successful in managing the debt towers and managing the cost of our debt. We did about $17 billion in issuances in the last month and using that to retire previously issued debt at better interest rates with better timing and spreads, much more manageable towers, so we're very active and, quite frankly, the bond market has responded quite well. Our yields are as competitive for us as I've ever seen, so I would tell you we're very active in the capital markets just on managing that debt side, and I think the markets have responded well to that.

I'd just add that in. That's been a real focus, and it will continue to be a focus of ours.

David Barden

Great, thank you guys.

Operator

Your next question comes from the line of Michael Rollins from Citi. Please go ahead.

Michael Rollins

Hi, thanks, and good morning. I was hoping to return to some of the priorities, John, that you discussed at the beginning of the call. Just two questions on that. First, you described being a broadband provider is the first priority. What does that mean for the pace at which you want to expand fiber to the home or gigabit access to the home if you can use other technologies, such as 5G?

The second question was on your second priority, which is the focus on being a software-based entertainment provider, and you mentioned AT&T TV as part of that opportunity. To be successful with AT&T TV, does AT&T need to own the DirectTV satellite video business? Thanks.

John Stankey

Hi Mike, thanks for the questions. On the broadband side, I have an appetite to get back to building footprint on fiber, and I think I've indicated that before. I wouldn't quite pigeonhole it in the way you asked the question relative to households. I have an appetite to build fiber that serves a combination of our needs in the consumer space, what we need to do to deploy 5G, and what can help our business segment. Really, the unique position we're in as a business is we have lines of business in all those areas, and that should give us leverage in fiber deployment that I think others that are either only a fixed line provider and reselling wireless services, or those that are only wireless providers and trying to deploy more fiber-intensive 5G networks don't enjoy.

My investment thesis and my point of view on our company is that if we do our engineering correctly and we think about our planning properly, we should be getting yields off of very lineal foot of fiber we put in that nobody else can achieve. So I think about this and we're working it through from a planning perspective right now, it's how we get the leverage across all three segments, not just the homes that we pass, although the net effect of that will be there will be communities that we've built.

I personally do not believe that 5G is a replacement in the near term for suburban residential single family living units. As an optimal strategy, I think it's going to be a tough one to beat when there is embedded gigabit-capable fixed line networks in place, so I think there is clearly going to be stuff on the margin that makes sense around that but I don't believe in the near term that 5G is the right fixed line replacement strategy in what I would call the typical single family home infrastructure.

Look, if it ultimately moves that way and we start to see the technology stabilizing, we're as well positioned as anybody to pivot to that. We've certainly got the spectrum and the assets to make that happen, but I'm just not of the mindset right now that that's the optimal place to win in the market.

On the software-based side, I think what I've shared with you is my belief is that ultimately you're coming together with one distribution platform for entertainment. Today we've kind of seen SBAUD [ph] and pay TV platforms grow up independently, and there is good reasons why that's occurred up to this point in time, but there is no reason we should think that over the long haul that once customers are aggregated on one platform or the other, that live stays separate from on-demand general entertainment content. We're going to see these products ultimately come together.

So when I talk about software-based entertainment, I think about the fact that we want a platform with a lot of customers on it that is capable of either delivering general entertainment content under an SBAUD construct or whatever is that appropriate mix of live linear moving forward, and I think that's probably the optimal way to meet customer needs as we go forward.

Do I think that satellite is necessary to respond in that area? You can go back and look at comments I made, I think very early on, you know, post transaction of DirectTV that we didn't necessarily make that move because we loved satellite as a technology to deliver premium entertainment-based video content. We liked the customer base, and it was an opportunity to move that customer base into the right technology platforms moving forward. That's clearly where we're investing and what we're doing right now, which is building those software platforms that can deliver either live or on-demand entertainment-based content and have that relationship with the customer, using data and analytics we pulled from that and hopefully bridge off other services that those platforms can ultimately deliver. I don't necessarily view satellite technology as the place that's necessary to make that happen.

Michael Rollins

Thank you.

Operator

Your next question comes from the line of Brett Feldman from Goldman Sachs. Please go ahead.

Brett Feldman

Yes, thanks for taking the question. One of the areas where we've seen a real difficulty driving a reopening is in movie going. You've already had to adjust Tenet a couple of times, you've acknowledged it's going to be a very different release than we've historically seen. In light of the uncertainty around getting back to normal with that experience, and also with the direct platform you now have in HBO Max, can you talk about whether you think there's an opportunity or need to evolve your film release and windowing schedule, and in particular whether you think HBO Max could be a much more important launch point for your films going forward? Thank you.

John Stankey

Sure, Brett. Look, I think I said last quarter that I fully expected that coming out of COVID that I would be surprised if the industry as a whole didn't see some adjustment in the theatrical construct. I also made the point that, look, I think theatrical still has an absolute important role moving forward. There's just some content that is going to be more enjoyable and better to see in theaters than in the living room, and we fully believe that and we want to work with our theatrical partners and our exhibitors to ensure that we work with them and try to get through this very difficult period.

However, I don’t know when theaters are going to reopen, just like I’m not sure I can say I know exactly when schools are going to reopen and what the circumstances are going to be around it. There’s no question that the longer this goes on, there is going to be some content on the margin that we’d look at and say it may be better served to be distributed in another construct or a different construct.

I love the fact that we have that option now. I love the reality that we’ve been able to build a platform that we can get leverage and capabilities out of any content we build, theatrical or otherwise, and pick the platform and where we go with it. Do I think that there could be some things that we originally chartered and built for theatrical release that maybe migrates into an SBAUD construct? Sure, I think that could occur. Is it going to happen on a movie like Tenet or something like Wonder Woman? I’d be very surprised if that would be the case. In fact, I can assure you on Tenet, that’s not going to be the case.

So I think we’re just going to take it a case at a time. It’s nice to have the optionality, and as I shared with you in the last earnings call when we looked at the slate, we already have moved some of our future production slate where we’ve re-tooled it for what would probably have been a theatrical release that we’re choosing to execute the movie as what’s going to be a direct to streaming construct. Yes, I think there are going to be some shifts as we move forward here.

Brett Feldman

Thank you.

Amir Rozwadowski

Thanks Brett.

Operator

Your next question comes from the line of Mike McCormack from Guggenheim. Please go ahead.

Mike McCormack

Hey guys, thanks. Maybe just a quick one on the wireless revenue-slash-ARPU. What were you guys seeing out there as far as customers potentially trading down to lower plans, given the work-from-home environment and most things being WiFi-based instead?

Then back on the business wire line side, are you guys seeing any slowdown in decision making on the enterprise side? We've seen that historically in economic downturns and getting some whispers out there on that. Just wondering what you're seeing.

Then if you don't mind, John Stephens, on the working capital side, just the pacing in the back half on working capital.

John Stankey

Let me just take the front end of that and then John can come in and do the clean-up here.

Frankly, quite the opposite right now in our postpaid business of what's occurring. We are--I think we indicated in some of the comments we are already seeing the dynamic of the attach rate of the better unlimited and the higher ARPU unlimited plans increasing, and I made that point deliberately because this is where HBO Max and wireless come together nicely. We're giving customers a reason to go up in the more robust unlimited plans, and we're already seeing that penetration increase. We shared with you in October that that was an important driver through a combination of the incentives we would give people on the 5G network to buy into the upper end unlimited plans, as well as how Max complements those, and we are seeing that success with Max, so check the box on the front end of that. Once we have the right kind of equipment showing up on the 5G side, I think we will see that momentum continue and carry forward.

I think wireless has become more indispensable to customers in the work-from-home environment, not less. They're relying more on their devices, they're using them more. It's an important utility and tool for them to execute the mix of their personal and business lives, and so the trend has actually been really good around that.

On the enterprise side, as I mentioned earlier, I think that it's going to directly correlate to what happens in the economy overall as we move forward. The good news is we service a lot of important economic segments in our enterprise business and we are skewed heavier to the mid in that market, as I talked about, and as the airline industry continue to move through its challenges, our customer base is going to move through its challenges. As the hospitality industry moves through its challenges, our customer base is going to move through its challenges, and we're going to work with them in going through that dynamic because they're important customers of ours and we have longstanding relationships.

But as I said, I would expect that third and fourth quarter, we're going to see some pressure in that segment as a result of that. I think we've done a reasonable job of trying to forecast what that's going to look like, but I can't believe that we're going to see tailwinds as we get through that dynamic.

John, do you want to--?

John Stephens

Yes, let me just take--. If you look at the postpaid ARPU, we're seeing the growth that John's talking about when you take into account the fact that the international roaming and the COVID impacts, so that's how you see it. Then HBO Max has been a good attachment, a good opportunity for us to grow those elite packages and people moving up, so we've been really--you know, we've been pleased with the way the wireless business is going.

With your question, Mike, on working capital, traditionally we're second half of the year weighted towards free cash flow and so forth, and I wouldn't expect this year to be any different other than the fact that everything this year is different because of COVID. We continue to have really a focus on working capital and free cash flow, and I would say in the second quarter we saw some good activity on accounts receivable and collections and so forth. I wouldn't suggest that it's better than any prior years, but it was, I will say, better or as good as I would have expected in a pandemic situation.

With that being said, we continue to watch things carefully, continue to focus on working capital generation ideas, and we're kind of watching that and watching our receivables. All that being said, we're on a good track. We had a 50% dividend payout ratio this quarter, we're on track for full year--year to date, we're on track already and we usually have a better second half than we do first half, so we feel really good about the commitments and are really targeting the low end of the 60s for the payout ratio, and we're striving to beat that target.

Last thing I'll say is that is still with $20 billion of capex investment, and I want to make sure we reiterate that. The cash flows that we're getting are coming from the operations of the business, not from cutting capex. We're staying in line with capex, so.

Amir Rozwadowski

Thank you very much, Mike. We'll turn it over to John for some final remarks.

John Stankey

Thanks very much everybody for being with us today. Appreciate the discussion and the questions, and what I would say overall, the quarter represented what I thought was some solid execution in a really challenging environment. I don’t expect we’re going to see much change in the third quarter around those challenges that are in front of us, but the cash flow numbers were very, very encouraging and certainly--you know, what I take a lot of heart in, I thought the team did a great job on the launch of HBO Max. I think that puts us in a unique position to have a lot of optionality as we move forward and reshape the media business.

I expect we’re going to be dealing with some of these economic challenges in the COVID environment as we move forward here, and as you’ve heard, we’re operating accordingly, including pushing a lot harder on what we need to do on the cost and efficiency side to get our business positioned to do this. We’d be doing it anyway, but clearly the uncertainty in the environment moving forward makes that more important to us.

We’re blessed to have a very resilient subscription business, and we’ll continue to lean on that and use those cash flows to invest wisely moving forward. As you heard John talk about, the fact we remain committed to putting our capital against the areas where we think there is an opportunity to grow this business moving forward and come out of the backside of this pandemic stronger than where we came in, and we’re going to continue to do that and move forward.

Appreciate you being with us today. Hope you all stay safe and enjoy the rest of your summer.