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PRESENTATION

John Christopher Hodulik *- UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst*

Okay. If everyone can please take their seats, we'll get started. Good morning. I'm John Hodulik. I'm the telecom and media analyst here at UBS, and I want to welcome you all to the second day of our 47th Annual Telecom, Media and Technology Conference. We had a last-minute change, but I'm very pleased to announce that our first keynote speaker this morning is John Stankey, the President and COO of AT&T and CEO of WarnerMedia.

John T. Stankey *- AT&T Inc. - President, COO & CEO of WarnerMedia*

It's kind of you to say that, but I know you're not pleased.

John Christopher Hodulik *- UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst*

No. Hey, it's worked out fine. Okay.

Randall L. Stephenson *- AT&T Inc. - Chairman & CEO*

(inaudible) was looking really good yesterday when I saw him.

John Christopher Hodulik *- UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst*

Yes. I heard. I heard. It's all right. Well, we're glad to have you, John. We've got about 40 minutes for Q&A. And as always, I've got the iPad here, so if anybody has any questions, please download the app, and I'll weave them into the discussion. Also, there's a poll within the app. If we ask you to answer, I think it's about 15 questions, so that we can put together a research piece after this and get those responses to you.

QUESTIONS AND ANSWERS

John Christopher Hodulik *- UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst*

So with that, John, aside from your role as the CEO of WarnerMedia, recently took on the role of COO, give you a very large purview of AT&T, can we start with talking about your priorities for the company as we look out into 2020?

John T. Stankey *- AT&T Inc. - President, COO & CEO of WarnerMedia*

Sure. I think, first, before we kind of talk about '20, let's just kind of take stock of what we were able to get done in '19. And I think as we started the year and we outlined a couple of things we felt were really important to position the business effectively and we're now in December, you kind of check the box and say, I feel pretty good about what we've been able to do to get through some of these threshold issues that much of the investor base is paying attention to. The delevering issue, which we said we wanted to be in the 2.5x range by the end of this year, we're going to be in the 2.5x range by the end of this year and feel really good about what we've been able to do around that. I think we made it clear that we wanted to see growth in our wireless business. We've seen postpaid subscriber volumes now turn around, and we're in a position where we're growing again. Revenues are growing. That's encouraging.

We are particularly pleased with that given where we are in the network build-out and performance improvement. And as a result of that, we are now getting to the point where you're getting past that tipping point where we hope that momentum carries. We talked about stabilizing our entertainment group EBITDA. We will stabilize entertainment group. EBITDA, it's grown through the end of the third quarter. I expect fourth quarter to be a little bit lighter. That's largely based on how we amortize NFL rights that come in and the difference between, say, third and fourth quarter. But we will have stabilized that entertainment group EBITDA, seen really good broadband growth in our fiber footprint, which we're really pleased about, and that momentum carrying into '20 will be important.

And we had a number of things in and of themselves that were significant with the merger, getting the synergies done, which we feel we're going to exit this year at over $700 million run rate. On cost synergy effectiveness, we have really good line of sight moving into next year and the next chunk of that. That ultimately takes us up to the $1.5 billion of cost synergies. And then, of course, we start layering on the revenue stuff as we move into '20 and '21. And so feel good about that.

And then as I said, a lot of the momentum that's coming in the wireless business is coming because we put a really good network out there. We did what we were supposed to do for FirstNet. The 5G transition that's occurring and the fiber footprint that we have out there are all strong, which gives us a good platform. So I think we outlined all those things at the beginning of the year, feel good about how we've executed on them. And now moving into '20, where does that take us?

So it moves us into '20 is, clearly, we need to continue this wireless momentum. Everything we talk about in guidance and what needs to happen really has to be at the foundation of a well-performing wireless business. You've -- you're all smart people, you know the percentage of EBITDA that we drive out of the wireless business. You know the momentum that goes on there. We have an opportunity to grow revenues and keep expenses in check and get operating leverage out of that business, and that's a real key contributor to what we need to do.

I think on the entertainment group side, you should see a stabilization of EBITDA. I don't think it will be as clear-cut a path as what we had this year, but we'll have stable EBITDA. You'll see subscriber losses have peaked in '19, and we'll have a much more stable construct that's going over there and a combination of a better video product and continuing to make headway on the broadband footprint. We -- there's no reason why -- where we've deployed fiber that we can't be an equal share player to our competitor there. We're roughly at about 20% -- 7% penetration of broadband and most of our fiber footprint. We have a lot of room to grow there, and we're going to ride that aggressively and get the benefit out of that extensive investment we've made the last several days.

We turn, next year, our profitability and our EBITDA in Latin America, which has been a drain. And so as you think about ensuring that we're no longer in that kind of a dilutive position, that's an important aspect of what we need to do moving into next year. And look, in the media company, it's still a great performing business. We get a little bit of an uptick next year on our advertising dynamic because of both the political cycle as well as what we have with some sports rights that allow us to book additional advertising that we don't book this year. So we expect that we're going to get a little bit of lift from that dynamic and then launch HBO Max effectively. I mean I can't tell you how important that is for not only the media company but for the connectivity and communications company. And to the extent we can do that and manage to keep our other businesses in check and the stability that we've seen in our enterprise business, I think we're set up for a good year next year.

We've been pretty clear on the guidance, John, $3.60 to $3.70 on EPS. We started fourth quarter this year on a share buyback approach that we've been out in the market and been active. Took advantage of a little bit of the dip in the stock that occurred a couple of weeks ago, so we've already been out and buying. You should expect we're going to be aggressive moving into next year. We've made that clear. I fully expect we're going to see cash flows very similar to this year where we'll probably be in the $28 billion range. We've given that guidance, about $20 billion of capital investment in that range is where I expect we'll be. We're on a bit of a downward bias next year. The downward bias is being driven by being through a first chunk of the FirstNet build, so we've kind of got that under our belt. We're done with the fiber footprint work, and we're now doing more marginal work in that regard as opposed to core hundreds of thousands of new homes. And we've got a more effective serving architecture on the wireless -- excuse me, on the television side where capital-first costs in the satellite business are dramatically different as well, which will help us on some of our capital efficiency moving in. So I think by and large, we're set up exiting this year to put ourselves in a good position next year for our performance and our commitments that we've made.

John Christopher Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst*

Great. Great overview, John. Before we dig into each one of those -- each one of the segments, let's talk a little bit about the cost cutting. You brought in Bill Morrow to be the sort of cost cutting czar. Can you talk about where the pockets of costs are that you can take out? And when do you expect to start to see the benefits of the cost-reduction efforts on the P&L?

John T. Stankey - *AT&T Inc. - President, COO & CEO of WarnerMedia*

Sure. So I would tell you that, first of all, there's -- no place is safe. We're looking across the entire business, right? It's really important. And I think if I start to think about things I want to do in the business to position it moving forward, there's a list of a few things that I would really -- all things being equal, if I had an incremental $100 million, would I go invest in them or would I go chase them? Yes, I would. And so the management team is really focused on other things we can do to create some space for ourselves to accelerate those plans that we know are working well. And they fall into the wireless space, and they fall into the broadband space, and we certainly believe we're going to see some momentum on some of the new entertainment offers. So Bill's initiative is really important to, number one, manage the business more efficiently, but also find us some of that turnaround room that allow us to do some more things.

When you think about what Bill has got to go tackle, the 80/20 rule on a lot of this stuff is labor, and it traditionally has been. We've been running effectiveness on labor year-over-year about a 6% decline, if you kind of look at the last several years of our performance in aggregate in the business. We're going to step that up a bit. We think we can. We think there are reasons behind why we can. One of the things that we've been working on as Bill has come in, he's a very analytical and clinical individual, isn't married to decisions of the past, and I think that's always good to kind of bring that kind of a lens into an organization, especially a big one like ours where you kind of get a fresh perspective on things. And we're using a lot of external data, and it's something that we've done throughout time and something I've used in my career. I will tell you, I haven't gone through a benchmarking exercise recently in the last couple of years given the nature of the work I've been involved in. But it's -- what's interesting is there's a lot more data available these days than there ever has been. It comes from very nontraditional sources. And so when you look at what insights we can get and where we need to spend time, we have some opportunities. And we're going to step up on the labor side to a little bit more aggressive run rate. I think John shared some comments when he was out last week or the week before and talked about probably another 4% run rate on labor. That's roughly probably $1.5 billion of labor cost savings. I expect that not 100% of that's going to come out early in the year. I think it's going to come out a little bit more ratably. But another $1.5 billion run rate that comes out as a result of some of these initiatives that are focused on some of our distribution strategies and our effectiveness in our call centers from some mechanization that we know we need to step up to and improve, frankly, in places we know we've got management structures that we can look at based on how we've reprofiled the business and our priorities to ensure our management team is lined up against those priorities and we're not investing in things that we don't intend to move forward on.

And look, the core wireline business has changed quite dramatically since the last time I've been involved in it and product rationalization. And when you think about product rationalization in the wireline business, that means geographic and footprint rationalization. And there's a huge opportunity for us to look at our wireline business and how our customers are laid out and start thinking about what we do to take out layers of cost based on geography we serve and products that we support that maybe run their course in a fairly mature business moving forward. So labor, clearly, an important part.

Now having said that, nothing is off of the table. We're aggressively looking across our benefits effectiveness, and we found places across our large employee and retiree base. We have more effective benefit constructs in place that drive the more effective cost structures. It's not about reducing benefits. It's about using the most effective way to serve them. We believe that there's opportunity for us to drive some fairly substantial costs out of our cost structure, around benefit structures as a result of that.

If you look at where we are on some of our overheads and what's occurred as we brought businesses together, we know we have some corporate overheads that we can go address. We've done a lot in the post-close Time Warner environment as we rationalize some things, but we have a few more layers to go. That's what happens in a big organization. And we feel pretty good that we can go after some of those.

We have some key deployment processes that we use. If you think about a business that generates $20 billion, $20-plus billion of capital investment a year, there's probably 3 key operating practices we use to deploy that. And when you look at those, we know that we've got some improvement at the 10% to 20% level. That is just the expense that goes on with deploying billions of dollars of capital. It comes back through things like supply chain, process improvement work that goes on there that we know that we can attack, that we can support it. So feel good about the playing field and what we can go address. And in a business our size, this is not an overly aggressive target.

John Christopher Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst*

It's a target-rich environment.

John T. Stankey - *AT&T Inc. - President, COO & CEO of WarnerMedia*

It is a target-rich environment. Especially in a post-close transaction, it's always a target-rich environment.

John Christopher Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst*

Got you. Maybe we'll start with mobility, it's your largest segment, about half of the business. Can you talk about the competitive environment? Obviously, there's a trial going on about 5 miles south of here that's going to determine, to a certain extent, what the world looks like over the next couple of years. But how would you say AT&T is positioned vis-à-vis the competitors as the world stands today? And maybe talk about what FirstNet does for you within that environment.

John T. Stankey - *AT&T Inc. - President, COO & CEO of WarnerMedia*

Sure. So first of all, it's really good that it's not our turn to be sitting in a Federal court room and the distraction that comes with that. And as an individual, I can speak, I think, authoritatively on that subject matter. And we're out executing our plan. And I think that in and of itself is something to be said. And we don't know what the outcome of this trial is going to be. But whatever it is, no matter which way it comes out, it's going to mean a degree of distraction. It's either going to be a degree of distraction because the transaction didn't complete and both sides have to kind of go back to figuring out what their play is then. I've been in that realm. That was a post failed T-Mobile transaction, and I know what happens in that aftermath. Or it's -- maybe they get their way through and the parties come together and then they've got the lovely task of integration, which for all things, it tends to be a little bit more of a navel-gazing exercise internally than it is necessarily a market-facing exercise.

So I think the important thing for us is to continue to run our plays. And our plays, to your point, are rooted on the investments we've made on FirstNet and what we're doing with the partner there to basically put out an unprecedented amount of capacity in our network, and we're 70% through that first tranche of deployment, getting the new bands up. And at the same time, we're getting the new bands up, positioning all of our infrastructure for the 5G transition as well as lighting up the spectrum that we've had waiting to be lit.

And that's put us in a great position. The network is performing incredibly well. We, as you just saw, sustain the fact that the largest drive test that's done out there has us performing as the best network. We believe our 5GE performance is on par or superior to anything that anybody is going to turn up in the 5G environment in the near term. We think customers are seeing that. We like the trends that's driving into the business as a result of it. And frankly, what is attractive to us is 2020 is going to be a major air interface transition year, which means customers are going to say, it's now worthwhile for me to upgrade my device. We saw this at the 3G transition. We saw this at the 4G transition. And we now have that moment in 2020 where meaningful devices in the ecosystem will become available. Customers are going to walk in and make a decision to get a device. It's been a suppressed dynamic over the last couple of years. And when that happens, that opens up opportunity for us. It opens up opportunity for us to move customers that haven't moved into unlimited into unlimited, which drives the ARPU increase. It opens up an opportunity for us to explain to them why getting entertainment with their wireless service makes sense for them, and with entertainment driving them into those higher unlimited plans that drive ARPU accretion and value back to the customer by getting an entertainment bundle associated with that connectivity service, which ultimately helps our churn over time. And when you're in those higher unlimited plans and you're getting entertainment and you're getting the benefits of that great performing network to watch and stream those services, that's a good thing for us from a customer satisfaction perspective and a long-term loyalty perspective. And that will be the cycle that we chase in 2020 on a really strong network. And we'll continue to finish that deployment, make sure that by the midpoint of the year, we're nationwide on 5G with the spectrum position we have. Just feel like we're coming into the first time in a long time a position of strength and capacity that gives us flexibility on our customer acquisition strategies. It gives us flexibility on our channel strategies where now we can step back and ask, do we want to be more aggressive in the wholesale space where we have not been for the last several years in our more capacity-constrained environment where we've been largely supporting our retail base. Good position to be in.

John Christopher Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst*

There's a possibility of a new sort of upgrade cycle around a 5G iPhone, say, in the second half of the year. Does it -- should investors be worried that it could cause sort of a new round of competition among carriers? Because like you said, well, upgrades mean sort of a bigger jump ball, potentially similar churn, more aggressive promotions and BOGOs and things like that. Should we worry that you could see sort of a lull in the margin improvement in the second half that we typically see when we see an upgrade cycle?

John T. Stankey - *AT&T Inc. - President, COO & CEO of WarnerMedia*

First of all, I would go back to previous cycles and I know that there's always speculation at the front end of these, is this going to be good or bad for you. Rightfully so. I think you go back to the previous 2 transitions, and the answer is we've navigated this pretty well. And I would say more so than the previous cycles, we're going to navigate this one from a position of strength. I just talked about the network strength, I mean, why somebody is not going to be going someplace else to get a better-performing network. We have incredibly competitive pricing out in the market right now and value. And third, we're going to be right in the sweet spot of that as we get into that device upgrade cycle, as we launch HBO Max in May. It's going to be a great product, and it's going to be a great product married in. We think the promotional tie-in with that gives us something we've never had before going through that cycle. And so I don't worry about that at all right now.

John Christopher Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst*

And the benefit for you guys is obviously it's differentiated. And it's probably something similar to what we've seen with Disney+ and Verizon where you bundle the 2. And on the video -- on the wireless side, you get people kicking up into these higher unlimited plans, so maybe a little bit of ARPU benefit and as well as potentially a trend in gross add benefit. Is there a way that you could sort of, I guess, first of all, quantify or put some numbers around the bundling opportunity with HBO Max and your communications business and maybe more specifically how it can help your wireless business?

John T. Stankey - *AT&T Inc. - President, COO & CEO of WarnerMedia*

Yes. So I'd maybe quibble with you on one thing, which is it's different from what Verizon is doing, and the perspective is it's a different product. And when you think about -- we own the product, first of all, which -- so it's accretive to us on the other side to get it out there and ultimately drive people through this ecosystem. But I think one of the things I would characterize of what is different is Disney+ is -- it's a good product. They've done a nice job. It has a particular appeal. The strongest appeal of Disney+ is to the youth of the family. Its strength is a product to satisfy the other members of the family. It's not that deep. There's some stuff that's interesting to adults in the offer, and there's some stuff that's probably interesting to your 20-something and 30-something-year-old members of your family, but it's not all that deep in that regard. Max is. Max is a product that appeals to the entire family and the family wireless plan. And it's something that everybody in the family looks at and says, that has something in it for me. The parent who's the decision-maker at the macro end of the family plan says, that is something for me. I see myself in that offering. It will have strong animation, kids and family-oriented content. So there's stuff there for the youth of the family. And most importantly, we're spending time in that middle area. And we spend a lot of time at the Analyst Day talking about this, around making sure that there's a good, stable offering in the late teenage, 20-something-year-old segment that fills that out. And so I think it's really powerful from the family plan construct in keeping all members of the family engaged.

We know from our experience with HBO that attaching content to connectivity service has churn benefits. I mean, look, I don't think we have to debate that. We've got every other wireless provider out there trying to do something like that right now. You mentioned Disney+ and Verizon. Certainly know what T-Mobile has done with Netflix. We see the same thing with HBO. The limiting aspect of HBO, as we talked about in the Analyst Day, is it addresses a particular demographic. The demographic isn't quite broad enough. It's a great product, it's a great brand, but it doesn't quite pick up some of those segments I just talked about. Most of your young kids in your household aren't thinking about what next HBO show they want to watch. God help us, right?

We have a characterization where we tend to skew a little bit higher on socioeconomic and age demographics. We'd like to bring that down a bit. That's what Max allows us to do. And I think that's why it's so powerful. The fact that we can now attach it to a broader cross-section of the base, same reduction in churn that we've seen will now extend to a broader percentage of the base and be a more powerful marketing tool for us.

John Christopher Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst*

Got you. Maybe we'll transition and get to WarnerMedia and stick with the HBO Max. I guess we just talked about positioning and where sort of HBO Max is compared to the DTC landscape. But obviously, the landscape is getting seemingly more crowded every month. We heard yesterday a little bit about the sort of some of the financial characteristics of Peacock. There's more to come. How do you -- as the CEO of WarnerMedia and the sort of driving force behind HBO Max, how do you differentiate the service in the marketplace? Can we expect sort of a large advertising spend? Do you expect to run promotions and 2-year deals, 3-year deals to try to get it out there? I mean how do you make a big splash in what is already a pretty crowded landscape?

John T. Stankey - *AT&T Inc. - President, COO & CEO of WarnerMedia*

So I don't -- first of all, I don't think it's a zero-sum game in many of these offers. I think oftentimes, these offers can be complementary to each other. We talked about Disney+ as an example. I mean you'd be hard-pressed to suggest that Disney+ is a replacement service for Netflix. I'd just -- like I'd say, I'd be hard-pressed to say Disney+ is a replacement service for Max. They're 2 different services, and they're addressing different market segments. And I think customers will make decisions on a portfolio of services that makes sense for their particular household. And we feel it's pretty important that we design an aperture of a product that is a little bit broader in order for us to do that.

You should expect when we come out we're going to use all of our tools available. We are -- let me break the news to you, between our wireless business and our media business, we are one of the largest advertisers in the United States. And if we're doing our job right, you're going to see it threaded through a lot of the existing platforms that we advertise on for purposes of position in promotion to drive awareness. So we should be able to get some drag value of what we do. For example, as I just talked about, attachment to our wireless customers and our substantial promotional and advertising spend. As we move forward in that business, just as a BAU construct, we'll be doing incremental advertising to raise brand awareness.

We have done things in the digital space as we moved product throughout our companies, what we've done on theatrical releases that I think have been incredibly innovative. We're going to use some very efficient digital techniques, much of it honed, for example, on what we've done in marketing to other over-the-top niche services with our Crunchyroll constructs. So we know how to manage these funnels and build these funnels and bring people in very effectively.

So there'll be macro brand building, but there's also going to be, as we talked about at the Analyst Day, a lot of leaning on our existing distribution and advertising and a lot of innovative techniques that we've developed in our other OTT services where we have a lot of experience managing these funnels. And again, I'd point that out as a difference and maybe some other folks who have recently entered in, we've been managing customer life cycles, customer funnels on subscription-oriented services for a large part of our history. This is not new to us. And we feel pretty comfortable on our skill set to be able to move forward and do that.

John Christopher Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst*

One of the pushbacks I get is the $15 price point. Obviously, that matches what you've been -- the rate that -- the retail rate for HBO. Do you believe given the competitive landscape that, that is an impediment to subscriber growth?

John T. Stankey - *AT&T Inc. - President, COO & CEO of WarnerMedia*

No, I don't. I mean Disney was kind of like about half the content of what we have at half the price, and we're twice the content of what we currently have at the same price. So I'm not really sure that, that's a hard thing to do, right? I believe I was listening to feedback after the Investor Day, and I would tell you there is a continuum. There's some that have said too cheap, some that have said just right and some that have said too expensive. So that tells me we probably found a good place to start.

Look, our approach to this is to give a compelling value to the 33 million customers that are currently HBO subscribers. And it's a compelling value proposition to 33 million people that are already paying $15 a month or thereabouts. They're going to get twice the content for the same price. And it should be something that they look at and say, "Wow, this is great. It doesn't happen very often in my life where somebody gives me quite a bit more without having to pay more." And so I think it's a great value moment for that customer base.

I think when you look at the content offering that's in there, and as I just said, where we have this broad aperture, I think the household will be saying, that's a good investment for the household because at $15 there's more than one segment of the household of the family that's going to sit down and watch it on a given day and use it, which that utility factor will be high. And given the depth hours that are there, when you have quite a few more hours than others that are out there, that refresh cycle is important. And I think it's really important that there's new content that comes in every month so that you're managing that churn. I think we've got that formula to do that. So I think it's going to be salable. And look, we also have means of promoting where average pricing can be used as a tool moving forward in terms of how we bundle. We'll be smart about that, right?

John Christopher Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst*

Makes sense. So as part of that transition, you guys -- I would say, it would be easier if you got buy-in from the current distributors here in the U.S. Have you guys started discussions with, say, the large cable companies about shifting from HBO to HBO Max? And if so, how are those going?

John T. Stankey - *AT&T Inc. - President, COO & CEO of WarnerMedia*

Yes, we have. We're in the heart of them now, and they're going like they always go. They're -- I've never seen anything that -- you probably write a book about the unique character of any carriage agreement negotiations, right? They follow a particular construct and a pattern, and it's a repeatable pattern. And it's one of those things where there's an inordinate amount of time spent by the sides of the front-end posturing. And then as a deadline approaches, a lot of work gets done in a very short period of time right before the deadline.

I don't expect that these discussions are going to be a whole lot different given the pattern that occurs. Each side has been stating their position. I'm not surprised by any of the positions that are being taken. I'm sure those that we're working with aren't surprised by the positions that we're taking. And that dialogue has begun. And the exchange of what are threshold issues versus what are just posturing, we're in that process right now.

I think what's important to understand is at the end of the day, is this something that a distributor would want to participate in. And I think the answer to that is yes. I think the answer to that is yes because, one, they get to continue to participate financially in a monthly residual structure that isn't dissimilar from what they already experienced in a product that they know and they distribute and sell today called HBO. And we're not doing anything that dilutes that further. It's still something that can be attractive to them financially to do that.

Two, we're providing an opportunity to not only get access to the content, but to take the data and the information that we go in and bring that back to them through Xandr so that they can use that information inside the customers that we know to help their advertising businesses. And that's not only for their data, but it's for the aggregated data of all the customers we sell through, which is an improvement for somebody who runs a regional business who doesn't have broader insights.

Three, when you think about our friendliness to the ecosystem and how that layers into existing product, nobody can possibly look at Max and view it as being more problematic than click-through capabilities they've already put in their menu for something they don't get a residual on like Netflix. And we think it's actually a means for them to keep their customers more within an ecosystem that many of our traditional distributors are comfortable with, and it's a friendly way to do that. And so I think at the end of the day, it gets down to money and economics. And there will be a meaningful reason why they want to participate with us.

John Christopher Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst*

Got you. Can you talk a little bit about the international opportunity for HBO Max and maybe a little bit about the Sky deal or the extension with Sky that you -- those are obviously 3 big markets in Europe and why you decided to take a bit of a different approach than going in as a retail provider in those markets?

John T. Stankey - *AT&T Inc. - President, COO & CEO of WarnerMedia*

Sure. I think -- I mean if I were to say one thing about international, I don't think you can just say international. I mean what my observations in working overseas and doing things is that each market is different and you have to be cognizant of the fact that each market is different. And I think our approach is tailored to that. We are in a -- we start from a fairly strong position in Latin America, and so we're very energetic and bullish on what we can do. We obviously chose to buy out our partner in HBO Latin America. We're in the process of doing that. I hope ultimately that, that becomes something that allows us to play in the entirety of Latin America. For now, we've set aside Brazil but have reason to believe that will ultimately resolve itself.

Between HBO's position and the Turner properties, we have a lot of brand recognition down there. And we're now starting to see broadband become a more prevalent dynamic in most of these countries. And because of our experience and what we've done with HBO, we believe we can tailor a package. It admittedly is slower ARPU than what we see domestically in the U.S. but a meaningful package that for those customers that are part of the pay TV ecosystem because they have to get into the front end of it could become a meaningful part of their entertainment solution in their homes, especially those that are broadband-enabled homes. And we intend to take advantage of that and rejigger our content down there in a manner that we can do that with full control of our HBO Latin America operation.

So as we get into '21, we fully expect we'll be in most markets, ex Brazil, pending some regulatory dynamics down there and feel really good about what that offer is going to be and feel that we can hit the market appropriately and have the ability to have full control. And given that it's still a developing and nascent market, we don't have the entrenchment of other players that we believe is going to impede our growth there.

Flip to Europe, a little bit different story. Some new entrants and the incumbents have behaved differently. In some regards, they've been able to watch what happen domestically in the U.S. and prepare for the -- over-the-top on slot. And so when I look at a market like the U.K., I'm not energized around going and putting capital against customer acquisition in the U.K. given what Sky has done, for example, to be a very formidable competitor in the country, the foothold that existing streaming services already have. And as a result of that, I look at it and say, what's in the best interest of our shareowners. The best interest of our shareowner in the U.K. is to say, can we be in a position where it doesn't cause damage to our marginal cost structure and how we develop content moving forward.

So our decision in the U.K. has been, look, if we can get a long-term licensing agreement for the vast majority of our output, that allows me to say, I'm not at disadvantage of creating content because I know I will be able to push it through in that market. I'm going to get it through licensing. I'm not going to get it through a direct relationship with customers. But I know a substantial portion of what I create I can push through in that market and get paid for it. That's an okay thing rather than going head-to-head in the market that I think is fairly well developed.

It's not the case in other parts of Europe where we've already had experience launching HBO. And we've got an organization that knows how to manage a funnel and acquire customers. And with that broader Max product, we can actually do the exact play we're doing domestically in the U.S. and expand the base that we can address. And so where we have that better path, that clearer field game customers, where the market is mature in terms of the incumbents, we have control maybe more of that content that's in place. We can go and compete directly for customers on the same technology platform we're building domestically here in the U.S., the same one we're deploying in Latin America and have that be accretive, and it's a better mix financially to not attack those markets where things are embedded.

John Christopher Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst*

Got you. And maybe last one on HBO Max. I'd say in terms of the licensing landscape, on one side, we have Disney, which has been pretty outspoken that they will be pulling back a lot of their -- the content that they license to third parties, especially third-party streamers. Yesterday, we heard from Bob Bakish is still expects to grow their streaming business, but at the same time, continue to grow the licensing business and maybe at a faster rate than they have previously. Where does AT&T and WarnerMedia sort of fit on that mix? Do you expect licensing to continue to grow? Or is that something that we'd expect to see some pressure to support the growth of HBO Max?

John T. Stankey - *AT&T Inc. - President, COO & CEO of WarnerMedia*

Well, in aggregate, at WarnerMedia, we are a bigger producer of content than either of those 2, especially on an independent basis into the market. But we've been really clear. I mean we've -- to support HBO Max domestically, we've talked about the fact that we're going to be pulling back, made some public announcements of content that we would have been selling in. Look, we started pulling step back in the fourth quarter. You're going to see here in the fourth quarter of this year because of where licensing came up, there's some renewals we didn't do. And it's going to flow through the Warner Bro's P&L. Now we'll offset a lot of that by the share repurchase that I just mentioned that we've already started in the fourth quarter. But there's going to be a little bit of pressure as we look in the fourth quarter. That's part of that guidance that we've given. As our HBO Max launch is occurring, it's already starting to roll through the fourth quarter. And you're going to see in the 2020 numbers for Warner Bros where that licensing that we said we're going to dedicate the Max, will, of course, roll through the annual numbers and be an impact to that business.

Now does that mean we're out of the licensing business? No, not by a long shot. Warner Bros will continue to remain an independent studio. We have huge library. We talked about it at the Analyst Day. We're talking about maybe 10,000 hours of library coming in a little bit less. Well, there's well over 40,000 hours of library in the Warner Bros portfolio, and we'll continue to license those things as we have an opportunity to do so, where it doesn't fit the character and the marketing strategy of HBO Max, and that's going to be the norm. Now what happens? Does the studio not have independents moving? No, the studio will remain independent. Does it shift from maybe 40% self-performed to 60% self-performed? Probably over time, over the next couple of years. But we believe to be viable and to actually be the right place for creators to want to come work, we need to make sure that they can go and sell their wares and their content anywhere they choose and wherever it's appropriate. And we think that's a strategic advantage for us to get some of the best creators to work with us. And we will continue to license and we'll continue to move product to other channels if it makes sense to do that. I think it will make us a better company as a result of it. But we also believe very strongly you need to have a scaled distribution platform to be viable over the long haul. Otherwise, you're, at some point, going to be consolidating with somebody who does.

John Christopher Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst*

Time for one question. You mentioned the buyback and -- starting in the fourth quarter. I realize this isn't exactly (inaudible). Previously, John, Steven has mentioned the ASR that you're talking about for the first quarter. I guess how should we think about -- based on where the company is now, what the balance sheet looks like, your uses of cash going forward, the potential sizing of cash returns in '20 and beyond, and how you think the next incremental dollar of (inaudible).

John T. Stankey - *AT&T Inc. - President, COO & CEO of WarnerMedia*

This is my bailiwick because I own a lot of stocks, so I pay a lot of attention to these things. John has talked about DSO. I think we're going to be filing here shortly about what we're going to do in the first quarter. We will be filing an ASR for the first quarter. It would be about $4 billion in the first quarter. So as we said, we're going to front-end load this dynamic and get a lot of it done in the first quarter, in addition to what we already started to do in the fourth quarter of this year.

We've been pretty clear over the planning period what our intent is here. We're going to return about $75 billion to shareholders over the course of the next 3 years. About $30 billion of that is going to come from buyback and $45 billion through dividends, and we're getting started early next year. As I told you, we have every degree of confidence we're going to hit our net debt-to-EBITDA objectives at the end of this year. We're so confident we started the buyback, and we're confident in the cash flows for next year that we're front-end loading on the equity side.

John Christopher Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst*

That's great. All right. I think that's all we have time for. John, thanks for being here on that notice.

John T. Stankey - *AT&T Inc. - President, COO & CEO of WarnerMedia*

I appreciate it. Thank you.
