



News Release

AT&T CFO Updates Shareholders

DALLAS, November 17, 2021 — Pascal Desroches, senior executive vice president and chief financial officer of [AT&T Inc.*](#) ([NYSE:T](#)) spoke today at the Morgan Stanley European Technology, Media & Telecom Conference, where he provided an update to shareholders.

Desroches addressed the company's renewed momentum in its wireless business. He said that AT&T's go-to-market strategy, which has led to wireless service revenue and EBITDA¹ growth, is sustainable and that the company continues to expect fourth-quarter EBITDA growth to exceed third-quarter levels. Further, the company's simplified plans, improved customer experience and network performance have driven its ability to retain subscribers, which has reduced churn and increased customer lifetime value.

Desroches said that while amortization accounting for promotions has modestly impacted postpaid phone ARPU levels in 2021, the company expects these to stabilize in 2022, driven by an anticipated recovery in international roaming revenues and continued subscriber adoption of higher-ARPU plans. He noted that only about 20% of the company's postpaid smartphones are on the company's highest rate plan – Unlimited Elite – which is the company's fastest growing plan. Desroches also indicated that he expects the accounting impact from amortization of promotions to remain manageable given current uptake levels, with fewer than a quarter of gross adds and upgrades in the most recent quarter trading in newer devices for premium promotional offers.

With postpaid phone ARPU stabilizing in 2022, Desroches said that AT&T expects higher wireless service revenues from a growing postpaid subscriber base. He also indicated that AT&T's outlook for 2022 and beyond does not assume a continuation of outsized industry net adds. Should recent trends continue, Desroches believes the company is on solid footing to capitalize on better demand. However, AT&T's focus is on improving its share position profitably with continued market momentum regardless of industry demand levels.

Desroches also addressed HBO Max and HBO net adds. He said that trends are in line with AT&T's expectations driven by strong additions in international markets. In fact, while it is still early, initial data suggest that in most international markets HBO Max is quickly rising to become a top two direct-to-consumer provider in terms of subscribers and revenues. Given this, Desroches said he feels good about HBO Max's global positioning and remains confident in its longer-term global expansion.

With regard to its pending WarnerMedia transaction with Discovery, the company continues to expect the transaction to close by mid-2022. While dividend decisions are

¹ EBITDA is operating income before depreciation and amortization.



made at the discretion of the AT&T board of directors, Desroches said that after the transaction closes, AT&T expects an annual dividend payout ratio of 40% to 43% on anticipated free cash flows of \$20 billion plus, equating to \$8 billion to \$9 billion in dividends annually.²

***About AT&T**

AT&T Inc. ([NYSE:T](#)) is a diversified, global leader in telecommunications, media and entertainment, and technology. AT&T Communications provides more than 100 million U.S. consumers with entertainment and communications experiences across mobile and broadband. Plus, it serves high-speed, highly secure connectivity and smart solutions to nearly 3 million business customers. WarnerMedia is a leading media and entertainment company that creates and distributes premium and popular content to global audiences through its consumer brands, including: HBO, HBO Max, Warner Bros., TNT, TBS, truTV, CNN, DC Entertainment, New Line, Cartoon Network, Adult Swim and Turner Classic Movies. Xandr, now part of WarnerMedia, provides marketers with innovative and relevant advertising solutions for consumers around premium video content and digital advertising through its platform. AT&T Latin America provides wireless services to consumers and businesses in Mexico.

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Cautionary Language Concerning Forward-Looking Statements

Information set forth in this news release contains financial estimates and other forward-looking statements that are subject to risks and uncertainties, and actual results might differ materially. A discussion of factors that may affect future results is contained in AT&T's filings with the Securities and Exchange Commission. AT&T disclaims any obligation to update and revise statements contained in this news release based on new information or otherwise.

² Free cash flow is a non-GAAP financial measure that is frequently used by investors and credit rating agencies to provide relevant and useful information. Free cash flow is cash from operating activities minus capital expenditures, and AT&T will include cash distributions received from DIRECTV, including those reported as investing activities, as part of Free Cash Flow. Due to high variability and difficulty in predicting items that impact cash from operating activities and capital expenditures, the company is not able to provide a reconciliation between projected free cash flow and the most comparable GAAP metric without unreasonable effort.



This news release may contain certain non-GAAP financial measures. Reconciliations between the non-GAAP financial measures and the GAAP financial measures are available on the company's website at <https://investors.att.com>.

Cautionary Statement Concerning Forward-Looking Statements

Information set forth in this communication, including financial estimates and statements as to the expected timing, completion and effects of the proposed transaction between AT&T, Magallanes, Inc. ("Spinco"), and Discovery, Inc. ("Discovery") constitute forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These estimates and statements are subject to risks and uncertainties, and actual results might differ materially. Such estimates and statements include, but are not limited to, statements about the benefits of the transaction, including future financial and operating results, the combined Spinco and Discovery company's plans, objectives, expectations and intentions, and other statements that are not historical facts. Such statements are based upon the current beliefs and expectations of the management of AT&T and Discovery and are subject to significant risks and uncertainties outside of our control. Among the risks and uncertainties that could cause actual results to differ from those described in the forward-looking statements are the following: the occurrence of any event, change or other circumstances that could give rise to the termination of the proposed transaction; the risk that Discovery stockholders may not approve the transaction proposals; the risk that the necessary regulatory approvals may not be obtained or may be obtained subject to conditions that are not anticipated; risks that any of the other closing conditions to the proposed transaction may not be satisfied in a timely manner; risks that the anticipated tax treatment of the proposed transaction is not obtained; risks related to potential litigation brought in connection with the proposed transaction; uncertainties as to the timing of the consummation of the proposed transaction; risks and costs related to the implementation of the separation of Spinco, including timing anticipated to complete the separation, any changes to the configuration of the businesses included in the separation if implemented; the risk that the integration of Discovery and Spinco being more difficult, time consuming or costly than expected; risks related to financial community and rating agency perceptions of each of AT&T and Discovery and its business, operations, financial condition and the industry in which it operates; risks related to disruption of management time from ongoing business operations due to the proposed merger; failure to realize the benefits expected from the proposed



merger; effects of the announcement, pendency or completion of the proposed merger on the ability of AT&T, Spinco or Discovery to retain customers and retain and hire key personnel and maintain relationships with their suppliers, and on their operating results and businesses generally; and risks related to the potential impact of general economic, political and market factors on the companies or the proposed transaction. The effects of the COVID-19 pandemic may give rise to risks that are currently unknown or amplify the risks associated with the foregoing factors.

These risks, as well as other risks associated with the proposed transaction, will be more fully discussed in the proxy statement/prospectus that will be included in the registration statements that will be filed with the SEC in connection with the proposed transaction. Discussions of additional risks and uncertainties are contained in AT&T's and Discovery's filings with the Securities and Exchange Commission. Neither AT&T nor Discovery is under any obligation, and each expressly disclaims any obligation, to update, alter, or otherwise revise any forward-looking statements, whether written or oral, that may be made from time to time, whether as a result of new information, future events, or otherwise. Persons reading this announcement are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date hereof.

Additional Information and Where to Find It

This communication may be deemed to be solicitation material in respect of the proposed transaction between AT&T, Spinco, and Discovery. In connection with the proposed transaction, AT&T, Spinco and Discovery intend to file relevant materials with the Securities and Exchange Commission ("SEC"), including a registration statement on Form S-4 by Discovery that will contain a prospectus of Discovery and Spinco that also constitutes a proxy statement of Discovery, and a registration statement by Spinco. This communication is not a substitute for the registration statements, proxy statement/prospectus or any other document which AT&T, Spinco or Discovery may file with the SEC. STOCKHOLDERS OF AT&T AND DISCOVERY ARE URGED TO READ ALL RELEVANT DOCUMENTS FILED WITH THE SEC, INCLUDING THE REGISTRATION STATEMENT AND PROXY STATEMENT/PROSPECTUS, BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED TRANSACTION. Investors and security holders will be able to obtain copies of the proxy statement/prospectus (when available) as well as other filings containing information about AT&T, Spinco and Discovery, without charge, at the SEC's website, <http://www.sec.gov>.



Copies of documents filed with the SEC by AT&T or Spinco will be made available free of charge on AT&T's investor relations website at <https://investors.att.com>. Copies of documents filed with the SEC by Discovery will be made available free of charge on Discovery's investor relations website at <https://ir.corporate.discovery.com/investor-relations>.



No Offer or Solicitation

This communication is for informational purposes only and is not intended to and does not constitute an offer to sell, or the solicitation of an offer to subscribe for or buy, or a solicitation of any vote or approval in any jurisdiction, nor shall there be any sale, issuance or transfer of securities in any jurisdiction in which such offer, sale or solicitation would be unlawful, prior to registration or qualification under the securities laws of any such jurisdiction. No offer of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended, and otherwise in accordance with applicable law.

Participants in Solicitation

AT&T and its directors and executive officers, and Discovery and its directors and executive officers, may be deemed to be participants in the solicitation of proxies from the holders of Discovery capital stock and/or the offering of Discovery securities in respect of the proposed transaction. Information about the directors and executive officers of AT&T is set forth in the proxy statement for AT&T's 2021 Annual Meeting of Stockholders, which was filed with the SEC on March 11, 2021. Information about the directors and executive officers of Discovery is set forth in the proxy statement for Discovery's 2021 Annual Meeting of Stockholders, which was filed with the SEC on April 30, 2021. Investors may obtain additional information regarding the interest of such participants by reading the proxy statement/prospectus regarding the proposed transaction when it becomes available.

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