THE ECONOMIC CLUB

OF WASHINGTON, D.C.

AT&T Chairman and CEO Randall Stephenson discusses the future of 5G technology and AT&T's acquisition of Time Warner.

Randall Stephenson
Chairman and CEO
AT&T Inc.
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MR. RUBENSTEIN: So, we're very pleased to have Randall Stephenson, who has, since 2007, been the President, CEO, and Chairman of the Board of AT&T. And it's a company that he's been at for virtually his entire career. You graduated – you're a native of Oklahoma, is that right?

MR. STEPHENSON: I am.

MR. RUBENSTEIN: And so when you were growing up in Oklahoma, did you say I want to be the CEO of AT&T someday? Was that a life ambition?

MR. STEPHENSON: Well, I probably didn't set that as an ambition till I was, like, 17. [Laughter.] It's kind of worked out as I expected, yeah.

MR. RUBENSTEIN: So you grew up in Oklahoma. Your father was in the agricultural business?

MR. STEPHENSON: Yeah.

MR. RUBENSTEIN: So it was a cattle business. Were you ever interested in that business, or you wanted to get out of that business?

MR. STEPHENSON: [Laughs.] Boone Pickens[1] and I have something in common. We both started out as animal husbandry majors.

MR. RUBENSTEIN: OK. And you switched to something else?

MR. STEPHENSON: Obviously. [Laughter.] Do you know what animal husbandry is, David?

MR. RUBENSTEIN: Yes, I do. I started out as an animal husbandry major myself. [Laughter.] Then I realized private equity worked better, but OK. [Laughter.]

So you – ultimately, you got a job with Southwestern Bell.

MR. STEPHENSON: Correct.

MR. RUBENSTEIN: And Southwestern Bell was the result of the breakup of AT&T in 1984. So what – how did you get a job there? You were right out of college. How did you get that job?

MR. STEPHENSON: I like to say I got my job the old-fashioned way. My brother got me on it.

MR. RUBENSTEIN: OK.

[1]Thomas Boone Pickens Jr. is an American businessman and financier and is the chairman of the hedge fund BP Capital Management. Pickens is also known for his philanthropy and alternative energy policy activism.

MR. STEPHENSON: My wife and I were getting married. And she said: Yes, I'll marry you. But you have to get a job. I was in school. And so my brother said, come on, I can get you on at the phone company. So I went to Southwestern Bell. And I started out – my first job, David, was to hang 19-inch magnetic tapes onto tape drives. You'd look at a screen and say: Hang this tape on that drive. And I'd go find that tape, I'd mount it on the drive, I'd push load, and I'd push start. And I would do that for a 12-hour shift.

MR. RUBENSTEIN: OK. And that propelled you to the top, right? [Laughter.]

MR. STEPHENSON: I mean, it was pretty much the foundation of everything that I do now.

MR. RUBENSTEIN: Now, your brother is still working in the company, right?

MR. STEPHENSON: He's a technician in Norman, Oklahoma, yeah.

MR. RUBENSTEIN: Does he mention that you're the CEO of the company, or he doesn't mention that, do you think, to people?

MR. STEPHENSON: He tries to protect that. He's a member of the labor union. I don't think that would be received very well. [Laughter.]

MR. RUBENSTEIN: OK. So your name is Randall. Now, many people I know who have the name Randall actually call themselves Randy. How come you don't use that name?

MR. STEPHENSON: My grandmother, until she died last year, still called me Randy. And George W. Bush still calls me Randy. Other than that, nobody else has –

MR. RUBENSTEIN: OK. All right. But you never use the name "Randy" generally?

MR. STEPHENSON: No, I haven't since I got older. My wife – we had our first daughter. And she thought it would be cute to name our daughter Randy. And after about –

MR. RUBENSTEIN: Because she liked you so much, I guess. She liked the name.

MR. STEPHENSON: I guess. I guess. And so after about a year the confusion was too much, and so I went to Randall.

MR. RUBENSTEIN: OK.

MR. STEPHENSON: And it just sounds more grown-up too, doesn't it?

MR. RUBENSTEIN: I think so. [Laughter.]

MR. STEPHENSON: Yeah.

MR. RUBENSTEIN: So, you're working your way up. So, here's a question I guess, to be very serious. When 1984 came the AT&T was broken up, and they had seven Baby Bells[2] and there was AT&T. People may not remember this, but AT&T was the long-distance provider and the Baby Bells more or less did the local fixed-line telephone companies. The smallest of the seven Baby Bells was Southwestern Bell, headquartered in St. Louis. How did the smallest become the one that ate up everybody else? And now there's really only two of you left, Verizon and you, more or less. And you are, you know, a content provider, you're doing many other things. What was it that enabled Southwestern Bell to buy everybody else, when nobody thought the smallest one would actually be that strong?

MR. STEPHENSON: Leadership, I believe, more than anything is what drove it. One thing, when AT&T broke up and those seven Baby Bells all went out there, and they got the local service and AT&T had the long-distance service, and everybody back then thought long-distance was – that was where it was going. Turned out to be that was what got commoditized. But something else happened then that doesn't get discussed much. And that is that AT&T owned a lot of wireless airwaves. And keep in mind, in 1984 wireless service did not exist. And so those wireless airwaves got pushed out to these Baby Bells, kind of a last-minute type thing. And who's going to get these wireless airways? Well, they ended up with the Baby Bells.

And we got those airwaves. We went very aggressively building out wireless technology. And, you know, in the late '80s the guy who was running AT&T at that time, Ed Whitaker, my predecessor, said: You know, this needs to be – this is where the growth is going, but you need to have a national footprint. And so he went out and started making acquisitions. Our stock price got killed because of what he was paying for these other wireless assets that were out there. And before long, we had a nice wireless business that was catapulting us to growth. And then Ed also said: Well, if a national footprint is important for wireless, it's probably going to be important for everything. And so there was some law changes that allowed us to actually start acquiring Pacific Bell, Ameritech, ultimately Bell South, and then ultimately AT&T. And so, he drove a rather – it was a huge M&A[3] activity that I got to be part of.

MR. RUBENSTEIN: You were the CFO for many of that?

MR. STEPHENSON: I was, yeah, for a lot of that. And I'm getting a robocall too.

MR. RUBENSTEIN: You got a message now – right now? [Laughter.]

MR. STEPHENSON: It's literally a robocall.

MR. RUBENSTEIN: Not from President Trump or somebody? [Laughter.]

MR. STEPHENSON: He doesn't call me.

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[2] Regional Bell Operating Companies
[3] Mergers and acquisitions

MR. RUBENSTEIN: He doesn't call you? OK. So – [laughter] – while you were working at then Southwestern Bell, later SBC, you went to Mexico as part of your career. What were you doing in Mexico?

MR. STEPHENSON: We invested alongside Carlos Slim[4] in the telecommunications company in Mexico. It was being privatized. And so, we invested along with him – I went down to be the CFO. And it was, like, one of the greatest experiences of my life.

MR. RUBENSTEIN: Did you speak Spanish before you got there?

MR. STEPHENSON: No, but I started learning really quick. And literally I got down there and after six months I was frustrated. And I came into my office one day and I said, in Spanish: The next person to speak to me in English is fired. I don't care if the building is on fire or there's an earthquake. No English. And so, within three or four months, right, takes off. Now, you made a lot of mistakes probably in the interim, but – [laughter] –

MR. RUBENSTEIN: Do you still speak – do you speak Spanish still?

MR. STEPHENSON: Claro que si,[5] yeah.

MR. RUBENSTEIN: OK. It's more than I speak. OK. [Laughter.] So, here's what I don't understand. Very often in the business world somebody buys somebody and the dominant partner that buys the not-dominant partner, the one that's taken over, the non-dominant partner's name actually survives. So, SBC buys AT&T. If AT&T was so good, it would have been buying SBC. Why wouldn't you use the SBC name, since you were better and stronger than AT&T?

MR. STEPHENSON: The first thing I'd like to correct is when you talk about naming and language, don't use the word "dominant" in this town particularly, OK?

MR. RUBENSTEIN: OK. [Laughter.]

MR. STEPHENSON: We were not dominant. I want to be very clear about that.

MR. RUBENSTEIN: Non-dom, all right.

MR. STEPHENSON: But, look, we were SBC. We were – had been largely a regional company, five states literally. Arkansas, Kansas, Texas, Oklahoma, and Missouri. And, the opportunity to buy AT&T, which is a global brand. And when we were acquiring them, we asked ourselves the question: What brand should we assume? And keep in mind, AT&T was in a radical decline when we bought them. And it was about a three-minute debate as to whether you take on a global brand that is well-known and positions yourself very differently.

[4] Carlos Slim Helú is a Mexican business magnate, engineer, investor and philanthropist.
[5] Spanish for "yes, of course."

MR. RUBENSTEIN: OK. So you were starting out at Southwestern Bell, bought some companies, became SBC. And then you bought AT&T and you took their name, AT&T. So you were a dominant telecommunications company.

MR. STEPHENSON: We're a large – we're a large telecommunications –

MR. RUBENSTEIN: Large, not dominant. [Laughter.] Why are you in the entertainment content providing business now? You spent $85 billion recently to buy Time Warner. It took two years-plus to get it approved by the U.S. government. I'll ask you about that. But what was the theory behind why you wanted to be in the content business and buy Time Warner?

MR. STEPHENSON: It's multifaceted. I'll try to simplify it. But, look, as we watch our customers and analyze our customers, as we have developed network delivery technology where they can consume video on all devices, anywhere, everywhere they are, it's been surprising and quite enjoyable to watch how people are now consuming video. And this is just in a world of 4G. Now, as we move these networks – and we're moving there aggressively – to 5G, the amount of video you'll be able to consume in multiple formats, wherever you are, whenever you want to watch it, we think is going to explode.

Now, in – back in 2016, when Jeff Bewkes[6] and I did this deal, recall what people were saying. You know, ESPN had had its first year-over-year decline in subscribers. And so people were saying these media businesses were way overvalued. And they were actually being traded down. I actually believed – my board and I believed – that if you are convicted that you're going to have this many new distribution points for a premium video, all new distribution available anywhere, anytime, should the value of media be going up or going down? We believed it would go up. And so, we thought this was an acquisition we ought to do.

So that was premise number one. We thought we could get some media businesses at some reasonable valuations and be good for both sides. But then as we began to analyze it, you said, look, is it necessarily good for AT&T to own a media company? Yeah, I think it is. But I think the more relevant question is, is a media company being attached to a communications company like us worth more? And what I mean by that is – so think about Time Warner and all the great brands – Warner Brothers Studios and an unbelievable IP[7] library. Think about HBO, think about Turner with CNN. A bunch of CNN folks are here. They told me if they stand up and leave that means the Mueller report[8] is out, so. [Laughter, applause.]

So but if you – if you can actually take a business like this, and put a lot of money into it, invest in it, and equip that content to be delivered directly to the consumer, then what better way to do that than to be paired with a company that has 170 million customers out there that we can distribute it to?

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[6] Jeffrey Bewkes was CEO of Time Warner from January 1, 2008 to June 14, 2018, president from December 2005 to June 2018, and chairman of the board from January 1, 2009 to 2018

[7] Intellectual property

[8] Special Counsel Robert Mueller's report on the investigation into Russian influence on the 2016 election of Donald Trump.

MR. RUBENSTEIN: OK. So, you announced this acquisition, $49-½ billion.

MR. STEPHENSON: That one was $85 billion.

MR. RUBENSTEIN: I'm sorry. I'm sorry. I was thinking about DirecTV. Eight-five and a half – $85 billion. Eight-five billion dollars. So for $85 billion, the U.S. government said, well, we don't like this acquisition, even though it's a vertical merger – you weren't really buying a competitor. The U.S. government went to court to stop you. Do you think there was any political influence behind the decision to stop that – or to try to stop that merger?

MR. STEPHENSON: Hmm. [Laughter.] The deal hadn't even been formally announced yet. And candidate Trump came out and said AT&T is acquiring Time Warner, and thus CNN. And that's a transaction this administration will never approve. And whether you are a supporter or detractor of Donald Trump, one thing everybody in this room must admit is when this man makes a statement on the campaign trail he pursues it. And so we were concerned when that statement came out. Now, right on the heels of that statement, a gentleman named Makan Delrahim, who was a professor at Pepperdine University, was asked by a reporter: What do you think of this transaction? And this law professor at Pepperdine said, I don't see any issues with it. I'm paraphrasing, but he essentially said, I don't see any issues with that.

About a year later, that law professor has been confirmed as the head of the Antitrust Division at the Department of Justice. And shortly thereafter, a lawsuit is filed against a vertical merger, the first time since the 1970s that a lawsuit had been pursued against a vertical merger like this. And so I – look, I've said publicly that it's an elephant in the room. One has to question, you know, is there a political motivation behind this? I have no proof that there was, but, you know, if – one of two things. Either it was a radical coincidence or there were other motivations. I don't know.

We took it to court. We fought it on purely antitrust grounds. We did not fight it on political grounds. It was purely an antitrust question. And the court – the district court here in D.C. ruled rather strongly that this was not a violation of antitrust law. And it was appealed – interestingly enough there was a very strong order from the district court that this was not violative of antitrust rules. We thought it was over. It actually gets appealed to the circuit court. And the circuit court likewise rules that this transaction is not anticompetitive. And so we closed the transaction. And so I'll leave it to others to judge.

MR. RUBENSTEIN: OK. Well, the House Democrats say they're going to have a hearing on whether there was political influence. Will you be testifying in that, if requested to do so?

MR. STEPHENSON: Nobody has requested me to do so, and I hope not. [Laughter.]

MR. RUBENSTEIN: OK. So, when you had the two years that you had to wait before you consummate the transaction –

MR. STEPHENSON: Eight hundred and fifty-eight days, but who's counting.

MR. RUBENSTEIN: Eight hundred and fifty-eight days you had to wait. Did the value of Time Warner go up or did it go down? And if it went up, you didn't want to pay more for it, I assume, so were you happy that it took two years and you paid the price that was maybe cheaper than it would have been?

MR. STEPHENSON: No. I'm not happy at all that it took two years. During the court proceeding I was questioned about this. And I made the point that since we announced this transaction, at that point in time when I was being – when I was on the witness stand – that in the time since we announced that transaction to that date, the value of the thing increased by a trillion dollars. And that's what is really important for people to keep in mind. This thing is moving fast. We had an antitrust division that was challenging whether we would exercise undue leverage in negotiating a deal with a cable distributor, when all we were focused on was Amazon, Netflix, Apple. These folks were moving fast. And the world of video consumption is moving to these streaming products while we're sitting there debating what's happening in the world of cable TV.

MR. RUBENSTEIN: OK. So you spent $85 billion. Now, that $85 billion is a pretty expensive acquisition. The people you bought –

MR. STEPHENSON: It was a large acquisition. It wasn't expensive, I don't think.

MR. RUBENSTEIN: You think you got a good deal?

MR. STEPHENSON: Yeah.

MR. RUBENSTEIN: OK. So, the people that were the senior people running Time Warner have all left. So Jeff Bewkes is gone. The head of HBO is gone. The head of Turner Broadcasting is gone. And now for a lot of legal reasons and other things the head of Warner Brothers Studio is gone. So, all these senior people are gone. Does that worry you? You've spent $85 billion and the top people are gone.

MR. STEPHENSON: Does it worry me? Oh, yeah, of course you worry. But other than the most recent, the head of Warner Brothers Studios, which recently we parted ways, the rest of them were not surprises. And for example, Richard Plepler[9] who was – I mean, he did an amazing job growing HBO to where it is today, but where the world is going is a very different place. And a world where you're going to be going to directly to consumer and not focused exclusively on distributing content through cable companies. And so putting HBO with Turner Networks, so that you can begin to create a truly different, unique product, is a different playbook than what's been run traditionally.

And so, when Richard said that he – it was time for him to go, we hired Bob Greenblatt,[10] who I think is one of the best executives around in terms of developing content, great creative mind. He is a guy who took NBC from where it was when he came in to the top performing TV

[9] Richard Plepler is the former chairman and chief executive officer of HBO.
[10] Robert Greenblatt is the former chairman of NBC Entertainment and current chairman of WarnerMedia Entertainment.

network. And bringing Bob Greenblatt in run this integration of HBO and Turner we think is really important. And so we have an opening at HBO Studios. John Stankey[11] has put an interim structure in place. But keep in mind, the people that are now in place at HBO – or, Warner Brothers Studios – Peter Roth,[12] Toby Emmerich.[13] These are, like, serious people. And they've been running the theatrical and the TV production side for years. They're the best.

MR. RUBENSTEIN: So, all right. And all the executives – as you look to replace some of these people –

MR. STEPHENSON: I forgot to mention – I'm sorry, I don't want to interrupt you. But the guy who ran CNN, Jeff Zucker, we pushed him up. He is now running all of what we'll call live entertainment, but news and sports, which is things he's done before. So the sports portfolio is now under Jeff Zucker, along with all the news side.

MR. RUBENSTEIN: So any women, minorities? Are you putting these people in senior positions? Or is that among the things you care about, diversity?

MR. STEPHENSON: Yeah, we care deeply about it. I wouldn't cast aspersions at Time Warner. I think this is an industry that is under-indexed in terms of diversity at the most senior levels. And so you should assume that that will be something we're very focused on as we move forward, yeah.

MR. RUBENSTEIN: So, where do you get your news? Do you watch CNN all the time, or?

MR. STEPHENSON: I watch it a lot more than I used to. [Laughter.] With a critical eye, right?

MR. RUBENSTEIN: But if you're watching something and you don't like what they say, do you call up somebody and say, look, this isn't the right thing to put on? Or you don't do that?

MR. STEPHENSON: No, I don't get involved in the editorial content of the news. If I don't like the color palette or something I might – I don't know. [Laughs.] But no, I don't intervene in Jeff Zucker's business. But I'm a news junkie. I consume news constantly. Probably a little bit obsessively about it. But I have multiple sources that I –

MR. RUBENSTEIN: So do you watch Fox as well, or?

MR. STEPHENSON: Look, I – [laughter] – I walk into Verizon stores because I want to see what Verizon is doing.

MR. RUBENSTEIN: Do they recognize you when you walk in?

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[11] John Stankey is the CEO of WarnerMedia, and former chief strategy officer of AT&T. He led AT&T's acquisition of DirecTV and WarnerMedia.
[12] Peter Roth is the chief executive of Warner Brothers Television.
[13] Toby Emmerich is an American producer, film executive, and screenwriter.

MR. STEPHENSON: If they have, they haven't said anything. I walk into T-Mobile stores. And I like being in Washington, D.C., because I get to use Comcast cable, you know? And so you get – I always want to see what the competitor is doing. So do I turn Fox News on occasionally? Yeah, I do.

MR. RUBENSTEIN: OK. So, let's talk about cellular for a moment. Today there are more or less four cellular companies in the United States. Is that right?

MR. STEPHENSON: Mm hmm, four national players.

MR. RUBENSTEIN: Four national ones. You are the largest?

MR. STEPHENSON: Well, we're second, behind Verizon.

MR. RUBENSTEIN: You and Verizon are the two largest. And then there's T-Mobile and Sprint.

MR. STEPHENSON: Correct.

MR. RUBENSTEIN: You tried to buy T-Mobile at one point, and the government of the United States said no.

MR. STEPHENSON: Why would you bring that up? [Laughter.]

MR. RUBENSTEIN: Well, I – well –

MR. STEPHENSON: We were talking about the one we won, and you wouldn't let it sit, would you? [Laughter.]

MR. RUBENSTEIN: Well, because I wanted to ask you, now Sprint is trying to buy T-Mobile. If you couldn't buy it, why should they be allowed to buy it? Are you opposed to their buying it?

MR. STEPHENSON: [Laughs.] I have to be cautious, because I say I think that deal out to get done, that would be a death knell for it, right, because why would Stephenson want it to get done? Because it must be anticompetitive. But, look, I – when we tried to buy T-Mobile we made an argument, and I thought it was a very compelling argument. I believe it was an argument that would have won in court, but we couldn't get into the courts. And so it would be rather disingenuous for me to sit here and say I thought we should have been able to buy it, but T-Mobile shouldn't be able to combine with Sprint. The same arguments apply, all right?

MR. RUBENSTEIN: In Washington, being disingenuous is not a big problem, but OK. [Laughter.]

MR. STEPHENSON: But here's the problem, though. I mean, the DOJ[14] filed a very aggressive lawsuit against us to block that transaction. And the core premise of their lawsuit was that going from four national competitors to three is anticompetitive by definition. And so, they made this extensive, lengthy argument about why us doing it didn't work – it wasn't because two was buying three. It was because four was going to three. And so I've always felt like this was going to be the hurdle those guys had to get over to get their deal done. So, I think they've got a difficult hurdle to get over, but we'll see.

MR. RUBENSTEIN: OK. Let's talk about the business of cellular, though. You are now rapidly through to build out 5G. So explain to people who may not know, what is 2G, 3G, 4G, 5G?

MR. STEPHENSON: So the G means generation. So 2G is second generation technology. And so when you went to your flip phone – and you remember how you used to text using a 10-key device? That was 2G. It allowed that kind of service. 3G is what I say – that's when the internet became mobile. Third generation networks allowed mobile use of the internet. And it was 3G when the iPhone came out that allowed the iPhone to – the first iPhone was on 2G. But when it went 3G is when it exploded, because you're literally using the internet on a mobile device.

Fourth generation is what really enabled all of us to consume CNN video on a smartphone. It literally mobilized video. And but for 4G technology, Instagram would not be what it is today. It's all video. Facebook is virtually all video now. And just consuming all this video on a mobile device is facilitated by 4G. 5G, I believe, is going to prove to be the most transformative of all the Gs that we have seen to date.

MR. RUBENSTEIN: What is it going to do for us?

MR. STEPHENSON: First of all, just step change faster. It also has – it will have zero latency. Meaning, you issue a command, it's immediate. You're just always connected, a real-time network. It's just like turning a light switch on. It's real time. Why is that important? It's really important when you start to conceive of services like autonomous cars. You don't want to be an autonomous car that's dependent on a network with latency. But, I mean, and it's very serious, right? A kid runs out in front a car. It needs to be a real-time, always on, always connected network.

And this is really, really important as you begin to conceive of these services. You can begin now to conceive of robotic manufacturing that is always on, always connected via 5G networks. And just to kind of put this into perspective, Internet of Things, you know, the devices and sensors that are connected all over the place? Today's networks, in a square mile you can connect a thousand, two thousand, three thousand, of those. In a 5G world, you can connect millions of those in a square mile. And each of those devices that is connected to the network you can now locate on a 5G network, rather than today you can locate that it's within a certain number of meters. We'll be able to isolate that device is within centimeters.

[14] Department of Justice

Now, think about what you can do as you begin to get that kind of precision on location and so forth, and that kind of speed. I couldn't conceive of the iPhone when we built a 3G network. You and I can't conceive of all the services that are going to materialize with this kind of capability.

MR. RUBENSTEIN: When the iPhone was being developed, did Steve Jobs come to you and try to explain it to you? And what did you think of what he was saying?

MR. STEPHENSON: Yeah. It was – so we were building a mobile internet. That's what 3G was about. And as I said, I didn't really know what the mobile internet looked like. Just build it, and people will use it. That's always been my philosophy. If you make something mobile, utility explodes. And the guy in the black turtleneck shows up with a description, an explanation of a product. He didn't have a product. He had an explanation of a product. Think about a phone that doesn't have a keypad, it's just a screen. And it has little icons, that you push these icons and stock quotes, weather, you get that. The minute we saw that, it was: That's the mobile internet. That's something we have to be a part of. That is what we are building the future for.

MR. RUBENSTEIN: All right. So you said to Steve, let's be partners, or how did you do that?

MR. STEPHENSON: Let's pursue it. You know, and there was a very intense negotiation of business terms. Steve, obviously, had a lot of confidence. And to do a deal – we did the first exclusive deal with the iPhone. We launched the first one. And it required us to fundamentally change our business model. It cost us a lot of money. We took a lot of dilution when we did this deal. But we said: We believe so strongly not only in the vision, but in that guy, all right, Steve Jobs, right, that we said, let's make this bet.

MR. RUBENSTEIN: OK. So, how do you build out 5G? I mean, you're putting sensors or things around the country? What are you doing?

MR. STEPHENSON: So, as you think about current technology – you see this – you know, you see on the sides of the buildings these big antennas around Washington, D.C. You see the towers that have the antennas on them, the big towers, and just massive broadcasting of data and so forth. 5G is very different. You'll start to see what we call small cells. We have 60-some-odd-thousand cell sites in the U.S. We will deploy hundreds of thousands of these small cells.

MR. RUBENSTEIN: Who is we? Is it AT&T directly does it? Or you'll hire subcontractors?

MR. STEPHENSON: It'll be all of the – hundreds of thousands – it's going to be all of the above, right? This is going to be a massive logistical effort. I'm excited about it. Stuff we do, we do well. But we'll literally be deploying hundreds of thousands of these antennas on light poles, on the sides of buildings, and so forth. And so you'll –

MR. RUBENSTEIN: Won't it be easy for people to break it or something like that, or interfere with it? Is that possible? Because it's, you know, they might be reachable by average people. They could climb into some place where it is. Or that's not going to happen?

MR. STEPHENSON: I mean, if you could get on the roof of any of the buildings in Washington, D.C., you could probably do the same thing. So it's infrastructure. It's against the law, so.

MR. RUBENSTEIN: OK. All right. So will it – right now, with current situation – like, when I'm driving from Dulles to downtown Washington, sometimes the cell coverage breaks down.

MR. STEPHENSON: It used to. It was Exit 13. It does not anymore. [Laughter, applause.]

MR. RUBENSTEIN: Did it ever happen to you?

MR. STEPHENSON: It happened to me a lot. And I would call every time I went through there. My network guy – I'd say, I dropped the damn call again. And it took – the problem is with these guys, they got to go get a cell site permit, right? And getting that done in this day in age – and, by the way, this is an important point. It can take two to three years to get a cell site permit. We hear a lot of people, including the folks in the administration, talking about China is going to beat us to the world of 5G. In China, they don't spend two years getting a permit to build a cell site. They say we want a cell site over there, and they just go build it, all right? Here, this two-to-three years is going to be a problem. The biggest – the longest pole in the tent on 5G is going to be deploying hundreds of thousands of small cells.

MR. RUBENSTEIN: Is China ahead of us in 5G now do you think?

MR. STEPHENSON: Now? No. Today we have put – we have 5G – live 5G, standards based, up and running in 12 markets in the United States. China right now has zero. They're running some trials. Now, China is going to commit to this. They have said that this is a major focus of theirs from an economic development standpoint and a security standpoint. So, they will come hard. They're investing heavily in this.

MR. RUBENSTEIN: So, when we have 5G – by the way, will you buy the equipment of Huawei[15] in building out your 5G? Are you allowed to or will you?

MR. STEPHENSON: Our government has told us not to. And so I get it. We are not using Huawei – a Chinese developer of this technology. They're the largest equipment producer in the world for telecom equipment. But, look, our government is being very aggressive on this, that this is a security risk. I don't think we, our government, is doing their best work in explaining why this security risk exists. And to me, the biggest risk is not that the Chinese government might listen in on our phone conversations or, you know, mine our data somehow if we use their equipment. That's not the issue.

Conceive for a moment what I said, that we can now put millions of connected devices in a square mile. This will be the basis for automated – for autonomous cars. Five to 10 years from now, every manufacturing floor will be attached to 5G. 5G will be driving robotics. 5G will be driving the manufacturing floor. 5G will be involved in traffic management around our cities. I

[15] Huawei Technologies Co., Ltd. is a Chinese multinational telecommunications equipment and consumer electronics manufacturer, headquartered in Shenzhen, China. Huawei is developing 5G technology.

mean, think about what happened with just Waze.[16] That's just the networks we use today. We have Waze, which actually effectively does traffic management. When you have millions of these sensors in every square mile that is isolated to a centimeter, we'll be using that to drive traffic, to direct traffic, to manage traffic. We'll be using this in utilities. We'll be using this in refineries.

We have to ask our question – ourselves a question: If that much of our infrastructure will be attached to this kind of technology, do we want to be cautious about who is the underlying company behind that technology? We damn well better be. Now, are there things we can do to protect ourselves? That's a debate worth having. But I think our government is asking the right question.

MR. RUBENSTEIN: Well, other governments around the world do not seem to be accepting that argument. Are you surprised that in England or Germany they're not accepting that argument?

MR. STEPHENSON: This is the most confused issue that's getting front-page reporting in The New York Times, and CNN talks about it all the time. The Europeans are saying: We need a diverse supply chain. And we all want a diverse supply chain. The problem is with Huawei in the 5G networks, they're not allowing it to be a diverse supply chain. If you have deployed Huawei as your 4G network, Huawei is not allowing interoperability to 5G. Meaning if you're 4G, you're stuck with Huawei for 5G. This is a problem, all right? And so when the Europeans say, we got a problem here, that's their problem. They really don't have an option to go to somebody else.

MR. RUBENSTEIN: I see. So let's talk about the cost. If we get 5G, am I going to have cheaper bills for my cellular telephone?

MR. STEPHENSON: I hope not. I really hope not. [Laughter.]

MR. RUBENSTEIN: So, but it's more efficient –

MR. STEPHENSON: I'm kidding, David.

MR. RUBENSTEIN: It's not going to be cheaper?

MR. STEPHENSON: It is more efficient. It's a more efficient technology. But, look, the 5G experience with you on your smartphone, it's going to be just a better experience. This morning we have 5G evolution turned up here in Washington, D.C. And so, I just did a speed test when I was at the hotel. I got 134 meg on our wireless network, right now, OK? That's going to go to 4-500 meg. And so, your experience is just going to get better and better. It's more efficient technology. Will people pay more for different speed tiers in the future? Conceivably, but I don't think we've really worked out what our pricing arithmetic looks like on this.

[16] Waze is a GPS navigation software app owned by Google.

MR. RUBENSTEIN: So phone bills, some people say, are complicated to read and understand. I don't know if you look at your phone bills. But do you ever look at them and say: Well, I don't understand what this charge is for?

MR. STEPHENSON: I do. I look at my phone bill very month.

MR. RUBENSTEIN: And do you ever call and complain about it? No, you never? Who do you complain to? [Laughter.]

MR. STEPHENSON: The phone bill can be confusing. We tax cellphone service like we tax cigarettes and alcohol. I mean, it's at a comparable level. And so you have taxes. You have fees. You have all this stuff that we're required to tack onto the phone bill. And so I agree with you, it does make a confusing environment.

MR. RUBENSTEIN: You send phone bills every month. What percentage of people actually pay online these days? And what percentage of people write checks out?

MR. STEPHENSON: We're actually – I think we're now over – I think we're over 50 percent pay online.

MR. RUBENSTEIN: And the people over 50 are the people that are paying online? No? [Laughter.] People over 50 are still writing the checks.

So today, what type of phone do you use?

MR. STEPHENSON: I am carrying right now an Apple iPhone. I carry also a Samsung device.

MR. RUBENSTEIN: So you carry both just because – which is better?

MR. STEPHENSON: I always want to compare, right?

MR. RUBENSTEIN: So, right now the business that you started out with – you, being Southwestern Bell – which was the local line business, local, and it was the wired line. What percentage of your revenue today – your revenue today is about, what, 200-and –

MR. STEPHENSON: It's little under $200 billion this year. It'll be $190, roughly.

MR. RUBENSTEIN: OK, $190 billion, or something like that. Of that, what percentage of that revenue comes from the traditional business you started out with in 1984?

MR. STEPHENSON: Well, if you think about that business I started out with in 1984, it was five states, there was no such thing as wireless service, there was no such thing as broadband, we didn't offer any TV. So, it was pretty much what we call POTS – plain old telephone service. You know, that landline telephone. And to businesses we did a lot of data kind of stuff. That business, when I started back in '84, was about a $12 billion business and divestiture.

MR. RUBENSTEIN: So that $12 billion – I don't know what it would be today for that service –

MR. STEPHENSON: It would be irrelevant today because that plain old telephone service is just – it's largely gone.

MR. RUBENSTEIN: I mean, in the area you still provide local phone service in your core area, is that right?

MR. STEPHENSON: We do, but we provide it over a broadband line now.

MR. RUBENSTEIN: So, what percentage of people actually call up and say: I want to have a telephone line put in my apartment or house when they move in? They just use wireless and they don't really have a wired system put in or not?

MR. STEPHENSON: You know you've hit a tipping point when my mom asks me: Why do I have this landline telephone, honey? And I said, because you're Ma Bell, and you have to have a landline telephone. [Laughter.] So virtually – very few people call asking just for a telephone line.

MR. RUBENSTEIN: They don't do that anymore?

MR. STEPHENSON: No.

MR. RUBENSTEIN: OK. So another acquisition you made, which I referred to earlier, was DirecTV. You spent $49-½ billion for that. And that's, like, some people would say, a melting ice cube business, because subscribers are going down in that satellite TV business. Why did you spend that much money? Did you realize it was going to be going down in terms of subscriber usage?

MR. STEPHENSON: Oh, yeah, when we had the deal approved by the board, we put a business case in front of them that showed this was a business that was in decline. So, we first started out with, yeah, but if you put it with our business, it's going to generate a huge amount of cost savings. And the numbers were significant. It was, like, $2-½ billion a year of cost savings by tacking on top of our business, you could take out of it. So you put this business with ours, and it generates well over $4 billion a year in cashflow. It allowed us to turn around then and reinvest in a whole new TV platform – over the top streaming platform, which we have done. And it's a platform that's doing quite well.

We also took that money, that $4 billion, and we have been investing aggressively since that time in deploying fiber. It's been the largest fiber deployment project in the U.S. for the last four years. And our broadband business is growing 6-7 percent year over year by virtue of that investment. And then finally, we invested heavily in an advertising platform. And this is an interesting one to conceive, because this is really important. This advertising platform is core to making the Time Warner acquisition play out. And that is, we have a lot of information that we ask our customers' permission to use. What are they watching? What are their viewing habits, and so forth, at an aggregated level?

And we take that information, and we sell advertising placement to advertisers. Now, think for a moment about, as you said, the shrinking ice cube. We have an advertising inventory in there that we sell using this technology. Shrinking ice cube. That revenue stream grew 26 percent last quarter. So, we have this advertising business that is growing dramatically. Now, take that technology and combine it with CNN's advertising inventory. They have a massive advertising inventory. If we could take that technology and that data and apply it to their inventory, it's a rather significant revenue opportunity for the company.

MR. RUBENSTEIN: Now, Disney is the content business as well. And they've seen saying in their streaming business they might not let Disney products be used by other services, let's say, Netflix. Are you going to use your product only on your streaming services and transmission devices? Or can people use Time Warner product elsewhere?

MR. STEPHENSON: So, I saw Bob Iger,[17] I think, was interviewed or something this week, which he said something I completely agree with. There's not a one-size fits all. There will be some content that's in the Warner Brothers library that we'll want to license to others. The example of this that just recently happened was fourth-quarter last year Netflix licenses the series of Friends. You remember Friends, 1980s hair and all that kind of stuff? It's hugely popular on Netflix. That licensing deal expired in the fourth quarter. So we had a question to ask, the question you're asking me. Do we want to use Friends exclusively on our streaming platform, or do we want to continue licensing it to Netflix? And we said, yes. We think it's important to have it on our platform, but it doesn't need to be exclusive. So, we signed an extension to the licensing deal with Netflix.

MR. RUBENSTEIN: Today, who do you regard as your major competitors? It's not the traditional telephone companies, I assume, anymore.

MR. STEPHENSON: So, when I wake up in the morning, I want to know how we did in the marketplace yesterday against Verizon, T-Mobile, Sprint, Comcast, Charter, Spectrum, et cetera. As I think – if you asked me who am I most concerned about, who do I think about in terms of where we're going in the future, look, it's Amazon, it's Netflix, it's Disney. Those are the competitive set that I spend more time thinking about.

MR. RUBENSTEIN: OK. Now, you now have with the Time Warner merger 290,000 employees.

MR. STEPHENSON: Correct.

MR. RUBENSTEIN: So, how do you keep up with them? How do meet with them? How do you spend time communicating your views to them? And is it awesome to have 290,000 employees you're responsible for?

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[17] Robert Allen Iger is chairman and chief executive officer of The Walt Disney Company.

MR. STEPHENSON: It's amazing. It's a big responsibility, obviously. I mean, it's one of these things you spend a lot of time thinking about is fairly compensating 290,000 employees, particularly in a labor market that's 3 percent unemployment. And so it's a competitive marketplace. And we're spending a lot of time thinking about this. Health care for 290,000 people is a big deal. We'll spend $5-½ billion on health care this year for our employees. And how do ensure that you can continue that into the future and sustain it? We have a $70 billion pension plan. And how can you ensure these people that when they retired and they're 80 years old they're not worried about is their pension check still coming. And so you spend a lot of time on these kind of issues, making sure the company is positioned, it's stable, and fiscally secure to provide that. And then just recruiting and so forth is a big deal.

MR. RUBENSTEIN: Well, on the pension plan, investing more in private equity would be what I would recommend for your pension plan. [Laughter.] But if you might consider that as a way to get very good returns.

MR. STEPHENSON: [Laughs.] Oh, we should talk, David.

MR. RUBENSTEIN: So what is the best pleasure –

MR. STEPHENSON: I'd be happy to give you all $70 billion if you just take the liability with it, OK? [Laughter.]

MR. RUBENSTEIN: Uh, let me think about that. But – [laughter] – so what is the best pleasure of being the CEO of AT&T? What do you wake up in the morning really excited about? And what's the downside, other than interviews like this, of that kind of position?

MR. STEPHENSON: When I – when young people come in and they're trying to decide, or even executives – we're recruiting executives – where to go to work, I just can't imagine a place where at the scale we have to deal with it you deal with technological innovation and technological obsolescence on a massive scale. We will invest in the United States of America this year in all likelihood more than any other company did for the last seven years and we'll do it again this year. So we're investing at a torrid clip. You're in an industry where the lines are just blurring between connectivity and between media and entertainment. Those lines are blurring. You get to deal with massive issues like I just articulated and people issues.

And we have the largest full-time labor union in the United States. A lot of people roll their eyes and go, ugh, I'm glad I don't have to deal with it. But you know, this is part of the business challenge. And it's just every day is an amazing puzzle that you get to play with and put together and put the pieces in the right place to create value.

MR. RUBENSTEIN: So, one of the downsides, I assume, is you have to come to Washington from time to time and deal with government officials. Do you do a lot of meeting with members of Congress, the administration? Do you go by President Trump and say, by the way, you made a mistake on that Time Warner thing?

MR. STEPHENSON: The last time I talked to President Trump was to tell him great job on tax reform, seriously. But to your point, this is the most frustrating part of what I do day in and day out, is I spend way too much time here. Every minute that I am here is a minute that I'm not taking care of employees, I'm not putting together a new product, I'm not hiring great executives and great people, we're not getting stuff out to market. Every day I spend here is a day that we're not doing that. And we spend way too much time here. And too much of our success and failure is dependent upon what the people in this town decide and do on a day-to-day basis.

MR. RUBENSTEIN: I take it you would never, when you leave this job, want to go into government? [Laughter.]

MR. STEPHENSON: That would be a fair assessment. [Laughter.]

MR. RUBENSTEIN: OK. So, speaking of the job, you've had the job for quite a while. You became the CEO in 2007. So now we're 2019, so you've had the job for more or less 12 years, almost. And you know, you don't have a retirement age mandatory at your company I don't think, but you're 58.

MR. STEPHENSON: My wife has a mandatory retirement age, yeah. [Laughter.]

MR. RUBENSTEIN: So, you expect to do this for how much longer, would you say? Seven years?

MR. STEPHENSON: I don't know. I don't know. My board and I talk about that, and there's obviously a lot that goes into that decision. You know, do you have somebody ready? Do you have a bench ready? And so forth. So, I've not given any external indication on that, so I probably won't here this morning to you.

MR. RUBENSTEIN: OK. So what is the secret to having at the age of 58 no gray hair? I notice – [laughter] – in contrast to my situation, you have no gray hair. Is that genetic, or what is that?

MR. STEPHENSON: It is genetic. I'm told that my great-great grandmother was Native American. I'm afraid to do a genetic test after what happened recently. [Laughter.] But my grandmother, when she passed away at 98 years old, her hair looked like mine, OK? And so –

MR. RUBENSTEIN: Wow.

MR. STEPHENSON: I'm accused of dyeing it a lot. I don't dye it.

MR. RUBENSTEIN: Not the case, OK. So what do you do for relaxation? When you're not worrying about your 290,000 employees, the government interfering with what you want to do, what do you do for rest and relaxation?

MR. STEPHENSON: We spend a lot of time in Wyoming, and we have horses, and love to trout fish, and I play a really bad game of golf.

MR. RUBENSTEIN: And now you sponsor the AT&T at Pebble Beach.

MR. STEPHENSON: We do.

MR. RUBENSTEIN: So do you get to play with Tiger Woods or Phil Mickelson, anybody you want to pick to play with when you're at – you're the amateur playing with them? Do you get to do that?

MR. STEPHENSON: Unfortunately, it has – it's kind of like getting married; there has to be somebody willing to play with you. And so, I don't – [laughter] – I can't just say I want to play with Tiger because they've seen me play. [Laughs.]

MR. RUBENSTEIN: So, you don't win that tournament automatically or something? [Laughter.]

MR. STEPHENSON: I've not even made the cut in that tournament before, so. [Laughter.]

MR. RUBENSTEIN: You're not talking to the people running it about making sure the cut line is different or something? [Laughter.] OK.

So, now, you have two daughters.

MR. STEPHENSON: I do.

MR. RUBENSTEIN: And one of – and you have grandchildren. You –

MR. STEPHENSON: Five grandkids.

MR. RUBENSTEIN: Five grandchildren. And what do they call you?

MR. STEPHENSON: They call me "pop."

MR. RUBENSTEIN: Not "boss" or anything like that? [Laughter.]

MR. STEPHENSON: Well, I was very strategic on selecting "pop" because – and this is – this is really important for everybody to understand. Be strategic on what you want your grandkids to call you. I chose "pop" because they can say "pop" sooner than they can say "dad," and it irritates your son-in-laws to death. [Laughter.]

MR. RUBENSTEIN: OK. So, you told me that one of your daughters is training to be in the Olympics as a marathon runner. Is that something she got from you, that skill of running a marathon? Or where did you get that?

MR. STEPHENSON: [Laughs.] I've never run a marathon in my life, nor will I ever run a marathon. She just recently qualified for the Olympic trials in Atlanta that come up I think in

February, and she ran an amazing time. It was 2:40-something was her marathon time, so she qualified to go to the Olympic trials. And so she's going to go make a run at it.

MR. RUBENSTEIN: OK. So, any more acquisitions in the works you want to reveal today, things you're thinking about? [Laughter.] Or, I mean, you know, or have you bought enough for the time being?

MR. STEPHENSON: You know, I have one focus right now. That is when we did the Time Warner deal, we took on a lot of debt to get it done. And as people in the media like to say, we're the most indebted company in the world, and – which I have to remind people, yes, but if you look at the EBITDA[18] – that's the metric that determines your ability to pay debt – Apple, Samsung, and three Chinese companies have more EBITDA than us. So we're eminently able to service this debt.

But I am focused on one thing, and that is paying that debt down this year. We took on $40 billion of debt to do it. By the time we exit this year, we will have paid off $30 billion of it. And I can largely have that set aside.

MR. RUBENSTEIN: OK. So you have great data about where the economy is going because you have so many customers. Do you see the economy being in reasonably good shape, or do you see – you fear any recession in the near future?

MR. STEPHENSON: No, it looks good to us. The consumer is spending. Consumer attitude seems to be good. We're coming off a year where tax – the corporate tax reform did what it was designed to do, and that is it drove investment. And you saw business investment last year, it was running I think at the last – fourth quarter it was up 6, 7 percent, which is great because I do believe the reason for our economic malaise for the last few years has been we've been underinvesting in America. And so it's not a coincidence in my mind that you see business investment ticking up for the first time, you see unemployment driving down for the first time. And you're seeing most importantly as investment goes up, what happens? Productivity goes up. And when productivity goes up, what should you see? You should see wage growth. We're actually seeing wage growth, nice wage growth. And so all of that looks really good to us.

The thing I worry about right now is investment has started to do this. And I'm trying to triangulate how much of that is China trade, how much of that is Mexico trade. And so we have seen a little bit of a tick down on business investment, which that to me is the driver of employment and productivity and wage growth. But right now it feels OK to us.

MR. RUBENSTEIN: OK. And do you intend to expand outside the United States?

MR. STEPHENSON: Yes. In fact, Warner Media has a rather large presence outside the U.S. I think about 30 percent of their revenues are outside of the U.S.

MR. RUBENSTEIN: But your telephone business, for example. You're moving into Mexico?

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[18] EBITDA is earnings before interest, tax, depreciation and amortization and is a measure of a company's operating performance.

MR. STEPHENSON: We've gone aggressively after Mexico. We went down there, we bought a couple of companies that were floundering, we put them together, and we've been investing. We've got a nationwide network in Mexico now, 100 million people passed with this network. It's growing at a rather dramatic – we've been the fastest grower in Mexico now for the last three years.

MR. RUBENSTEIN: You used to work with Carlos Slim many years ago; now you're competing with him. Is that a problem for you?

MR. STEPHENSON: Well, it's not pleasant, but actually – no, it's not a problem. Carlos is a fierce competitor. [Laughs.] And when we had to sell our interest in his company, I immediately turned around and bought these companies because I'm a huge believer in Mexico. The demographics, everything about Mexico just fits with our business perfectly. And so he knew I was going to turn around and come right back in, and so we've been competing very aggressively for the last four years.

MR. RUBENSTEIN: So, to conclude, if you were to summarize what you would like the American people to know about AT&T in a paragraph, what is it that you would say most people should know about your company?

MR. STEPHENSON: Technology, media, telecommunications. That's kind of a sector that people in the financial analyst community talk about, and they talk about it that way because I truly believe all of that is just melding. And I believe the company that can create a premium media experience and pair that with a really significant distribution experience, 5G-driven, is going to create some experiences for customers that you and I aren't conceiving of.

And just to make this point, we carry around these devices and they're bigger than they should be because there's a lot of compute in here, there's a lot of storage in here. When you get to 5G and they're that fast, all that compute and all that storage goes away. It's back in the network. These form factors, some would say they shrink. I say they go away. It is conceivable that we're going to be moving into a world without screens, a world where this is your screen. You don't need any more of a form factor than this once the compute and the storage requirements move out and into the network. And guys like you can begin to think very differently about how you deliver your content to our customers. It becomes a delivery without screens. It's just a totally different experience.

And I believe that AT&T is right at the very center of all this because if you asked yourself five years from now in this room will you be consuming more or less mobile bandwidth, more – who thinks more? Will you be consuming more or less premium entertainment? More. Well, I like where we are on both of those.

MR. RUBENSTEIN: OK. Well, I want to thank you for a very interesting conversation, and congratulations on your success.

MR. STEPHENSON: Thank you, David. [Applause.]

MR. RUBENSTEIN: I have a gift for you. Let me give you this.

Randall Stephenson
Chairman and CEO
AT&T Inc.

Randall Stephenson was named to his current position in 2007. Since then, AT&T has invested to become a global leader in the technology, media and telecommunications (TMT) space, providing integrated solutions that range from premium content and video entertainment, mobility and high-speed Internet, to IP network services, security and the Internet of Things (IoT).

AT&T has a robust premium content portfolio that combines leading movies and shows from Warner Bros., HBO and Turner, along with more targeted digital content from Bleacher Report, FilmStruck and AT&T's investment in Otter Media, among others.

AT&T has more than 170 million direct-to-consumer (D2C) relationships across its TV, video streaming, mobile and broadband services in the U.S., mobile in Mexico, TV in Latin America, in addition to D2C digital properties such as HBO NOW, Boomerang, FilmStruck and CNN.com.

AT&T's leading wireless and fiber network, including investments in new technology such as 5G, will provide the network bandwidth required as customers increase engagement with premium video and emerging 4K and virtual reality content.

In North America, AT&T covers more than 400 million people with its 4G LTE network and has nearly 157 million wireless subscribers. The company provides high-speed internet connections to more than 60 million U.S. customer locations; ultra-fast fiber connections covering more than 7 million U.S. locations; global IP network services that connect more than 3 million businesses on 6 continents, representing 99 percent of the world’s economy; and more than 38 million connected devices and sensors connected to its network.

AT&T is one of the world’s largest companies in TMT, with more than $160 billion in 2017 revenues and 34 consecutive years of quarterly dividend growth. Over the past five years, AT&T has invested $135 billion in the United States, including capital investments in wireless and wireline networks and acquisitions of wireless spectrum and operations.

The company has committed $400 million since 2008 to its signature philanthropic initiative, AT&T Aspire, which drives innovation in education to promote student success in school and the workplace. Stephenson also led AT&T’s breakthrough “It Can Wait” campaign – an education and awareness program educating drivers that distracted driving is never OK. The program has amassed more than 25 million pledges of support.

Stephenson began his career with Southwestern Bell Telephone in 1982 in Oklahoma. He served as the company’s senior executive vice president and chief financial officer from 2001 to 2004, and from 2004 to 2007 he served as chief operating officer. He was appointed to AT&T’s board of directors in 2005.