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Virtual Signature Event

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ANNOUNCER: Please welcome David Rubenstein, president of The Economic Club of Washington, D.C.

DAVID M. RUBENSTEIN: Welcome, everyone, to our 20th Virtual Signature Event of our 35th season. And this will be our last Signature Event of our 35th season. We'll begin our next season shortly. I'll describe that in a moment.

Today we are very fortunate to have with us John Stankey, who is the chief executive officer of AT&T. And among the things we'll discuss are broadband accessibility in the United States, including proposed infrastructure legislation with broadband funding; AT&T's recently announced deal to spin off Warner Media into a co-owned company with Discovery; and also the other challenges of running a company like AT&T, particularly during a pandemic.

Today let's talk with John Stankey. John, thank you very much for joining us.

JOHN STANKEY: Good to be here. Thanks for having me in, David.

MR. RUBENSTEIN: Let me just give people a little background about you. You are a native of Los Angeles, born in Berkeley but grew up in Los Angeles. Graduate of Loyola Marymount University and an MBA from UCLA. You have – you joined PacTel out of – out of MBA school and worked your way up, and you've now been at AT&T or its predecessors since 1985, 35 years or so. And you've had many different positions there. Most recently before your current position, which you assumed in July of 2020, you were the chief operating officer of AT&T and also the CEO of Warner Media. And you are, you know, well known in the telecommunications world as AT&T's CEO. And AT&T is a company now with a market capitalization of about $207 billion and revenue of about $171 billion and employees of about 230,000 employees.

So my first question to you is, you did a transaction recently that was one of the largest transactions in corporate America for quite some time, and it was a deal you did with Discovery. And was it harder to negotiate that complicated deal or to keep it secret for three months? What was more difficult?

MR. STANKEY: I don't know if I separate the two. [Laughs.] It was – it's hard, I think, anytime you do any transaction to kind of keep things under wraps, but it becomes particularly challenging, I think, anytime you're working with an asset that's in the entertainment space. And you know, we used many of the same practices we use to try to ensure that the right people are involved to get a quality transaction done and were able to do that. I think both sides understood that having – you know, moving with some speed and having a degree of privacy would be helpful to the transaction, and so it worked out reasonably well other than the last 24 hours or so.

MR. RUBENSTEIN: OK. So the original deal that you did when you bought Time Warner was – and you were then the chief operating officer and Randall Stephenson was then the CEO – was the idea of merging content with distribution would be a powerful combination. What changed in the couple years since you bought Time Warner that made you think that wasn't as good a way to operate in the future?

MR. STANKEY: Yeah, I think at the time the transaction was done I was actually running the DirecTV business or the consumer business for AT&T and not in the chief operating officer role.

MR. RUBENSTEIN: OK.

MR. STANKEY: But you know, the question still remains the same, which is if you think back in 2015 as we were kind of heading down that path, there was a belief that, you know – and I still think there is a belief – that ultimately connectivity services will need to be differentiated over time, given structural changes that are likely to occur in the industry. And a combination of the presence that we had domestically in the United States in our connectivity business, the relationships with customers, what could be done in terms of bringing first-party data into the advertising business model, and how those two businesses could help each other was the underlying premise of that. And I think we have demonstrated over the last couple years that domestically in the U.S., in fact, we have been able to drive some benefits to both businesses. And in fact, I've shared, I think, publicly that absent those two businesses coming together, I don't know that we would have brought HBO Max to market given the respective strengths of each of the companies and what they had to do to make that happen.

But what became clear after 2015 as we got further into this journey is that the dynamics of building a direct-to-consumer media business were clearly going to hang in the balance on whether or not that could be global, and the value that could be created by going global and pushing beyond the borders of the United States was going to be more substantial than the value that would be created by tying our connectivity business in the United States together with the content. And frankly, the capital needs of not only that business and the way it needed to be valued, but the capital needs of the telecommunications business given the importance of connectivity added together in the different shareholder bases became something that was clearly starting to diverge. And in order to make sure that both businesses could be adequately funded and pursue those opportunities, I think what changed is as the CEO I said there needed to be a different structure in order to ensure that both business opportunities could achieve their full potential and those assets could be lined up to the right shareholder base that had the right outlook on each respective opportunity and industry.

MR. RUBENSTEIN: OK. So the articles in the newspaper that covered this transaction said that the head of Discovery called you up and said he wanted to talk with you and so forth. Suppose he hadn't called you up. Would you have done something like this anyway? Or did you need him to call you up to think it was a good idea to do this?

MR. STANKEY: I think you probably could read some media accounts that maybe characterize it that there was a bolt of lightning that hit on a Sunday afternoon, and I don't think that that's an accurate characterization if you draw that conclusion from maybe what's been written or printed. I would tell you that the process really started, you know, July 1 – when I walked into this role – of 2020, and that process started by spending a lot of time with our investor base and talking with our owners and understanding what our perceptions were of those who bring capital into our business to invest and what they saw in the company and what the history with the business has been. Of course, it was an evaluation of our markets and what our customers were doing and what they expected, and frankly, a look internally at our employees and what they wanted to do in terms of the mission and how we manage our company going forward.

And you know, as you know, in running a business there's usually not yes-or-no answers and there isn't black or white. It's an optimization equation, and all those things kind of had to be considered. And starting July 1, I spent a lot of time evaluating those issues, considering them, trying to understand what the best path forward for the company is. We were doing a lot of work on scenarios and permutations and consideration of what options were. And when that call that you alluded to came in on that day, I would say we had done about probably three-quarters – maybe a little bit more – of our work, and knew where we were going to go and what our preferred options or likely options were.

And I think, you know, like minds think alike. I think David independently was, of course evaluating his view of the industry, his view of this company, what was likely to happen in markets. And as a result of that, I think there's just a natural symmetry that was there, largely because of foundational work that was probably done at both companies. But it was very deliberate, considered, and I would tell you that there were many, many permutations and options looked at.

MR. RUBENSTEIN: So your predecessor bought two things, really. One was what we just talked about, Time Warner, for roughly $100 billion; and DirecTV for roughly $75 billion. I'm sure you have been asked this before, but I will ask you again: Of the $175 billion that was expended, do you expect as a result of these transactions value creation for the people now running – or who will be running DirecTV or Time Warner, that you will get your $175 billion back in value or more?

MR. STANKEY: Well, I think as we've indicated in some of the actions we've taken of late, that the DirecTV transaction didn't generate the kind of value long term that we expected it would at the front end. And there's probably a variety of reasons behind that, one of them being the secular decline in the pay-TV business at a more accelerated rate than I think what many would have expected in 2013-2014 when that transaction was hatched. And as a result of that, you know, we've had to take some painful decisions in restructuring that business and the write-down we've taken.

And it's possible – it's entirely possible that some of the subsequent transactions around that could recapture some of that value. We don't know. That final chapter hasn't been written. We've certainly set it up in a way where we hope that we can run it more effectively moving forward and possibly squeeze out some additional value over time. But I would tell you, you know, in hindsight, is it a transaction that, you know, one would have undertaken if it knew everything it knew today? And the answer to that is probably not.

On the media company side, with Time Warner, I would tell you that I absolutely have every degree of confidence that, you know, we have set something up here that is in excess of the value of what we paid for the business. We've talked a lot about that. Different people have different ways of looking at it. But clearly, one of the motivations for how we structured this is to ensure that we get an equity out in the market that fully recognizes the value and the tremendous work that's gone on at the media company to reposition it and restructure it for the direct-to-consumer space, and we've demonstrated over the last several quarters some great progress and momentum. I think it's clearly what Discovery looked at as being one of the things that they were most intrigued and interested by.

And once we put that capital structure out there in a way where people can recognize the growth opportunity of that, we believe we'll see the full value of that asset start to manifest itself in that equity. And that's why we're, you know, including our shareholders and their option to own that moving forward and recognize that growth. And we believe that we've set up a transaction that will be not only recognizing the value of what we paid for it, but substantially more than that. I know personally I'm confident enough about that that I intend to leave all my equity in that new business moving forward and watch what David does with it, and I think it's going to be a very attractive and good ride for the business moving forward.

As we talked about just a minute ago, circumstances changed a bit. In order for that value to be recognized, talking with my ownership base, it clearly wasn't going to happen within the context of larger AT&T. It wasn't going to happen because of the dominant wireless asset we have and the multiples that it trades at and how it gets valued. So breaking that out is one of the great unlocks that I think will occur in this, and feel real good about how investors are probably going to experience that.

MR. RUBENSTEIN: Final question about this is when things like this are announced sometimes the newspapers or others kind of act like it's a done deal, but this is going to take a while for government regulators, I assume. You estimate it will take about a year or so before this is effectuated? And how do you run these assets during that interim period? Do you still run it, or do you kind of turn it over to the people who you expect to be running it if the government approves it?

MR. STANKEY: So, you know, it's a really good question. And nobody walks into M&A lightly because, to your point, in these extended processes, they can be unsettling for employees and they can be difficult in terms of strategic decisions that maybe get iced or abeyed because, you know, what's the new owner going to do. And I've certainly been through my share of these to know that that occurs.

I was just with my management team a couple days ago and had this same conversation with them, where I actually believe this transaction is a bit different in that regard. You know, we've repositioned the media company to set itself on a new course, and made a lot of hard decisions over the last several years since taking over ownership of the asset to take what was really three independent companies at Time Warner and bring them together to operate as one. You know, that started during my tenure leading it. Jason Kilar has done a remarkable job since he's come in in his tenure doing the same and carrying that forward and get it focused on the future of media, which is building direct relationships with customers and continuing to do the great things to expose the wonderful storytelling that's done at Warner Media for all.

And I would tell you that we've done a remarkable job in that regard and we've set that direction. I know where David wants to take this company and I know what his interest is, and he is, in fact, carrying down that same path. He wants to lead the business as it's been set up. And so, unlike many transactions where sometimes you're waiting – that certainly happened during the pendency of the Time Warner-AT&T transaction – this is – this is full steam ahead.

And I have to deliver to the shareholders – the 71 percent that AT&T shareholders will own at the time this transaction closes – a well-functioning business that's got momentum, and momentum in the areas that are important to the future – our growth in HBO Max and our continued evolution of the business – because that's, in fact, what will put the multiple on that equity when it begins to trade and gets the excitement in that business that it deserves. And I want to make sure that that occurs because that's the best thing for the AT&T shareholder. We want to keep moving forward with pace and with great execution. David supports that.

And so I think this is going to be one of those times where there won't be a lot of waiting. It's going to be a lot of continuing to push hard on the areas that we know are important: Our launch of the AVOD service this month, going international next month. None of that's being slowed down. There's been some rumors in the media about us launching a direct-to-consumer CNN Plus news product. That will, in fact, occur. We'll keep pushing ahead with those things. So my view is we won't be waiting; we'll be executing.

MR. RUBENSTEIN: OK. And by the way, you were not the CEO that bought these assets, but the board was largely the board that bought them – largely. So when you went in to the board and said, guess what, we're thinking of making these changes, was it hard to convince the board that they had to change what they had earlier done just a couple years ago, or they were ready for that recommendation?

MR. STANKEY: Well, you know, I'm not – I try to respect the fact that I think board deliberations should remain the purview of the boardroom and all board members should be comfortable that when they're having those discussions those are done with complete candor and privacy.

I will tell you I don't really ever consider anything with our board hard. It's an incredibly constructive group of individuals, and it's a thorough and diligent group of individuals. And it doesn't matter whether we're talking about a transaction like this or any other key operating capital allocation decision in our company, there's – there is candor. There's thorough discussion. There's a variety of different points of view articulated. And those things happen as a normal course of that debate, and I think they took their responsibility incredibly seriously in this case.

As I mentioned to you, this wasn't one discussion. This was something that we spent months on since I walked into the job in July. And through all those cycles they were incredibly constructive, incredibly supportive, incredibly detailed in the work that was done and what they asked us to do and carried forward. But one would expect that given the importance of a decision like this.

MR. RUBENSTEIN: Let's talk about broadband and wireless. You have talked a lot about the digital divide. For those people that may not know what the digital divide is, can you explain what the challenge is with the digital divide?

MR. STANKEY: Sure. The way I would first think about it is there's tremendous benefits that accrue to anybody who had access to the internet. Those benefits accrue either in terms of the wonderful things that they're able to do in their life every day, whether it's to hail a ride to go someplace or watch entertainment. They accrue to how you manage your health and your medical needs. They accrue to your ability to participate in the economy, to either work or search for work. They accrue to your ability to be educated.

And so, you know, from a digital-divide perspective, the notion is anybody who doesn't have access to the full complement of capabilities that the internet can extend to an individual maybe is somebody who's on the other side of the divide or we should be concerned about from a societal perspective because they're not fully participating in our economy, in the benefit of great health, in all the benefits of society that you can carry forward.

And so as we think about that, I think what the pandemic exposed was the fact that many have access to the internet, and most often if you, you know, have one source of access to the internet it comes through wireless. But there were certain things that occurred in the pandemic where maybe even more scaled access to the internet – things that, for example, only a fixed broadband connection could possibly provide, sitting in a classroom on a larger-screen experience for four or five hours a day, that you can't really execute on a six-inch smartphone – started to expose that there were members of our society that didn't enjoy that. Maybe that number is somewhere in the area of 17 million households that either can't afford to take advantage of both a wireless connection and a fixed connection in their life or in some cases in rural America don't have, you know, capable enough infrastructure to be able to actually get a scaled broadband connection that allows them to do all the things that many of us who live in more urban and suburban areas take for granted, like watching a session like this.

And so the digital-divide issue is how as a society do we think about making sure all Americans get access to the scaled kind of connectivity they need to be equal with everybody else, and that we do that in the most efficient way. And it's really, I think, one of the great marquee infrastructure projects that we can think about because while it might cost us some money to do that as a society and as U.S. taxpayers, but I believe if done right the benefit that comes in reduced medical costs, the benefit that comes in economic growth, the benefit that comes in employment that allows people to build that infrastructure and ultimately maintain it and carry forward, will far outstrip what we have to invest to ultimately have this done. And we'll have a – probably a more peaceable and a more inclusive society as a result of that.

MR. RUBENSTEIN: So make sure I understand. So the problem is, I thought, two different types of problems. One is in urban areas where some people may not be able to afford broadband – they just don't have it because they can't afford it – and in the rural areas it's often harder to get the infrastructure built out there. Is that the problem?

MR. STANKEY: Yeah. I think, you know, there's always other issues on the margin. I think in some cases in urban areas there may be some infrastructure-related capabilities that need to be rounded out that, in my belief, if the market develops – if government were to put the right policy in place that everybody could get on the internet, the markets will take care of itself. They will build the infrastructure in those cases because there's a reasonable return on capital that can occur there.

Flip that over, though. In the rural area, there clearly are issues where no matter how big the market is and what you do to bring everybody in a rural community onto the internet with capable internet access, there's never going to be a return. And policies need to be a little bit different in those cases, and maybe it's less an affordability issue and more of a jumpstart of how do you put the right level of subsidy in for capable broadband providers to go out and build infrastructure and make the business case to get over the last hump. But that's – you know, and the 80/20 rule: You deal with those two issues, you've probably solved 80-plus percent of the problem.

MR. RUBENSTEIN: The president has proposed $65 billion for broadband in his new infrastructure bill. Are you supportive of that? And what will that money actually do? Because you often, I think, lay the cable and so forth. What does that $65 billion going to do that AT&T or your competitors don't do?

MR. STANKEY: You know, it's a really good question. And I think, first of all, we're supportive. I think the administration is very wise to be pursuing an objective to bring every American on the internet. And I think the administration is wise to think about this as good, sustainable infrastructure that can help us, as I said earlier, broadly and pay for itself.

That $65 million [sic; billion], while it sounds like a lot of money – and in fact, it is – these are capital-intensive businesses. You know, we invest just to sustain the growth in our business and kind of run it as it is today somewhere between $22 and $24 billion every year. And so when you think about that within the context of the broader industry, what $60 to $80 billion maybe solves, done correctly, probably deals with the rural America problem and knocks that out. And that's not necessarily doing it by putting fiber to every household; that's using all the tools that technology can offer – whether it be satellite, wireless, maybe in some instances more fixed fiber infrastructure – to get robust enough infrastructure out to a rural subscriber where they can enjoy the vast majority if not all the benefits of the internet, but maybe not in the way that somebody who has a symmetrical gigabit in an urban area might have.

And I think that's probably the right way to think about it because I don't think it's optimally the best thing for the American taxpayer to think about putting fiber to every farmhouse in the United States when, in fact, we can do it a variety of different ways with a variety of different technologies but still get, if not all the benefits, the vast majority of benefits by being a little bit more effective in that.

Now, what we don't really address with that $60 to $80 billion is the affordability issue, and the affordability issue really needs to get at a policy change. For a long time in the United States we had a policy of putting everybody on our fixed-line infrastructure for purposes of voice communication. It was known as the Universal Lifeline Service Fund. It was very effective at establishing universal service in the United States, where over 98 percent of households had access to voice telecommunications and we all had the societal benefits of that occurring. We never really revised that policy for the broadband era, and as a result of that we still have a policy that's dramatically overtaxed in terms of the demand on its funds and it isn't sized for the cost of what broadband infrastructure is required. And we really need to step back from that and think about a new policy.

There's two ways to probably deal with that. One might be through direct appropriations. If you don't go down that path, you need to think about building ways to get excise taxes or use taxes back that's substantial enough to pay for it. And the way I think about that is if you don't do direct appropriations, which may be the most quick and efficient way to deal with that, then you'd better make sure you have a very broad base of how you collect those usery fees in order to make sure everybody has the right degree of subsidy. And that really should be done across all of industry that benefits from the internet, not just those that are, for example, telecommunications/internet service providers. Maybe it's a broader base of internet service providers. Maybe it's those who run app stores that benefit from the internet or other business models that are largely internet-driven.

And we really need to think about probably being somewhere in the range of, my guess, about $4 billion a year of direct subsidy that goes into those that can't afford it. And if we wanted to have a conversation around what that price needs to be to ultimately get people to make a decision to buy a more scaled broadband connection, that's probably a whole 'nother conversation that's important to have.

MR. RUBENSTEIN: So under the president's proposal municipalities are being incented to actually own broadband facilities, which is different than what we normally have which is private companies own it. Do you support the president's proposal to have municipalities own broadband facilities?

MR. STANKEY: I think, actually, the president's proposal's probably a bit misguided in that regard.

But I will tell you I will compliment the administration on the bipartisan approach they're using to try to define how we go forward from here. So there's kind of the initial broadband plan that came out and now the sausage-making that's going on in terms of trying to get the infrastructure bill set up properly. I think in that sausage-making there's a lot of pragmatic discussion going on. And when I talk about $60 to $80 billion or $65 billion, if your goal is to put every American on the internet, as I just described, that $60 to $80 billion really needs to be used to get to those places that have no scaled access for the internet.

It would be a shame that we take taxpayer money or ask local governments to go into a business that they don't run today. You know, their job is to deliver water, patch streets, things like that, not being a capital-intensive technology business that requires constant refresh and constant management. Why would we want to go overbuild in areas where there's already great infrastructure that is probably, if you think about this pandemic and look around the globe and what occurred, has functioned incredibly well for the vast majority of citizens in the United States, and waste subsidy to go and overbuild that infrastructure? It seems like the better move would be let's make sure every piece of subsidy that we put in place is either getting somebody on the internet who doesn't have facilities and access to do that or subsidizing those that can't afford it, not to overbuild it. And so I don't believe that that policy is really practical, and I actually believe that most policymakers that are in the sausage-making right now are seeing that and are probably steering this in a more pragmatic direction, in my view.

MR. RUBENSTEIN: Let's talk about wireless for a moment. What is 5G all about? Why should I be excited that I'm going to get 5G somehow? And how is that going to make my life better?

MR. STANKEY: There's probably two ways to think about this, David. I would first just characterize, if you went back to the dawn of 4G and you were a consumer and you said, what's 4G going to do for me, you know, at the dawn of 4G you probably couldn't articulate what it was going to actually do to change your life. Yet today, you know, almost 10 years later, you look back and say: What would your wireless experience be like if you didn't have access to streaming video, not just for purposes of entertainment – you know, watching the TikTok video or looking at some funny video that somebody might put up on Instagram Stories – but think about all the other functional things that you do with video as part of your life? Maybe it's monitoring your security cameras at home. Maybe it's because you're on the go and you have to do a really important videoconference for work and you're in a place where you need to gain access to that infrastructure to do that. It's just all second nature to us today.

And that experiential change, if you just kind of go back and look at customer patterns, you as a consumer – you, me, everybody else – you're using 40 percent more of the product every year than you use the year before because of these capabilities and capacity and speed and reliability that have been built in over that 4G infrastructure development. And you know what? You're not going to change. As 5G comes around, you're still going to use 40 percent more every year. And 5G is an infrastructure capability we should all think about as it's the next set of investments that just allow us to keep pace with the fact that all of us have this insatiable desire to use more bandwidth, have it be more reliable, have it be faster, and have it be quicker in terms of how it provides response to the application you're working with. And 5G will be a demonstrated improvement in that, just fundamental capability.

Now, in addition to that, 5G is engineered for all the things that have come about over the last 10 years that we didn't know about or didn't think were going to be significant. Think about enabling capabilities on things like virtual reality, augmented reality, artificial intelligence, autonomous vehicles and the need to have the dynamic to ensure that there's almost near-instantaneous information brought to a vehicle to be able to control it in a self-driving or autonomous mode. 5G is now engineered to do those things that 4G never envisioned, and those are more technical aspects of how do you move computing capabilities out closer to the device, how do you ensure that you have more scaled capabilities to have millions of active elements connected to the network at one time – and tens of millions, not just a couple million. All those things will be the enabling capability to the next thing, where eight years from now when you're having this conversation with my successor they will say, did you think about these things at this moment in time – and you wouldn't have thought about them – that will just come because of innovation in software, innovation in technology.

MR. RUBENSTEIN: So is there such a thing called 6G yet that anybody's working on, or not yet?

MR. STANKEY: They're absolutely in the standards work right now talking about what are the next things we need that as people are actively spending money on 5G, deploying the infrastructure as we speak today, we go, oh, gee, we didn't think about that; wouldn't it be nice if we could do this. And so, yes, the 6G standard is underway.

MR. RUBENSTEIN: Now, recently AT&T spent $23 billion to buy some 5G spectrum. That seems like a lot of money. Is spectrum worth that much money? Or what are you going to do with all that spectrum now you've spent $23 billion for it?

MR. STANKEY: We're going to satisfy the 40 percent a year of increased usage that everybody continues to drive and make sure that we can handle all that traffic. And this is, I think, one of the important things that we talk about, pricing of broadband services and what has to happen. You're giving a strong example of you have to keep reinvesting in a business, just like we spent $23 billion on fiber – or, excuse me, on spectrum. When we built our gigabit fiber network several years ago, you know, well, fiber's future-proof, isn't it? That's how somebody thinks about it. We are now spending money to invest in those fiber networks to take them from one gigabit to 10 gigabits, and that's the ever-ongoing reinvestment in infrastructure that needs to occur. It's one reason why I'm not sure giving a local government the authority or the subsidy to run a network and then politicizing appropriations for those types of things is necessarily really good policy for the long term in the United States, because capital allocations decisions like that should be based on, I would say, the structure and the rigor of the market.

And, yes, that spectrum will be put to really good use because we need to accommodate all that capacity that's coming in. Those new capabilities that we talked about like allowing vehicles to have instantaneous access to information through edge computing so that they can ensure that they deliver the command to turn right a hundred feet before you get to the turn, not a hundred feet after, those are going to be really important applications that come about. What can be done in medical monitoring and device capabilities will be new and unique capabilities that will require that spectrum and those capabilities to come about. What will happen to allow you to just accommodate the fact that you want pristine connectivity no matter where you go, those will be important capabilities.

So, yes, I do believe that that will be a wise investment over time. And I will tell you it will not be the last investment we'll make in spectrum. We will continue to need more to deal with your continued growth in consumption.

MR. RUBENSTEIN: Let's talk about a subject everybody's an expert on, wireless telephones, because everybody has one now. You can't live without one, practically. So right now we have in the United States three wireless operators, more or less: AT&T, T-Mobile, and Verizon, more or less. And is three adequate to have enough competition on pricing and other things, in your view?

MR. STANKEY: Well, look, first of all, I would think the Justice Department will probably argue with you. I think they made a pretty compelling case when they approved the T-Mo-Sprint transaction that they stood up a fourth wireless player. And I believe that fourth wireless player, while their business model is emerging, is likely to go about the market in a different way.

And I think we're going to see a variety of different things start to occur where we're going to see the integration of fixed and wireless together. As I tell my team, we don't have wireless networks and fixed networks; we have a network. And I think we're about ready to see that convergence of what people have traditionally thought about as distinct networks, fixed networks and wireless networks, and that's going to come in a variety of different ways. You see the cable companies using their great fixed infrastructure to begin buying spectrum themselves or using unlicensed spectrum to keep customers that they sell – resell wireless service on top of – on their network and on their infrastructure. At AT&T we're now converging our fiber networks and our wireless networks, and bringing them together and using that deeper fiber footprint to be able to distribute wireless cells closer to the end user customer to increase the amount of bandwidth and get more yield out of the spectrum we've put in place.

And so I don't think we have just three wireless providers. I think we have a variety of people who are now converging. Verizon, now starting to offer fixed broadband connections over their wireless network to compete with cable. T-Mobile, same – they're going to do the same thing. Satellite providers that are going up and building satellites, those fleets are not just domestic in nature; they're international in nature. And they become now, really, the first international telecommunications providers that are starting to extend beyond borders in that regard.

So I don't see this as a three-player market structure by any stretch of the imagination. I now see it as oftentimes six players starting to converge their infrastructure and playing together with their technologies in a way to solve customers' connectivity problems.

MR. RUBENSTEIN: Let's suppose I am one of the few people that doesn't have a wireless telephone. I finally decide to buy a wireless telephone, a new telephone, and I see you at a cocktail party, and I say: I could pick Verizon, I could pick T-Mobile, or AT&T; why should I pick AT&T as my service provider? What's the best argument why AT&T should be selected over your competitors?

MR. STANKEY: Well, if it's at a cocktail party it will clearly be, first reason, because of my engaging and dynamic personality that you decide you want to do that.

MR. RUBENSTEIN: OK. All right.

MR. STANKEY: But you know, once you get past that, if you have some other reason to consider, then, you know, what I would tell you is our point of view of what we need to do well for our customers and what we are – we are challenged by every single day is to ensure that lifecycle, from the day you make the decision to become an AT&T customer to the day that you no longer need some broadband connection – whether that be a fixed connection in your home or a wireless connection – that we treated you in the right way, respectfully, with persistent, high-quality connectivity, and that that relationship was low-friction for you, that relation was consistent/reliable, and you viewed that you were getting that service and the value of that service as being something that was best in class in your life for what other alternatives you had.

And I think in our business today I can tell you, since I've been sitting in this chair as CEO, I feel much better about where we are today than where we were nine months ago. But I also believe we have more work to do. You know, before we came on the air, you and I were kibbitzing about billing, as an example. And we clearly know that there's some deficiencies in the clarity and the lack of friction in our billing, and we need to be better as a company as a result of that. We are – you know, we've made great progress in filling in coverage and quality gaps in places, but we know we have places to go.

So it's the pursuit of getting better in that regard, but my goal, simply put, is to make sure that you feel that that's been a good, high-quality experience across everything you need to manage that connectivity experience, and that it's of high value. And that's the value proposition I want in the market.

MR. RUBENSTEIN: Now, if you're the CEO of AT&T and you're driving along and you're on your wireless telephone, does the – does the call ever drop? I mean, doesn't – you have a phone that doesn't let the signal ever drop, or that happens to you sometimes too?

MR. STANKEY: I am an end-user consumer just like you do. And I think if you were to talk with anybody in my organization, they refer to me as the Bermuda Triangle of, you know, incidents and things that don't go quite right, and I can be pretty persistent in working with them to understand those things.

I actually don't think I am the Bermuda Triangle. I think I'm a consumer that's maybe a little bit more discerning and a little bit more understanding of what the root cause of problems are. And I tend not to release on those things and run with them like a dog with a bone because, frankly, it's my job and it's what I've been trained to do and what I need to do.

MR. RUBENSTEIN: So I assume that you use AT&T, but do you ever like to know what the competition is doing? Do you have any cellphones where you have Verizon, just sort of see how their service is, or that would be not something you can do?

MR. STANKEY: I do assess other people's capabilities. I use the products. I use other streaming services. Again, I have a little bit more discerning eye. I think one of the things people would tell you internally, I spend a lot of time walking around – whether I'm on walks, I'm visiting the city – looking at other people's infrastructure, and comparing somebody else's deployment of infrastructure versus ours, and why did they choose a particular configuration. How did they get there and we didn't get there? Why did they go distributed and we didn't? Those are all things that, as you kind of work in this industry over time, you pick up and learn.

And it's really important to pay attention in a capital-intensive industry with, you know, different kind of cost characteristics to what your competitors are doing.

MR. RUBENSTEIN: There used to be a thing called fixed-line telephone service where you had a line in your house and you picked up a phone. I assume that's still a reasonably big-sized business that's shrinking, but is that still a big business for you? And is there a cutoff rate where people are – every year 2 percent kind of drop it?

MR. STANKEY: It's not a big business anymore. The reality is – and part of the reason that we've enjoyed the growth we've enjoyed in the wireless business is – in most places many people are finding their wireless network to be so good and so strong even within their home that they don't see the utility of having both. And as a result of that, you know, it's been a direct cannibalization of that old fixed-line voice business.

But there is strong need for fixed broadband. We believe that there is a need for both fixed broadband infrastructure as well as wireless broadband infrastructure. And that, David, is really the foundation of how we're building this company going forward, that you need good scaled fixed infrastructure and really good scaled wireless infrastructure to be that high-value experience that I talked about a few minutes ago for the customer. And so we'll work on both of those things, but the in-home fixed voice business has seen its best days and it's kind of in the tail end of its lifecycle.

MR. RUBENSTEIN: What about payphones? Are there any of those left?

MR. STANKEY: None that we have any ownership over. I'm sure there's still a couple in some prison some place that maybe third parties are running. But nothing that we're involved with.

MR. RUBENSTEIN: How were you running the company during the pandemic? The pandemic's not over, but you're in your office now in Dallas. But were you working from home, or because of the special nature of what you do were you having to come into the office every day? And how did all your employees operate?

MR. STANKEY: You know, it was – it was probably about a year ago that we felt like we had the right protocols internally where not a large subset of our employee population but at least in the executive team we could be more co-located and work from the office. So since probably about July of last year, I have been spending most of my days in one of our physical locations with a lot of my, you know, executive and more senior-leader peers, using rigorous protocols around our testing and our personal behavior.

You know, we got to about 20 percent occupancy in our headquarters building about a month ago. And we're on our way up from there. Many of our other larger administration locations are now in the, you know, slipstream of that, coming in maybe a little bit delayed but starting that ramp up. I would expect that by the time we moved through the end of the summer that we should be operating in the kind of – what I'll call the new hybrid mode that we've decided to exercise ourselves on.

And you know, I would tell you that my behavior – since most employees in our company were operating virtually, if you were of the administrative set – we shouldn't underestimate the fact that we've had a lot of frontline employees showing up and doing their job every day in people's homes, in our stores, and doing it remarkably well with remarkably good safety protocols and no incidents of what I would call compromise to their safety and their health.

But I would tell you, I've had to adopt a lot of new techniques. And some of them are things that I will carry with me moving forward. You and I were talking about that. I hope that my C-level peers don't go back to an environment where they feel like they have to be in a conference room with somebody all the time, and that we can do one-hour conversations and video and keep that velocity that goes on with how we do things.

But there are other things in terms of, like, trying to get to know top talent and influence individuals on key strategic directions, and create new serendipity and things like that, that we've done OK on but maybe not as well as we would do if we had that rich experience of having the ability to spend a couple days live and watch the body language and have the real-time interactions that come with, you know, those types of experiences that, frankly, I'm looking forward to getting back to, or having in my tenure now as CEO.

MR. RUBENSTEIN: Your senior people around the country, the people who work for AT&T, will they be expected to come back into the office five days a week or it's more flexible? And do they have to be vaccinated to come into the office?

MR. STANKEY: We've put in a structure. We actually started on this in the latter part of last year, where we literally went through the employee base and we put individuals and their jobs into one of three categories. Either they're a virtual employee, where they're not expected that they're going to be in the office but maybe a couple days a week – or, excuse me – a couple days a month if the need arises. Second category of hybrid, where somebody may be in a couple days a week. And the third category of those that are five day a week office workers.

And it doesn't matter whether you're an executive, or anyplace else in the organization, you fall into one of those three categories. And, you know, we will operate in that regard, and we will continue to refine our practices and our approach to that. So we'll have probably fewer full-time occupants in the office than what we had pre-pandemic, but we'll have still a high percentage of hybrid folks that will have to dodge in and out from time to time, and maybe a little smaller set of individuals that are really virtual full time.

And as we think about how we manage our environment, we've been very, very aggressive around giving employees the right information so that they can make an informed choice on what's right for them and their health on vaccination. We're pleased with the progress we're making within our employee body around the percentages that are getting vaccinated. We have a couple geographies where we need to do a little bit more work to maybe move people along a little bit faster and quicker. We've been trying to do all the right things by giving people information and giving them the right incentives to vaccinate.

We feel like we're able to operate a very safe and very productive environment right now without requiring vaccination. But, you know, if we're going to be three, four months down the road, I don't know that any of us know exactly what's going to happen with variants and, you know, what might happen in broader society. Might we have to revisit that? It's possible we may have to do something different than just asking people to self-identify and giving them benefits as to why it's in their interest to do that down the road.

MR. RUBENSTEIN: So what are you doing to increase your diversity at AT&T, which you've publicly said could be improved? What are you doing now? And what are you doing with respect to decarbonizing AT&T and improving your carbon footprint?

MR. STANKEY: So if you go back, and we have maybe two different dynamics. You know, we acquired a media company, as you know, a few years back, and then we had the core AT&T business that we've been running for a period of time. And while I don't think in either business we're sufficient in where we need to be, I would tell you the core AT&T communications business, I'm very proud of the path and the history of what we've done there. I think in many instances have been maybe best in class in the United States in trying to drive a more inclusive work environment and demonstrate that we can make progress, that our employee base in fact represents the markets that we operate in. And I would say at the operating level of the business, in both our occupational levels and our key management levels, at the supervisory levels and key operating groups, we've in fact achieved that.

We still have work to do in kind of our middle management and senior management ranks to ensure that we accurately represent the markets that we operate in. And we've taken our good success there and we've put new programs in place to try to facilitate that and take it to the next step. We've been doing a lot, and trying to get better at, frankly, mid-career hires in our company, where we've not been particularly strong in. And I think that can have a strong improvement. We've been working new changes to our development programs for management talent. It's been more focused on ensuring that we bring some of our most promising talent that's younger in the organization forward along faster and quicker to see these ranks.

And the media company, again, while I think in the media industry – we probably have best in class numbers within media, media in general tends to lag, say, our communications business. We were the first, I think you're aware, to put in place an inclusive production policy. We were the first to put in place a commitment that we would be reporting out on what our progress across those areas are broadly – in our creative space, in our behind-the-camera production capabilities. We were the first to begin publishing our management characteristics annually so that people could see what's going on.

And we're taking many of the same programs we've used in the communications business and now applying them into our media business at scale to improve some of our progress in the administrative and leadership ranks. And so I feel good that we've got the right progress in place, the right programs in place. But I'm not satisfied that we're far enough along or we're moving at the pace that we need to move at.

MR. RUBENSTEIN: So cybersecurity is a big issue these days, and ransomware is something obviously that's on everybody's mind. Do you spend a lot of time on making certain you're as safe as you can be in the cyber area?

MR. STANKEY: You know, it's part and parcel in practice to what we've done. And I think even before maybe the broader population of industry and society understood what the grave risks of maybe a less-stringent approach to cybersecurity might bring about, you know, it's really what we have to do as our business. We sell secure networks as a living. And we understand that to the extent we don't do this well, a moment in time – you know, think about what occurred during the pandemic. If we lost the ability to run a metropolitan area, or something like that, commerce would literally come to a halt in society.

So the stakes have always been high for us. Therefore, the investment, the rigor around things have always been high. Now, I know enough about this space, and I'm conversant enough to know, there isn't a night that I put my head on the pillow believing that we're insulated from a mishap or insulated from something unfortunate occurring. Now, we drill for these things. We try to design for them, so that we can isolate and minimize the effects when they occur, that we can recover quickly.

We've used every best practice we know. We talk with others in the industry to learn what they know that we don't know. If there's a dollar to be spent that we think can make ourselves more resilient, we spend that money because we know it's a fundamental brand reputation issue. It's a fundamental national security issue to our country, about our responsibilities to do these things. But I know that it's not a matter of if it's going to happen, it's when it's going to happen. And when it happens, are we able to manage through it and contain it? And that's the reality of the business we're in, and that's the reality of the time we're in. I don't think we're perfect, but I think we're one of the best. But we will all learn and get better over time. And we have to do that every day.

MR. RUBENSTEIN: Three final questions. When you were growing up in Los Angeles, did you say to your parents: I want to be the CEO of AT&T someday? Or what was your ambition, if it wasn't to be the CEO of AT&T?

MR. STANKEY: The ambition was pretty simple. I was the first generation to graduate from college and to have the opportunity to get a higher education. That made my parents very proud. And I think the fact that I managed to accomplishment that – accomplish that, that was, you know, job done. And I like to tell this story that shortly after I got married, being the planner that I am and the thoughtful, you know, individual that I try to be on things, I sat down with my wife at our kitchen table. And I explained to her that if I ever made $85,000 a year we'd be set and we'd do just fine as a family. So I would tell you that that's probably an indication that my expectations of my career and myself maybe weren't all that grand at that moment in time.

MR. RUBENSTEIN: What is the greatest pleasure of being the CEO of AT&T? Is it more pleasurable than frustrating or more frustrating than pleasurable?

MR. STANKEY: You know, this has been a year like no other. And I suspect for John Stankey it's no different than any of the other 230,000 employees that work here at AT&T, and people in society broadly. It's been a hard year. It's been a hard year that's been full of anxiety. Not just because of things that's been going on at work, but what's been going on societally, what's gone on within our families and the adjustments we've had to make to our personal lives, things that we've had to do to entertain ourselves. And like anybody else, I've had to navigate through that. My challenge and journey on that is probably no different or no more significant. We've all had to go through it.

And I enjoyed the last several weeks. This week we had an opportunity with some employees that were in town, we were able to get together, you know, socially, after work. Sit down, have some casual conversation in a safe environment. Boy, that felt good. And it gave me great pleasure and great reinforcement. So I'm optimistic that, like everybody else, the coming weeks and days are going to have some more of that spontaneous human relationship and satisfaction that you get from reinforcement of being with somebody else.

As I mentioned, I think we've done a lot of great things as a business over the last nine months. Great momentum in our HBO Max product, gaining share again in the wireless space. Our broadband business has revitalized. And I've really enjoyed watching employees take satisfaction in their accomplishments and progress there. That gives me a great degree of satisfaction that the hard days and the hard work that I put in, along with all the other employees, is in fact worth it.

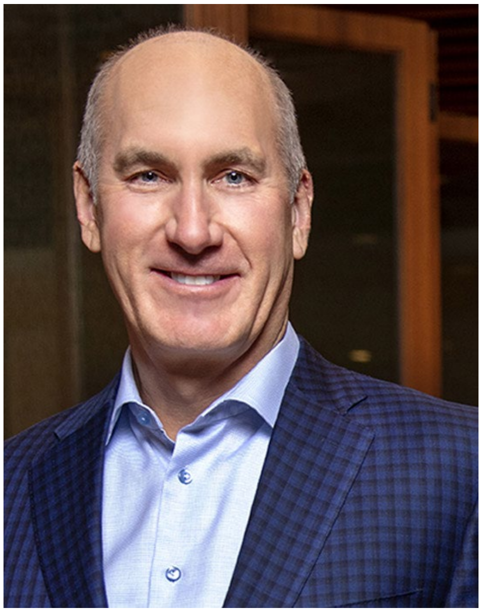
MR. RUBENSTEIN: Finally, when you are the CEO of AT&T and you sponsor the Pro-Am at Pebble Beach every year, can you pick Phil Mickelson or whoever you want as your partner when you're playing in the Pro-Am? Can you do that?

MR. STANKEY: You know, the hardest decision I probably have made, and will make, as a CEO is the decision around what we did in restructuring our business for capital structure and the media company. At least that's my hope. Making a decision to play with Jordan Spieth is not the hardest decision that I make as a CEO. That's the no-brainer and the easiest decision. So in the event that we do – if I have an opportunity to go do that, which I would – I don't play in public, because I'd hurt somebody – it would be my good friend and great golfer that we sponsor, Jordan Spieth.

MR. RUBENSTEIN: John, thank you very much for an interesting view of AT&T. I appreciate your giving us this much time. Thank you.

MR. STANKEY: David, thanks for having me and I've enjoyed being with you.

MR. RUBENSTEIN: OK. Bye.



John Stankey
CEO
AT&T Inc.

John Stankey assumed the role of CEO in July 2020 after previously serving as president and chief operating officer.

With more than $170 billion in 2020 revenues, AT&T is one of the world's largest companies in technology, media and telecom. Between 2016 and 2020, AT&T invested more than $110 billion in its network, including capital investments and acquisitions of spectrum and operations.

Over that same period, the company invested more in the U.S. than any other public company.

John's leadership drives AT&T to deliver on its purpose to create connections with each other, with what people need to thrive in their everyday lives, and with the stories and experiences that matter. AT&T's market focus is as a broadband provider, a software-based entertainment provider, and a creator of content that drives engagement. The company is undergoing a significant transformation initiative to ensure all the company's business units are well-positioned for continued success into the next decade and beyond.

AT&T Communications is a global leader in communications with more than 130 million U.S. mobile, broadband and pay-TV customers, as of the end of 2020, and nearly 3 million business customers, from the smallest companies to nearly all the Fortune 1000.

WarnerMedia is a leading media and entertainment company that creates and distributes popular content from a diverse array of storytellers and journalists through its industry-leading consumer brands including HBO, HBO Max, Warner Bros., TNT, TBS, truTV, CNN, DC Entertainment, New Line, Cartoon Network, Adult Swim, Turner Classic Movies and others. WarnerMedia also includes Xandr, which is focused on creating a better solution for advertisers and publishers to reach specific audiences at scale in trusted, premium content environments.

AT&T Latin America provides pay-TV services across 10 countries and territories in Latin America and the Caribbean and wireless services to consumers and businesses in Mexico.
John joined AT&T in 1985 and has 35 years of accomplished leadership spanning nearly every area of AT&T's business. He has served in a variety of roles including CEO of WarnerMedia; CEO of AT&T Entertainment Group; Chief Strategy Officer; Chief Technology Officer; CEO of AT&T Operations; and CEO of AT&T Business Solutions. He currently serves on AT&T's board of directors.

John holds a B.B.A. in Finance from Loyola Marymount University and an M.B.A. from UCLA.