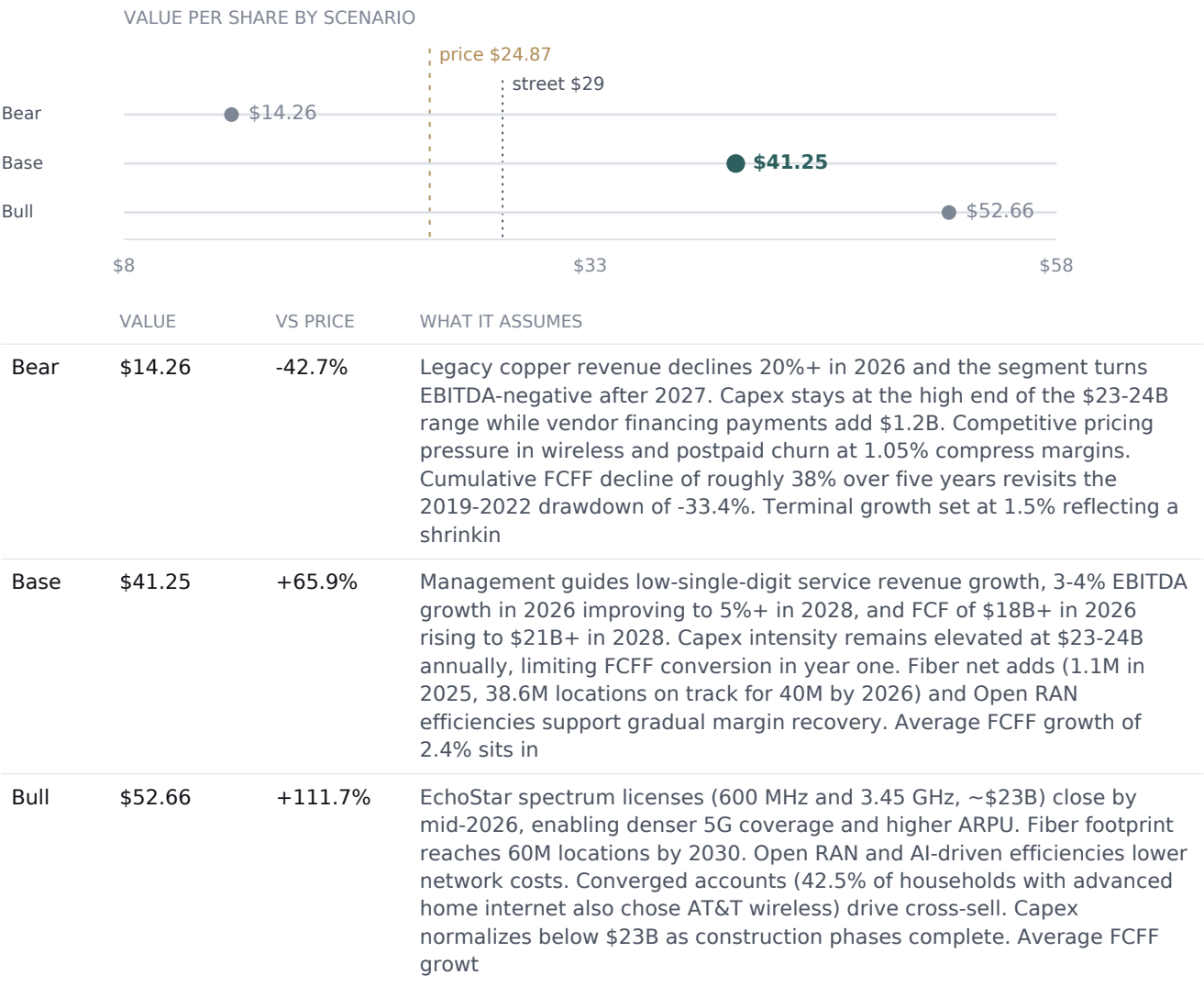


EQUITY RESEARCH / T

AT&T Inc.

LONG CANDIDATE · historical study through 2026-10-08 · horizon 540 days · DCF + P/E

PRICE	BASE CASE	UPSIDE	PROB-WEIGHTED	MARKET CAP	TRAILING P/E
\$24.87	\$41.25	+65.9%	\$37.35	\$170.42B	8.2x



STREET CHECK

Street target **\$29** (+15.7% vs price) · 16 buy / 9 hold / 1 sell · forward P/E 9.9x · EPS estimates \$2.34 this year, \$2.57 next

Our base case is **1.43x** the Street target: clearly away from the Street.

Consensus is shown for calibration only. The model never receives it.

Thesis

AT&T trades at \$24.87, implying roughly -4.85% annual FCFF growth at the 8.28% WACC, well below its own historical growth band. Management guides low-single-digit service revenue growth, 3-4% adjusted EBITDA growth in 2026 improving to 5%+ in 2028, and free cash flow of \$18 billion-plus in 2026 rising to \$21 billion-plus in 2028. The base-case DCF, assuming 2.4% average FCFF growth within the historical band, values the equity at \$41.25 per share, a 65.9% premium to the price. The earnings multiple method, using normalized EPS of \$2.28 (removing the \$5,600M tax-free DIRECTV gain) and a 10x base multiple, yields \$25.06, essentially at the price, so the long thesis rests on the DCF's view that the market over-extrapolates the legacy copper decline as permanent structural shrinkage rather than a transitional phase offset by fiber, 5G, and Open RAN efficiencies. The bear case at \$14.26 acknowledges that legacy revenue declines 20%+ in 2026, capex stays at the \$23-24B high end, and postpaid churn at 1.05% pressures margins.

What the market may be missing

The market prices AT&T at 8.18x trailing P/E, near the bottom of its own five-year range (8.17-15.28x, median 8.76x), and the reverse DCF implies -4.85% FCFF growth, below the historical band floor of -6.22%. The filing shows fiber locations at 38.6 million on track for 40 million by end-2026, 42.5% of households with advanced home internet also choosing AT&T wireless, Open RAN deployment lowering network costs, and management reiterating all 2026-2028 guidance. The market appears to treat the legacy copper runoff as permanent value destruction rather than a one-time transition cost, ignoring the structural margin improvement from software-defined networks and converged customer relationships. The gap between the market-implied decline and management's guided 3-4% EBITDA growth is the mispricing.

Why the opportunity exists

A narrative overshoot. The market prices AT&T at 8.18x trailing P/E, near the bottom of its own five-year range, and the reverse DCF implies -4.85% FCFF growth, below the historical band floor. The market has over-extrapolated the legacy copper decline narrative as permanent structural value destruction, treating the 20%+ legacy revenue decline in 2026 as a permanent shrinkage rather than a transitional phase. The filing shows fiber locations at 38.6 million on track for 40 million by end-2026, 42.5% converged household penetration, Open RAN deployment lowering network costs, and management reiterating all 2026-2028 guidance including 3-4% EBITDA growth and \$18B+ FCF. The market's pessimism is not unfounded given the legacy segment's trajectory, but it prices in a permanent decline rather than the guided transition to higher-margin advanced connectivity. Evidence: Market-implied FCFF growth of -4.85% at the 8.28% WACC, below the historical band floor of -6.22%. Trailing P/E of 8.18x at the bottom of the five-year range (8.17-15.28x, median 8.76x). Management guides 3-4% adjusted EBITDA growth in 2026 improving to 5%+ in 2028, and FCF of \$18B+ in 2026 rising to \$21B+ in 2028. Legacy segment expected to be immaterial by end of 2029, implying the decline is transitional, not permanent.

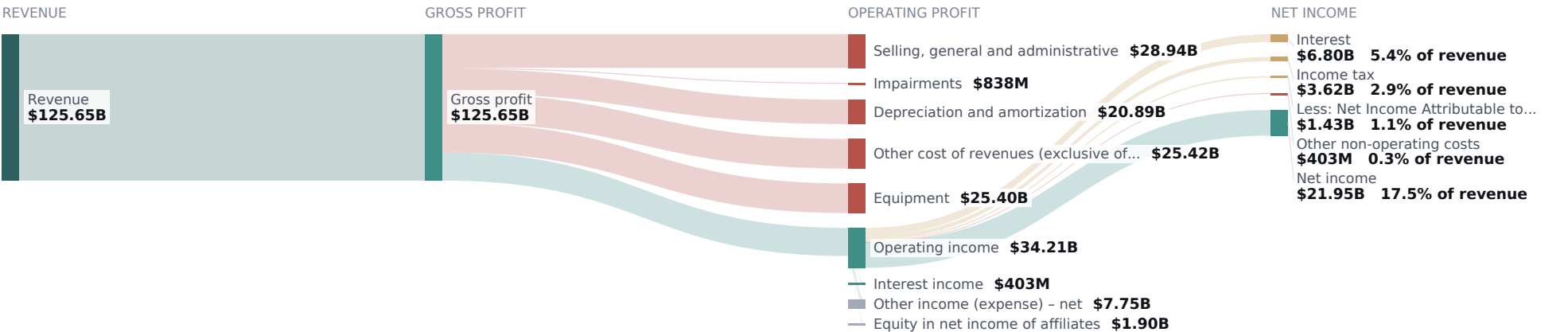
Since our last note

Thesis intact against our note of 2026-10-03 (investigate long). The shares have moved +2.4% since. Guidance versus delivery: Service revenue growth above; Advanced Connectivity service revenue growth above; Legacy service revenue decline above; Adjusted EPS above. Why the call changed: Disposition unchanged from the prior memo's investigate_long. The base-case DCF value moved from \$43.33 to \$41.25, a modest reduction reflecting slightly more conservative growth assumptions (2.4% average FCFF growth vs. the prior memo's implied higher rate) and the earnings multiple method's base target of \$25.06 being essentially at the price, which tempers the long thesis. The price rose from \$24.30 to \$24.87, narrowing the upside from 78% to 65.9%. The fundamental argument remains intact: the market prices in permanent legacy decline while the filing shows a guided transition to fiber and 5G with improving FCF. Management reiterated all consolidated full-year 2026 and multi-year financial guidance in the Q2 2026 filing. The guidance-versus-delivery record shows FY2025 actuals (revenue growth 2.71%, EPS \$3.04) exceeding the 2026 guidance ranges, though the 2026 guidance has not yet been delivered. The Q2 2026 effective tax rate of 13.5% was driven by IRS examination resolutions, a one-time benefit. The asset abandonment charge from spectrum strategy reprioritization in Q2 2026 is a minor deviation. Overall, management has not missed guidance, and the reiteration of all targets including the 2.5x net-debt-to-EBITDA goal post-EchoStar suggests confidence in execution. Credibility is adequate but untested against 2026 delivery.

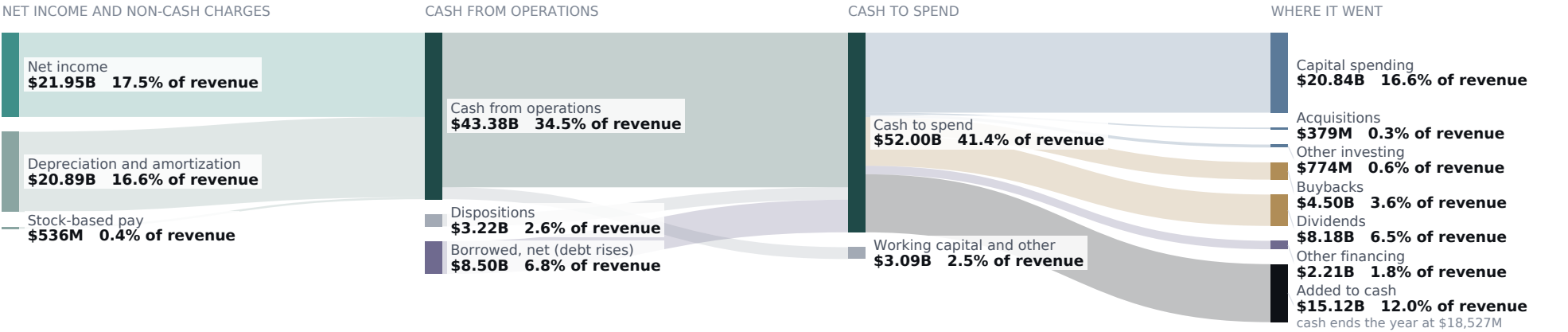
Follow the money: fiscal 2025

Of every \$100 of revenue, \$0.0 went to cost of revenue, \$81 to operating costs and \$8.3 to interest and tax, and \$18 became net income. Operations turned that into \$32 of cash; \$17 went to capital spending and \$10 back to shareholders.

1 WHERE EVERY DOLLAR OF REVENUE WENT



2 HOW PROFIT BECAME CASH, AND WHERE THE CASH WENT SHOWN 3.3 TIMES LARGER THAN PANEL 1



From the 10-K for the fiscal year ended 2025-12-31, XBRL accession 0000732717-26-000120. Every band ties to a reported figure; where the tagged lines do not add up, the difference appears as an explicit other or working-capital band. Lines outside the standard set are placed by the filing's own calculation links, under the company's labels; borrowing and investment flows are netted by instrument.

The business

AT&T is a leading global telecommunications and technology services provider, generating ~97% of segment revenues from its Communications segment (wireless, fiber broadband, business wireline) and ~3% from Latin America wireless in Mexico, with 120 million Mobility subscribers and 16.0 million broadband connections as of year-end 2025.

What it sells

AT&T sells wireless voice and data services (postpaid, prepaid, reseller) under AT&T, Cricket, and AT&T PREPAID brands; fiber broadband and fixed wireless access (AT&T Internet Air) to residential customers; advanced connectivity services (fiber ethernet, dedicated internet, managed professional services) to business customers; legacy copper-based voice and data services; and wireless equipment (handsets, data cards, accessories). In Mexico, it sells wireless service under AT&T and Unefon brands. Revenue categories: wireless service (54% of consolidated revenues in 2025), fiber and advanced connectivity (13%), legacy and other transitional (8%), equipment (18%), Latin America wireless (2%), Latin America equipment (1%). AT&T provides nationwide wireless service and equipment (Mobility), advanced ethernet-based fiber services, fixed wireless, IP Voice, and managed professional services to business customers (Business Wireline), broadband including fiber multi-gig and AT&T Internet Air (AIA) to residential customers plus legacy telephony (Consumer Wireline), and wireless service and equipment in Mexico (Latin America). The company operates integrated product offerings that converge wireless and fiber connectivity, targeting converged customer relationships. As of December 31, 2025, AT&T served 145 million wireless subscribers in North America (120 million in the US), with LTE covering over 441 million people in North America and 5G covering more than 322 million people in the US. In Mexico, LTE covers over 104 million people. Advanced Connectivity segment: domestic 5G wireless service, advanced home internet (fiber and AT&T Internet Air fixed wireless), business fiber and advanced connectivity, equipment sales. Legacy segment: domestic legacy voice and data services over copper-based network. Latin America segment: wireless service and equipment in Mexico. The company also sells wireless devices and hardware to business customers. Fiber network assets acquired from Lumen are placed in Forged Fiber 37 Services, LLC, a wholly owned subsidiary held for sale, with a controlling interest planned to be sold to an equity partner.

Customers and channels

Consumers in the United States (120 million Mobility subscribers: 91 million postpaid, 18 million prepaid, 11 million reseller; 14.7 million broadband customers including 10.4 million fiber and 1.5 million AIA). Business customers include multinational corporations, small and mid-sized businesses, governmental and wholesale customers. In Mexico, ~24.7 million wireless subscribers. Channels: company-owned stores, agents, third-party retail stores, online sales. Brands: AT&T, AT&T Business, Cricket, AT&T PREPAID, AT&T Fiber, AT&T Internet Air, Unefon. No customer accounted for 10% or more of consolidated revenues in 2025, 2024, or 2023. Primary customers are US consumers (wireless postpaid 90.9M, prepaid 18.3M, reseller 10.9M subscribers; broadband 14.7M connections including 10.4M fiber) and business customers served through Business Wireline. Channels include direct retail, reseller partnerships, and converged home/business bundles. In Mexico, 24.7M wireless subscribers (6.8M postpaid, 17.7M prepaid). The company uses a simplified go-to-market strategy for 5G in underpenetrated markets and targets 'value customers' such as age 55-plus segments. Broad distribution and integrated product offerings are cited as key channels. Consumer and business customers served through converged accounts (wireless plus internet). Postpaid and prepaid wireless subscribers, fiber broadband internet connections, fixed wireless connections, business fiber and fixed wireless. Converged accounts are a key growth driver; 42.5% of households with advanced home internet also chose AT&T wireless. Nearly 2.5 million business customers served. Channels include direct retail, wholesale, and reseller arrangements. Customer relationships from Lumen acquisition are retained by AT&T.

Unit economics and costs

R&D expenses were \$843 million in 2025, \$955 million in 2024, and \$954 million in 2023. Significant capital investment is required for 5G network expansion, fiber build-out, and spectrum acquisition. Cost pressures include inflation on device inputs, network components, labor, and distribution; supply chain pressure from hyperscaler AI spending on semiconductors. Approximately 43% of employees are unionized (CWA, IBEW, or other unions). Benefit plan costs are sensitive to medical/prescription drug inflation and lower investment returns on pension assets. The company aims to aggregate traffic on the largest, lowest marginal cost, converged network. Software-defined network (SDN) and network function virtualization (NFV) deliver demonstrable cost advantage over traditional hardware-intensive approaches. Copper decommissioning reduces legacy cost base. No per-unit subscriber economics or ARPU figures are disclosed in the excerpt. Mobility EBITDA margin 42.0% (down from 42.8% in 2024); Communications EBITDA margin 39.6%; Consumer Wireline EBITDA margin 37.0% (up from 33.4%); Business Wireline EBITDA margin 29.1% (flat); Latin America EBITDA margin 18.6%. Postpaid phone churn 0.90% in 2025 vs 0.76% in 2024 (14 BP increase); postpaid churn 1.05% vs 0.92%. Operations and support expenses rose 2.7% YoY driven by higher sales volumes, ~\$440M apportioned legal settlements, new advertising campaign, and network costs, partially offset by transformation savings and lower content licensing fees. D&A increased 1.5% YoY due to ongoing capital spending for fiber and network upgrades. Supplier financing improved operating cash flow by \$443M in 2025. Vendor financing payments of \$1,181M in 2025. Capex \$20,842M in 2025; total capital investment including vendor financing \$22,023M. Advanced Connectivity EBITDA margin 42.0% Q2 (up from 40.5%); Legacy EBITDA margin 32.0% (down from 43.6%); Latin America EBITDA margin 18.5% (down from 19.1%). Consolidated operating income margin 22.3% Q2 (up from 21.1%). Phone churn 1.12% Q2 (down 5bp YoY); postpaid phone churn 0.86% (down 1bp); prepaid churn 2.30% (down 13bp). Operations and support expenses up 2.4% Q2 driven by asset abandonment charge from spectrum strategy reprioritization, higher advertising, incremental customer costs from acquired fiber business, higher bad debt from subscriber growth; partially offset by transformation initiative cost reductions, lower content licensing fees, tower transaction gains. D&A down 5.4% Q2 from fully depreciated legacy assets. Effective tax rate 13.5% Q2 (vs 20.3%) due to IRS examination resolutions. Weighted average interest rate on long-term debt ~4.4%. Direct supplier financing reduced operating cash flow by \$272M in 6M 2026. Vendor financing payables \$2,868M at June 30, 2026.

Segments

- **Communications** - Wireless and wireline telecom and broadband services to U.S. consumers and businesses globally; includes Mobility, Business Wireline, and Consumer Wireline business units. Approximately 97% of total segment operating revenues; contains Mobility (\$89,482M revenue, 42.0% EBITDA margin), Business Wireline (\$17,231M revenue, 29.1% EBITDA margin, operating loss of \$(816)M), and Consumer Wireline (\$14,183M revenue, 37.0% EBITDA margin). Mobility net additions declined 44.5% YoY; postpaid churn rose to 1.05% from 0.92%. Fiber broadband connections grew 11.5% to 10.4M.
- **Latin America** - Wireless service and equipment in Mexico under AT&T and Unefon brands; postpaid and prepaid plans. Approximately 3% of total segment operating revenues; less than 1% of segment operating income. Provides wireless service and equipment in Mexico. 24.7M wireless subscribers. Postpaid net additions grew 52.1% YoY. FX headwinds in first half of

2025 partially offset by subscriber and ARPU growth. Wireless service and equipment in Mexico.

- **Advanced Connectivity** - Domestic 5G and fiber-based wireless, internet, and other advanced connectivity services to consumer and business customers. Includes wireless service, advanced home internet, business fiber and advanced connectivity, business transitional and other, equipment. Sub-segments: Advanced Connectivity Consumer and Advanced Connectivity Business.
- **Legacy** - Domestic legacy voice and data services to consumer and business customers over copper-based network. Direct operating costs only; no depreciation allocated.

Revenue drivers

- Wireless service revenue (54% of consolidated operating revenues in 2025, up from 52% in 2023)
- Fiber and advanced connectivity services (13% of consolidated revenues in 2025, up from 11% in 2023)
- Equipment sales (18% of consolidated revenues in 2025)
- Legacy and other transitional services (8% of consolidated revenues in 2025, declining from 13% in 2023)
- Broadband customer growth: fiber +1.1 million in 2025, AIA +875,000 in 2025
- 5G network deployment driving data usage growth and new service offerings
- Converged customer relationships bundling wireless and broadband
- IoT and AI-driven demand for high-speed broadband

Competitive position

In U.S. wireless, AT&T faces two national competitors, numerous regional providers, resellers, cable companies, and IP-based application providers. In Mexico, it is one of three facilities-based providers, with the most significant market share controlled by América Móvil. In broadband, it competes with large cable companies and wireless broadband providers. In legacy voice/data, it faces wireless, cable, and VoIP competitors not subject to traditional telephone regulation. Competition is based on service/device offerings, price, network quality, coverage, and customer service. Market saturation in wireless (nearly full smartphone penetration) moderates growth rates. AT&T's differentiation rests on its converged fiber-and-5G network, spectrum portfolio, and software-defined architecture. AT&T operates scaled wireless and fiber networks with integrated product offerings. LTE covers 441M+ people in North America; 5G covers 322M+ people in the US. Networks covering both US and Mexico enable customers to use wireless without roaming. The company is investing in Open RAN to build a more robust ecosystem of network infrastructure providers, fostering lower network costs and improved operational efficiencies. Fiber footprint expansion and AIA serviceable locations are cited as competitive advantages. The company targets underpenetrated segments (age 55-plus 'value customers') with lower ARPU but attractive lifetime values. Simplified go-to-market strategy for 5G in underpenetrated markets is a stated competitive lever. Management states 'industry-leading position in fiber - the best connectivity technology available' and that 'network performance and operating scale can't be matched.' Converged accounts (wireless + internet) are a structural advantage; 42.5% of households with advanced home internet also chose AT&T wireless. Postpaid phone churn of 0.86% is among the lowest disclosed. Record quarter for combined fiber and fixed wireless net adds. Strongest consumer postpaid wireless account growth in more than three years. Fiber locations reached: 38.6 million, on track for 40 million by end of 2026 and 60 million by end of 2030. Competitive dynamics noted as affecting churn rates.

Industry direction

Wireless industry is mature with nearly full smartphone penetration in the U.S.; future growth depends on innovative bundled services, converged relationships, and 5G. Demand for broadband is driven by streaming, augmented reality, smart technologies, user-generated content, and AI. Fiber is a core priority with continued expansion. Copper networks are being decommissioned across the large majority of the wireline footprint. Software-defined networks and NFV are replacing hardware-intensive approaches. Spectrum acquisition (FCC auctions, EchoStar transaction) is critical for capacity. The company plans to work with regulators to decommission high-cost legacy technologies over the next several years. The communications industry has evolved into internet-based technologies capable of converging wireline and wireless services. Demand for instant connectivity, higher speeds, video streaming, augmented reality, 'smart' technologies, user-generated content, and AI drives network investment. Legacy copper networks are being decommissioned industry-wide. Open RAN deployment is expanding the ecosystem of network infrastructure providers. FCC spectrum auctions (800 MHz required within eight years per OBBB) and C-Band rulemaking shape future capacity. Net neutrality reclassification was set aside by the Sixth Circuit in January 2025, but state-level rules persist. Digital discrimination rules effective March 2024 create compliance uncertainty. BEAD program (\$42,500M in state grants) supports broadband deployment in unserved/underserved areas. Copper-based legacy network being decommissioned; Legacy segment expected to be immaterial by end of 2029. Digital discrimination rules: On May 6, 2026, the Eighth Circuit vacated the FCC's digital discrimination rules, holding the FCC could not adopt rules imposing 'disparate impact' liability; FCC will need to adopt new rules consistent with the statute. Spectrum strategy being reprioritized. 5G network expansion supported by EchoStar 600 MHz and 3.45 GHz licenses. Fixed wireless and fiber convergence is the strategic direction. Legacy fixed cost removal tied to decommissioning after all customers upgraded; approvals could delay beyond 2029.

Recent developments

- Closed Lumen Technologies acquisition on February 2, 2026, acquiring substantially all of Lumen's Mass Markets fiber business; customer relationships retained, fiber network assets placed in Forged Fiber 37 Services, LLC held for sale with planned sale of controlling interest to equity partner
- Segment realignment effective Q1 2026: three reportable segments (Advanced Connectivity, Legacy, Latin America) reflecting converged advanced connectivity business model
- Asset abandonment charge in Q2 2026 associated with reprioritization of spectrum strategy
- Pending EchoStar transaction: agreed August 25, 2025 to purchase FCC licenses in 600 MHz and 3.45 GHz bands for approximately \$23,000M; expected to close by end of July 2026; funded using cash on hand and term loan borrowings
- January 2026 acquisition of select spectrum licenses from UScellular for \$1,018M
- DIRECTV Entertainment Holdings sale to TPG Capital completed July 2, 2025; prior-year equity income of \$485M in Q2 2025 not repeated
- IRS examination resolutions reduced effective tax rate to 13.5% in Q2 2026 (vs 20.3% prior year)

- Board approved additional \$10,000M share repurchase authorization on January 27, 2026 (2026 Authorization); accelerated pace of repurchases to approximately \$10 billion in 2026

Management outlook

Management reiterates all consolidated full-year 2026 and multi-year financial guidance. Long-term outlook for 2026-2028: service revenue growth in low-single-digit range annually; Advanced Connectivity service revenue growth mid-single-digit range annually including 5%+ in 2026; Legacy service revenue decline 20%+ in 2026 and immaterial by end of 2029; Adjusted EBITDA growth 3% to 4% in 2026 improving to 5% or better in 2028; Advanced Connectivity EBITDA growth mid-to-high-single-digit range annually including 6%+ in 2026; Legacy EBITDA expected to turn negative after 2027; Adjusted EPS \$2.25 to \$2.35 in 2026 with double-digit 3-year CAGR through 2028; Capital investment \$23 billion to \$24 billion annually during 2026-2028; Free cash flow \$18 billion+ in 2026, \$19 billion+ in 2027, \$21 billion+ in 2028; Capital returns \$45 billion+ during 2026-2028 through dividends and share repurchases; net debt-to-adjusted EBITDA ratio expected to return to 2.5x range within approximately three years following EchoStar closing; annualized common stock dividend maintained at \$1.11 per share; approximately \$24 billion of share repurchases during 2026-2028 including approximately \$10 billion during 2026. Management expects revenue growth in wireless and broadband businesses in 2026 driven by 5G deployment, fiber network expansion, and converged customer relationships. Expense trends are expected to be consistent with the prior year, with continued focus on efficiency via cost transformation. Spending for fiber and 5G deployment will pressure expense trends in 2026. Network modernization (Open RAN) should result in more efficient capital use and lower network-related expenses in coming years. Cost savings expected through AI-driven efficiencies in network design, operations, software development, sales, marketing, customer support, and G&A. Key 2026 initiatives: wireless subscriber momentum in underpenetrated markets, fiber deployment and AIA growth, Open RAN deployment, cost transformation including IT modernization and product simplification. Ongoing pressure on pricing in 2026 from geopolitical/macro environment and competitive marketplace, especially in wireless. For 2026, management is focused on core product capabilities, infrastructure, and network. Priorities include accelerating fiber expansion (organically and via Lumen acquisition), deploying low- and mid-band spectrum (including EchoStar transaction), aggregating the most traffic on the largest, lowest marginal cost, converged network, efficient spectrum deployment, construction of largest high-capacity broadband solutions in the U.S., and decommissioning high-cost legacy technologies over the next several years. Management expects continued significant capital investment in network capacity and spectrum. The company believes its fixed wireline and mobile approach will differentiate services and provide convergence growth opportunities as bandwidth demands grow.

Accounting flags

- Forged Fiber 37 Services, LLC classified as held-for-sale and reflected as discontinued operations; Lumen acquisition customer relationships retained in continuing operations
- Segment realignment effective Q1 2026: three reportable segments replacing prior structure
- Composite group depreciation methodology for shared network including copper-based assets prior to decommissioning, managed in Advanced Connectivity segment

- Non-GAAP measures used: EBITDA, EBITDA margin, adjusted EBITDA, adjusted EPS, adjusted operating income, free cash flow, net debt, capital investment
- Vendor financing excluded from capital expenditures and reported as financing activities
- Direct supplier financing reduces cash from operating activities; payments due within one year

Key figures

KEY FIGURES	FY2025	FY2024	
Revenue	\$125.65B	\$122.34B	+2.7% y/y
Operating income	\$24.16B	\$19.05B	19.2% margin
Net income	\$21.95B	\$10.95B	
Diluted EPS	\$3.04	\$1.49	8.2x trailing P/E
Operating cash flow	\$40.28B	\$38.77B	+3.9% y/y
Capital spending	\$20.84B	\$20.26B	16.6% of revenue
Unlevered FCFF	\$24.82B		14.6% yield
Cash and short-term investments	\$18.23B	\$3.30B	
Net debt	\$126.38B		2.8x EBITDA
Share repurchases	\$4.50B	\$215.0M	2.6% yield
Market capitalisation	\$170.42B		12.3x EV/EBIT

Figures from the filings' XBRL; definitions in the method section. Flows stay on fiscal year 2025: the 2026-06-30 quarterly report lacks matching year-to-date facts for ocf. Balance-sheet items are as of 2026-06-30 from the quarterly report. Interest tax shield uses the 21.0% statutory rate from the filing's rate reconciliation. Current debt of \$9,323.0M (Debt maturing within one year) falls due within twelve months of 2026-06-30; the price date is 100 days later, so check in the filing whether any of it matured or was refinanced before 2026-10-08. WACC anchor 8.3%: cost of equity 9.3% (risk-free 5.28%, beta 0.80, ERP 5.0%), after-tax cost of debt 5.1% (synth

The counter-case

The earnings multiple method, using normalized EPS of \$2.28 and a 10x base multiple, yields \$25.06, essentially at the \$24.87 price. This means the stock is not cheap on earnings, and the long thesis depends entirely on the DCF's assumption that FCFF grows at 2.4% rather than declining. If capex stays at \$23-24B and legacy revenue falls 20%+, FCFF may not grow at all in 2026. The market-implied -4.85% growth is not unreasonable given the legacy segment's trajectory. The 74.5% terminal value fraction means small changes in terminal growth or discount rate swing the value dramatically: at 1% terminal growth the base case is \$34.76, at 10.28% WACC it is \$26.77. The absence of peer comparables weakens the multiple argument. Legacy service revenue declines 20%+ in 2026 and the segment turns EBITDA-negative after 2027. Capex stays at the \$23-24B high end, limiting FCFF conversion. Postpaid churn rose to 1.05% from 0.92% in 2025, and competitive pricing pressure in wireless is ongoing. The \$9,323M of debt maturing within twelve months of 2026-06-30 creates refinancing risk; credit rating downgrades could trigger collateral posting. The earnings multiple base target of \$25.06 is essentially at the price, meaning the stock is not cheap on normalized earnings. The DCF's 74.5% terminal value fraction means the valuation is highly sensitive to the discount rate: at 10.28% WACC the base case falls to \$26.77, barely above the price. No peer comparables are available to validate the multiple.

Valuation

AT&T generates positive, reasonably predictable unlevered free cash flow (\$24,817M FCFF in FY2025, 19.75% margin within its five-year range) and positive diluted EPS (\$3.04). DCF on FCFF captures the capital-intensive, long-lived-asset nature of the telecom network and the capex ramp management guides at \$23-24B annually. The earnings multiple complements it because AT&T's earnings are distorted by a one-time tax-free gain on the DIRECTV sale, making normalized EPS more informative for a P/E read. Both methods are informative here.

SCENARIO	ASSUMPTIONS	VALUE	VS PRICE
Bear	FCFF growth -15%, -12%, -8%, -6%, -5%; WACC 8.3%; terminal growth 1.5%	\$14.26	-42.7%
Base	FCFF growth +1%, +2%, +3%, +3%, +3%; WACC 8.3%; terminal growth 2.0%	\$41.25	+65.9%
Bull	FCFF growth +5%, +6%, +5%, +4%, +4%; WACC 8.3%; terminal growth 2.5%	\$52.66	+111.7%
Bear (P/E)	7.0x forward EPS \$2.51 (normalized, growth +10.0%)	\$17.54	-29.5%
Base (P/E)	10.0x forward EPS \$2.51 (normalized, growth +10.0%)	\$25.06	+0.8%
Bull (P/E)	12.0x forward EPS \$2.51 (normalized, growth +10.0%)	\$30.07	+20.9%

- Discount rate: the model used 8.3% against an anchor of 8.3% (risk-free 5.28%, beta 0.80, equity risk premium 5.0%, cost of equity 9.3%, after-tax cost of debt 5.1% on a synthetic A-rating from interest coverage, debt 46% of capital).
- The price implies constant five-year FCFF growth of -4.9% at the base-case WACC and terminal growth.
- Anchors from the company's own history: base-case growth band -6.2% to +3.9% a year; worst revenue decline -33% (2019-2022); own trailing P/E 8.17-15.28x (median 8.76x) at the four of the last five fiscal year ends with positive earnings.
- Sensitivity to discount rate: 6.3% gives \$69, 7.3% gives \$53, 8.3% gives \$41, 9.3% gives \$33, 10.3% gives \$27.
- Sensitivity to terminal growth: 1.0% gives \$35, 1.5% gives \$38, 2.0% gives \$41, 2.5% gives \$45, 3.0% gives \$50.
- Per-share values use 6,852,385,650 shares as of 2026-07-16; the fiscal-year diluted average differs by +4.8%.
- Probability-weighted value \$37.35 (+50.2% vs price) at 25%/50%/25% weights.

Bear case (\$14.26): Legacy copper revenue declines 20%+ in 2026 and the segment turns EBITDA-negative after 2027. Capex stays at the \$23-24B high end while vendor financing payments add \$1.2B. Competitive pricing pressure in wireless and postpaid churn at 1.05% compress margins. Cumulative FCFF decline of roughly 38% over five years revisits the 2019-2022 drawdown. Terminal growth at 1.5% reflects a shrinking legacy footprint with no recovery. Base case (\$41.25): Management guides low-single-digit service revenue growth, 3-4% EBITDA growth in 2026 improving to 5%+ in 2028, and FCF of \$18B+ in 2026 rising to \$21B+ in 2028. Capex intensity remains elevated at \$23-24B annually, limiting FCFF

conversion in year one. Fiber net adds (1.1M in 2025, 38.6M locations on track for 40M by 2026) and Open RAN efficiencies support gradual margin recovery. Average FCFF growth of 2.4% sits inside the historical band. Terminal growth of 2.0% reflects a mature but stable telecom market. Bull case (\$52.66): EchoStar spectrum licenses close by mid-2026, enabling denser 5G coverage and higher ARPU. Fiber footprint reaches 60M locations by 2030. Open RAN and AI-driven efficiencies lower network costs. Converged accounts drive cross-sell. Capex normalizes below \$23B as construction phases complete. Average FCFF growth of 4.8% is slightly above the band top. Terminal growth at the 2.5% cap reflects the long fiber build-out runway.

What breaks the case

SHOCK TO THE BASE CASE	VALUE	VS PRICE
Base case as planned	\$41.25	+65.9%
WACC 100bp higher	\$33.02	+32.8%
Pre-tax cost of debt 200bp higher	\$35.06	+41.0%
Every year's FCFF growth 5 points lower	\$29.37	+18.1%
Every year's FCFF growth 5 points higher	\$55.53	+123.3%
Starting FCFF 10% lower	\$35.28	+41.9%
Starting FCFF 10% higher	\$47.22	+89.9%

The base case equals the price at a 10.6% WACC or if every annual FCFF growth rate were -7.2% points different. These are thresholds, not forecasts.

No listed peer was judged comparable. No peer comparables are available for this quarter (anchors.peers status is unavailable). AT&T's trailing P/E of 8.18x sits at the bottom of its own five-year range (8.17-15.28x, median 8.76x). Revenue growth of 2.71% in FY2025 and FCFF margin of 19.75% are within historical norms. The one-off DIRECTV gain distorts the reported P/E; on normalized EPS the implied multiple is approximately 10.9x. Without a peer set, the multiple is justified solely against the company's own history and the quality of its cash generation.

What would change the view

Key debates

- Capex intensity and FCFF conversion: Management guides \$23-24B annual capital investment for 2026-2028 versus \$20.8B in FY2025. Each \$1B of incremental capex reduces FCFF by roughly 4% of the starting base. Whether capex normalizes by 2028 or stays elevated determines whether FCFF grows or declines. (Fact sheet capex FY2025 \$20,842M; management guidance \$23,000-\$24,000M annually 2026-2028; vendor financing payments \$1,181M in 2025.)
- Legacy segment decline versus Advanced Connectivity growth: Legacy service revenue declines 20%+ in 2026 and the segment turns EBITDA-negative after 2027, while Advanced Connectivity grows mid-single-digit. The net revenue and margin trajectory depends on whether fiber and 5G gains offset the copper runoff fast enough. (Management guidance: 'Legacy service revenue decline of 20%+ in 2026 and be immaterial by the end of 2029'; 'Advanced Connectivity service revenue growth in the mid-single-digit range annually, including expected growth of 5%+ in 2026'.)
- Effective tax rate normalization: The 13.4% effective tax rate in 2025 was boosted by the tax-free DIRECTV gain. At the statutory 21% rate, net income and EPS would be materially

lower. This affects both the earnings multiple and the after-tax interest add-back in FCFF. (Fact sheet effective tax rate 13.41%; statutory rate 21%; accounting_flags note 'Tax-free gain on DIRECTV sale (~\$5,600M) drove effective tax rate to 13.4% in 2025 vs 26.6% in 2024.')

Sensitivities the company discloses

- Expected long-term rate of return on pension/postretirement plan assets: 0.50% decrease gives 2026 combined pension and postretirement cost would increase \$139M
- Projected long-term growth rates, long-term EBITDA margin, or weighted average cost of capital (goodwill impairment testing): 0.5% decline in growth rates or EBITDA margin, or 0.5% increase in WACC gives Fair values would still be higher than book value of reporting units (no impairment triggered)
- Pension/postretirement discount rate: Decreased 0.20% (pension) and 0.30% (postretirement) vs prior year gives Pension plan benefit obligation increased \$680M; postretirement benefit obligation increased \$167M
- Interest rates: No interest rate swaps at June 30, 2026 gives No interest rate sensitivity disclosed through swaps; exposure managed through fixed-to-fixed and floating-to-fixed cross-currency swaps
- Foreign currency exchange rates and interest rates: Cross-currency swaps on foreign currency-denominated debt instruments gives Net fair value of \$(1,827) at June 30, 2026 on \$36,037 notional; no specific quantitative sensitivity range stated

Catalysts

- EchoStar spectrum transaction closing by end of July 2026, enabling denser 5G coverage and higher ARPU.
- Q3/Q4 2026 earnings showing quarterly FCF maintaining or exceeding the \$4.7B run rate implied by the \$18B+ annual guidance.
- Fiber locations reaching 40 million by end-2026, validating the build-out trajectory.
- Postpaid churn falling below 1.05% as device financing expirations pass and converged accounts deepen.
- Net debt-to-EBITDA approaching the 2.5x target, potentially triggering credit rating upgrades and lower cost of debt.
- Share repurchase pace accelerating to ~\$10B in 2026 under the January 2026 \$10B authorization, reducing share count.

Invalidation

- FCFF declines from the \$24,817M FY2025 run rate in 2026 and fails to meet the \$18B+ guidance, confirming the market's -4.85% implied growth.
- Postpaid churn accelerates above 1.05% without ARPU offsetting volume loss, compressing Mobility EBITDA margin below 42.0%.
- Capex consistently exceeds the \$24B upper bound of guidance, severely constraining FCFF conversion.
- Legacy segment EBITDA turns negative before 2027, confirming the bear-case trajectory.
- The EchoStar transaction fails to close or is materially delayed, removing the spectrum upside and leaving the \$23B commitment unfunded.

- Net debt-to-EBITDA remains above 3.5x through 2027, preventing deleveraging and the 2.5x target.

Risks

- \$9,323M of debt maturing within twelve months of 2026-06-30 creates refinancing risk; credit rating downgrades could trigger collateral posting.
- Capex intensity at 16.59% of revenue and guided \$23-24B annually limits FCFF conversion in the near term.
- Postpaid churn at 1.05% and competitive wireless pricing pressure limit ARPU growth in a saturated market.
- Effective tax rate of 13.41% in FY2025 was boosted by the tax-free DIRECTV gain; normalization toward 21% reduces net income and EPS.
- No interest rate swaps at June 30, 2026; floating-rate exposure on \$36,037M notional cross-currency swaps with net fair value of \$(1,827)M.
- Approximately 43% of employees are unionized with multiple contracts expiring in 2026, creating work-stoppage risk.
- Pension discount rate sensitivity: a 0.50% decrease in expected long-term return increases 2026 pension/postretirement cost by \$139M.
- Vendor financing payables of \$2,868M at June 30, 2026 reduce operating cash flow by \$272M in 6M 2026.

Short side

A short is not compelling at \$24.87. The base-case DCF value of \$41.25 is well above the price, and the earnings multiple base target of \$25.06 is essentially at the price, so the stock is not expensive on either method. Borrow availability for a mega-cap telecom with 6.85 billion shares outstanding is typically ample, but squeeze risk is low given the large float. Timing is unfavorable for a short because management guides improving FCF through 2028 and the EchoStar spectrum acquisition provides a potential catalyst. The unbounded loss on a short is mitigated by the stock's low beta (0.80 bounded, 0.442 vendor) and dividend yield of 4.8%, which carry the short. The bear case at \$14.26 requires FCFF to decline 38% over five years, which is severe but not the base case. A short would only be interesting if the market-implied -4.85% growth proves correct and the legacy decline overwhelms fiber/5G gains, but the evidence in the filing points the other way.

Open questions

Did the EchoStar transaction (~\$23B for 600 MHz and 3.45 GHz licenses) close by end of July 2026 as expected, and was it funded using cash on hand and term loan borrowings as stated? (missing fact)

The fact sheet shows total debt increased to \$143,954M at June 30, 2026 from \$136,100M at December 31, 2025, consistent with term loan borrowings, but the closing date and final funding structure are not confirmed in the supplied material. Watch: Check the Q3 2026 10-Q or earnings release for confirmation of EchoStar closing and any incremental debt or spectrum-related capex.

Was the \$9,323M of debt maturing within twelve months of 2026-06-30 refinanced or repaid before the 2026-10-08 price date? (missing fact)

The fact sheet notes this maturity and flags the 100-day gap between the balance sheet date and the price date. The filing excerpt does not confirm whether any portion was refinanced. Watch: Check the Q3 2026 10-Q debt schedule for changes in current debt line items.

Will capex normalize below \$23B by 2028 as construction phases complete, or stay at the \$23-24B guided range? (forecast uncertainty)

Management guides \$23-24B annually for 2026-2028. The base case assumes gradual normalization. If capex stays at the high end, FCFF growth in year one is only 1.0%, consistent with the base case but leaving little room for upside. Watch: Monitor quarterly capex and vendor financing payments against the \$23-24B annual guidance.

Will the effective tax rate normalize from 13.41% toward the 21% statutory rate, reducing EPS and FCFF? (forecast uncertainty)

The FY2025 effective tax rate of 13.41% was boosted by the tax-free DIRECTV gain. The Q2 2026 rate of 13.5% was due to IRS examination resolutions. Normalization to 21% would reduce net income by roughly \$2,000M annually. Watch: Check the tax rate reconciliation in the next quarterly filing for whether the IRS resolution benefit is recurring.

Limitations

The base-case DCF value of \$41.25 depends on 74.5% of enterprise value coming from terminal value, making it highly sensitive to the discount rate and terminal growth assumptions. At 10.28% WACC the base case falls to \$26.77, barely above the price. The earnings multiple method yields \$25.06, essentially at the price, so the two methods disagree: the DCF supports a long, the multiple does not. No peer comparables are available, so the 10x base multiple is justified only against AT&T's own five-year P/E range (8.17-15.28x, median 8.76x). The starting FCFF of \$24,817M is not normalized for the tax benefit from the DIRECTV gain, though the earnings multiple normalization removes it. The \$9,323M current debt maturity within twelve months of 2026-06-30 is not confirmed as refinanced. The share count gap between point-in-time outstanding (6,852M) and diluted weighted average (7,179M) is 4.8%, understating the DCF equity value per share. The WACC anchor of 8.28% uses a synthetic A- rating from 3.6x interest coverage; if the rating deteriorates, the discount rate rises and the base case compresses. Terminal value is 77% of enterprise value in at least one scenario, so the result is dominated by the terminal assumptions. Per-share values use point-in-time shares outstanding; the fiscal-year diluted weighted average differs by +4.8%. This historical count difference also reflects timing and share repurchases; it is not an estimate of future dilution. Outstanding options, RSUs or convertibles require a separate analysis. This memo is an initial research product from a frozen historical filing and price; it is not investment qualification.

Software flags: exposure quote unverified:consumer demand; exposure quote unverified:refinancing; exposure quote unverified:regulation; guidance quote unverified:1; sensitivity quote unverified:1.

Sources

10-K for the fiscal year ended 2025-12-31, filed 2026-02-09 (accession 0000732717-26-000120).

10-Q for the quarter ended 2026-06-30, filed 2026-07-22 (accession 0000732717-26-000297).

8-K for the earnings release dated 2026-07-22, filed 2026-07-22 (accession 0000732717-26-000294).

- Price: historical close of \$24.87 on 2026-10-08.
- 8 cited claims and 16 recorded calculations; every figure in the key-figures table is bound to a tagged XBRL fact, and every calculation reproduces independently.
- Street consensus from the market-data vendor on the same date, shown for calibration only.

Model: qwen3.8-flash-next-iq2_xs · run discovery-20260911 · job 603 · memo SHA-256 573e734f8fd7a062... · full memo and audit attached as JSON.

This note was written by a model from a single annual filing and a closing price. It is a starting point for human research, not a recommendation; nothing here has been investment-qualified.