

Adoption of AT&T's Next, Mobile Share Offerings Impacts 1Q Earnings

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In an afternoon first-quarter earnings call, AT&T Chief Financial Officer John Stephens stressed an increase in customers moving to Mobile Share plans and adoption of the company's Next upgrade program as major shifts for the wireless business.

Stephens said that Next marks a significant shift away from the traditional device subsidy model with "major implications" for AT&T's business overall.

At the end of the quarter, 78 percent, or 53 million, of AT&T's postpaid phone subscribers had smartphones, up from 72 percent, or 48.3 million, a year earlier. Fully 57 percent of those smartphones were LTE capable.

During the quarter, AT&T launched a number of promotions to get customers over to its Mobile Share plans and in turn AT&T added over 1.1 million smartphones. The number of Mobile Share plans tripled due to those deals, with nearly half of the company's postpaid accounts now on 10GB or more.

"We are very pleased with the take rate, customers seem to like it," Stephens said in reference to the Next upgrades, adding that the quick migration to the program had pressured margins.

Stephens said AT&T would consider phasing out subsidies but added that the first concern was that too many customers still prefer that model.

When asked about the company's potential participation in the upcoming incentive auctions, Stephens said AT&T would like to participate in the auction but he also said AT&T's recent acquisition of Leap put the carrier in a good place as far as spectrum is concerned, possibly alluding to AT&T's recent suggestion that it may walk away from the auction if the FCC puts limits on how the larger carriers can participate.

AT&T's total wireless subscribers increased by 1,062,000 in the first quarter, which included 625,000 postpaid customer additions and 693,000 connected devices.

First-quarter wireless operating expenses totaled \$12.8 billion, up 6.6 percent versus the year-earlier quarter, and wireless operating income was \$5.1 billion, up 8.1 percent year over year. Total wireless revenues, which include equipment sales, were up 7 percent annually to \$17.9 billion. Wireless service revenues increased 2.2 percent in the first quarter to \$15.4 billion.

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Published on Wireless Week (<http://www.wirelessweek.com>)

AT&T reported overall earnings of \$0.71 per share, which beat analyst expectations. Overall revenue was up 3.5 percent annually to \$32.4 billion.

Shares of AT&T were down a little over two percent in after-market trading to \$35.55.

Source URL (retrieved on 01/31/2015 - 8:22am):

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