Tablets, cars drive AT&T wireless gains—not phones (Update)

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In this Tuesday, Oct. 21, 2014 photo, people pass an AT&T store, in New York's Times Square. AT&T reports quarterly financial results on Wednesday, Oct. 22, 2014. (AP Photo/Richard Drew)

AT&T said it gained 2 million wireless subscribers in the latest quarter, but most were from cheaper non-phone services such as tablets and Internet-connected cars. The nation's second-largest wireless carrier is facing pricing pressure from smaller rivals T-Mobile and Sprint in a competitive environment in which most Americans already have a cellphone.

The company's third-quarter earnings and revenue slightly missed expectations, and it cut its revenue outlook for the full year on Wednesday.

It didn't lose many customers—its turnover rate, or churn, for postpaid accounts was less than 1 percent, AT&T's best for a third quarter. Postpaid customers are the ones with better credit and stay with carriers longer, sometimes with contracts. But of the net 2 million subscribers added, most were for tablets or other non-phone services such as cars. Those plans aren't as lucrative for AT&T as smartphone customers.

Also, AT&T is trying to wean customers off equipment subsidies and shift them toward installment plans in which they ultimately pay full price for a phone—$650 for an iPhone 6, for instance, compared with $200 under subsidy pricing. That shift means it books less service revenue in the short term, as the company offers monthly discounts of $15 or $25 per phone.

AT&T Inc. added over 500,000 car data plans, thanks to the Internet connectivity included in many 2015 models that went on sale in recent months. It added 342,000 tablet customers and 466,000 smartphone customers, including existing customers upgrading from basic phones. On tablets, AT&T said it is seeing a shift toward postpaid plans, which will mean revenue stability in the long run. Previously, many customers turned on service for just a month here and there, depending on their immediate needs.

AT&T's larger rival, No. 1 carrier Verizon, is also seeing growth in tablets. On Tuesday, the company said it added 1.1 million postpaid tablets in the quarter, compared with 457,000 postpaid phones.

The rise of tablets and other devices gives wireless carriers additional revenue sources. For instance, adding a tablet to a phone plan means an additional $10 in monthly service fees. Although that's less than the $15 to $40 that AT&T gets for a new phone, the company doesn't have to subsidize the cost of the tablet, the way it often does when customers buy a new phone under a two-year contract.

But phones remain the most important part of AT&T's business. The company is hoping to boost revenue by pushing people into larger data plans. AT&T will also get revenue for the phones over the life of the installment agreement. There is one snag: AT&T has been attracting a significant number of customers who bring their own devices, such as using an old phone from a family member who has upgraded. AT&T gets no equipment revenue from that—though it doesn't have equipment costs either.

In the landline business, AT&T said it added 601,000 U-verse Internet customers and 216,000 U-verse TV subscribers in the third quarter.

For the third quarter, AT&T said earnings fell to $3 billion, or 58 cents per share. Adjusting for one-time costs, earnings came to 63 cents per share, falling short of the 64 cents expected by analysts surveyed by Zacks Investment Research. AT&T said revenue rose 2 percent to $32.96 billion in the period, also below the $33.25 billion expected.

A year ago, AT&T earned 72 cents per share on revenue of $32.16 billion.

The Dallas company trimmed its outlook for full-year revenue growth to a range of 3 percent to 4 percent, compared with about 5 percent as previously forecast.

Separately Wednesday, the Federal Communications Commission halted its review of AT&T's planned takeover of satellite television provider DirecTV, as well as the merger of Comcast Corp. and Time Warner Cable Inc. The agency said companies had objected to the release of confidential information, for competitive reasons, and want more time.

On a conference call with analysts, Chief Financial Officer John Stephens said he still expects to be able to get the deal approved and closed by the first half of next year.

Shares of the company shed 50 cents to $34 in after-hours trading, having closed at $34.50 before the results were released. The stock is down 2 percent in the last 12 months.