

# Big costs drag AT&T to 4Q loss, but revenue up 4 percent

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In this Oct. 21, 2014 photo, people pass an AT&T store in New York's Times Square. AT&T reports quarterly financial results on Tuesday, Jan. 27, 2015. (AP Photo/Richard Drew)

AT&T booked a nearly \$4 billion loss for the fourth quarter because of a slew of one-time expenses that included a loss on benefit plans, but its revenue grew 4 percent to top expectations.

The nation's second-largest wireless carrier added 1.9 million wireless

subscribers—twice as many as in the year-ago quarter. Postpaid "churn," or subscriber turnover rate, rose only slightly to 1.22 percent from 1.11 percent in the year-ago period, which was the best ever for a fourth quarter, the company said. Postpaid customers are generally those with better credit who stay with carriers longer, sometimes with contracts.

In its landline business, AT&T added 405,000 U-verse high speed Internet subscribers to bring the total to 12 million. It also added 73,000 U-verse TV subscribers.

Overall, revenue grew to \$34.44 billion from \$33.16 billion, helped by an 8 percent jump in wireless revenue. The company posted a loss of \$3.98 billion, or 77 cents per share, for the final three months of 2014. Excluding multiple one-time items, it earned 55 cents per share. The average estimate of analysts surveyed by Zacks Investment Research was for earnings of 55 cents per share and revenue of \$34.26 billion.

AT&T Inc. is facing pricing pressure from smaller rivals T-Mobile and Sprint in a competitive environment in which most Americans already have a cellphone. To keep growing, AT&T is looking at beyond cellphones—to tablets and connected cars, for example. It is also working to expand overseas. The company announced this week that it is buying Nextel Mexico from NII Holdings for about \$1.88 billion, minus the company's debt.

The deal, expected to close in mid-2015, will give AT&T companies that operate under the name Nextel Mexico and hold all of the wireless properties in Mexico held by NII Holdings Inc. That includes spectrum licenses, network assets, retail stores and about 3 million subscribers. AT&T has also agreed to buy DirecTV and CEO Randall Stephenson said in a statement that the two transactions "will make us a very different company."

The rise of tablets and other connected devices gives wireless carriers additional revenue sources. For example, 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.

At the same time, Dallas-based 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 example, 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.

Shares rose 54 cents or less than 2 percent in aftermarket trading following the report. As of Tuesday's market close of \$32.81, AT&T's stock is down about 2 percent since the start of the year. In comparison, the Standard & Poor's 500 index is just about flat. Over the past 12 months, AT&T's shares lost less than 2 percent of their value, while the S&P 500 has gained 15.5 percent.

AT&T reported full-year revenue was \$132.45 billion, up 3 percent from a year earlier. In October, the 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.

The company said it expects revenue and adjusted earnings per share to grow in 2015 and will update guidance once the DirecTV deal is completed.

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