OVERVIEW:
Co. reported 1Q18 consolidated revenue, excluding certain items, of $29.9b and GAAP EPS of $1.11.
Good morning and welcome to the Verizon first-quarter 2018 earnings conference call. (Operator Instructions). Today’s conference is being recorded. If you have any objections you may disconnect at this time. It is now my pleasure to turn the call over to your host, Mr. Brady Connor, Senior Vice President, Investor Relations.

Brady Connor - Verizon Communications Inc. - SVP of IR

Thanks, Brad. Good morning and welcome to our first-quarter earnings conference call. This is Brady Connor and I am here with Matt Ellis, our Executive Vice President and Chief Financial Officer.

As a reminder, our earnings release, financial and operating information and the presentation slides are available on our Investor Relations website. A replay and a transcript of this call will also be made available on our website.

Before I get started I would like to draw your attention to our Safe Harbor statement on slide 2. Information in this presentation contains statements about expected future events and financial results that are forward-looking and subject to risks and uncertainties. Discussion of factors that may affect future results is contained in Verizon's filings with the SEC which are available on our website.

This presentation contains certain non-GAAP financial measures. Reconciliations of these non-GAAP measures to the most directly comparable GAAP measures are included in the financial materials we have posted on our website. The quarterly growth rates disclosed in our presentation slides and during our formal remarks are on a year-over-year basis unless otherwise noted as sequential.

As of January 1, 2018 we adopted new accounting standards that will impact the way we record certain transactions going forward and some that will require a recast of historical information. These new standards include: ASC 606 for revenue recognition; changes related to the presentation
of pension items on the income statement; and updates for the cash flow reporting of restricted cash and collection of receivables with off-balance-sheet securitizations.

We plan to recast the 2017 Form 10-K following the filing of our first-quarter 2018 Form 10-Q to address the adoption of the pension and cash flow reporting standards that require retrospective treatment.

Before Matt goes through results I would like to walk through a few items. For the first quarter 2018 we reported earnings of $1.11 per share on a GAAP basis. These reported results include a few special items that I would like to highlight.

Our reported first-quarter earnings include an early debt redemption charge of about $249 million and roughly $107 million of acquisition and integration costs primarily related to Oath. The net impact of these items after tax was approximately $266 million or $0.06 per share.

Excluding the effect of these special items, adjusted earnings per share was $1.17 in the first quarter compared to $0.95 a year ago. Included in the difference is approximately $0.21 due to the net effects of tax reform and the adoption of the revenue recognition standard. On a comparable basis adjusted earnings per share, before the impacts of tax reform and revenue recognition, was up 1.1% year-over-year.

Next I would like to discuss the revenue recognition standard impact on our results. In order to provide additional clarity regarding the impact of the revenue recognition standard on our quarterly results, we've included the table on slide 4 that illustrates the effect across the business.

The impact of the revenue recognition standard resulted in a reduction of wireless service revenue offset by an increase in wireless equipment revenue, as well as the deferral of commission expense in both our wireless and wireline segments. For the remainder of this call we will discuss results excluding the impact of the accounting change to provide clear comparability with prior periods unless otherwise noted.

With that I will now turn the call over to Matt.

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Thanks, Brady. Good morning, everyone, and thank you for joining us today. Let me start with a recap of our priorities for 2018 which we laid out earlier this year. We are laser focused on executing on the fundamentals, positioning the business for future growth and delivering sustainable financial performance for long-term value creation.

We are enhancing our network leadership position, strengthening our customer relationships and driving efficiencies throughout the business. The cornerstone of our strategy is to provide customers with the best network and user experience as reflected by our strong customer loyalty. We have again been recognized by RootMetrics as the best overall network outright for reliability, speed, data and core performance for the 9th straight reporting period.

As streaming video has become the primary driver of data usage, Verizon stands alone in providing the leading performance of video delivery. Recently our wireless network was recognized by another third-party as having the best video success rate and the largest percentage of video streaming in high definition across the industry.

Through our investments in spectrum, including millimeter wave, deployments of dense fiber network architecture and expansion of software defined networking capabilities, Verizon remains the clear leader in 4G and has the assets to provide the broadest, fastest and most advanced next-generation network in the world.

The demand for our fiber-based products continues to accelerate and our Intelligent Edge network design gives us the ability to meet customer needs for broadband and mobility services in an environment where quality of connection matters more now than ever before.

In addition, the evolution of our Intelligent Edge network architecture provides the flexibility and efficiencies to offer increased capacity and throughput, low latency, unmatched reliability and enhanced speeds.
We have started the year with strong momentum and have delivered solid financial performance including consolidated revenue growth led by continued progress in the wireless business. It has now been a full year since we launched our original unlimited plans and the offerings have evolved to provide value and choice for customers. We will continue to mold our compelling value proposition and provide the quality of network and user experience that customers demand.

In an unlimited wireless world we are driving revenue accretion through increasing the number of customer relationships and deepening the participation within our existing base by adding more devices and services. In addition, we are pre-positioned in the network to further enhance wireless growth opportunities with next-generation technologies.

Our 5G deployment is progressing as planned. We are quickly approaching the initial launch of our residential broadband service later this year which will be the first use case of a broader 5G strategy. We are driving the ecosystem for future growth across the entire array of 5G services.

With regard to our Oath business, we are deepening the engagement with our user base, creating opportunities for further monetization in the future. Consolidated EBITDA increased as we leveraged our scale and drove operational efficiencies through business excellence initiatives. Our disciplined capital allocation model allowed us to strengthen the business while investing in our networks of future growth and long-term value creation.

Let's dig deeper into the first-quarter operating performance at the consolidated level followed by wireless and wireline results and our media and telematics businesses. Now on to slide 6.

Consolidated revenue was $29.9 billion, excluding the impact of Oath and divested businesses, an increase of approximately 3.2%. The primary driver was solid performance in the wireless business with improved service revenue results as customers enjoyed unlimited access on the nation's best wireless network. We are on track to deliver low single-digit percentage consolidated revenue growth on a reported basis for the full year 2018.

On a consolidated basis, excluding special items, first-quarter adjusted EBITDA margin was 35.8%, which was down 70 basis points due to higher wireless equipment revenue and the inclusion of Yahoo! in this year's results. Adjusted EBITDA increased by $0.5 billion due to steady improvement in operational efficiencies and increased penetration across our high-quality customer base. With that we are on track to realize low single-digit percentage growth in adjusted EPS in 2018 before the impact of tax reform and revenue recognition.

Let's turn now to slide 7 to review cash flow results and the balance sheet. In the first quarter cash flow from operations totaled $6.6 billion, up $5.3 billion from last year. This was primarily driven by stronger operational results, lower discretionary pension contributions and, as we have previously communicated, the reduction of working capital headwinds from the completion of the device payment plan portfolio transition from off-balance-sheet to on balance sheet financing.

As part of our commitment to strengthening the balance sheet and providing financial flexibility to grow the business, we made a discretionary pension contribution of $1.0 billion to improve the funded status of our pension plans. As a result we do not project to have any mandatory pension contributions until approximately 2026.

Total capital expenditures were $4.6 billion in the first quarter, up $1.5 billion over the prior year. We maintain our 2018 guidance range for capital expenditures of $17.0 billion to $17.8 billion. We expect capital expenditures to be more evenly distributed throughout 2018 than in previous years.

Free cash flow for the quarter totaled $2.1 billion, up $3.8 billion. We ended the quarter with $119.1 billion of total debt comprised of $109.0 billion of unsecured debt and $10.1 billion of on balance sheet securitizations. Total debt was up $2.5 billion year-over-year primarily due to an increase in our asset backed borrowings of $3.8 billion. The total debt balance is expected to decline as we begin to realize the cash benefits of tax reform later this year.

Now let's move into reviews of the operating segments starting with wireless on slide 8. Total wireless operating revenue increased 4.7% to $21.9 billion in the first quarter. Service revenue performance produced solid results in the quarter driven by customer step ups to higher access plans,
the quality of our overall customer experience and value proposition, as well as our measured approach to promotional activity in a highly competitive environment.

On May 8 of last year we used the chart on the lower half of the slide to communicate the impact of unlimited on service revenue trajectory and our expectations for future trends to improve. We are pleased to report that service revenue for the quarter was flat versus the prior year. We saw a year-over-year improvement throughout the quarter with service revenue turning positive in the month of March.

We now have 81% of our postpaid phone base on unsubsidized plans compared to 72% for the same period last year. On a reported basis, including the revenue recognition standard, service revenue was down 2.4%. We expect the momentum in the service revenue trajectory to continue and we are on track for growth to turn positive on a reported basis around the end of the year.

Equipment revenue increased 22.1% driven by the mix of high-priced handsets and increased activations. Approximately 49% of postpaid phone customers had an outstanding device payment plan balance at the end of the quarter, similar to last year. Our wireless EBITDA margin as a percent of total revenue was 46.3%. This represents an improvement of 120 basis points driven by the strength of our service revenue results and ongoing focus on operational excellence throughout the business.

Let’s now turn to slide 9 and take a closer look at wireless operating metrics. First quarter is seasonally the lowest volume period of the year coming off of the holiday retail season. Overall we gained 260,000 postpaid net adds consisting of phone losses of 24,000 and tablet losses of 75,000 offset by 359,000 other connected devices, primarily wearables.

Smart phone net additions for the quarter were 220,000 as customers look to connect their sophisticated devices to the best wireless network in the US. Our unlimited offerings continue to provide a compelling value and overall customer experience that has led to postpaid phone churn of 0.80% for the quarter. This represents the fourth consecutive quarter of customer retention at 0.80% or better.

Total retail postpaid churn of 1.04% decreased year-over-year. Total postpaid device activations were 2.3% higher than the prior year of which about 80% were phones. In a seasonally low quarter we had 5.0% of our retail postpaid base upgrade to a new device, down from 5.2%. During the quarter 77% of phone activations were on device payment plans. Prepaid activity in the quarter reflected a total net loss of 335,000 devices of which 261,000 were basic phone losses.

Let’s move next to our wireline segment on slide 10. Total operating revenues for the wireline segment decreased 1.8% for the quarter as growth from our high-quality fiber-based products was more than offset by secular pressures from legacy technology shifts, trends from cord cutting and pricing pressures in a highly competitive environment.

Consumer markets revenue decreased 1.7% primarily driven by legacy core revenue declines. Fios consumer revenue increased 1.2% driven by the growing demand for high-quality broadband service. The mix shift away from triple play bundles pressured revenue trends, but the margin impact was largely offset by the corresponding reduction in content expenditures.

We added 66,000 Fios Internet customers on the strength of our high-speed fiber offerings as customers seek the best broadband experience. Fios Video losses of 22,000 were indicative of the continued secular trend for cord cutting on the traditional linear video bundle.

Excluding the XO acquisition, enterprise solutions revenue decreased 4.2% in the quarter driven primarily by declines in legacy products and pricing pressure in the market that more than offset growth in demand for fiber-based services. On a constant currency basis the year-over-year decline was 5.7%.

Partner solutions revenue decreased 0.4% without XO. We see fiber demand as the main driver for future growth opportunities within this segment. In business markets revenue declined 5.7% without XO. We have good trajectory with our fiber-based services but these are offset by declines in legacy products.
Wireline segment EBITDA margin was 20.4%. We continue to benefit from operational efficiency gains, but steady increases in content costs and secular pressures within legacy technologies remain headwinds.

Let’s now move on to slide 11 to discuss our media and IOT businesses. The integration of the Oath assets is progressing well, accelerating our mobile first strategy and positioning us at global reach and future growth in premium content distribution and programmatic advertising capabilities across our key verticals.

As expected, Oath gross revenue decreased sequentially about 13% from the fourth quarter to $1.9 billion due to seasonally lower display advertising volumes. Our organizational integration was largely completed in 2017 and the focus in 2018 has now shifted to streamlining platforms and products, unlocking cost and revenue synergies on the way.

During the quarter we achieved a full integration of the legacy AOL and Yahoo! video supply side platforms into a unified platform and go-to-market strategy. This positions the business for future growth as we establish our role as a value-added partner for advertising customers.

In the telematics business, as part of the ongoing integration of the Fleetmatics and Telogis acquisitions, we have created the new Verizon Connect organization. Total Verizon Connect revenue was $234 million in the first quarter. Total IOT revenue, including Verizon Connect, was up approximately 13%.

Let’s now move to slide 12 to review our strategy for future growth. We are confident in our strategy of laying the foundation for future growth while maintaining a strong leadership position in 4G LTE coverage, reliability and capacity. The execution model remains unchanged in terms of delivering strong financial results, allocating capital to position the business for future growth while strengthening our balance sheet and returning long-term value to our shareholders.

Our wireless value proposition is allowing more and more customers to experience unlimited service on the best network in the United States. We exited the quarter with strong momentum and produced operational and financial performance in a highly competitive environment while investing in all our businesses and driving cost efficiencies.

Last year we announced our goal to drive $10 billion in cumulative cash savings throughout the business over the next four years. Our business excellence initiative, which includes implementing zero-based budgeting, has already yielded positive results in the first quarter, realizing approximately $200 million of savings through process improvements, work streamlining and automation. The program is on track to deliver against our goals over the four-year period.

In addition to the operational improvements in the business, the benefits from corporate tax reform will be realized throughout the remainder of the year, which will provide additional flexibility and enable us to execute on our commitment of strengthening the balance sheet. We are repositioning our networks with fiber infrastructure, spectrum resources and the rollout of our Verizon Intelligent Edge Network architecture.

We are excited about the initial commercial launch of our 5G residential broadband offering later this year as the first slice of a multi-use asset. We are on the forefront of innovation that will drive the full suite of services and use cases that will be delivered by 5G technologies.

We have successfully completed our 11 city 5G pre-commercial trials where we demonstrated propagation over 2,000 feet from the node on millimeter wave spectrum. We have moved into the commercial deployment phase for the residential broadband launch in the second half of this year.

Deployment of commercial nodes on our own fiber asset is underway in the initial markets. And earlier this month we performed successful end-to-end 5G data sessions in these locations using commercial equipment that will be deployed in the launch later this year.

The ecosystem for 5G is progressing with advancements being realized around global standards and technology developments. Progress is being made at the state and city level to drive sustainable economics around cell site deployment creating the pathway to better serving their communities.
Millimeter wave spectrum enables a whole new array of services that will be delivered through ultra-wideband 5G technologies. We are well positioned to take advantage of the growth opportunities that 5G has to offer.

With that I will turn the call back over to Brady so we can get to your questions.

\[\text{Brady Connor} - \text{Verizon Communications Inc.} - \text{SVP of IR}\]

Thank you, Matt. Brad, we are now ready to take questions.

\[\text{QUESTIONS AND ANSWERS}\]

\[\text{Operator}\]


\[\text{Simon Flannery} - \text{Morgan Stanley} - \text{Analyst}\]

I wanted to follow up on the 5G broadband rollout. When do you think you’ll give us more visibility about the three to five markets, the timeline around when you’re rolling that out, how many homes?

And then related questions, I think you said pre-standards. When do you think the standards-based CPE will be available so you can really scale this? And then finally, what’s your video strategy here? Are you going to have an OTT offering to the bundle with the broadband product? Thanks.

\[\text{Matt Ellis} - \text{Verizon Communications Inc.} - \text{EVP & CFO}\]

So, in terms of the timeline for the three to five markets, as we said earlier this year and when we made the announcement on November 29, all of those markets will launch in the second half of this year. So we announced that Sacramento will be one of those cities and the other cities we’ll announce as we get closer to launch date.

But we are very much on track with being in a position to launch each of those cities later this year. As I mentioned in the prepared remarks, we are in the process of deploying assets in each of those markets and look forward to bringing that service to consumers in those markets in 2018.

As you mentioned, the launch this year will be on our proprietary standard and this gives us the opportunity to get a product out in the market before others and to demonstrate that millimeter wave does exactly the things that we’ve said it does. But obviously over time we want to move to the standards-based CPE. And we expect to be getting that CPE based off of the NR standard probably in 2019.

Look, what I would say is the network is being prepositioned to be able to launch 5G as soon as customer equipment is ready. Whether that be in-home CPE for residential broadband or whether that be handsets for 5G mobility, we will be ready as soon as equipment is ready on the global standard.

And then your final question was around a video strategy for the residential broadband launch. So that’s – we’ve got that underway. We continue to look at OTT options and, as we’ve said previously, we are not looking to launch a me too product, but certainly expect to have an overall product offering to consumers in those three to five markets that will be compelling and meet their needs.
Philip Cusick - JPMorgan - Analyst

I wonder if I can follow up first on my question from January about your target leverage. Has the Company come up with a way to think about leverage under the new tax regime, especially with no cash pension obligations for the next eight years?

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes, so, Phil, we continue to look at our goal to improve leverage and really get back to that pre-Vodafone credit rating. And we have had plenty of conversations with the rating agencies around that and how our leverage looks in a post tax reform world.

But look, we are in a great position. As we demonstrated this quarter, we grew the EBITDA side of the business. And then as we talked about, as the benefits of tax reform kick in from a cash basis later this year, we'll see improvements in the debt side of it. So we are on track to improve the leverage and look forward to in the not too distant future to be having that conversation with the agencies about the timing of being in a position to get us back to where we want.

But I think if you look historically where our leverage ratios were on an adjusted basis when you adjust for the Cellco ownership, you have a fair idea of where we're trying to get to. So there's a few points of turn to go but not a massive amount.

Philip Cusick - JPMorgan - Analyst

Okay. And if I can follow up on Simon's question as well. If some carriers and vendors are pulling back from 5G, how has Verizon's thinking evolved on 5G this year?

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes, we continue to be very excited about the opportunities that 5G has. I don't think in the US we've seen people pulling back from 5G at all. In fact, I think you've seen a lot of very bullish commentary. So we will be launching the residential broadband later this year. We are on track with that.

Certainly happy to have the assets in place to do that, whether that be what we've done with the network over the past few years as we have densified the network, putting more fiber out there, which really prepositions us to deploy 5G. Gaining the 28 and 39 GHz spectrum that puts us in a position to be ready to deploy when the equipment is ready from the OEMs.

So, we are very bullish about 5G. We think there's tremendous upside whether that be residential broadband, whether it be mobility. And really the most exciting piece is as you get into the new use cases that don't exist on the current technologies around IoT, B2B type applications. So we are full steam ahead on our 5G deployment.

Operator

Brett Feldman, Goldman Sachs.
I'm actually going to follow up on what you were just discussing. When we talk to investors about 5G and we talk about the fixed use case, I think they all understand the addressable market and it's just a matter of how effective the product is going to be.

But when we talk about mobility -- and, as you noted, many of these use cases don't exist yet -- are you comfortable accelerating capital investment into developing a mobile 5G network without visibility on those use cases? And if not, is there going to be a point where we might see an inflection in CapEx higher where you see that forming?

So, I don't see us having a massive acceleration in CapEx. As you heard, we reiterated our guidance for 2018. That guidance of $17.0 billion to $17.8 billion is the same range of actual spending we've had over the past four years. So what investors should have grown accustomed to seeing from Verizon is consistent total capital spend on a disciplined and methodical manner, but the items within that spend evolve over time as the technologies evolve.

So this year we've already started spend on 5G. The spend on those three to five initial launch cities began earlier this year, so that's ongoing. You should expect to see spend in additional cities be underway by the end of the year so that we are in a position to launch additional geographies in 2019. But that's within our current CapEx guidance.

And as we look forward we continue to believe that we can deploy the network within the typical range. If we see an opportunity to accelerate because of the market we're not afraid to do so, but it will be based off our view of the opportunity we have in the marketplace.

But this really comes back to the design of the network over the past few years. By densifying the 4G network we've put a lot of the infrastructure in place that we need to deploy 5G especially using millimeter wave spectrum. So, we don't see this as being a massive uptick. This is not the same thing as when we adopted 4G and went from a CDMA based 3G network to the 4G LTE network. This is a very different network rollout and I think you'll see that in the CapEx as we go forward.

So look, you mentioned the different revenue buckets. We are very comfortable that certainly the mobility bucket gives us the opportunity to deepen our relationship with our existing customer base and look to grow that base. Residential broadband is an existing market that we have opportunity to grow share in.

And then the new use cases at lower latency and higher throughput and the ability to connect many, many more devices to each individual node will create significant upside as well. But this is a multi-use asset that we think will have a strong return over time.

And just to be clear, your comment about capital intensity during your 5G upgrade, you were referring to both the fixed and mobile components of it? That was not unique to the fixed employment?

It's the same deployment. I mean, we're not building a 5G network for residential broadband and then a different 5G network for mobility. We are deploying a 5G network that will have multiple revenue streams off of it. So we are very excited about the ability to do that. And in addition to having multiple revenue streams, we are using a lot of existing assets we have in the field already today.
Matt, obviously a lot of changes going on in the media space. And one of your largest competitors, AT&T, is investing in traditional media assets while you guys have focused more on new media platforms. Are you seeing anything that would change your view on that approach or any value created by combining through your distribution assets with what you see in the traditional media world? And has your guys' thinking on that evolved over time? Thanks.

John Hodulik
- UBS - Analyst

Yes, I mean certainly it has evolved over time, but it’s very consistent with what we said earlier this year. At this point in time, as we look at the ecosystem, we are very comfortable with the approach of making sure we have distribution rights to digital content. And you saw that with the NFL deal, the NBA deal, and I would expect to see us continue to add to that portfolio of digital rights to distribute across various Yahoo! platforms, Oath platforms as we go forward.

So look, the content space is evolving rapidly and we think the best approach for us at this point in time is to be that independent distributor of rights out there. And we’re very comfortable that we will be very effective doing that. So no major change in terms of our approach from when we spoke on the earnings call 90 days ago.

John Hodulik
- UBS - Analyst

Okay, but just a quick follow-up. But the possibility of you guys making a more profound investment in traditional media assets like networks, whether they be cable networks or broadcast networks, should we think of that is still off the table or subject to change as we see things evolve in the media landscape?

Matt Ellis
- Verizon Communications Inc. - EVP & CFO

Yes, I would certainly say not at this time. When we look at the landscape out there it is evolving very fast. And I’m not going to say never on anything, but when I look at it right now in the foreseeable future I don't see that being the right time to jump in.

So we are pursuing a strategy that we’ve discussed. We are going to continue to add content to the Oath platforms, bring some of that content across our other distribution, whether that is wireless or Fios. And we think there is significant runway to that strategy and we will continue to monitor the broader ecosystem.

Michael Rollins
- Citigroup - Analyst

Just two if I could. First, just cost-cutting that the $10 billion program generated about $200 million so far. Can you discuss the pacing of cost-cutting prospects for the balance of 2018?
And also it's been about a year since you (technical difficulty) unlimited. Can you discuss what the current consumption of data traffic (technical difficulty) smartphone and how you keep (technical difficulty) of the network?

**Brady Connor - Verizon Communications Inc. - SVP of IR**

Hey, Mike, you were breaking up in the last part of that question. I think you were talking about unlimited and data consumption. Can you clarify that back part?

**Michael Rollins - Citigroup - Analyst**

Yes, if you could just talk about the consumption of smart phone users and how it's impacting network quality.

**Matt Ellis - Verizon Communications Inc. - EVP & CFO**

Yes, absolutely. So look, I will tell you we have seen significant increase in data usage as we move to unlimited, as expected. We also saw a change in where that usage was taking place as the busy hour of the day changed and also the geography where that changed. So we've seen that increase level off. We are still seeing year-over-year increases but not the same levels that we saw after we launched unlimited and it's got back to more normal growth rates.

But you asked about what we are seeing in terms of quality across the network. And I'd just come back to all of the data that we use ourselves from testing our network and others out there and then what we see from third parties. And our network continues to be the standard by which all others are measured. And that has continued to be the case even after we launched 5G.

So when we launched 5G we said we had spent a good amount of time making sure the network was ready for it. I believe the performance over the past 12 months has demonstrated the fantastic job that our network team has done, meaning that as we moved into an unlimited world and we saw data usage increase, we continue to deliver the high quality of service that people expect from us. So I expect that to fully continue. But the network is performing incredibly well and we continue to add capacity, and so we are in great shape there.

Your first question around cost-cutting, so $200 million approximately so far this year. And as we continue to move forward we all have additional savings kick in as well. Certainly the ones that require deeper amount of process change will come in later in the course of the program than some of the other ones. But you should see it more backend loaded.

I think it will be reasonably even throughout 2018 and then you'll see some of the structural changes kick into a greater degree over the back half of the four-year program. But we are very encouraged by what we've seen so far, but we're really just starting and there's a long way to go.

**David Barden, Bank of America.**

David Barden - BofA Merrill Lynch - Analyst

I guess the first one, just another cadence question, Matt. I guess last quarter you gave us the heads up about the seasonal weakness in the Oath business in the first quarter. And I think relative to wireless EBITDA outperformance and wireline EBITDA kind of in line, it seems like Oath and related corporate initiatives were maybe a little bit of a weak spot. Could you paint the picture for how that relatively sizable segment now might track over the course of the rest of 2018?
And I guess the second question would be related to the business market related aspects of tax reform. Have you been able to see any economic effect on your business business as a result of tax reform, kind of those conversations changing kind of the outlook brightening? Anything related to that would be helpful. Thanks.

Matt Ellis - Verizon Communications Inc. - EVP & CFO

So look, I'd like to tell you that I've seen a significant change in the level of demand from our enterprise customers. But look, it's really too early. I think if we look at it from our own IT department, they are not immediate because we've got tax reform turning around and doing significant changes in their IT spend and their telco spend. So we'll see if that picks up as the year goes on, but nothing significant in the trajectory so far in that group.

In terms of the cadence through the year, I think we said on the last call that we expected Oath to be down sequentially from 4Q to 1Q just with the seasonal change in advertising volumes. And we certainly saw that; the results came in as we expected.

So really from this point forward we should expect to see a sequential improvement from what we saw in first quarter really for two reasons. One, you just got the seasonality impact that builds throughout the year. And then secondly, we are getting the underlying platforms integrated between the legacy AOL, the legacy Yahoo! platforms, and so that when advertisers come into our business going forward they can come in through one platform rather than the multiple platforms they come through today.

So, as we get the rest of that integration work completed it will make us easier to do business with and we think that will show up in the results. But that's an ongoing exercise and I don't think we'll really start to see that until really the backend of the year. And so, as we head into 2019 the momentum should be significantly different than it is today. So hopefully that gives you a little insight there.

David Barden - BofA Merrill Lynch - Analyst

And if I could just do one quick follow-up, maybe related to John's question on media appetite. As you knit these two businesses together, the idea was to have the third biggest scale digital media platform in the world maybe. And do you feel like you've accomplished that goal and that you're getting the benefits of that scale? Or is incremental scale something that's necessary to really get you to the next level?

Matt Ellis - Verizon Communications Inc. - EVP & CFO

We have the scale today. That was why the Yahoo! acquisition made so much sense. It got us to being around 1 billion monthly active users. So now the challenge for the business is to deepen the relationship with those customers.

Look, if we grow the number of monthly active users that's great, I'd be very happy to do so. But the biggest opportunity for us is to deepen the relationship we have with those consumers. We do that by bringing additional compelling content such as NFL, NBA across those assets, and you saw what we did with those properties and more to come there.

And then once you use content like that to get them on the platform you have other content there that keeps them on the platform. And then when we keep them on the platform that gives us the opportunity to increase the attractiveness to our advertising partners. So you will see us focused on increasing engagement with the base that we have, but we have the scale that we need to be successful in that business.

Operator

Craig Moffett, MoffettNathanson.
Craig Moffett - MoffettNathanson LLC - Analyst

Matt, I know you talked about not a strong level of interest in media, but it was widely reported that you at least looked at it and put in a bid for the Fox asset. So I guess if I think about assets that are for sale, you were at least looking at Fox. It sounds as though there’s maybe some spectrum coming from -- whether Intelsat or Dish Network always out there. And then you’ve also talked about your balance sheet objectives.

Can you roll all that up for us and talk about how your priorities -- how you would rank your priorities across spectrum, other operating assets or balance sheet reductions? And then -- and just one quick nuance in that, your Fox bid was reportedly all stock. Would that suggest that you would not be willing to add leverage for a big acquisition?

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes, so look, I’m not going to comment on any specific M&A rumors. That’s not been our policy and I’m not going to start now. But let’s talk about content and M&A in general.

So, I’ve commented already this morning that we certainly are comfortable with the approach that we have around content across the Oath platforms and other parts of our business and we’re very focused on executing against that. M&A to us is a tool to help execute our strategy. If M&A allows us to accelerate the execution of our strategy at a value that provides a return it’s something we look at. But it has to be consistent with the strategy and it has to have value.

We don’t operate in a vacuum. Lowell and I have to be aware of activity and opportunities around us and we have an obligation to make sure we understand those. So, we keep an eye on everything going on in the ecosystem. But when we do M&A it’s because it fits with the strategy.

And if you look at the past year the only significant transactions we did, whether it was Yahoo, XO and Straight Path, they very clearly accelerate our strategy, whether that be around adding the necessary scale to our media assets, as we just talked about just a couple minutes ago, or pre-positioning our networks for being -- continuing the excellence in 4G world. And also being in a position to succeed in 5G, whether that’s adding fiber through XO or are adding the spectrum assets through XO and Straight Path. We put ourselves in a position where we can execute our strategy and compete and generate value for shareholders over the long-term.

So I wouldn’t necessarily want to prioritize what’s the most interesting thing for us to look at. We are very comfortable executing our strategy on a mostly organic basis. If the right opportunities come up we take a look at them. The vast majority of things we look at don’t create value and therefore we pass on them because that’s the responsible thing to do to create long-term value.

Strengthening the balance sheet is important to us, but positioning the business for long-term future growth that creates value for shareholders is also very important. And I think we’ve balanced those things very well over the past few years and I expect to continue to do so.

Operator

Jennifer Fritzsche, Wells Fargo.

Jennifer Fritzsche - Wells Fargo Securities - Analyst

Two if I may. Just on the service revenue guidance, you achieved it excluding the new accounting recognition ahead of schedule and I guess two questions. Why the guidance still for midyear? Could you continue to see it in the second quarter? And then secondly, is Comcast MVNO service revenue included in that line? I think some are wondering if that’s why we hit it ahead of schedule. Thanks.
Yes, let me answer the last one first. Yes, certainly our service revenue includes all service revenues related to connectivity to our network, whether that be our postpaid, whether that be prepaid or MVNO, those service revenues that we generate from operating the network. But I would not say that any of these pieces fit. And within the wholesale side of our business, in addition to the MSOs, obviously track phones, they are by far the biggest part of that business for us today.

But look, when you look at why we got there this quarter, I think it's predominantly because our postpaid business continues to do well. You see it continue to add 220,000 smart phones, the network continues to perform well, churn is very low and that is driving the service revenue trajectory as we described last year. We continue to add connections to our accounts, continue to deepen the relationship with our base and that allows us to continue to grow the postpaid component of service revenue.

Operator
Amir Rozwadowski, Barclays.

I was wondering if I could build upon Jennifer's prior question in terms of thinking about the cable operators. If we think about your guidance, what is your expectation around competition from the cable folks with regards to their wireless services?

And any sort of potential reciprocal competition that may come from some of the incumbent players? Just trying to get your understanding of the lay of the competitive landscape over the next several quarters as some of these services ramp.

Matt Ellis - Verizon Communications Inc. - EVP & CFO
Yes, so, look, as these services have started it's pretty much been as expected in terms of the volumes we've seen. So I would expect there to be continued competition in the marketplace. I think of some of the activity you saw in the first quarter as a result of that. And I think you saw that we had a disciplined approach to that activity in the quarter and you should expect that to continue.

We will be very focused on maintaining our high-quality base of customers and we will do the things that we need to in a responsible fashion to do so. But look, any time you add additional players to the space that has the opportunity to increase competitiveness, but that's baked into our plans for the year.

In the grand scheme of overall volumes the amount of activity coming from the new MVNOs is still relatively small and we would expect it to be that way. But look, as they get traction they'll bring in more traffic to our network that we can monetize as well. So, we are happy with that side of the equation too.

Amir Rozwadowski - Barclays Capital - Analyst
Thanks very much, Matt. And then, if I may, a quick follow-up in thinking about your 5G strategy. You folks have laid out a case in terms of the millimeter wave solution ramping better than anticipated from a tech perspective. And clearly your multiuse fiber infrastructure is creating a foundational layer to upgrade with lower capital intensity or without the requirement for accelerated capital intensity.

But how should we think about mobility? Is there a need for a coverage layer of spectrum -- an additional layer of spectrum in order to launch 5G from a mobility standpoint? And given some of the options available, whether it is 3.5 or any other option available, how should we think about your strategy to deploy mobility on 5G?
Matt Ellis - Verizon Communications Inc. - EVP & CFO

We can launch 5G mobility on our existing assets and -- but as we look forward, look, we have over our history continued to add spectrum to our overall portfolio. If there's opportunities to do so at a reasonable price we would certainly do so again, but we are comfortable that we can launch 5G mobility with the assets we have.

5G mobility will be initially very much heavily focused on urban areas and we have the assets in place there. And we will be ready to launch that as soon as the OEMs have handsets available with 5G chipsets in them.

Operator
Scott Goldman, Jefferies.

Scott Goldman - Jefferies LLC - Analyst

Just a follow-up to that question and one earlier as well. Matt, as you look at -- you've talked a lot in the past about your ability to meet capacity with the spectrum you have, as well as the incremental tools around MIMO and 256 QAM and so forth. But it looks as though we are heading for a couple years of maybe a few auctions coming out of the FCC in terms of millimeter wave, the CBRS, the C band.

Can you just talk about your potential level of interest in acquiring more millimeter wave on top of what you have already acquired through Straight Path and XO or perhaps those lower 3 GHz plus bands there?

And then just a follow-up on a question earlier. You talked a bit about the trajectory of Oath from a revenue perspective going forward and a bit about the scale there. Just wondering how we should think about what the margin profile of that revenue looks like both in 2018 and perhaps as you get two or three years out into that business. Thanks.

Matt Ellis - Verizon Communications Inc. - EVP & CFO

So look, we have participated in numerous spectrum auctions over the years and there's also been auctions that we've either chosen not to participate in or that we have participated only in certain areas such as the AWS3 auction. We are very comfortable with the spectrum assets that we own as we move into a 5G world, but at the right price spectrum is interesting.

But as you've seen on 4G, there are multiple ways for us to add capacity to our network. And whether that be densification, whether that be more spectrum, or whether that be deploying the evolving technologies, we take advantage of all of those things and we look to add capacity and overall the service that our customers get at the cheapest possible way. And over time that's evolved.

But we will certainly take a look at any auction that comes up. And if it makes sense for us to participate we will. And if it doesn't then, well, we have other avenues to continue to deploy our networks and meet the needs of our consumers.

On Oath, as you talk about the margin profile there, as they add to the revenue base we should see the margin profile of that business improve certainly in the latter part of this year and then as you get into 2019 and 2020.

But the capital intensity of that business is very different from our network businesses. And so you should expect a different margin profile there, certainly lower than you see within wireless. But when you net out the lower capital intensity with the margin profile the intent is to certainly have a compelling return on investment.
Operator

Mike McCormack, Guggenheim Securities.

Mike McCormack - Guggenheim Securities LLC - Analyst

Matt, just maybe a couple of follow-ups here. With respect to the competitive landscape, I know obviously you want to maintain your best customers, but what’s the overall philosophy on positive handset adds? How important is that to Verizon? And as you think about the next few quarters coming up, the appetite for you guys to get perhaps more promotional to get back to positive on that?

On the cable wireless stuff, and maybe you can't share much, but any sort of early takeaways on the type of customers that are opting into that? And anything you can share with respect to usage patterns would be great.

Matt Ellis - Verizon Communications Inc. - EVP & CFO

On the cable, the type of customers, I don't think we're seeing anything particular there in terms of being one type of customer or another. But I will let the cable guys give you more color on that as they see fit. The usage that we are seeing from those customers is as expected, so nothing significantly different from what we see from the rest of our base.

You asked about the competitive landscape and, look, so we had 220,000 positive smartphone adds. Phones overall were slightly negative, but that's not unusual for first quarter. We've seen that the past few years. And I think when you see the year as a whole you see that become positive as momentum builds through the year.

I see no reason to believe that this year will be any different. We will be measured and disciplined in terms of our promotional response to the marketplace, but we've been very successful at maintaining our base. You see the churn numbers, again, very strong four quarters in a row at 0.80 or better.

So we are maintaining our base, we deepen our relationships with our base in terms of the number of connections. And then we certainly look to add new accounts and I think we've been successful doing that. We have more accounts now than we had a year ago.

And when you are increasing the number of accounts and you're increasing the connectivity with existing accounts, that's a good approach. And we will continue to be focused on doing that, growing revenues and growing margin. So, nothing really changes in 2018 as we think about how we are going to approach the wireless market.

Mike McCormack - Guggenheim Securities LLC - Analyst

Just a quick follow-up on that percentage of customers that are on unsubsidized versus those that are making a phone payment, that delta continues to be pretty wide. But can you just give us a sense for how much of that is bring your own device versus proactive retention versus phones that are paid off?

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes, look, as you see the elongation in the ownership cycle you're going to see that the fact we have 81% of the base on unsubsidized pricing, but only about 49% have an active loan. As people pay off the device and they keep their devices longer than just two years I expect to see that delta in that number.
We've seen some level of BYOD, but that has leveled off over the past couple of quarters, but we expect that to continue to be part of that delta as well. But it's actually been a pretty stable relationship over the past two or three quarters as we've largely completed the transition of the base from subsidy to the device payment model.

Brady Connor - Verizon Communications Inc. - SVP of IR

That’s all the time we have for questions. Before we end the call I’d like to turn it back over to Matt for some closing comments.

Brady Connor - Verizon Communications Inc. - SVP of IR

Thanks, Brady. I’d like to close the call with a few key points. During the first quarter we achieved solid financial and operational performance in a competitive marketplace. We started the year with strong momentum in our business and expect that trend to continue as we progress throughout the year.

We remain confident in our strategy and priorities led by investing in our networks, creating platforms to further monetize data usage, maintaining a disciplined capital allocation model and creating value for our customers and shareholders.

We are positioning the Company for long-term growth and taking advantage of the full array of opportunities in the 5G era which is now upon us as we move into the next cycle of growth in the industry. We are confident in our ability to execute our strategy and focused on building the best network for the future to produce long-term value. Thank you for your time today.

Operator

Ladies and gentlemen, this does conclude the conference call for today. Thank you for your participation and for using Verizon conference services. You may now disconnect.