I think everyone has found their seat, so we can go ahead and start the webcast. Welcome to day 2 of Communacopia. I'm Brett Feldman, the firm's U.S. telecom and cable analyst. We're very excited to have Hans Vestberg at Communacopia for his first investor conference since assuming the role of CEO on August 1. And actually, I'm just going to double check. Have you guys started the webcast going? I don't see the clock going.

Hans Vestberg - Verizon Communications Inc. - CEO

That's my side.

Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst

Hold on, I'll make sure that we're actually live. I think -- there we are. Okay, all right. So we'll get started again. So Hans, welcome to Communacopia. As many of you know, prior to being at Verizon, he spent 6 years as the President and CEO of Ericsson and now he's here. And we're really excited about it. And I think you do have a slide, so I'll let you get to that.

Hans Vestberg - Verizon Communications Inc. - CEO

Yes, I'm going to read it from the (inaudible) -- no, before we kick it off, just mentioning the safe harbor statement. Whatever is going to be said here, we refer to that.

Questions and Answers

Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst

Sounds good. All right, so first question here, the U.S. communication sector is under going pretty significant transformation. Many of your peers are transitioning their businesses in order to be more focused on connectivity or entertainment or they're just trying to get bigger through M&A. And so the first question to you as Verizon's new CEO, what is Verizon's strategy?

Hans Vestberg - Verizon Communications Inc. - CEO

First of all, I think that for the ones knowing Verizon, and I know Verizon well and been around Verizon, we are not changing strategy that easily. We are disciplined in how we're doing our strategy. So in my case, I mean, I've been in the company right now, I think it's 12 to 18 months. I've been working together with Lowell McAdam and the executive team and the board on our strategy. And I think that we have a strategy that we think that is very important to us and we execute on. So I think that's the first statement because always when a new personality comes in, people believe it's going to be sort of a big change or things like that. But to be honest, I've been part of crafting the strategies that we have today. And I'm part of many of the decisions we have taken in the last 18 months and even though in what we have done before that. So I think that area is important.
If we then look at our strategy, I mean, we have our fundamentals. We have our network that we continue to enhance. We have our digital experience, our valued customers. Those are very important to us when we allocate capital and how we go forward. And then of course, we have both the content with Oath and the telematics and things on top of the network that we continue to build. I think that platform we are building. At the same time, we see growth opportunities in a couple of areas where we invest, of course, in the digital experience with our customers but more important 5G. And if you haven't noticed, this morning, you can actually order 5G from Verizon, which we're extremely proud of. And I remember I was here last year, not on this stage but talking about it. So a lot of execution on that side as well. So I think that's how we see our strategy and where we are in executing on the fundamentals. At the same time, being very disciplined in what we're doing, seeing growth opportunity in a couple of areas where we are allocating more capital, more resources at the moment.

Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst

So really the strategy you've been prosecuting the last few years under Lowell's leadership, that just continues under your leadership?

Hans Vestberg - Verizon Communications Inc. - CEO

Yes, it's continued and it's sort of enhanced -- or added to it. But it's based on the fundamentals. And of course, I came in some 18 months ago and I had one mission in life or one mission there at least. That was the 5G. So of course, that is a new addition to what we're doing because that opens up several new revenue avenues that we're pursuing at the moment. And I think that is an addition. But it's still in the sort of the direction of what is the strategy of Verizon.

Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst

As my next question is why 5G is so important to Verizon, and I guess the question would be how is it going to enable you to deliver new or better services, not just to consumers or individuals, which has always been your core market, but also to industrial customers?

Hans Vestberg - Verizon Communications Inc. - CEO

Yes. No, I think, first of all, we started to transform the whole network 1.5 years ago or maybe it was less, 1 year ago, where we basically created a network that was horizontal from the data center all throughout to the access. That of course, enabled us to have choices in front of a customer, depending on what type of access they need. That is sort of a fundamental piece of what we're doing right now because a lot of the things that we are investing in, fiber, unified transport, same routers, all the way in all of that, is enabling the new revenue opportunities on 5G. And basically, you can slope the mean to 3 launch areas. One is the mobility 5G, where we have a great customer base and a very important part of our overall business. And here, we want to see that we continue to delight our consumers on 5G mobility. Secondly is the fixed broadband wireless that we -- the 5G Home that we are launching this morning that we're taking order on right now, which is a new market for us, except that we have the Fios business in the Northeast, all others, new business, incremental. The third business case is very much built around the mobile edge, where basically you think about that many of the new currencies, the capacities of 5G, they will be enhanced in the mobile edge compute, where you can have low latency, enormous throughput, et cetera, which is very much well-served for enterprise solutions. So those are the 3. They come a little bit different in time because some of the sort of the software enhancements on the real-time enterprise, let's call it that, that's coming a little bit later in 2019 from a software point of view. So I see 3 venues. We're working with all 3 of them. The most important, it's the same network. It's the same software. It's the same everything all the way. So we basically just utilized the same investment 3 times. There's a reason why all the fixed wireless access sort of networks in the history always has failed because it's a separate network build from the data center to the access and only serving one purpose. We are doing a multipurpose network. That was the whole idea with the Verizon Intelligent Edge Network that we launched 1 year ago. That was a prelude to that. And if you think about our investment thesis, that's where we invest everything right now. And that's also the main part of the investment of 5G all the way up to the access.
Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst

There's a lot of questions from investors around the timelines for 5G. It sounds like everyone is going to be first. So let's get beyond who's first and talk about the...

Hans Vestberg - Verizon Communications Inc. - CEO

No. I think it's very clear we're first. I mean, you can -- we take orders. There's no one in the world that are going to take commercial orders and can access or deliver on 1st of October. There's no one. So we'll make that that clear.

Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst

Okay. Beyond being first to 5G, how do we think about a timeline for having a network that can serve all of your customers? You've always been nationwide. And then as you try to build it, we get a lot of questions around, "What are the obstacles? What are the zoning obstacles? What are the ecosystem obstacles you need to overcome to get there?"

Hans Vestberg - Verizon Communications Inc. - CEO

It's a multifaceted question with many, many different inputs. But this 5G Home that we're launching today is basically based on a proprietary software that we started 2 years ago. The main reason why we did it, we know that if you spin technology and learning earlier than others, you're going to have a much better product at the end. The other thing the reason the whole engineering team did this was, of course, that we pushed the whole ecosystem. When I worked at my previous job, I was listening 5G, maybe 2020. Here we are right now, we are launching our proprietary right now for this year. We're going to have 5G mobility and other things very soon as well. So we pushed it almost 2 years by doing this. I think those are very important. If you then come to when will sort of -- the NR, the 5G NR, which is the acronyms for it come, we are already acquiring equipment. I think that the bottlenecks, as we saw in 4G as well, is usually the handsets or whatever device is going to use the network. And as soon they're out, we're going to launch as well that. So I think that's how it works for the consumer point of view. On the enterprise part, that's going to take a little bit longer because many of the software features you need for the mobile edge compute is coming in the next release of 5G software, which is probably middle of next year.

Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst

And then in terms of being able to cover your whole footprint, is it 2020 timeline?

Hans Vestberg - Verizon Communications Inc. - CEO

Yes, I think that as soon as you get the software in the network, the network is 5G-enabled. But the question is do you have devices to use it? And I think that's more the question we should ask ourselves how quickly they will come. And the common understanding in the market is that chipsets will be somewhere in the middle of next year. We wouldn't -- I'm an impatient guy, I wouldn't be happy with that time frame. So we are pushing it to be much earlier. So let's see when it's going to be.

Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst

All right. So let's talk about the product you are now taking orders for, which is the 5G Home product. There continues to be, I think, some skepticism among investors about whether this product over millimeter wave spectrum is going to be competitive with the broadband leaders, mainly cable companies. So I'm curious, what did you learn during your trial that give you confidence, not just that it works, but that you're willing to put the Verizon brand on it? And as an extension of it, why do you think people are going to pick the product when they may already have a broadband option?
Hans Vestberg - Verizon Communications Inc. - CEO

Now what we learned and where had 11 cities that we trialed the equipment and the millimeter wave spectrum, but we saw the throughputs. We saw the distance of it. So that made our engineering team very confident that we can deliver a very good home experience. I think that was very important and remember now, we -- or the technology, they have been running tests on millimeter wave 2 years ahead of the rest of the world, of course, together with our partners, which are very important in it. So we have spinning. I came from the 4G era, for example. It took us 1 year to learn how you do or engineering radio planning on 4G. The same is for 5G millimeter wave. Here, we’re 2 years in. I think that is the confidence that the team has built on the trials. Now when we go commercial, we’re going to have the next sort of experience. And that’s going to be the in-home experience, all the way from the website to the app to the billing, how we make it simple for our customers. And I think our proposition should be, "Hey, you can have a cordless broadband at your home, it’s much simpler, quicker to install, the North Star for us is self-install, very simple, you have it at home and wherever you go."

Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst

Got it. You’ve talked about ultimately being able to make this service available to up to 30 million homes, which is obviously only a fraction of the country. Do you think that, that could be expanded over time?

Hans Vestberg - Verizon Communications Inc. - CEO

Yes, it can. But right now, that was sort of the North Star number we put out very early on in this process and we speak to it. I mean, we’re -- we have a very good execution team at Verizon. And when they do a number, they stick to it and they work with it. So we keep that. But of course, over time, if you stretch out time, there’s no reason why you cannot do it wider out. However, millimeter wave plays a very vital role in it. And millimeter wave, as you know, it’s a shorter distance. So it will not be for coverage. So then you can use other spectrums. And then you need to understand that when you have lower spectrum and less bandwidth, you’re going to get a little different throughput or lower throughput. If you are on very low ones, it’s very similar to 4G (inaudible).

Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst

And last question about the 5G Home product, as part of the launch, you’re giving away a few free months, which is kind of standard. But you’re also including some free content for a limited time. Do you feel like having content included in that offer is going to be essential to the success of the product? Or is this just something to get the ball rolling?

Hans Vestberg - Verizon Communications Inc. - CEO

I think we want to create optionality. And we want to use the competitive assets that Verizon has, that’s the network and our distribution. If we can get partners to hang on to that and making even better offering for our customers, that’s great. And that’s what we’re doing. And I think that we have a great network or a fantastic network. We have a distribution that no one else has. If we can partner with the best brands to make a better offer with customers, I think that’s a good strategy for us. That can even create value for us over time. So I think that’s a little bit different from all others. And as again everyone takes their different strategies, we have taken ours. We think that this one will serve us well with our discipline on the network, our distribution chain and having partners to offer to our customers.

Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst

Another common investor question, when we talk to them about your 5G strategy, is they say, "Well, this sounds expensive. Why does Verizon believe that they can essentially upgrade their entire network, launch a new product and do all of it within their current CapEx run rate?"
Hans Vestberg - Verizon Communications Inc. - CEO

Yes, I think that we have been working with our CapEx model the last 18 months and changed it dramatically. And I think that what we see right now is that we find efficiencies in the old CapEx. Remember also that a lot of the deployment we're doing right now is, of course, on 5G small cells. That's what we're bringing up. Macro towers, which was the predominantly old sort of mobile on 4G, it's much less on that. Secondly, a lot of the investment that you need to do for 5G, we're doing right now. I mean, that's the fiber. And we talked about it in our second quarter call that we're building fiber in 50 cities. That's inside the CapEx already this year. We are working with all municipalities to see that we get the right-of-way and seeing that we get the towers up we're doing on the small cells up. We are procuring equipment already on 5G. We have some that is already commercial. We have some that we are awaiting for devices. So a lot of that is already in there. And as you saw in our second quarter earnings, we guided to the lower range of our CapEx. And I would say if we talk our engineering team, it's not that we are constraining them. If they -- whatever they want to do, they're doing. We'll do more volume and equipment than we thought from the beginning of the year. But then we are at the low end of the CapEx. So that's where we are. So I'm confident about the team. We will come back on the guidance for 2019 later in the year as we always do. But I have seen great response from the whole team, all the way from business to engineering to rethink the model in the horizontal network in order to be more efficient but serve even better our customers.

Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst

I mean, you certainly have the cash flow and the liquidity to spend more if you wanted to do. So what might cause you to say, "You know what, there's merit to spending more sooner"? And then an extension of that question would there's merit to maybe acquiring assets. And are there assets out there that you think could be accretive? Because you have looked for some period of time at what could be available.

Hans Vestberg - Verizon Communications Inc. - CEO

So first of all, I think that you're absolute right. I mean, it's not like -- we couldn't spend more right now. I mean, in the CapEx, for example, I mean, I don't know where to spend. We are very disciplined on our ROIC. Having spiked in CapEx is usually very efficient because you ramp up all the organization down and up. I mean, it's very inefficient. We want to be disciplined. We want to see that we're doing it the right way. So that's one way part of the capital allocation. When it comes to acquisitions, I mean, if that was a broad question, in general, I see that the acquisitions, they should add to our strategy right now. Whatever we have done the last 18 months at least has all been close to the network. That's basically what we have been doing in order to enhance our strength as a company. So I'm confident with that. And I think it's the right way. And again, we haven't changed the strategy. I've been close to Lowell and the whole executive team and the board and we continue that way of execution.

Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst

It was on this stage last year that Lowell said the company had moved on from looking at certain types of acquisitions, particularly in the cable space. Is it fair to say that nothing has changed in the year?

Hans Vestberg - Verizon Communications Inc. - CEO

Nothing has changed in the year.

Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst

Okay. Sticking with the idea of assets, spectrum is obviously a very important asset to your business. And I feel like investors frequently debate the quality of your portfolio. You have a ton of spectrum, although the vast majority of it now is in the millimeter wave. The traditional mobile bands of sub-3 gigahertz bands, you do tend to have less per customer than your peers. But you will also have options to acquire more spectrum over the coming quarters and years. There's a range of things, like the millimeter wave auction, CBRS process. We might see somebody with the C-band.
How do you think about the need or interest in acquiring spectrum through those or other opportunities? And do you feel comfortable that your balance sheet could handle what you might need?

Hans Vestberg - Verizon Communications Inc. - CEO

First of all, we are happy with assets we have on spectrum. I would go back a little bit just you'll understand the thinking we have on -- because when we talk about spectrum, we talk actually about growth of data in a network. And that's the question you should ask, "How do we handle growth on the entire network?" Starting with unlimited, we started with unlimited as you all remember back in second quarter of '17 or first quarter, exactly when I came in, I remember. Two things that happened. First of all, you get the lift on the growth in the network quite -- pretty quickly because you've got a lot of new customers using that or more. After a while, then you come back to the same growth track that all of us have on a linear basis. So basically, we've got one bump and then it continues. That's number one. The second one was that, of course, the data use of the network became much better. Because usually you build the network for the peak hours. When we got unlimited, a lot of our customers, they actually started using the network on other times than we usually saw them using it on peak hours and also in other locations. You've got better uses on the network because the network is sometimes unutilized because it's a pipe and you cannot save spectrum load yet, at least to my knowledge. So that's what you have. And so when you think about all that, we think about 3 things all the time on data growth. One, you can buy spectrum. Two, you can densify the network, meaning putting in more radios, shorter between the cells. And three, you can put in new software in the network that's enhancing things like carrier aggregation, where you aggregate spectrum, et cetera. Those 3, you always sit and look, which is the best from a return on investment to do. And prior to I came in, for example, the AWS-3 auction, Verizon said, "No, we're not buying that expensive spectrum. It's smarter for us to densify, it's much better return on investment for making that data lot." So we will continue to do that sort of review. And they're coming out, spectrum, CBRS is something that we definitely are into trialing already, using. So we're going to continuously use that. But right now, we feel confident with the assets we have and the launch that we can do. But we will definitely be looking into all these auctions or whatever it might be to see, "Can this enhance how we can deliver our data throughputs?" But there's no short-term issue or something like that.

Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst

Got it. All right, so let's talk a little bit about the...

Hans Vestberg - Verizon Communications Inc. - CEO

It's a long answer, but it was an important question, sorry.

Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst

Good answer. All right, so let's talk a little bit about the business fundamentals right now. You recently reported pretty solid second quarter results. We saw your wireless service revenue grow 2.5%, which was the first year of -- first quarter of growth in more than 3 years. And you also added almost 200,000 phone subs, so all-in, pretty good. I think a lot of investors had assumed that the recent launch of wireless service by cable companies would have impaired your growth. And that was sort of, I think, the mindset that a lot of people, including us, had a year ago at this conference. So what's working? And then more importantly, do you think that this renewed momentum in your wireless business is sustainable, particularly into 2019?

Hans Vestberg - Verizon Communications Inc. - CEO

A couple of different questions in the question, I guess. First of all, we're happy with the partnership with the cable companies using -- doing MVNO with us. So I think that's a good business model for us. We have a great network. And hopefully, we're serving them well. So I think that's fine. I think that since the unlimited, I think that the whole wireless team under Ronan Dunne's leadership has actually started moving the needle quite a lot with a lot of new things that has been done the last 5 quarters, everything from Apple Music to mix-and-match, which you can actually choose...
your lines. I think that I have a confidence in them that they are on the ball every day, looking forward on what they can do. It's a very competitive market. There's no debate about that. But I'm encouraged what I've seen from the team and how they are working with this market and with our great customers. And there's more to be done. And they are working on it. And so it's not that we're sitting and waiting and 5G mobility will be the solution. We see that as a great opportunity. They need to work on the current environment right now. And I'm encouraged with what I've seen in the last 4, 5 quarters from them. So they have more in the pipe and they will continue to pump that pipe.

**Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst**

So you feel like you've got some durable momentum in the business right now?

**Hans Vestberg - Verizon Communications Inc. - CEO**

I think that they have a lot of activities ongoing in order to see that they manage the expectation from the market and from ourselves. However, it's always a market out in the competition. So I wouldn't say that it's going to be easy or not be respectful of my competitors. But I see that the team is working very well on it.

**Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst**

Okay. So some of your largest competitors in wireless and broadband are also among some of the largest media companies in the U.S. And all of your major wireless competitors are including free video and sometimes other content, like music, with their unlimited plans. And so the question really is what is Verizon's content strategy? And more specifically, do you need to own major media properties in order to offer a competitive bundle in wireless?

**Hans Vestberg - Verizon Communications Inc. - CEO**

We own a major media company. We have Oath, which, of course, have -- which is a part of our strategy. And I think that our job -- we have is twofold. One, we think that given our network and our distribution, we can partner with many. That's a model for us, in some cases. Then we have our own content, of course, when it comes to Oath, where we basically have what we call the super -- sort of super channels or from finance, entertainment, news, the home, the mail and all of that, which of course, is creating a great possibility for us, which I think we are now coming to a moment with Oath where we have sort of integrated all. We started launching the services. We should see benefits between sort of our wireless customers, our fixed broadband customers and what we have in Oath on those. At the same time, earlier this week, or I think it maybe was last week, I don’t remember, we also launched one ad tech plan platform for the whole Oath. Before it was several because everyone has it. So I think that's how we see that type of content we see it is important for our customers. Other type of content, like linear TV, for example, then we partner. So you're going to see us working differently, basing it on our fundamentals, which is the network and our customers and our distribution.

**Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst**

Yes. And we talked before about how Lowell has spent a lot of time thinking about thinking assets that the company might acquire. We talked about cable. According to media reports, you spend a lot of time looking at media assets as well. And so as you come in to the business and you think about what Verizon needs to be successful, is there any change in that thought process here? Are you continuing to evaluate large traditional media assets? Or is that also something you've moved on from?
Hans Vestberg - Verizon Communications Inc. - CEO

Well, content is such a broad sort of question. Linear TV is nothing we’re looking at. But of course, content like we’re working with sports and things like that, we’re doing every day in Yahoo Sports and Yahoo Finance and all of that. We have that already. So there’s nothing at the moment. But I think the question directed, is there any linear TV you’re looking at? No.

Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst

Okay. Another bit of news this week is that it looks like Tim Armstrong is going to be leaving the company by the end of the year. He obviously is essentially the founder of Oath, having put together the acquisitions of AOL and Yahoo! And so I was hoping maybe you could just comment on that and talk about leadership within Oath and that transition.

Hans Vestberg - Verizon Communications Inc. - CEO

I think that, as we announced -- I think it was yesterday. There were so many announcements this week. But it was yesterday. Tim has done a great job putting together -- and we had a lot of different assets coming together, both from Yahoo!, AOL and others that we put together. Tim and his executive team has put together sort of one ad tech platform right now that we have launched. And they have this 6 super channels or these channels that we’re now adding both content to and new things to. So I think it’s a good timing. He’s going to be there for the transition, supporting Guru that comes in to the position, to see that we take these sort of next step and getting the value that we think we should get from it. And Tim has put that in place for us. So I think that’s what is happening and we are very grateful for his work.

Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst

You guys have established some long-term targets for Oath or previously had. It was a goal to get to $10 billion of revenue by 2020. It’s about a $7 billion-ish run rate right now. Do you still feel like that’s a reasonable objective? And then just beyond that, as much as investor sometimes debate the role of Oath in the company, we can see that it’s not making a meaningful contribution to earnings. And so maybe even thinking nearer term, how should we think about the impact of Oath on Verizon’s consolidated financials as we move into ’19?

Hans Vestberg - Verizon Communications Inc. - CEO

We have no change in any previous ideas on the future at the moment. We are executing on that plan. So that’s very important. I think that what we haven’t seen yet is, of course, the value of us being together. I think Tim has set that up and his executive team. We’re starting anew with that. One thing that I think is very undervalued, which I have talked a lot about in my previous job, is that the great pool of competence when it comes to AI, ML, data centers that’s in the Yahoo! team. Many of them invented things like AI, et cetera. That’s, of course, when you virtualize the telecom network as we’re doing today, that’s extremely important competence. And that’s, of course, something that you don’t see on the forefront of all the business creating revenue. But it’s creating a lot of efficiencies for us. Think about building the mobile edge compute, for example, with the competence we have, think about AI in everything we’re doing for our customers but also in our own network. Those competences are extremely valuable for us. So I think that sometimes, the financial market doesn’t see it. I come from the sort of technology organization. My first 18 months, I saw the value working with the technology organization of Yahoo! And we are getting closer and closer in seeing that we can -- and IT, the same.

Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst

So basically, you’re saying is from an IT tech platform standpoint, the capabilities within Oath, if you didn’t own Oath, you would probably have to go out and acquire those capabilities anyway?
Hans Vestberg - Verizon Communications Inc. - CEO

Absolutely. Yes, acquire it from an external third party or trying to hire them, which we know in this world is very difficult because this is scarce resource. I think that everybody is screaming for these type of resources. I think this is a value that I have seen, and we haven't talked so much about. But I just want to send that message also to the Oath team that they are extremely valuable for the overall Verizon.

Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst

One of the stories that was out this week was talking about Tim and Oath in general indicated that there actually hadn't been a lot of collaboration between Oath and Verizon Wireless because the whole concept here is that you have all this insight into customers' usage behaviors and consumption. And if you can make that available through the content platform, you can do something special from an advertising standpoint. But without that cooperation, it's hard. Can you may be comment on that? Is that a fair assessment of how the company has been working?

Hans Vestberg - Verizon Communications Inc. - CEO

First of all, you shouldn't believe what you read in media.

Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst

Fake news.

Hans Vestberg - Verizon Communications Inc. - CEO

That's an important statement, if you didn't know before. I think that's again we are in the track to where the whole Oath has put all their assets together to have their super -- their supers, they have their ad tech that is coming together. I think that from now on, we need to evaluate how we can make it together. Because before that, it was a little bit harder because they were also putting together their stuff. I think it's a very healthy debate between -- or let's say, we're all Verizon, remember that. We just have Oath and Verizon, we talk about it as a separate company. It's one management team. It's the same people around the table. So it's a very good and healthy debate about how do we do this in the right way? We have -- I would say, coming from the outside, Verizon has a fantastic brand. We stand for transparency and treating our customers well. We just need to see that we have that type of transparency when we go into monetizing data as well. I think that's the healthy discussion we have around the table and now it's happening.

Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst

So I think the takeaway here, from the way I hear it, is that you do see Oath as integral to Verizon and you're committed to Oath's success?

Hans Vestberg - Verizon Communications Inc. - CEO

Yes. I was drinking, so that's why yes.

Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst

A firm yes.
A firm yes.

Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst

I want to move on to something else that was also introduced here at this conference a year ago by Lowell, which is the objective of achieving $10 billion of cumulative cost savings within 4 years. I guess, you're a year into that now. You're already among the most profitable telecom operators in the world. As a relative newcomer to Verizon, how do you look at it? Where do you think you see areas of inefficiency or cost savings potential that perhaps wouldn't have been as apparent to people have sort of grown up inside the business?

Hans Vestberg - Verizon Communications Inc. - CEO

No, I think that, first of all, I mean, they're all efficiency gains. I mean, one of the big contributors to that announcement that Lowell made last year here at the conference was that we had then decided to flip the old network, network division -- the 4 network division becoming 1 basically. We saw a huge opportunity of taking out cost, both CapEx and OpEx. And the reason was that you have one transport network, you have one fiber network. All of that is compared to have 4, et cetera, which was technology reason and legal reasons why we couldn't do it. We were having joint venture with Vodafone, for example, and you couldn't share assets as you wanted. So I think that yes, when you start looking, I think, and you think about technology development. Of course, we see that we can be more efficient. We just need to be doing it in a good way, seeing that we don't break anything. But clearly, I mean, we're going to work on all levers to continue to deliver value to our shareholders. And one part of that is efficiency. So yes, I see improvements in that. I see improvements how we deal digitally with our customers compared to how we do it today. I see the whole network efficiency (inaudible) 2 quarters into it. You have seen that we started by lowering the CapEx guidance to the lower end. So I think that yes, there are. If it's all -- when you run a company, it's a balance of between thinking about growth, seeing that your sufficiently efficient as well as serving the balance sheet and your shareholders. If you just constantly work on all 3 of them, that's the success.

Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst

Yes, another question we get about this is, "Okay, if you are able to capture $10 billion of cumulative savings, does that mean $10 billion flows right down to earnings? Or are you inevitably going to be reinvesting?" So if you could provide some context on how you think about that, I think that would be appreciated.

Hans Vestberg - Verizon Communications Inc. - CEO

I refer to our CFO, Matt here. He used to say that is still a consideration we will have on how we will dispose it. We are now focusing to see that we actually find the efficiency of $10 billion and the initiatives we have. And then we're going to get the flexibility on how much we can spin back to the bottom line, how much we invest in other areas or strengthen ourselves in other ways. So I think that it creates a flexibility and a strength for us. And we have not come back exactly how we're going to manage and use that efficiency that we gained. But it's also a marketplace that is moving, so we think about that.

Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst

Well, I ask the question, which is this is a dynamic industry. So how can you be so confident that you can take spending out business when there so many areas where you could be reinvesting? I think that's the question.
Hans Vestberg - Verizon Communications Inc. - CEO

Yes. But I think it's a balance of it all. And that you can actually handle that. And I think that it also -- to be prepared and always be ahead of the game. I think that’s very important for us. I can only speak for the Verizon, always been sort of the leader in the market and leading the markets.

We just need to continue with that. If it’s coming first with 5G and thinking through our new models being efficient, we just need to lead that as well, I mean, it's not that we are looking for what are the others doing. This is what Verizon is doing. This is our strategy.

Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst

Okay. So let’s talk a bit longer-term again. Your guidance for this year calls for low single-digit percentage growth in adjusted earnings. And so the most common question we get is, "Do you believe that Verizon can sustain annual EPS growth after 2018? And if so...

Hans Vestberg - Verizon Communications Inc. - CEO

You're asking me a guidance for 2019 right now? Oh, my God, remember the safe harbor statement now.

Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst

In all infinity after now.

Hans Vestberg - Verizon Communications Inc. - CEO

In all infinity.

Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst

Near term is more important.

Hans Vestberg - Verizon Communications Inc. - CEO

Just like the first quarter 2019.

Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst

Quarterly guidance is unnecessary. But just -- we’ve talked about cost savings. And so we understand that you’ve got a lot of leverage you can pull on the cost side. But ultimately, if you’re going to grow the core earnings, you need to grow the business. So as you see sit here and you look at the company early in your tenure, what do you see is the key earnings levers and drivers that Verizon has over the next few years?

Hans Vestberg - Verizon Communications Inc. - CEO

It’s early in my tenure. It’s sort of my 30th Thursday or something like that, so thank you for that. I think that, first of all, I think that the levers you have, of course, 5G I talked about. We are actually both having new areas we’ll go into, the real-time enterprise, the fixed mobile broadband or -- yes, those 2 are sort of new areas. They will not be material in the short term. But you need to do it right now. You need to spin now because then you know better than others and your experience is going to be better and your performance is going to be much better than others. The mobility will also come during 2019, probably going to be in volumes latter part of it. That is an opportunity. I mean, when you think about, can you gain share in 5G or mobility with consumers? Can you expand the TAM in 5G because it’s a little bit -- but I think that’s the things that we are thinking
about as opportunities. I think that we still have a work with Oath, I just said, on the top line and the whole digitalization were working with. And
of course, being -- partnering to see that we get more value out of the connectivity and the platforms we have. And then we have the efficiency.
This is, I think, a pretty big pallet of things that we’re working on at the same time. We are laser-focused on that execution and really trying to excel
in all of them.

**Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst**

But I mean, it does seem safe to say that putting aside what any given year could be, that as you come into the business, you do look at this as a
business that should be an earnings growth story?

**Hans Vestberg - Verizon Communications Inc. - CEO**

That’s our ambition, and we have our guidance for this year. We will come for the guidance for the ’19 when Matt is already in the beginning of
next year. So I think that our ambitions and leadership, of course, want to have a successful company that shareholders and our customers and
our employees like. And I’m a very competitive guy. I’m impatient. I mean, I’m going to drive everything I have in this. It gets hard to sit there for
45 minutes because I know how much I have to do, so yes.

**Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst**

Okay. Verizon currently has about $113 billion of net debt, although interestingly...

**Hans Vestberg - Verizon Communications Inc. - CEO**

Yes, that’s a lot of money.

**Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst**

It’s a lot of money, but your net leverage is 2.45x net debt-to-EBITDA. It’s one of the strongest balance sheets in this sector. So a lot of debt but
actually a fairly solid leverage ratio. How do you think about what the company’s capital allocation priorities are going forward? And at what level
of leverage, because you are focused on deleveraging, might you broaden that, whether it would be a revisit of what your dividend policy is, buybacks
or maybe something else that you think could drive value for the company?

**Hans Vestberg - Verizon Communications Inc. - CEO**

We are very focused on the commitments we have on our balance sheet. And I think you saw in the second quarter, we deleveraged $4 billion.
Debt went down. I think that right now, I mean, we have 3 pillars that we’re very much focused on. We have a dividend. We have the CapEx. And
we have the debt reduction. That’s where we spend all the time right now to see that we are meeting both handling all 3 in a good way, and I think
were doing it. If it will mean that later on, we come to a debt level that we are aspiring for, we’re going to maybe have a new conversation. But
right now, we are very much focused on executing on these 3 pillars. We think the dividend is important to our customers -- or to our shareholders
and as well as very important that we can maintain or keep the CapEx that we need. And then we see that our debt ratios will come down to what
believe is a healthy balance sheet, which we are getting closer every quarter right now.

**Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst**

So I believe the commitment was you would get down to pre-Vodafone level, that would be sort of the next threshold. So your thought process
is, “Let’s get there. And when we get there, then we could figure out to best use of the dry powder we have at that point in time?”
Hans Vestberg - Verizon Communications Inc. - CEO
And you're going to see that consistently from me, and I think from the whole Verizon, we want to execute first and then we can talk about the next step rather than talking about things that hasn't happened yet. So we want to execute on that and then we're happy to have a conversation about it.

Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst
And just from my conversations so far today, it doesn't sound like an inflection in CapEx or a massive acquisition or tremendous spectrum needs. Any of that would materially deviate your ability to remain on this delevering path within the rough timeline you talked about. It seems like that's all within your manageable...

Hans Vestberg - Verizon Communications Inc. - CEO
Maybe a lot of assumptions in one question here. But I think that, that's the conversation as long as we know it. I think you're hitting on the points that there are the -- the world is changing, the market is changing. But we have a strategy. We have been very disciplined on that. And I, the whole team, the board is very much behind it.

Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst
All right. So my last question here is you're just starting, so I'm going to go way into the future and ask you a future question.

Hans Vestberg - Verizon Communications Inc. - CEO
It didn't feel like I'm just starting.

Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst
Which is at some point, you're going to have the opportunity to look back on your tenure as CEO of Verizon. And I'm curious what you...

Hans Vestberg - Verizon Communications Inc. - CEO
No, I'm just looking forward just to know.

Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst
But I'll turn you around if you like, which is, meaning to say, what would I hope to look back on this year? Or maybe you can make it nearer term, meaning what are your biggest priorities? Like what do you really hope that you get right here at Verizon to keep the company on that at long-term earnings trajectory?

Hans Vestberg - Verizon Communications Inc. - CEO
I think that when I think about the future of course, there's a couple of things that are critical for the company. But always when you answer a question like that, you want to look back at your shareholders as well. The company has continued to prosper and grow and all of that. I think put that aside, I think 5G, I think, is great opportunity for Verizon. Our engineers, our whole team, both from a commercial and technology point of
view. And we have been so early out. And of course, that is for us and for me a main focus because I think that will serve all those things that I said first, our customers, our employees and our shareholders. So I think that’s an important thing when I look in the future. But now I’m only 30 days into this, so maybe I can change my mind next time.

Brett Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst

All right. On that, thanks so much for being here.

Hans Vestberg - Verizon Communications Inc. - CEO

Thank you, Brett.