OVERVIEW:
Co. reported consolidated reported revenue of $32.6b and GAAP EPS of $1.19.
CORPORATE PARTICIPANTS

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Matt Ellis  Verizon Communications Inc. - EVP and CFO

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PRESENTATION

Operator
Good morning and welcome to the Verizon third-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 third-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 transcript of this call will also be made available on our website.

Before we get started, I'd 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 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.
Now let's take a look at consolidated earnings for the period. For the third quarter of 2018, we reported earnings of $1.19 per share on a GAAP basis. These reported results include a few special items that I would like to walk you through.

Our reported earnings include a net pre-tax loss of $159 million, primarily associated with the early debt redemption costs of $476 million; acquisition- and integration-related charges of $137 million, primarily pertaining to Oath; and a pension and benefit remeasurement credit of $454 million. The net impact after tax was approximately $120 million, or $0.03 per share, resulting in an adjusted earnings per share of $1.22.

Excluding the effect of these special items and the net effects of tax reform and the adoption of the revenue recognition standard, adjusted earnings per share was $1.01 in the third quarter, up 3.1% compared to $0.98 a year ago.

It has been three quarters since the adoption of the new accounting standard for revenue recognition. The effect of this change is illustrated within the table on slide 4. As a reminder, it results in a reduction of wireless service revenue, offset by an increase in wireless equipment revenue, and the deferral of commission expense in both our wireless and wireline segments.

The impact from this change has been fairly consistent during all three quarters of 2018 with a $0.06 per-share impact in the third quarter. We continue to expect the accretive benefit to full-year earnings per share to be between $0.27 and $0.31. The accretive benefit to operating income in 2018 is expected to moderate in 2019 and then become insignificant in 2020 as the timing impacts to revenues and commission costs converge. This will create year-over-year EPS pressure in both 2019 and 2020.

For the remainder of this call, unless otherwise noted, financial results will exclude the impact of this accounting change to provide clear comparability with prior periods.

With that, I will now turn the call over to Matt to take you through the results for the quarter.

Matt Ellis - Verizon Communications Inc. - EVP and CFO

Thank you, Brady, and welcome, everyone, to the first earnings call in the 5G era. Installations of 5Gs Home by Verizon, the world's first ever 5G commercial product, began earlier this month, continuing our proud history of driving innovation. It is just the first service of many to come on this new and exciting technology.

In the third quarter, we continued our strong operational and financial performance by executing on the fundamentals with laser focus while retaining and expanding our high-value customer relationships. Our methodical and disciplined capital allocation model affords us the flexibility to compete and win in the marketplace while investing in our best-in-class networks, strengthening the balance sheet, and returning value to shareholders. Also, during the quarter, our Board approved the 12th consecutive annual increase in our dividend.

Critical to our ongoing profitability is the work we are doing across our business excellence initiatives that are transforming all parts of our Company. In 2018, this has included adoption of the zero-based budgeting methodology, driving capital efficiencies from the network restructuring that began last year, and more recently evolving our IT strategy and the announcement of the voluntary separation program. These initiatives are focused on positioning us to meet the rapidly evolving demands from our customers for years to come in a competitive environment.

Let's move next to slide 6 to discuss our network and technology. During the quarter, we extended our leadership position, delivering the best network performance and overall experience to our valued customers. We won more J.D. Power awards than any other wireless provider for a record 21st time in a row and ranked highest in wireless network performance in all six regions of the US.

In the most recent Nielsen report on streaming data quality, our reliable network ranks highest in video success ratings. And finally, we continue to extend our RootMetrics leadership position, obtaining the highest percentage of wins nationally.
While we are excited to be at the dawn of the 5G era, our 4G LTE network will continue to be a foundation of our services for many years to come. We continue to make enhancements to our 4G network through fiber and small cell densification as well as the deployment of new technologies to provide additional functionality and quality.

5G technology will provide meaningful value above the current network experience. At Verizon, we believe that true 5G requires an ultra-wideband solution utilizing millimeterwave spectrum to address the full array of use cases that 5G enables.

Our network preparation for nationwide 5G deployment requires deep fiber resources, a vast array of small cells, critical spectrum holdings, and mobile edge computing capabilities, all of which we have been assembling for years.

5G Home by Verizon continues our legacy of consumer firsts. We are now providing wireless broadband service using millimeterwave spectrum. This revolutionary product offers customers a wireless in-home Internet experience with speeds and capacity that rival leading wide broadband products available today.

The initial launch of 5G Home on proprietary standards in four markets positions us for a larger rollout in 2019. We are gaining valuable insights ahead of the industry that will drive refinements to the customer experience prior to the arrival of global standards-based equipment. We have said all along that we intend to be first, not only in launching the world’s initial 5G commercial product, but also the first to deliver true 5G mobility to consumers.

During the quarter, we completed the world’s first end-to-end global standards compliant call with a smartphone test device using our network facilities in Minneapolis. As soon as devices and equipment are available, the deployment of our 5G network on the global standard will begin for mobility and residential broadband in the new 5G ultra-wideband era.

Let’s turn to slide 7 and take a closer look at consolidated financial highlights of the quarter. On a reported basis, third-quarter consolidated revenue was $32.6 billion, up 2.8%. Excluding the impact of the new revenue recognition standard, total revenue was $32.5 billion, up 2.6%. The primary driver of the increase was improved wireless service revenue due to customer step-ups to higher access plans and an increase in the average connections per account.

On a consolidated basis, excluding special items, third-quarter adjusted EBITDA margin was 36.3%, which was up from prior year’s margin of 36.0%. Adjusted EBITDA increased $0.4 billion or 3.4%, due primarily to wireless service revenue performance as well as continued improvement in operational efficiencies across the business.

Our business excellence initiatives have produced cumulative cash savings of $1.3 billion year to date from a mix of capital and operational expenditure activities. The program remains on track to achieve our goal of $10 billion of cumulative savings for the four-year period.

Let’s now focus on cash flow results on slide 8. During the third quarter, we continue to drive strong cash generation. Year-to-date cash flow from operating activities totaled $26.2 billion, an increase of $9.8 billion from the prior year. This was driven by strong operating results, supplemented by the benefits from tax reform and the completion of the transition of device payment plan securitization to on-balance sheet financing.

Year-to-date capital spending of $12.0 billion supported the increased demand on our industry-leading 4G network, the launch of 5G Home earlier this month, significant fiber deployment in markets nationwide, and pre-positioning for additional 5G services.

We now expect capital expenditures for the full year to be between $16.6 billion and $17.0 billion. This reflects the benefits from our business excellence program, which has allowed us to make all of the planned investments while aggressively advancing the 5G ecosystem and transforming our structure to deploy the Intelligent Edge Network. This architecture will provide both CapEx and OpEx efficiencies compared to the networks of the past.

The net result of cash flow from operations and capital spending is free cash flow of $14.2 billion year to date. Our balance sheet is strong and provides us with financial flexibility. We continue to maintain near-term maturities at low levels, which gives us confidence to operate through
different financial market environments. We ended the quarter with $112.9 billion of total debt, which was comprised of $103.7 billion of unsecured debt and $9.2 billion of on-balance sheet securitizations.

We have made good progress this year towards our goal of strengthening the balance sheet. Operational cash flows and the benefits from tax reform have resulted in a decrease in our total debt of $4.2 billion year to date while allowing us to make discretionary contributions of $1.7 billion to employee benefit programs. This has driven a change in the ratio of net debt to adjusted EBITDA from 2.6 times to 2.4 times since the beginning of the year.

Now let’s move into reviews of the operating segments, starting with wireless on slide 9. Total wireless operating revenue increased 6.1% to $22.9 billion in the third quarter, primarily driven by strong trends in service and equipment revenue.

Wireless service revenue increased by 2.6%, driven primarily by customer step-ups to higher price plans and an increase in average connections per account. Our mix-and-match unlimited offering provides customization options to suit the individual needs of our customers while providing a superior network experience. In the third quarter, equipment revenue increased 13.7% on a year-over-year basis, driven by higher-priced handsets and increased sales of wearables.

Our postpaid customer migration to unsubsidized pricing has stabilized to 83% of our phone base. Comparatively, the same quarter in the prior year was 78%. Approximately 49% of our postpaid phone base had an outstanding device payment plan at the end of the quarter, consistent with the prior year.

The combination of service revenue growth and efficiencies gained within the business have led to segment EBITDA growth of $664 million, an increase of 6.7% year over year. For the quarter, wireless EBITDA margin as a percent of total revenue was 46.4%.

Let’s now turn to slide 10 and take a closer look at wireless operating metrics. In the third quarter, wireless operational performance sustained momentum from the previous quarters by expanding our relationships and subscriber experience with postpaid customers.

Total net phone editions were 295,000 compared to 275,000 last year, including postpaid smartphone net addition of 510,000. Postpaid net adds totaled 515,000, including tablet net losses of 80,000 and other connected device gains of 300,000, led by wearables.

Our postpaid phone churn of 0.80% is a result of our network quality and reliability coupled with the diversification and personalization of our unlimited offerings. Total retail postpaid churn of 1.04% was up compared to 0.97% in the prior year. We expect postpaid phone churn to increase seasonally through the fourth quarter due to the holiday season.

Total postpaid device activations, of which approximately 80% were phones, were down 1.4%. Our retail postpaid upgrade rate was 5.0%, down from 5.5% in the prior year. In the third quarter, prepaid net additions declined by 96,000 compared to an increase of 139,000 in the prior year. Within this, we had smartphone net additions of 15,000. The change in the size of our overall prepaid base reflects our ongoing activity to focus our prepaid offerings on value-added segments.

Now let’s move to our wireline segment on slide 11. Total operating revenues for the wireline segment decreased 3.7% in the quarter as growth in our high-quality fiber-based products continues to be offset by technology shifts and ongoing secular pressures from legacy technologies and competition.

Consumer markets revenue decreased 1.8%, driven by legacy core declines and cord-cutting, partially offset by Fios broadband growth. Consumer Fios revenue increased by 1.1%, due primarily to our broadband offerings.

Fios broadband Internet experienced growth of 54,000 customers due to demand for high-quality Internet connectivity. Fios video results continue to be impacted by ongoing shifts away from linear video offerings with losses of 63,000 in the quarter.
Our enterprise solutions, partner solutions, and business markets revenues declined by 4.0%, 6.3%, and 7.0%, respectively. Enterprise solutions revenues declined by 3.8% on a constant currency basis.

Results in each of these businesses reflect the pressures on legacy products and price compression, which at this time continue to offset the growth in fiber-based products. Segment EBITDA margin for the quarter was 19.9%. We expect price compression on legacy products, secular trends, and increasing content costs to continue to put pressure on the wireline margins.

Let's now move on to slide 12 to discuss our media and IoT businesses. For third quarter, Oath revenue was $1.8 billion, which was 6.9% below the same quarter last year. We are seeing revenue pressure from search and desktop usage, which is more than offsetting positive growth in mobile usage and video products, including our distribution partnership with the NFL.

Because search and desktop products make up the majority of the Oath business and we believe pressure in those sectors is likely to continue, we do not expect to meet our previous target of $10 billion of revenue by 2020.

The leadership team at Oath is focused on returning to revenue growth by completing the integration of the legacy AOL and Yahoo advertising platforms by year-end, implementing initiatives to realize synergies across all of our media assets, and building services around our core content pillars of sports, news, finance, and entertainment. Additionally, we are utilizing Oath's technical capabilities, such as artificial intelligence, augmented reality, and virtual reality, across all of Verizon.

In our telematics business, total Verizon Connect revenue was $241 million. Total IoT revenue, including Verizon Connect, was up approximately 12% year over year.

Let's now move to slide 13 to summarize our third-quarter results. We remain focused on our strategy to invest in our networks while expanding our high-quality customer base and developing new platforms and solutions.

We continue to lead in 4G LTE performance while building momentum for our ultra-wideband 5G network. Our launch of the world's first commercial 5G product signals the beginning of an era that will transform the way people live and work.

Our strategy lays the foundation for the future through investments in our Intelligent Edge Network, enabling efficiencies throughout the core infrastructure, and delivering flexibility to meet customer requirements at the edge of the network. We are excited about our current positioning in the marketplace, our financial strength, and the opportunities ahead of us.

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

Brady Connor - Verizon Communications Inc. - SVP of IR
Thank you, Matt. Brad, we are now ready to take questions.

QUESTIONS AND ANSWERS

Operator
(Operator Instructions) Brett Feldman, Goldman Sachs.
Brett Feldman - Goldman Sachs - Analyst

Yes, thanks. And two, if you don’t mind. I just want to come back to CapEx and the lower outlook there. It sounds like you are certainly enjoying some efficiencies as a result of your cost savings program. I’m wondering if there are any timing considerations. So for example, are we in maybe a little bit of an air pocket as you ramp down the 4G spend, but you haven’t quite hit run rate on 5G?

And then on ARPA, you continue to see some strength there. I was hoping you could deconstruct that a little bit. How much of it is strong product level ARPU trends, particularly in phones as people take unlimited? And to what extent is it being driven as more devices are attached to accounts? Thanks.

Matt Ellis - Verizon Communications Inc. - EVP and CFO

Thanks, Brett, good morning. So on CapEx, you certainly see the benefit of our operational excellence activities we have been doing throughout the year. This really started a year ago when we reorganized the network organization and we are seeing the benefits of some changes in how we run that organization, using new capacity utilization models, changes to our inventory management systems, adoption of procurement analytical tools, and a whole host of other things.

So this is activity that began last year. It is showing up this year. I will tell you we are getting everything done that we wanted to get done in 2018. We are just doing it more efficiently than we initially originally expected to.

And I don’t see -- you used the word air pockets. I don’t see an air pocket here. We have been pre-positioning the network for the transition from 4G to 5G for a number of years now.

So we will get into obviously our views on 2019 and beyond when we talk again in January, but we’ve got everything done this year we expected to. And the team has done a great job of just doing it more efficiently, so that will open up more opportunities for us as we go forward.

On the ARPA side, as you mentioned, we’ve certainly seen some good increase this year, and it’s been largely coming from step-ups. We have been seeing an increase in connections per account.

But as we get customers onto unlimited and they see the quality of the experience there and then they step up from one plan to another plan, we have been seeing some good overall results in ARPA. I will tell you there is still a good amount of runway there as well. So excited with the momentum that we have in wireless at the moment and I think there is still some way to go with it.

Brett Feldman - Goldman Sachs - Analyst

Great. Thanks for taking the questions.

Operator

Simon Flannery, Morgan Stanley.

Simon Flannery - Morgan Stanley - Analyst

Great. Thanks a lot. Good morning. Matt, you talked about 5G quite a bit. I don’t know if there is any early commentary that you can give us on the launches and what you are seeing so far.

And then as we think about next year, and I think you said you would accelerate that, what is the timeline looking at like in terms of getting the standards-based gear? And in particular, a path to having a self-install solution for 5G Home? Thanks.
Thanks, Simon. So yes, as you say, we’re excited that we are now in the 5G era. I will add that we started doing installs earlier this month. And we’ve seen performance as we’ve expected since we started doing those installs. The technology works, our customers are getting the experience they expected, and we are getting a lot of good learning which will benefit us next year when we roll out the product to that much larger audience.

5G Home will become more significant as we expand coverage and we get on the global standards equipment in 2019. And I would expect that that would start to have an impact on consolidated revenues as we get into 2020 and beyond.

And you mentioned self-installs. A big part of what we are learning in these four markets is that install process. So when we get to rolling out across a broader geography on the global standard next year, we will just have a level of learning about the customer experience that will differentiate us from everyone else.

Okay. So is that sort of mid-2019 that we start to see this gear coming on in scale?

We are really dependent on the industry to develop it. We will be ready to deploy both on the network side and the customer side when the equipment is ready, whether that be from the network OEMs or the customer equipment manufacturers. So sometime in 2019 we will push the industry to get there as quickly as possible and we will see how soon that happens.

Great, thank you.

David Barden, Bank of America.

Thanks for taking the questions. Matt, could you kind of elaborate a little on the voluntary separation program: what the goal is, what the timetable is, and what the margin impact is expected to be? And where we see that across the wireline and wireless organizations?

And then the second question is with respect to delevering, you've had good success there on the back of the cash flow windfall from tax reform and operations. With looking down the pike, we've got C band spectrum potentially coming to market, millimeterwave spectrum coming to market.

What are the limits and the parameters around the balance sheet that inform what you are willing to do on the spectrum from so that we can kind of anticipate where the balance sheet looks like in the next 12 months? Thanks.

Thanks, David. So on the voluntary separation program, the way that I would suggest you think about it is it's part of our overall business excellence initiative, whether that be the adoption of the zero-based budgeting methodology, some of the other things that we have done.
Really what we are looking at is while we are certainly glad to see the financial performance we have today and made good progress there, what Hans and I are focused on is making sure that we are not just successful today, but we can be successful into the future as well. And that we can take advantage of any opportunities that come along in the marketplace.

So what this really is about is saying do we have the -- if you were setting up our business from scratch today, would you set it up the way it is? And there are significant process improvements that we have around us.

And so the voluntary separation program is part of continuing to evolve and transform the way we do business, to continue to improve the efficiencies across the business, and we will be driving those changes over the course of the next 12 months.

In terms of the size of the impact of it, it is too soon to tell. We are in the middle of the period where employees can choose to accept the offer. So in terms of the size of the initial charge that will come through in fourth quarter or the size of the benefits that we will start to get in 2019, it is too soon to say. When we have information on that, we will certainly look to share it with everyone.

But this is just part of the continued drive to transform the business to make sure that we are successful in the long run and have the right cost base to be able to compete, irrespective of how the industry develops.

On the balance sheet, certainly glad to see the progress we've made this year. Strong cash flow, certainly helped by tax reform, but also the operation of the business driving a lot of that benefit. So you've seen the leverage come down from 2.6 times at the start of the year to 2.4 times now and so glad to see that progress there.

I'm not going to get into specifics about parameters about what we may or may not do around any type of acquisition, whether that be spectrum or anything else. The key for us is making sure that we have a balance sheet that gives us the flexible structure to take advantage of whatever comes up.

So if you kind of think across those two questions you had, we'll make sure we got the cost structure that we can take advantage of opportunities that come along. And then we've got the balance sheet flexibility to make sure we can take advantage of any opportunities that come along. So we can be very adaptable no matter how the industry develops going forward and the opportunities that come up.
Matt Ellis - Verizon Communications Inc. - EVP and CFO

Thanks, Phil. So on wireline, yes, certainly expect to see the margins over the near term to be in that range we discussed on the last call, around that 20% level. Would be a little above, a little below depending on the quarter.

But certainly with the revenue trajectory in that business, that will provide some pressure on that margin. So we are focused on continuing to address both the revenue trajectory and the cost side of the wireline business, but that is something we have been doing for a while and we will keep working on it.

As you talk about the impact of 606, and yes, we still see about $0.27 to $0.31 of GAAP benefit this year. But when you back that out, 3.1% EPS growth on an adjusted basis year over year, and that is certainly what we are focused on doing.

So as you think about next year, you really have to take this year’s number, back out the $0.27 to $0.31, put a growth rate on, and then put around half-ish or so of this year’s benefit in next year. And that will get you in around the right ballpark.

But net-net, we are certainly focused on getting -- showing growth at the EPS level and at the top line. But we just obviously got some noise from the accounting as we go over the next couple of years and 606 flows its way all the way through our financials, both for the current year and the prior year we are comparing to.

Philip Cusick - JPMorgan - Analyst

Thanks, Matt.

Operator

John Hodulik, UBS.

John Hodulik - UBS - Analyst

Great, thanks. Two, if I could. You had some commentary in there on the revenue growth or declines at Oath. Any commentary on the losses we got -- have you in there for about less than $1 billion this year? Does the sort of I guess change in approach to Oath mean that you could find some cost savings there as well and maybe get that business closer to profitability as we look out to 2019 and 2020?

And then more broadly on the 5G rollout, the FCC passed some small cell siting reform. Does that change the sort of internal targets you have for the rollout of the small cell and 5G infrastructure and possibly allow you to go a little faster as you look out to 2019 and 2020? Thanks.

Matt Ellis - Verizon Communications Inc. - EVP and CFO

Thanks, John. On the 5G rollout, certainly we were glad to see the FCC rules around the small cell adoption. Doesn’t necessarily increase the velocity that we see. Our teams have been engaged with municipalities across the country on getting permits to put up small cells, whether for 4G or 5G.

Certainly like the fact that they are providing a little more guidance for how quickly that should happen, but I don’t see it having a material impact to our buildout plans. We are going as fast as we can. And while the federal level rules are helpful, it is still a very local activity municipality by municipality. So a lot of good work going on there.

On Oath, from a profitability standpoint, certainly, as we said in the comments, revenue not progressing quite as fast as we’d like. But from an EBITDA standpoint, the team’s made good progress on their synergy targets coming out of the closing on Yahoo over a year ago.
The integration is now largely complete. We think we will have that substantially complete by the end of the year. So the cost side of that business is being managed well and we just need the revenue side of the business to achieve its potential, too, and then we will be happy with what we are doing in the Oath business.

John Hodulik - UBS - Analyst

Okay, thanks, Matt.

Operator

Craig Moffett, MoffettNathanson.

Craig Moffett - MoffettNathanson LLC - Analyst

Good morning, guys. I guess just if I want to return to the question a couple of questions ago about growth, you’ve always said in the past that you can be something like a GDP grower. If I kind of step back from today’s results, what are the moving pieces that get this business back to being a GDP grower at some point?

Matt Ellis - Verizon Communications Inc. - EVP and CFO

Yes, so Craig, when you look at the results we posted today, I’m not sure we have to say what it would take to get back to that level. I think you are seeing growth in the business year to date, both at the top line and the bottom line. And it is driven by largely by what’s going on in the wireless business.

When you have the best network and when we get it paired up with the right consumer offerings, as we have, and our wireless consumers can take advantage of that network and the way they want to do so, you see the results we have. We see customers step up, and as I said earlier, we have still got significant runway in terms of the ability for customers to step up.

So like the number of increasing connections we had during the quarter, increase in ARPA as well, and we very focused on continuing that momentum. There is a high level of stability in the core of our business, so that’s driving top-line growth, as we reported this morning. And then as we also manage the cost side, I think we will continue to have the opportunity to post good results.

Craig Moffett - MoffettNathanson LLC - Analyst

If I could just follow up, presumably, just given the maturity of the industry with respect to penetration, it’s presumably an ARPU or ARPA story as you get to 5G. What kind of ARPU and ARPA growth do you think that you could eventually get to in this business? Obviously barring any unforeseen big changes in competitive intensity.

Matt Ellis - Verizon Communications Inc. - EVP and CFO

Yes, so we continue to look for new pockets of demand out there. But this maturity comment we’ve talked about for a long time now, but we posted smartphone net adds of 510,000 during the quarter.

So we are continuing to add to our base of customers. There is still a significant opportunity to do that. We have the opportunity to get a number of our customers stepped up from their current price plans. They often come in on a bucketed data device and then over time they step up into unlimited. And we now have options there for customers to step up to different levels of unlimited plans, too.
So we still have runway here in terms of developing the wireless business in the 4G world. And then before we know it, we will be talking about transitioning the largest base of wireless customers in the industry over to 5G devices, too. So I am certainly comfortable that our wireless business will continue to grow as we go forward.

Craig Moffett - MoffettNathanson LLC - Analyst
Thank you.

Operator
Michael Rollins, Citi.

Michael Rollins - Citibank - Analyst
Thanks. You talked a bit about cost-cutting. And in the past, I think the cadence you were looking for was an incremental $1 billion a year. So that would get you through a cumulative $10 billion over 4 years.

You mentioned you are at $1.3 billion through 9 months. So is there an opportunity to create even more cost savings over time than the $10 billion? Or is the $1.3 billion progress to date just pulling from the future, pulling forward some of those savings?

And then secondly, if you could just help us think about what the right cadence is over the next couple years in just broad cost-cutting terms. Thanks.

Matt Ellis - Verizon Communications Inc. - EVP and CFO
Thanks, Mike. So as we think about the cost-cutting, certainly glad to see the progress the teams have made this year. And as they have gone in and started looking at the business in different ways, we are seeing lots of different opportunities show up. And now we are in the phase of really executing against a number of those.

So certainly glad the progress we have made. Is there the opportunity to get more than $10 billion cumulatively over 4 years? We will wait and see. I am not good to provide any change to that number at this point in time, but certainly we are being as aggressive as we can and making sure we are running as efficient a business as we possibly can and that will continue.

In terms of the cadence of those savings over the four-year period, nothing really to update. I think we are still in the first year. And as you can imagine, as you start a program like this, there is a lot of energy upfront just deciding the things you want to do, identifying the opportunities, deciding how you are going to go after them.

And so you are not necessarily turning them into savings immediately. So I think we’ve still got some good opportunity ahead of us from a cadence standpoint.

Michael Rollins - Citibank - Analyst
Thanks.
Jennifer Fritzsche, Wells Fargo.

Jennifer Fritzsche - Wells Fargo Securities, LLC - Analyst

Great. Thank you for the taking the question. I wanted to ask about the public safety sector. Obviously with AT&T officially having FirstNet, it seems in their advertising they are going hard after this sector, which some have identified the TAM is as many as 9 million subs.

Can you talk a little bit about your strategy there? Because you have exposure to hold onto these customers. What are you seeing in that? Are you seeing any early signs of churn or anything like that? Thank you.

Matt Ellis - Verizon Communications Inc. - EVP and CFO

We continue to perform very well in that sector, and it is built on years and years of strong partnerships and we will be continuing to focus on that sector. Look, when you have large market share in many segments, as we do, it provides opportunities for different people to decide to go attack them, whether it be in public sector with FirstNet or whether it be some of the things we've seen other competitors do over the past few years.

I think we have been very effective at defending the market share that we have. It is based on building deep relationships with our customers and built on the reliability and the performance that they see on a consistent basis. So we will continue to do that across all parts of our business, Jennifer, and it's really about just service execution. And when we do that on a consistent basis, we typically win.

Jennifer Fritzsche - Wells Fargo Securities, LLC - Analyst

Thank you.

Jeff Kvaal, Nomura Instinet.

Jeff Kvaal - Nomura Securities Intl (America) - Analyst

Thanks a lot. Two questions, if I may. The first is on CapEx. I think you have been pretty clear with us that we should not be expecting a surge in spending associated with 5G. I am wondering if that premise or how we should be measuring that surge from. Is that from where we began the year in 2018 with guidance or from where we are ending the year in 2018 with CapEx?

And then secondly, on churn, obviously great improvement over the past couple years, although that improvement has reversed a little bit. I am wondering what you can tell us about what is happening with churn and what we can expect from here. Thanks.

Matt Ellis - Verizon Communications Inc. - EVP and CFO

Thanks, Jeff. On CapEx, so really as you say, no surge level. We will give guidance for 2019 when we get into the new year. We will be spending on 5G. You may not see a change in intensity, but we are spending on 5G today. We will continue to spend on 5G just as quickly as we can.

But as we have talked about in the past, 5G uses a lot of the assets we already have in place. As we have been densifying the 4G network over the past three, four years now, we have been doing it with an eye also to pre-position the network for 5G.
And we are seeing the benefit of that. As you see us roll out 5G and get the network ready to deploy and not seeing a massive surge in CapEx. And we have been pretty consistent on that messaging and I think it is starting to show up.

So look, I think you will see CapEx stay within reasonable bounds of what you've seen from us in the past. And we will continue to take advantage of the efficiencies in the network, whether that is through the Intelligent Edge Network design, which will create efficiencies. Whether it is across the other things we are doing on the business excellence side I spoke about earlier.

We will continue to look for ways to build the network that we want to build to provide the best customer experiences, but doing it at the lowest possible capital intensity. So obviously we will talk more about the plans for 2019 in 90 days or so, but feel pretty good about the activity we have in the network as we complete 2018.

From a churn standpoint, you are right. We have seen good performance over the past couple of years. And as I have mentioned, it's -- when you get the combination of the best network, which we have obviously had for a long time, and when you get the customer proposition right as well, you get great results, whether that is on net adds or whether that is on the churn side of the equation. And we have seen that now for over a year on the churn side.

So look, there is additional players in the marketplace today, obviously, with using the MVNO agreement and some other things. So we may see just a few points tick up there, but we continue to -- we will continue to have very strong churn performance as we look forward here and expect to do so.

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**Jeff Kvaal - Nomura Securities Intl (America) - Analyst**

Thank you.

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**Operator**

Mike McCormack, Guggenheim Partners.

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**Mike McCormack - Guggenheim Securities LLC - Analyst**

Hey, Matt, maybe just a quick comment on what appears to be a pretty good uptick in gross adds -- gross phone adds on a year-over-year basis. Thinking about what the drivers might be there.

Obviously last year, you had introduced the unlimited plan earlier in the year, so it seemed like you had maybe a tougher comp. Just trying to get a sense for whether we are seeing any prepaid migrations or anything else in the marketplace we should be aware of?

And then on the Fios video side, I guess no real surprise, but yes, downtick in sub losses there. Is that really just a function of lack of connects or are we seeing an uptick in churn on the Fios video site? Thanks.

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

Thanks, Mike. So on the phone gross adds, and you mentioned the comp in 3Q. And as I'm sure everyone recalls, 3Q last year was when we saw the first sequential revenue growth in about three years.

So as we came into this quarter, we knew we were lapping a good quarter from a year ago. So to see the performance in wireless this quarter is certainly something that we are pleased about the way that the organization has performed in the marketplace.
When you think about the phone gross adds, as I said, it’s really the combination of the great network experience. And when we went on unlimited, people were concerned what was going to happen with the network experience.

And we talked at the time that the network team had tested, prepped for moving to unlimited. And all we have seen since we have been on unlimited is our network performance continue to improve. And in fact, as we sit here in the second half of 2018, I think we are continuing to see us widen the lead and set the standard for the rest of the industry. So that is part of it.

And then you get the right offer out there. So we launched unlimited, and since we launched unlimited, we have added other flavors to it. We see customers enjoying that experience and expect them to continue to do so.

In terms of the prepaid-to-postpaid migration, the thing I point your attention to is within the third quarter in our prepaid business, we had smartphone net adds of positive 15,000. So while there certainly is some level of migration from prepaid to postpaid, it’s not driving the 510,000 smartphone net adds that we recorded in the quarter.

So we are very happy with the performance that we saw there. And again, comes back to combining the right network experience and the right customer proposition, and good things happen at that point.

On the Fios video side, I think just what we are seeing here is is you touched on is, it’s the secular trend. Whether it be cord-cutting or cord-nevers, that certainly continues. What I am pleased about on the Fios side of the business is we saw Internet net adds of 54,000. That says there is strong demand for broadband.

And as we have said before, if you’re going to rely on OTT for your video entertainment, you want to make sure you have got a great broadband experience. And whether that be Fios broadband or now for those customers who can get in-home broadband through 5G, we believe we have the best in-home experience out there for those customers who want to get their entertainment from an OTT fashion.

So we will continue to see pressure on the TV numbers, but I would expect us to continue to grow the broadband side of our Fios franchise.

**Mike McCormack** - Guggenheim Securities LLC - Analyst

I’m sorry, Matt. Do you see an uptick in churn there or is it just less connects coming in on the video side?

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

Well, it’s certainly less connects coming in, and we see more new customers come in as broadband only. We still see a number come in as triple play. And the churn side I think is part of the equation, too. But I would start off with it’s less gross adds coming in upfront and us seeing more customers -- the mix of new customers as broadband only versus traditional triple play.

**Mike McCormack** - Guggenheim Securities LLC - Analyst

Great, thanks, Matt.

**Operator**

Walter Piecyk, BTIG.
Walter Piecyk - BTIG - Analyst

Thanks. Hey, Matt, the upgrade rate, the decline in it, has really helped your cash EBITDA in recent years. Record low; it looks like 5%. Can you give us a sense on kind of how the fourth quarter has been going so far relative to the XR was launched? And even just looking into 2019, can you continue to expect a benefit to your cash EBITDA by lower and lower upgrade rates?

And then my second question on the prepaid side, I mean, prepaid is obviously tiny relative to the overall business. Does it make sense to even maintain a prepaid product? And would you be interested in scaling up that through an acquisition if Sprint T-Mobile were required to make some divestitures or if TracFone was looking to sell that business? Thanks.

Matt Ellis - Verizon Communications Inc. - EVP and CFO

Thanks, Walt. So on the prepaid side, while certainly postpaid is the bigger part of our wireless business, we want to give customers the opportunity to experience the Verizon network however they want to come on board.

So we value our prepaid customers. We certainly look to focus our prepaid business on the parts of that business that add value. And not all part of the prepaid segment does, so you have seen us change our approach there.

You should expect us to look for ways to provide offerings to customers across the full spectrum of customers, whether that be prepaid, postpaid, or whatever. And we will continue to evolve the offerings there.

But as you say, prepaid is certainly a small part of our business, but it is an important part of our business. And we will continue to evolve and adapt the product offering there over time.

I'm not going to speculate on any other -- anyone else's customers or so on. That is not what we are focused on. We are focused on our offerings and we will continue to do so.

In terms of the upgrade rate decline, and while there has certainly been some benefit there, I would say the bigger benefit to cash flow has come from just the operational performance of the business. Certainly the lower upgrade rate has helped.

I don't see that changing anytime soon. Certainly as we get into the fourth quarter, we would expect to see seasonal uptick in the upgrade rate. But whether it will be at the same levels we saw in the last couple of years or whether we will see a slight year-over-year decline, it's too soon in the season to tell. Obviously, we are not one month into the fourth quarter and the heavy part of the fourth-quarter activity is still ahead of us.

In terms of there are new devices out there, as you know, and they have been performing about as we had expected. And whether that be -- you mentioned the Apple devices. And also the Google Pixel is a great device, a new device out there, and we are seeing very strong demand for that as well.

So we will see where the upgrade rate comes out for the quarter as a whole. But I don't see a major change from the trends we've seen over the past couple of years.

Walter Piecyk - BTIG - Analyst

Great, thanks.

Operator

Matt Niknam, Deutsche Bank.
Matt Niknam - Deutsche Bank - Analyst

Hey, guys. Thanks for squeezing me in. Just two quick ones. One on enterprise, if you can share any color on how competitive intensity and pricing trends have been going in enterprise of late, whether there has been any change there.

And then just go back to the question on Oath, are there monetization opportunities you would evaluate with Oath, given the relative scale relative to some of the larger players in that space? Thanks.

Matt Ellis - Verizon Communications Inc. - EVP and CFO

Thanks, Matt. So on Oath, the team is focused on the right things. As I mentioned, they are driving demand in mobile and video offerings. And as I said, we have some great assets and talented people in there at this point.

The business growth is not yet consistent with the quality of the assets of the people, but they are working hard and we believe they are going to get there. And that is what we are focused on, is supporting that team and the efforts they have.

I would also point out the value that it’s harder for people to see that came with the Oath business around some of the very strong technical skills, whether that be in data analytics, artificial intelligence, VR. And really taking those skills and deploying them across the totality of the Verizon business is providing significant value, too.

On the enterprise side, I would say no major change in the competitive intensity. We are certainly seeing businesses looking to do more and change the connectivity profiles of their businesses, but we also are seeing pricing pressure in there as well.

So what is going to determine our success there is if we continue to develop the products enterprises are looking for, not just for today, but for tomorrow. And as we continue to do that, that will be the determinant of our success in that space. The team is very focused on doing that; they have had a number of good wins this year. And if we keep on that trajectory, I think we have a chance to like where we will end up.

Matt Niknam - Deutsche Bank - Analyst

Thanks, Matt.

Brady Connor - Verizon Communications Inc. - SVP of IR

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

Matt Ellis - Verizon Communications Inc. - EVP and CFO

Thanks, Brady. I’d like to close the call with a few key points. The 5G era is here and we are positioning the Company for long-term growth by taking advantage of the full array of opportunities it has to offer.

During the quarter, we again delivered solid financial and operational performance in a competitive marketplace. We remain confident in our strategy and priorities, led by building the best networks, creating platforms to further monetize data usage, maintaining a disciplined capital allocation model, and creating value for our customers and our shareholders. Thank you for your time today.
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.