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EDITED TRANSCRIPT
VZ - Verizon Communications Inc at Morgan Stanley Technology, Media & Telecom Conference

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Okay. Good morning, everybody. Welcome to day 2 of the TMT conference. Delighted to have you all here. Particularly, we're delighted to have back Matt Ellis, the Verizon CFO. Welcome back to San Francisco, Matt.

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Thanks, Simon. Thanks for having us.

Simon Flannery - Morgan Stanley, Research Division - MD

Well, it's great to have you here. Please note that all important disclosures, including personal holding disclosures and Morgan Stanley disclosures appear on the Morgan Stanley public website at www.morganstanley.com/researchdisclosures or at the registration desk.

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes. And Simon, we have a -- we'll probably make some forward-looking statements this morning, I'm assuming. So I draw everyone's attention to our -- the safe harbor statement that's on our IR website before we get started.

Simon Flannery - Morgan Stanley, Research Division - MD

Great. Well, let's start with 2019. You had an Analyst Day last week, went through a lot of your -- the plans, both on the technology side and on the financial side. So let's start there and try to recap the key messages that you were trying to get across.

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes. So as we head into 2019, we like the progress we made last year. So as you think about priority #1 for 2019 is to build on that momentum, both from a revenue and an earnings standpoint, and to deliver strong financial results for the year. And I'm sure we'll dig into more details on that as we go through the conversation.

At the same time, while we're doing that, we'll continue to lead in 5G. We've simply been deploying 5G actively in the environment for quite a while now. We've really led the development of that. We launched the world's first commercial 5G product last year, and you'll see more of that coming this year. So you'll see us continue there.
We’ll continue to manage the capital allocation of the business so that we produce good results, create long-term returns for our investors while investing in the business. And as you know last week, we gave a leverage target, net unsecured debt to adjusted EBITDA of 1.75x to 2.0x. We ended last year at 2.1x, so we made good progress last year against that.

And of course, the other thing that we’ll execute on this year is the reorganization within the business, really being focused on making sure our #1 priority is how we go to market with customers. So as technologies have converged, it would be the right time to bring together how we go to market, whether that’s in the consumer space or the business space and bring those -- the solutions that a customer wants, irrespective of technology behind it.

So we’re excited as we come into 2019. I think we’ve got some good momentum, and now we’re focused on building on that.

Simon Flannery - Morgan Stanley, Research Division - MD

Great. So one element of guidance that you gave was GDP plus revenue growth, I think, over the longer term. So can you just unpack that for us a little bit?

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes. So as you said, that’s the -- kind of the longer-term revenue goal is to get to GDP plus revenue growth. And so there’s a number ways and, well, components of how we get there. First of all, we believe that we continue to grow the core wireless business, and there’s sustainable growth there.

Secondly, when you look at the parts of our business, where the revenue has been going in the negative direction, we see the opportunity to improve the trends in those businesses. And obviously, you think about wireline, you think about Verizon Media Group as key examples of businesses that, last year, had negative revenue growth. We improved the revenue trajectory in those businesses. Obviously, that helps the consolidated number.

And then thirdly, of course, is 5G. And just like every other prior generation of technology that we deal with, it’s given us a chance to make a step change in revenue. And we think 5G gives us that opportunity again.

Simon Flannery - Morgan Stanley, Research Division - MD

Right. But to be clear, for this year, your guidance is the low single...

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Low-single-digit revenue growth in 2019, with the primary driver being continuation of the service revenue trends that we saw last year and building on that.

Simon Flannery - Morgan Stanley, Research Division - MD

Okay. Well, let’s head there next then. So in wireless, I think that the whole industry saw some better revenue trends in 2018, and I think the guidance is for 2019. What do you think is going on in this industry that’s allowed -- I think we did 2 million postpaid phone adds last quarter, still sustaining this good growth despite the high penetration levels and seeing much better ARPU trends. What do you think is driving that? And what allows the industry to sustain that?
Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes. I'll focus on the numbers we're seeing in our results. First of all, as you think about the -- when you got into '18, really the first full year of year-over-year having the transition of the base to device payment from 2-year subsidy kind of out of the way. And so you don't have that noise in the numbers now, and so that's part of the results in '18.

But the other thing I continue to believe that when you have the combination of the best network performance, and we saw that again in all the third parties studies for the second half of the year, we continue to lead and, if anything, widen the lead that we have. So you have continuation of the best network performance. Combine that with the right offers in the marketplace, and we're constantly tinkering with those, you get the results that you saw. And you saw the strong net add performance throughout the year. Especially in the fourth quarter, the change in the net adds year-over-year was significant. So customers continue to see the value in being on the best network.

And then when you look at what we're able to do within the base, we still have less than half of the base on Unlimited. So during the course of the year, we continue to step customers up to Unlimited. And even once they get into Unlimited, we have 3 different levels of pricing within Unlimited, so you can grow even within there. So that's been a significant source of ARPU growth for us.

And then when you add connections to each account, whether that be watches or whatever else, that also helped us grow service revenue. So we think there's room to continue that trend, especially the step ups to Unlimited. And we'll stay very focused on doing that in '19 and beyond.

Simon Flannery - Morgan Stanley, Research Division - MD

Just touching on that connections point. I mean it seems like we had, a couple of years ago, we had this tablet boom, and then it's kind of a tablet bust. But do you think the watches are a little bit more durable? I mean, I can't imagine if there's a ton of data usage on those devices. But it does seem like you're seeing very good numbers out of all the carriers around the wearables.

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes. I think you're certainly seeing that. Because the devices changed, and what you saw a little over a year ago is the ability to really untether that device from the core smartphone, right. And that really led to a step change. There is the data usage on those. You're certainly not getting the video side of it, so -- but we're seeing good usage with customers. Customers like that flexibility of being able to just have that device and not necessarily a smartphone with them all the time.

Tablets continue to be an important part of our business, but I think, obviously, that's flattened off in terms of the growth profile. So -- but there will continue to be opportunities for us to deepen our relationship with customers. And when you're going to have those devices, you want to put them on the right network. And that's what customers get in the -- in that part of our base.

Simon Flannery - Morgan Stanley, Research Division - MD

You had an interesting slide looking at how you're segmenting the marketplace in wireless and the primary Verizon postpaid brand. But then also you've got the cable MVNO deals. You've got some prepaid brands that you're working on. Can you just talk to the strategy there?

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes. So really, at the end of the day, you've built the network, and now how do you do you get offerings to appeal to different segments of the marketplace? And to put as much traffic on that network and get the most returns. So certainly, the core piece of what we do is and always will be the retail postpaid base. That's incredibly important to us. It's the largest part of our base by a long way, and we'll continue to be very focused there. So that's a significant piece, but then there's another piece. And certainly, MVNOs have been important to us. Customers who want get their wireless service that way, we're happy to have them on our network. And then as you go down, as you think about prepaid, we certainly have relationships
in that space where we’ve chosen to have other people have the retail relationship with the customer, largely. We do have our own prepaid brand, but most of the prepaid on our network is coming from other people having that relationship with the customer. But again, that traffic is coming on our network, and we get the revenue for that traffic being on the network.

And as you mentioned, we launched the Visible brand recently, which is -- we’re really going after a segment of the customer base that lives their life digitally. They don’t want to walk into a store for smartphones or virtually any device, right. So they’re comfortable ordering online, getting their care in an online fashion, et cetera, so that’s a new piece that we’re going after. And so as you play across all of those, we think that gives us the opportunity to maximize the return on our investment.

Simon Flannery - Morgan Stanley, Research Division - MD

Great. You talked about the ARPU opportunities from Unlimited adoption. We’re seeing the industry with very healthy churn numbers, very healthy upgrade numbers as well, healthy from your perspective, not from the equipment companies’ perspective. But how does your guidance -- you see that basically more of the same for ’19? What’s that implying?

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes. I’m not assuming any major change in the overall upgrade rate. It slowed over the past few years. And as we get into a 5G world, we think that will give customers the opportunity -- well, those who maybe held off from upgrading to have the opportunity to do so. So we’ll start to see some of that in the back half of ’19 and then build from there. But don’t see, necessarily, a massive shift in the upgrade trends in ’19 over the past couple of years.

Simon Flannery - Morgan Stanley, Research Division - MD

And churn?

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Churn comes down to -- when we have the combination of the network performance and the right offer in the marketplace, our churn continues to be good. So at this point in time, I believe we have those things where they need to be. And so expect churn to continue to be in a strong place, and we’ll continue to adjust as necessary.

Now when you look at the actions that we take with our retail base, we certainly like adding accounts and new customers to our base, but our #1 focus is on retaining what is the largest and best base of customers in the industry. And so that’s -- when you look at the actions we’ve take commercially, that’s the lens to view it through. And when we do that, when we get the right offer out there for our base of customers to stay with us, we typically add new customers too.

Simon Flannery - Morgan Stanley, Research Division - MD

So moving on to 5G then. Maybe you can review the revenue guidance that you gave for the B2C and B2B for when 5G starts to make an impact on your financials.

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes. Yes. So we gave a little more detail on that last week. And I’ll maybe back up a second and say, so it starts with, obviously, building out the network. And that work’s ongoing. We obviously, deployed in 4 cities last year on the standard that we worked with others before the global
standard came out. And we've actually been putting the global standard into the network since the second half of last year. We'll turn it on as we have devices. And obviously, we talked about the smartphone devices we'll have in the first half of this year. We announced the Samsung device last week and the exclusive there. And then we'll have the 5G Home hardware on the global standard in the second half of the year. But a lot of focus right now on building out the network. As we build out that network, we'll do it within our historical CapEx range, and that will go on for, obviously, a few years. We'll continue to add devices for the customers. Obviously got some coming later this first half of this year and then build from there. And so what that means from a revenue standpoint is we would expect to see revenue scale on the consumer businesses, the 5G Home, 5G Mobility in 2020 next year, and then more meaningfully contribute to revenue growth in 2021.

And then on the B2B side, if you think about really building the ecosystem, and we talked about that. We talked about mobile edge compute and being able to facilitate the real-time enterprise. So we'll launch the first mobile edge compute platform later this year. We'll continue to work with our enterprise customers on use cases, and we think revenue there starts in 2021 and builds from there.

Simon Flannery - Morgan Stanley, Research Division - MD

Right. And you are building fiber in 60 markets, and you're going to launch 5G Mobility in 30 plus this year. Are those the right numbers?

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes. So a couple of different pieces there. As you think about building out 5G, what we're focused on is building out real 5G network that delivers all the functionality that 5G technology offers.

Simon Flannery - Morgan Stanley, Research Division - MD

And we're talking 28 to 39 gigahertz right now.

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Well, so we've got that and, obviously, the 28 that we acquired previously. So you're building out on the millimeter wave spectrum that we own today. But we're focused on building 5G to deliver all of the functionalities, not just the thin layer to say that we launched it or some pre-5G thing that others may be talking about.

So that's what we're building. And to do that, you need a number of different assets. We talked last week about you need spectrum, as you mentioned. We have a good amount of millimeter wave spectrum, because you need nice, big, wide highways of spectrum to take advantage of the ability to handle huge amounts of data and bandwidth, and so on with 5G. So you've got that. You need dense fiber. I'll come back to that in a second. You need a software-defined network that's been digitized, and there's a lot of work being going on around that and will continue to do so. And then you need the physical assets and the geography to do mobile edge compute, so then you can do the compute, at the Edge, to get the low latency that 5G brings.

So when you come back to the fiber piece, what we said is we've been building out fiber -- you mentioned the 60 cities we talked about, a little over 60 cities we talked about last week. That's outside the ILEC footprint because obviously, we have a good amount of fiber in the northeast area already. So this is building out fiber in 60-plus cities outside of the ILEC footprint. So if we just believe that the owner's economics there become important. That's multiuse fiber that we're building, supports wireless, supports our small medium business, supports our enterprise business and even wholesale as we go forward. So yes, we're going to be -- we continue to build out the fiber assets we need, so you combine that with the spectrum and all the other assets I mentioned.

We said we'd have 5G up and running in 30-plus cities this year, and that will expand beyond that. We'll expand within those 30 cities, and even after we turn them on, to increase the coverage and capacity, and then you'll see more cities come on as we get into next year as well.
Simon Flannery - Morgan Stanley, Research Division - MD
And I think you’ve said these are real cities. These are not kind of smaller markets, but I don’t know if NFL cities is the right analogy.

Matt Ellis - Verizon Communications Inc. - EVP & CFO
That’s probably a fair way to describe it.

Simon Flannery - Morgan Stanley, Research Division - MD
Okay. And so think a big initial footprint as being the kind of business center or something like that, other than Edging that is.

Matt Ellis - Verizon Communications Inc. - EVP & CFO
You’re going to go where customers are going to see the benefit, where you’ve got the flow of people and how -- where they work, where they live, where they play, and you’re going to start in the city centers. And the good news about starting there, as you think about the assets you need, because of the densification we did in 4G, you’ve got a lot of the network foundation already in place. And then you just go up to get the hardware from the OEMs, and then deploy it and then you build from there. So it’s -- we feel -- we’re excited about how that build is coming along and look forward to turning on the first markets in the not-too-distant future.

Simon Flannery - Morgan Stanley, Research Division - MD
Right. And then, yes, I think you said the handsets first half, the first Samsung device, so we’ll see that.

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

Simon Flannery - Morgan Stanley, Research Division - MD
And Moto as well.

Matt Ellis - Verizon Communications Inc. - EVP & CFO
Yes. The Moto Mod. It’s a great device, too. And one of the key things there is -- Ronan made this point last week but it’s worth repeating. In prior generations, the first devices come around, yes, it’s being technically on that new generation of technology, but the device itself hasn’t been a really exciting device. It’s either had really low battery life, or it looks like a brick or whatever else. That Samsung device that we just announced last week, that is a fully fledged, iconic smartphone device. And so it’s a launch on a new technology with a full-speed hardware to go with it, that’s different for us in 5G here. So that’s another reason why we’re excited about it.

Simon Flannery - Morgan Stanley, Research Division - MD
And I think one of the important points you made was 5G is fast. It’s got low latency. But that from an operator perspective, it really helps you drive down your cost per bit used.
Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes. When you combine 5G and then the other things we're doing in the network with Intelligent Edge Network, our cost will be able to come down. Every generation of technology has seen a step-function change in the cost per gig, and 5G is absolutely no different. So we'll see that step-function change. But when you combine that with the other things we're doing in our network -- and we talk about the Intelligent Edge Network, you go back to, historically, we ran multiple networks. A basic part of that was due to the fact that wireless was a joint venture. Now whatever the reasons, you would run multiple network cores, multiple transport layers. And what we've been doing over the past couple of years and continue to do is bring those together. So you've got one network or one transport layer, but you're doing multiuse offers. So the combination of that work, which will reduce both OpEx and CapEx to run the network going forward, and the move to 5G with the increase in spectral efficiency that you always get, et cetera, et cetera means that we're going to continue to see significant improvements in the efficiency on the network side.

Simon Flannery - Morgan Stanley, Research Division - MD

So we're coming up on the 6-month anniversary of launching 5G Home in 4 markets. Can you share with us what you've learned so far?

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes. Yes. So the first thing I'd say is that it works as well or better than our expectations going in. And obviously, we launched a product to have minimum speeds of 300 megabits per second. A large number of the customers we have on it are getting speeds well in excess of that.

Simon Flannery - Morgan Stanley, Research Division - MD

That was just using half of your spectrum.

Matt Ellis - Verizon Communications Inc. - EVP & CFO

And that's -- yes, exactly. And that's not even using all the spectrum that we have available in those locations. So -- and you're also not getting the -- because we had a small number of amounts of network equipment and customer CPE equipment, because we've been working on that standard, then the global standard comes out, and we wanted all of the network OEMs to pivot to the global standard because where you get the efficiencies come through. So you've got a limited amount of equipment. So I maybe just actually servicing a home today from one side, whereas when you think about -- as you get into a fully built-out network, you're going to have more coverage around that home as well. So we're getting great coverage inside the home. Customers are enjoying the experience. We certainly think the product resonates with customers. And now we're excited to get on the global standard later this year and really be able to move that forward.

The install process has been something that -- as we've seen significant improvement on as we've gone through, and we're continuing to refine that. And then as you get onto the global standard equipment, preparing to go to a self-install model as well. The customer wants the white glove treatment, we'll have that option. But for the customer that doesn't want to sit around and wait for that 4-hour delivery window or install window and everything else, we'll have the ability for a customer to do that on a self-install basis as well.

Simon Flannery - Morgan Stanley, Research Division - MD

As a CFO, you like those economics better.
Matt Ellis - Verizon Communications Inc. - EVP & CFO

I certainly do.

Simon Flannery - Morgan Stanley, Research Division - MD

And I think, in the breakout, the messaging is you're hoping that over half of your installs will be self-install over time. Is that the right way to think about it?

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes. Certainly, we've got a lot to prove, but absolutely, we don't see a reason why that won't be where we end up. Part of what we have to do is we have to change mindsets, right. Because everyone's been used to when you want broadband installed or change broadband provider, you call up and somebody in a truck comes around and does that for you. So we've conditioned the consumer base that's what to expect. And so we'll work through reconditioning people that, no, this is something you could yourself because you're not digging up the front yard and putting wires in the house or that way. But it's actually something we can do. But there'll be a little transition there, but certainly, believe that self-install become the way of the future.

Simon Flannery - Morgan Stanley, Research Division - MD

One of the stats that I was impressed by was that 50% of your customers are new to Verizon, and that you're also selling them other products as well. So given that this is a fairly limited rollout, I mean, that -- you must be pleased with what you're seeing, right.

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes. That was one of things that was a little surprising in a positive way. Because our assumption going in was the vast majority of the customer will be ones that we already had a relationship with through Verizon Wireless. And so to get a good number of those customers, who had come in, be ones that actually don't have that relationship right now. And then once they get -- see the great experience they get there, then we have the chance to broaden the relationship with them. So we're happy with what we've seen so far, and look forward to being able to scale that rollout as we get into the second half of the year.

Simon Flannery - Morgan Stanley, Research Division - MD

Right. So picking up on that, I think that a lot's been made of this 30 million Home target, and I think there was some back and forth on that last week. So what should we see out of 5G Home later this year and over the next several years? What is the game plan? What are your targets? Or what gates will this -- if we see this, then we'll go to the next 5 million or the next 5 million.

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes. So as you think about it, it starts with building out the network. And as I mentioned earlier, when you build out the network and people get to see it where they work, play and live. And so we'll add the network in geographies and places where it makes the most sense to start, and you build out within that geography from there. And as we cover the locations where people live, then you'll add that service.

So Kyle said last week, we could certainly get to that total addressable market in 5 to 8 years, if that was the focus of the build. And he said a couple of things: One, that's not the sole focus of the build, but then the other thing he said is that, that was based off of the first generation technology on 5G and just using our millimeter wave. As you bring in the Release 16, Release 17, just like on LTE. The LTE network we have today is not the
one we initially launched. It’s like far superior. As we go through the 5G evolution, you’ll see 5G continue to improve, and that will allow us to offer the service in ways that we can’t today.

And then as you get into — you think about dynamic spectrum allocation when you get that available within the technology, now it’s not just the millimeter wave that I can use. I can also use my existing spectrum to offer 5G, too. So that was the message that Kyle was putting out last week, is if I just went after that one of opportunity, here’s how I could do it. But I’m going to build the network for all the different uses. But also, as we go through this, you’re going to see enhancements in the technology there, and we can also alter the offer. When we think there’s markets where you don’t need the 300 minimum speed and maybe something lower than that, that gives you an opportunity to expand faster. So there’s a number of factors that will impact exactly the speed at which the homes show up. But our view on the total addressable market hasn’t changed.

Simon Flannery - Morgan Stanley, Research Division - MD
Okay. But for this year, it’s going to be back-end loaded. You’ll maybe turn on some new markets, but most of the acceleration, given the CPE issues, is more in 2020. Is that right?

Matt Ellis - Verizon Communications Inc. - EVP & CFO
Yes. Exactly. You’ll see us start to turn on markets in the second half of the year, and then it just builds. We’ll be adding new markets, and then within those markets, expand to new geography for both Mobility and 5G Home from this point forward. So it’s going to be that continual increase in the size of the market that we’re addressing.

Simon Flannery - Morgan Stanley, Research Division - MD
Right. Well, if we go back to your initial comments, you talked about improving the trajectory of both wireline and Verizon Media Group. Can you just touch on those strategies for a minute?

Matt Ellis - Verizon Communications Inc. - EVP & CFO
Yes. So a couple different pieces. If you look at the revenue side within wireline, you’ve really got a couple different businesses there. You’ve got the core business on legacy technology, largely copper-based that is going to continue to decline. And you see that across the industry, both on a consumer standpoint and a B2B standpoint. Those trends aren’t going to change meaningfully. But offsetting that, as you see what we’re doing with fiber products, whether on the consumer side as with Fios or with business, it’s the rollout and the continuation of things like SD-WAN, and then taking that to the next stage when you build 5G along with that, driving those products and services to our business customers to offset the secular decline you’ve got from the legacy side. So that will continue. And we think, as we do that right, we have the opportunity to move the trajectory in a better direction than where it’s been headed.

And then Verizon Media Group, the good news there is that we’ve now completed the integration of both the supply-side and demand-side platforms. So in terms of — from an advertiser standpoint, they’re much easier to do business today, the businesses today than they were 12 months ago. And that’s important.

And then the focus of that business is a lot more aligned today. They’re very much focused on — Guru talked about the super channels, finance, sports, entertainment and news. And there’s some good things going on there. We’re increasing how customers can engage with us. For example, in finance, Yahoo! Finance now has live bell-to-bell coverage on there, too. So we — Yahoo! Sports has done a number of things there over the past year.
So we think there’s a number of things in those platforms we compete and have relationship with our customers. And we’ve gone through that integration period, and now we’re coming out the other side of that, and the team’s got a detailed strategy they’re focus on executing. We think we’ll see the revenue trajectory in that business improve versus where it was last year.

Simon Flannery - Morgan Stanley, Research Division - MD

And how are you seeing the macro environment in your businesses currently?

Matt Ellis - Verizon Communications Inc. - EVP & CFO

The macroenvironment is pretty good. The key thing for us is, I think, we can be effective in any environment. We've done that numerous times over the past years and decades. So -- but right now, the overall macroenvironment seems like it's pretty good. It's not massively different from where it was last year, and so we'll continue to, obviously, to monitor it closely. But we're seeing that there's good momentum overall out there in the marketplace. So I think we have a little bit of a slowdown in some parts of the business earlier in the quarter with the shutdown, but that seems to go behind us here pretty quickly. And no, not seeing any sustained impact in the consumer environment.

Simon Flannery - Morgan Stanley, Research Division - MD

In the wireline business, you did have some pressure in Q4. There were a couple of one-time items, but now you have Voluntary Separation Program coming through in 2019. So how should we be thinking about margins there?

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes. So margins there will continue. As we’ve said last year, we saw around 20% rather than above 20%. That continues to be the right way to think about it. 4Q was certainly lower there. And as you mentioned, there was some one-timers. But coming into this -- the Voluntary Separation Program does lean towards more benefit on the wireline side than the wireless side. All parts of the business will get some benefit, but wireline will really benefit from that. We'll continue to manage other cost sides of the wireline business, including the content component. And so that's -- we would expect margins to be close to or around 20% as we go forward here. But there's a lot of work for the team to do for us to make sure we deliver that.

Simon Flannery - Morgan Stanley, Research Division - MD

Great. Before we open it up for questions, you had a nice kind of summary of your capital allocation priorities. Perhaps you can just recap that for us.

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes. First priorities is we'll continue to invest in the business, and that, obviously, starts with CapEx. And we expect CapEx to be within our historical capital intensity range going forward, as we -- and that includes deployment of 5G and what we're doing with the fiber rollout. So that's the #1 priority. Also within investing in the business, spectrum and bolt-on or tuck-in acquisitions will certainly be part of that, too.

The second priority is the dividend. We know that’s important to investors. The board has increased the dividend for the past 12 years. And as we do our jobs right as the management team, we put them in a position to continue that trend.

And then thirdly, the strong balance sheet. And we've said, when we did the Vodafone transaction, that we wanted to get back to credit rating profile consistent with that. And we've been working on that certainly, a $10 billion increase in cash flow from operations last year or the '17 was
contributor to that and reduced the unsecured debt by $5.2 billion last year. At the same time that we've also improved the funded status of the pension, so we're now above 90% funded status on the pension plan. So that's part of the strength of the balance sheet as well.

And then we gave a leverage target. And we said we think the appropriate leverage target is net unsecured debt to adjusted EBITDA, and our range should be 1.75x to 2.0x. Last year, that metric improved from 2.4x to 2.1x. So we're certainly closer to that target range and any time since we did the Vodafone transaction, and we will continue to manage for that balance sheet. But yes, so invest in the business, dividends' important and strength in the balance sheet.

Simon Flannery - Morgan Stanley, Research Division - MD

Great. All right. Well, there's mics in the back so we've got time for a couple of questions. Quiet group this morning.

Let's come back to this bolt-on, tuck-in acquisitions. So I think your name has been associated with a lot of big potential dance partners over the years. Just how do you think about M&A? And obviously, there's been a leadership change here. What are the kind of the lenses that you look at a potential deal?

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes. Well, if Hans was here, he would say the same thing. But as we think about M&A, it's a tool to execute the strategy, but you start with it through that lens. We're not doing M&A for the sake of doing M&A. If we find opportunities to accelerate the strategy in a way that creates value, then absolutely, we'll look at things. And we've done things, some transactions that shows that.

As we move into a 5G world, you think about the capabilities and someone that will need to fully take advantage of the opportunities that 5G will bring, especially when you think around partnering with our enterprise customers to build that mobile edge compute, that real-time enterprise environment. There are probably capabilities that would make more sense for us to acquire rather than develop organically just from a time standpoint. So I would expect us to do things there.

We do transactions all the time. Some of them -- a lot of them are so small, we don't even have to do an 8-K or so around them. And it just by adding on to those capabilities of the business. So that's where we're primarily focused. And the M&A, it serves the overall strategy of the business. And as we've talked about where the strategy of the business is, it's leading with network, providing the best network experience to consumers, building on the way that our customers use the network, which is evolving all the time, and being that provider of choice.

Simon Flannery - Morgan Stanley, Research Division - MD

I think there was one comment, I guess, Hans, about no linear TV. But I mean, how are you thinking about content generally?

Matt Ellis - Verizon Communications Inc. - EVP & CFO

I think he summed it up well. There's -- we have no desire to own linear content. We have some content within the Verizon Media Group business. But certainly, a large-scale linear TV is not something that we think makes sense for our business.

Simon Flannery - Morgan Stanley, Research Division - MD

So you're happier during things like the Apple Music deal, perhaps, to bring value to your customers.
Matt Ellis - Verizon Communications Inc. - EVP & CFO
That would make more sense going forward.

Simon Flannery - Morgan Stanley, Research Division - MD
Okay. There's a question here.

Unidentified Analyst
You mentioned building out the edge compute business. I was wondering if you could explain a little bit more what that looks like. Is that data centers with a tower at big network nodes? What do you mean when you talk about edge compute?

Matt Ellis - Verizon Communications Inc. - EVP & CFO
Yes, I'd say it's more capabilities as opposed to like big physical assets. We have, as you think about the COs we have, all the C-RAN hubs, and so on, you have a lot of assets, which are going to act as a edge compute. So it's more the capabilities to take those assets and turn them into the services that would differentiate our offerings, certainly, to all our customers, but very much to our enterprise and business customers.

Unidentified Analyst
Can you a little bit elaborate where we are on OSS and BSS accreditation? OSS and BSS operational support instrument, building support system accreditation when it comes to 5G? And what would be the role of software vendors in 5G CapEx vis-à-vis 4G CapEx?

Matt Ellis - Verizon Communications Inc. - EVP & CFO
Yes. So certainly, as you get into the 5G world, the ability to deliver more of the end service that the customer wants becomes important to fully take advantage of it. That's we're in the process right now. We're partnering with people. We've talked about some of the 5G labs that we have in various places around the country and working with people to develop those use cases for 5G. The 5G functionality is very exciting, but you've got to develop the applications. We're working with numerous people on that right now. I have nothing to disclose at this time, but I think you'll see significant things come out of those activities over the next few years.

Simon Flannery - Morgan Stanley, Research Division - MD
So I think April 1, you're going to start the new corporate structure, is that right, the business and consumer. So what's the rationale for that? And what, as investors, what should we be looking for to come out of that?

Matt Ellis - Verizon Communications Inc. - EVP & CFO
Yes. Very much it's about being focused on the customer first, which is something that's always been key for us. But as you look at the convergence and the technology, previously, the service you delivered was wireline and the service you delivered was wireless, whether it was consumer, or business, we're discrete, and so managing wireless and wireline separately. The underlying networks were managed individually. It made sense. So we maybe come to a customer, like Morgan Stanley, who's had wireline offers or wireless offers, and it was okay to be 2 separate businesses. As we go forward and we see the convergence of the technology, that doesn't make sense. And given that being a customer-focused business, we'll align our -- we'll organize ourselves around what's the right way to face our customers. So this is, we think, with the technology at the inflection point it's at, it's the right time for us to also change how we come to you, right? We're going to -- as approach our customers, they're interested in the solution, the technology you can give them, not the technology, underlying technology that provides a solution. And so we want to have that
conversation with our customers. And so moving to a -- it's a customer organization. It's a business organization that does that is going to allow us to provide the best service to our customers in the various marketplaces we do that in and not have channel conflict between the different businesses. So it makes a lot of sense to do this at this point in time.

Now the onus is on us in terms of -- as we go through this transition, internally, I'm very confident we've got it laid out the right way. We have to provide the transparency to our investors as we go through this. And so you'll see us continue to provide the supplemental disclosure through the rest of this year, such that you can see how the business focused in new way relates to the same business in the old way. I mean, obviously, it's going to add up to the same overall number. But getting used to that new structure will help everyone get through that as we do that.

Simon Flannery - Morgan Stanley, Research Division - MD

And when do we see the first proformas?

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Well, the expectation is we report second quarter results in the new structure in July, and that we'll certainly expect to see something at some point ahead of that from a historical standpoint.

Simon Flannery - Morgan Stanley, Research Division - MD

Great. All right. Great discussion, Matt. Thanks so much for your time.

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Thank you for having us.