OVERVIEW:

VZ reported 3Q19 consolidated reported revenues of $32.9b and GAAP EPS of $1.25.
CORPORATE PARTICIPANTS
Brady Connor  Verizon Communications Inc. - SVP of IR
Hans Vestberg  Verizon Communications Inc. - Chairman & CEO
Matt Ellis  Verizon Communications Inc. - EVP & CFO

CONFERENCE CALL PARTICIPANTS
Brett Feldman  Goldman Sachs Group Inc., Research Division - Equity Analyst
Colby Synesael  Cowen and Company, LLC, Research Division - MD & Senior Research Analyst
David Barden  BofA Merrill Lynch, Research Division - MD
Douglas Mitchelson  Credit Suisse AG, Research Division - MD
John Hodulik  UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst
Michael Rollins  Citigroup Inc, Research Division - MD and U.S. Telecoms Analyst
Michael McCormack  Guggenheim Securities, LLC, Research Division - MD & Telecommunications Senior Analyst
Philip Cusick  JP Morgan Chase & Co, Research Division - MD and Senior Analyst
Simon Flannery  Morgan Stanley, Research Division - MD
Tim Horan  Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst

PRESENTATION
Operator
Good morning, and welcome to the Verizon Third Quarter 2019 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’m here with Hans Vestberg, our Chairman and Chief Executive Officer; and Matt Ellis, our 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 I 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.

The presentation contains certain non-GAAP financial measures. Reconciliation 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. As a reminder, we are in the middle of a millimeter wave spectrum auction, so we will not be able to comment on our current millimeter wave spectrum holdings or spectrum strategy.
Now let's take a look at consolidated earnings for the period. For the third quarter, we reported earnings of $1.25 per share on a GAAP basis. These reported results contain 2 special items: a net pretax gain from dispositions of assets and businesses of $261 million, and a $291 million pretax pension remeasurement charge. The gain from dispositions includes several transactions during the quarter primarily the sale of our Sunnyvale Yahoo! campus as we look forward to moving to our new Verizon Media Group facility in San Jose.

The mark-to-market pension charge was related to our management pension plan, which triggered remeasurement earlier in the year as a result of the Voluntary Separation Program. The charge is primarily due to a reduction in the discount rate assumption during the quarter. The net impact of these special items was minimal to net income, resulting in adjusted earnings per share of $1.25, which is up to 2.5% compared to $1.22 a year ago.

Let's now move to Slide 4 and take a closer look at our earnings profile for the second quarter. Consistent with previous quarters, we have illustrated the ongoing impacts to earnings from the adoption of accounting standard ASC 606 for revenue recognition and ASC 842 for leases. As we pointed out the past 2 quarters, we have realized a lesser benefit in 2019 than we realized last year from the adoption of ASC 606 primarily due to the deferral of commission expense. This reduction in benefit creates a year-over-year headwind to both reported earnings per share and adjusted earnings per share, which will continue until the end of 2020. The impact was $0.03 for the third quarter and $0.09 on a year-to-date basis.

Accounting standard ASC 842 for leases resulted in a gross-up on the balance sheet for all operating leases at the beginning of the year. In addition, the lease standard affects our earnings per share primarily due to the expensing of certain lease costs, which results in a headwind of $0.01 in the third quarter and $0.04 year-to-date. We expect the fourth quarter impact to be within the previously provided range of $0.01 to $0.02 per share.

As you can see on the earnings waterfall slide, adjusted EPS growth of 2.5% reflects the strong underlying performance of the business, partially offset by the impacts of the deferral of commission expense and the adoption of the leasing standard. Matt will take you through the details of the quarterly performance later in the call.

With that, I'll now turn the call over to Hans.

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

Thanks, Brady, and thanks, everyone, for joining the third quarter earnings call. I want to start by saying that I'm very pleased how well the team executed our strategy and operation this quarter. We made a lot of progress on our overall strategy, so I'm very happy with it.

Let's start with the network. I think the network team has continued to execute extremely well. I'm confident in our ability to keep winning the third-party awards on the 4G network. We are just continuing to do a really good job there. At the same time, our team is executing on our 5G strategy, and we're now up to 15 markets where we have deployed our 5G Ultra Wideband. Our commitment with 30 markets by year-end is still committed, and we will continue to do so the rest of this year.

At the same time, we also launched the 5G Home city based on the NR standard. That proves that mobile is now moving into the standard 5G to really see that we get the full benefit of the deployment and the development on the 5G standard when it comes to 5G Home. We're also doing a lot of things in One Fiber, continue to have a very high pace in that. And that One Fiber is so important for our overall Intelligent Edge Network that we are deploying in the company in order to realize the multi-purpose network to gain all the efficiencies and serve our customers even better over time. So in short, a lot of progress in the network.

At the same time, our strategy execution in the quarter showed a lot around our business model, the flexibility we have in the business model. Just recently, we made an announcement with Disney and our agreement with Disney when it comes to Disney+. I think this proves the model that we have decided to have with a very strong network distribution and a brand that attracts the best brands on the planet to work with us, and we're extremely excited over that.
At the same time, we continue to deploy also 5G Ultra Wideband in stadiums especially now with NFL, 13 stadiums when the season kicked off having 5G coverage. This is important for us because it’s part of the dense urban areas where you have a lot of viewers at the same time when really our 5G is coming to excel. Because of the 5G build that we’re doing with our assets is -- we’re making a real big difference here.

At the same time, we’re also working, of course, with the -- our 5G mobile edge compute. And as we stated already in the beginning of the year, we’re going to launch the first 5G mobile edge compute center in the fourth quarter. And that is in progress, and we’re going to announce that later this quarter. So we’re excited on that.

At the same time, you see us engaging much more with large enterprises because with the 5G platform and 8 currencies, we are now a lot of interactions. We announced in this quarter, for example, collaboration with SAP, Corning. All of them are use cases for the 5G mobile edge compute. So we're excited to have that opportunity we're creating with the 5G mobile edge compute with the largest companies in the market.

When it comes to Verizon Media Group, they also had a quarter with a lot of strategy execution and came out with a lot of new products in the portfolio: a new mail service. They also had the enhancement on the Yahoo! Sports and Finance, a lot of traction on it. We saw a great take up on our NFL that we have now with Yahoo! Sports. So all in all, our Verizon Media Group is executing on the strategy we laid out 1 year ago in a really good way.

And finally, earlier in the quarter, I think we continued to lead the charge in the wireless and Consumer market with our new mix and match, which is just continuation of how we want to bring our customers to understand how they can move up in the value chain to unlimited. I have to say Ronan Dunne and his team are doing an excellent job to really to move this market forward.

And as you can see in our operation performance, we had a really good quarter when it comes to wireless additions here, one of the best quarter -- third quarter we had in several years. So really, this paying off what we are doing in the model and actually moving this forward. So all in all, a lot of progress on our strategy. Of course, a lot more to be done, but it’s clearly now positioning us where we want to be as a company with our customers and our shareholders.

Finally, this of course came down to our finance. We had a revenue growth almost 1% in the quarter. More importantly, we continue to have a wireless service growth in the quarter, we continue on the same level almost we have the previous quarters. And all in all, that converted into continued EPS growth that we had in this quarter as well. And that is, of course, coming with a very strong underlying operational performance with some headwinds coming from accounting. But to be honest very good work from the team, which is based on our commitment of cost efficiencies or Voluntary that were done and all of the things we’re doing at the same time.

That also concluded in a very strong free cash flow, continued to take control of our balance sheet and seeing that we’re putting ourselves and our Board in a good position going forward. So all in all, the finance performance really sort of resonated with a strategic execution we did in the quarter.

We had also a lot of execution when it comes to responsible business, and this is important to us because it’s part of our strategy. We made commitment around our education or 5G to schools. We made commitments around our CO2 emissions. All in all, this is part of our strategy, it’s part of our responsible business. Ultimately, it should be good business for all of us, for our customers, for our shareholders and our employees who should be part of that journey. So we continue on that path, and we think it’s very important for all our stakeholders.

All in all, a very good quarter. The team executed well on all the metrics. There’s areas that we need to improve. There’s areas that we're still working on. But in general, I would say that I’m happy and satisfied how the Verizon team is showing up this quarter.

By that, I hand it over to Matt.

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Thanks, Hans, and good morning, everyone. Let's start with a review of our consolidated operating and financial results.
On a reported basis, third quarter consolidated revenue was $32.9 billion, up 0.9%. This growth was primarily driven by higher wireless service revenue, partially offset by lower wireless equipment revenue and ongoing declines in legacy wireline revenue, predominantly in our Business segment. Year-to-date consolidated revenue is up 0.5%, in line with our full year GAAP consolidated revenue guidance of low single-digit percentage growth for 2019.

In the third quarter, we delivered strong adjusted EBITDA margin while positioning for future wireless revenue growth by updating our unlimited offer and executing effective promotions to drive strong wireless volumes. The headwinds that Brady mentioned earlier from the deferral of commission expense and the lease accounting standard lowered EBITDA by $240 million, which is approximately a 70 basis point impact on EBITDA margin in the quarter. As reported, third quarter consolidated adjusted EBITDA margin was 36.6%, down from 37.4% in the prior year. Since we initiated our business excellence program in 2018, we have realized cumulative cash savings of $4.6 billion and are on track to achieve our goal of $10 billion of cumulative cash savings by 2021. Our Voluntary Separation Program has produced approximately $900 million of expense savings year-to-date, including over $400 million of savings in the third quarter. The last tranche of employees exited the business in late June, so we have now reached our full run rate of expense savings for the VSP.

As Brady mentioned, adjusted earnings per share for the quarter was $1.25, up from $1.22 a year ago. This is the third quarter this year with adjusted EPS growth of 2.5% or higher, highlighting the strength and momentum in the business. The combination of wireless service revenue momentum, solid margin performance and strong customer volumes keeps us on track to achieve our adjusted EPS guidance of low single-digit percentage growth for 2019, excluding the impact of the lease accounting standard. Additionally, we still expect our full year 2019 adjusted effective tax rate to come in at the lower end of the 24% to 26% range.

Now let’s review our operating segment results, starting with Consumer on Slide 7. As a reminder, our Consumer segment includes both wireless and wireline products and services, targeting retail customers as well as our wireless wholesale operations. In August, we launched new unlimited price plans, which provide more choice to customers and an easier entry point into unlimited on the nation’s best network. As a result, phone gross additions were up 10% over the prior year. The popularity of the new mix and match plans and overall value proposition drove postpaid phone net additions of 239,000 for the quarter, more than double the 112,000 last year. Postpaid smartphone net additions were 372,000, up from 285,000 in the prior year. Total postpaid net additions were 193,000, including other connected devices of 130,000, primarily wearables, offset by tablet losses of 176,000.

Our network leadership, coupled with the personalization of our customer value proposition led to a postpaid phone churn of 0.79%, which was similar to last year even with additional market participants. Total postpaid device activations were flat from prior year at 7.4 million, including 6.2 million phones. Our retail postpaid upgrade rate was 4.9%, down from 5.1% a year ago, reflecting the continued elongation of the handset upgrade cycle. In the third quarter, prepaid net losses were 81,000 compared to a loss of 96,000 last year. Our focus on the high-value prepaid market has resulted in stable prepaid revenue despite declining volumes.

Fios Internet net additions of 30,000 were relatively flat sequentially and down year-over-year. Fios Video results continued to be impacted by the ongoing shift away from linear video offerings with losses of 67,000. Our customers see value in our high-quality broadband offering paired with multiple choices for video through linear TV bundles or over-the-top options, such as YouTube TV and the recently announced Disney+.

Now let’s move to Slide 8 to discuss Consumer financial performance. In the third quarter, total Consumer operating revenues were $22.7 billion, which is up 1.4%. This was primarily driven by continued strong growth in wireless service revenue and Fios service offerings, offset by declines in wireless equipment and legacy wireline services. As we look to add value beyond connectivity, other revenue grew 18.7% primarily driven by recurring services, such as Total Mobile Protection. Consumer wireless service revenue increased by 2.1% over the prior year even as we introduced new unlimited pricing. We increased wireless service revenue and ARPA by driving customer step-ups to unlimited plans from metered plans and increasing connections per account. We have continued room for further growth as around 50% of our customer account base is currently on unlimited plans. In the third quarter, Consumer wireless equipment revenue decreased 5.6% as lower upgrade rates more than offset an increase in phone gross adds. Consumer Fios revenue increased by 1.7% due primarily to the demand for our broadband offerings.
Consumer EBITDA margin as a percentage of total revenue in the quarter was 45.3%, which was down 30 basis points from the prior year. This includes headwinds of approximately 80 basis points from the deferral of commission expense and the new lease accounting standard. We are extremely proud of the team's ability to drive significant volume in the quarter while maintaining strong EBITDA margin.

Now let's move to our Business segment on Slide 9. Our Business segment includes wireless and wireline products and services provided across 4 customer groups: global enterprise, small and medium business, wholesale and public sector and other. Business wireless volumes remain strong with a 12% increase in gross adds for the quarter primarily within small and medium business and public sector. Postpaid net adds were 408,000 compared to 364,000 in the prior year. This includes 205,000 phones, 112,000 tablets and 91,000 other connected devices. Our continued strong customer loyalty across the Business segment led to phone churn of 0.98%, which is relatively flat sequentially and up slightly over the prior year. Total postpaid churn of 1.22% was up 5 basis points compared to the prior year. Total postpaid device activations were up 5.7% while our retail postpaid upgrade rate was 4.5% versus 4.8% in the prior year.

Let's now move to Slide 10 to review the business financial performance. Strong wireless service revenue growth and high-quality fiber products were offset by softness in legacy wireline technologies, causing total operating revenues for the Business segment to be approximately flat for the quarter. Revenue from our Business wireless products grew 6.9%, including 6.1% wireless service revenue growth. This performance reflects Verizon’s best-in-class network quality, reliability and solutions-based approach with our Business customers. Revenue from our wireline products declined 6.7% in the quarter.

From a customer group perspective, global enterprise revenues declined 2.4%, driven by legacy pricing pressure and technology shifts. Wholesale revenues declined by 13.7% driven by price compression and volume declines, which we expect to continue in a highly competitive marketplace. Small and medium business revenue increased 6.2% driven by wireless service and Fios growth, partially offset by ongoing declines in traditional data and voice services. Public sector and other revenue increased 1.2% as a result of growth in wireless and wireline products and services.

Business segment EBITDA margin was 25.2%, which was down 300 basis points from the prior year. This includes headwinds of approximately 50 basis points from the deferral of commission expense and the new lease accounting standard.

Now let's move on to Slide 11 to discuss Verizon Media Group. For the third quarter, Verizon Media Group revenue was $1.8 billion, which was down 2.0% versus the prior year, continuing the improvement in revenue trends. Gains in native and mobile advertising continue to be offset by declines in desktop advertising, though the business is building momentum in key areas. We are migrating customers to our recently integrated native and demand side advertising platforms with double-digit growth year-over-year. For the first time, we are seeing mobile traffic increases outpace desktop traffic declines in our core owned and operated products, including sports, finance, news, entertainment, home and mail. Although it's early in the NFL season, customer engagement has doubled over a year ago in terms of minutes watched as more and more fans are using their mobile devices to watch games on Yahoo! Sports. We are diversifying our monetization streams in Media Group, including additional customer engagement opportunities on Yahoo! Sports and fantasy platforms and the launch of new integrated content-to-commerce capabilities.

Let's now move to Slide 12, which reconciles Verizon 2.0 results to our legacy Verizon 1.0 results. As we have previously committed to provide transparency through our transition to the new Verizon 2.0 segmentation, Slide 12 contains a reconciliation similar to the one we provided in the second quarter. These waterfall charts reconcile revenue and EBITDA from our Consumer and Business segments back to wireless and wireline.

The top chart shows Consumer revenue of $22.7 billion in the quarter. After removing Consumer wireline and adding back Business wireless, we report total wireless revenues of $23.6 billion, with EBITDA margin of 46.8%. The bottom chart shows a similar reconciliation from Business to wireline results, starting with Business revenue of $7.9 billion and ultimately arriving at total wireline revenue of $7.1 billion in the quarter, with EBITDA margin of 17.4%. Wireline revenues were down 3.8% from prior year, with margins down from the prior period as a result of the ongoing pressures in legacy product volumes and price compression. You can find additional detail in our supplemental information included on our website.

Let's now move to Slide 13 to discuss the wireless results. Looking at overall wireless, which includes both Consumer and Business, total operating revenues increased 2.6% to $23.6 billion in the third quarter, primarily driven by a 2.7% increase in service revenue. Based on the momentum in the business, which is carried over into October, we expect total wireless service revenue growth for the fourth quarter to be between 3% and
3.5%. Total wireless EBITDA margin as a percentage of total revenue in the quarter was 46.8%. This includes headwinds of approximately 90 basis points primarily from the deferral of commission expense and the new lease accounting standard. Excluding this impact, EBITDA margin was 47.7%, similar to prior year despite the significant increase in volumes.

The success of our new mix and match unlimited plans translated into impressive volumes driven by phone gross adds up 10% to 2.7 million, which marks our highest third quarter phone gross add performance in the last 5 years. Postpaid phone net adds for the quarter were 444,000, which were up from 295,000 a year ago. Postpaid smartphone net additions in the quarter was 615,000, up 21% from 510,000 in the prior year. Total postpaid net adds was 601,000, consisting of tablet losses of 64,000 and connected device gains of 221,000, mostly driven by wearables. Postpaid phone churn of 0.82% was up slightly from 0.80% last year while total retail postpaid churn of 1.09% was up 5 basis points year-over-year.

For the quarter, we increased customer net accounts by 25,000 as compared to zero in the third quarter last year. Total postpaid device activations were up 1.1%. This was driven by an increase in postpaid gross additions of 4.3 million, up 7.7% from the prior year, offset by a decrease in our retail postpaid upgrade rate to 4.8% from 5.0% a year ago.

To recap the wireless quarter across Consumer and Business, we reset unlimited pricing and absorbed the initial impact from optimizers. We were competitive on the promotional front, and we drove strong wireless volumes to set us up for future growth. All of this was accomplished while growing EBITDA on a like-for-like basis and generating one of our strongest free cash flow quarters in several years. We are excited about the trends in our wireless products while pushing forward to extend our 5G leadership.

Let’s now focus on our consolidated cash flow results and the balance sheet on Slide 14. Year-to-date, cash flow from operating activities total $26.7 billion, up from $26.2 billion during the prior year. Benefits from year-over-year operational improvements and lower discretionary employee benefit contributions were partially offset by higher cash tax payments and payments related to the Voluntary Separation Program. Year-to-date capital spending was $12.3 billion, which was up slightly from the prior year. Our capital expenditures continue to support the growth in data and video traffic on our industry-leading 4G LTE network, the launch and continued build-out of our 5G Ultra Wideband network, the upgrade to our Intelligent Edge Network architecture and significant fiber deployment in 60-plus markets outside our ILEC footprint. We maintain our full year 2019 CapEx guidance range of $17.0 billion to $18.0 billion.

The net result to cash flow from operations and capital spending is free cash flow for the first 3 quarters of the year of $14.4 billion. We ended the quarter with $109.6 billion of total gross debt, which is $3.3 billion lower than the prior year. The unsecured debt balance was $100.8 billion, which is lower year-over-year by $2.9 billion and lower sequentially by $1.3 billion. Our net unsecured debt to adjusted EBITDA ratio at the end of the quarter was 2.1x versus our targeted range of 1.75 to 2.0x, reflecting the continued strength of our balance sheet. We remain focused on reducing our unsecured debt portfolio while continuing to actively manage our near-term maturities, optimize our overall funding footprint and lower our cost of capital. Our capital allocation priorities continue to be in order: investing in the business, continuing our commitment to the dividend and managing our balance sheet to achieve our targeted leverage range.

In the third quarter, we demonstrated yet another period of focused execution. We were able to maintain strong EBITDA performance and generate solid cash flow while driving significant volumes to set ourselves up for future revenue growth in the fourth quarter and beyond. We continue to be disciplined in our approach to capital allocation, and we remain committed to strengthening our balance sheet, all while leading the industry in 5G development.

With that, I’ll turn the call over to Brady so we can get to your questions.

Brady Connor - Verizon Communications Inc. - SVP of IR

Thanks, Matt. Brad, we're now ready to take questions.
QUESTIONS AND ANSWERS

Operator
(Operator Instructions)

Your first question comes from Brett Feldman of Goldman Sachs.

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

If we look at some of your most recent moves with the unlimited price adjustment and now the partnership with Disney to give away Disney+ for free for a year, it certainly seems like you're assuming a bit more of a growth posture than we've seen from the company recently. And I was hoping you could maybe just sort of frame to us why you see this opportunity as we're sort of late in the 4G cycle, not quite in the 5G cycle yet. How are you hoping this is going to position you as you do get ready to ramp more aggressively in 5G? And then of course, anytime we see an operator become a little more growth-centric, there's always some degree of investment to create that growth. How do we think about the level of spending you're going to have to incur to make sure you can keep this momentum going?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Thank you very much. I think that when we -- this is part of the overall strategy that we outlined in the beginning of the year. We have a great network. We have the distribution and, of course, the brand. We -- when it comes to Disney+, we can partner with the best partners, and it's actually a win-win. I mean actually, they are gaining a lot to be partnering with us as we are gaining a lot as well. And I think this is a differentiation we can provide to our customers and give them the flexibility and so on. So I think that first of all, not assuming that this is a heavy investment, it's actually a win-win in all aspects. I think that's very important.

Then when it comes to our move on mix and match early in the quarter, that has been part of a very rigid planning, very disciplined way of viewing things where we are actually ramping and doing a pathway for our customers to come into unlimited, moving up in unlimited, where ultimately, when 5G comes, we're going to have ubiquitous 5G coverage, they can move up to that higher level.

So it's all a plan, but we also said all the time, we see opportunities on 4G as well. I mean we know that we outlined a great opportunity on 5G with 4 different business cases. But hey, we can execute on what we have on the assets we have today, and we are very happy that -- with that in this -- and we use our strength right now to really see that we are using the market opportunities that we see. And I think that the whole team has been executing very well this quarter, and that's what you see.

And we have also done other type of partnership, and that's part of our network-as-a-service strategy that we outlined in the beginning of the year. So I think you see that we see a possibility of continued to grow even in the 4G area, and I think that's important.

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes. And Brett, if I would just add on a couple of points. You mentioned us having a growth posture. We've really been leaning forward for over a couple of years now. From when we launched unlimited, we've been continuing to update our Consumer offerings, our customer offerings. You see those resonate. It's built on the backbone of having the best network experience. So this is an ongoing process that you've seen from us over the past couple of years. And you should expect us to stay on the front foot going forward.

In terms of -- you mentioned investment in growth. If you look at the wireless numbers as a whole, so -- as you say, very strong growth. But when you adjust out for the accounting, our EBITDA margin was in line with last year. So it's a great performance from the team that we can focus on growth and continue to report strong margins. So it's well-balanced there as well.
Operator

Your next question comes from Phil Cusick of JPMorgan.

Phil Cusick - JPMorgan Chase & Co, Research Division - MD and Senior Analyst

How effective were the new plans in driving more subs to unlimited? I heard you mention you still have 50% or so. And I appreciate the commentary on service revenue on 4Q. What does that tell us about unlimited take rates and moving up or down tiers?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

In general as I said, for us, it's a way for seeing that our customer get the best value. They can mix and match. I think that resonates well with the marketplace that you can do it. I think that, as Matt said, we have been on the forefront since unlimited come out in new ways of both offering, but also giving a wide breadth of opportunities for our wireless customers. So I think that's what we're seeing.

And as you heard from Matt, that means we come in with a good momentum in the fourth quarter, and our wireless service revenue is now increasing our guidance for the fourth quarter. But remember also, it's both Consumer, and we're doing very well on the Business side as well. I think that Tami and the team are doing great job on wireless. And then if you see the numbers, we continue to do really solid work across the board here.

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes. Yes. And to follow on from that point, if you think about the 444,000 phone net adds we had in the quarter, we had more than 200,000 in each of the Consumer and Business segments. So that wireless growth is very well balanced across the totality of our customer portfolio, which is very good to see.

You mentioned the unlimited percentage. Prior couple of quarters, we were saying we're still less than 50%. This quarter, we had approximately 50%. The new plans give people -- a lot have moved up to unlimited, a great opportunity to do so. We're seeing them do that. There's still plenty of space and more customers to come there, Phil, and as you see the service revenue guide for the quarter. And obviously when you have increase in net adds, that gives us greater confidence around service revenues as we look into the future.

Operator

The next question comes from David Barden of Bank of America.

David Barden - BofA Merrill Lynch, Research Division - MD

I guess a couple for Matt on the financials. I think, Matt, we saw a kind of spike in wireless cost of service in the quarter kind of anomaly I think relative to history that it could have -- wireless margins could have been a lot -- even better. If you could kind of address that spike, it will be helpful. And then similarly on the flip side on wireline, kind of almost a 2 percentage point sequential step down in wireline margins. I know you mentioned that we've hit the full run rate from the voluntary departure plan, which I thought would have kind of supported that. So could you kind of walk us through what happened in the wireline margin side, too?

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes. Thanks, David, for the question. So on the wireless cost of service side, I mentioned that the phone net adds split was fairly even between Consumer and Business. Business had a more than 10% increase in phone gross adds. And as you are aware, our -- a lot of our Business customers are still on a subsidy model rather than device payment model, so I think you see the impact of that. But as I said earlier, we had great growth in
the quarter in wireless. And overall margins were in line with a year ago. So we are very happy with the balance of that performance between growth and the margins.

On the wireline side, obviously, we still have work to do there as you look at wireline. Certainly, we see the continued effect of the revenue declines in legacy products. That’s not new. We’ve had that for a number of quarters, and we expect that’s obviously going to continue.

The key for us in wireline is to develop products and services that will offset those legacy products and services. And by bringing the Business segment together where we’re bringing both wireless and wireline products to our Business customers holistically, this puts us in a better position to really be that partner of choice for our Business customers as we move into a 5G world. So as we develop those product and services, we look forward to seeing what comes from those segments as we go forward.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

And I can only add on the wireline side there, the whole transformation we’re doing with the new segments is, of course, paving the way for actually thinking about the customer. This customer extremely important for the digital transformation when it comes to private 5G networks, to mobile edge compute in the future. So the customer relationship is very important there.

And secondly, as Matt said, the investment that we’re doing in the network right now with mobile edge compute with fiber and all of that, that’s of course things that are going to offset that over time. It’s not immediate because we have a secular decline on the product portfolio. It’s known, and -- but we constantly work with the front end of it, and I think that putting together what we have done is really, really good. I mean I have, together with Tami and the team, visited, I would say the majority of all the large Fortune 50 companies in this country right now and talking about our offerings and what we can do for them in the future. I think we had a really good a good start there, but it will take some time.

So I think this is a very, very important asset that we have, that we need to work on it. That’s why we’re taking out costs to do it all the time. As I said, it will not be an immediate recovery, and we will -- but I think we have plans for the future to really do this well. And I see so much encouraging signs just lately on how we work with this, so yes, that’s where we are with wireline.

Operator

Your next question comes from John Hodulik of UBS.

John Hodulik - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Two questions. First, anything you guys can tell us about the financial impact to the Disney partnership? And then more specifically, what kind of lift are you guys seeing from an ARPU standpoint as you guys get sort of non-unlimited customers moving up to unlimited?

And then second, could we talk about use of cash as you guys get to your leverage targets? It looks like you’re going to get below -- at or below 2x sometime early next year. How do you prioritize your returns of cash to shareholders versus sort of other needs, like spectrum for instance? And is there a chance that we could see buybacks come back into the cards next year?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Thank you. If we start with the Disney+ agreement. I think, first of all, we learned a lot from our exclusive agreement with Apple music. Both how we do these as a win-win for both the partner and us. And remember, we are I would say fairly picky who we do this type of partnership. We do with the best brand, with great products. The same go for Disney+.
Remember, we are offering a lot to these companies as well. I mean we offer a base, solid distribution that no one else has in this country, definitely the best customer base at the same time, the best network. So I think it’s a much more win-win than you might believe as I hear your questions coming out. I think that we are offering something fantastic for them. At the same time, as you well pointed out, we have a chance right now to move our customers in our value chain of unlimited again given that we are adding these types of things.

So I think we have a good metrics. We have a good experience from Apple music that we now take to the streaming, and we’re going to have a win-win. It’s going to be great for Disney. It’s going to be good for us. So I think that’s what we have.

On the capital allocation, I mean as Matt said, first of all, we invest on our business. Our CapEx, whatever tuck-ins we need, that’s really #1 priority right now. Secondly, we’re putting our Board in a good position to continue to increase the dividend, 13 years in a row of dividend increase. We want to have them in that.

And then, of course, we continue to do our commitment, which was to get back to pre-Vodafone ratings and pre-Vodafone measurements. So we’re doing that. That’s what we execute all the day. And yes, we’re getting very close, and we will give a lot of opportunities for the Board in the next step to think about what they want to do. And that’s what Matt and I are doing and the whole treasury team, which I think is doing an excellent job. So that’s where we are with the capital allocation.

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes. If I will just add a couple of things to that, Hans. And I would say while we’re not going to provide any more details about specifically where we’ll be next year, you should not expect us to want to aim to go outside the bottom end of that range, below the 1.75, and you should not expect us to build significant cash balance on the balance sheet.

Operator

The next question comes from Simon Flannery of Morgan Stanley.

Simon Flannery - Morgan Stanley, Research Division - MD

Hans, I wanted to talk on 5G a little bit. You rolled out the new standards-based 5G Home in Chicago. Can you just give us a little bit of color about what difference that makes and how aggressively you’re going to lean into this in terms of new markets and households until you get the next generation with the new chipsets? And then related to that, you’ve got a number of 5G Ultra Wideband devices in your handset mix. Obviously, you’re waiting for the iPhone. But how do you see that — those devices penetrating your subscriber base over the last few months? And what does the pipeline look for new devices with that capability over the next few months?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Thank you very much. When it comes to the 5G Home that we launched now with the NR standard, that was an important thing for us because as you remember, we launched in 4 cities with our proprietary software. Now we have it on the global standard software. So that’s an important event for us.

And the second important event though of this launch is, that we are now having the cell set-up. Remember, we had a North Star, how we want to do this so differently. So yes, you are right, we are launching this, and it’s a lot of new experience that we’re giving to our consumers but also that we are now taking as we have been working since the early launch on the first 4 cities.

As you rightfully point out and I said several times as well, that there’s coming a next-generation chipset in the second half of 2020. That’s really when we think we’re going to have a more massive deployment of it. And until then, we are deploying in the millimeter wave with the ultra
wideband in so many cities. So when we get that more -- the next-generation CPE, then based on the next-generation chipset, we're going to be in a very good position second half to actually come out much wider. So this is just the next step for us to get all the insights, billing, experience for our consumers, so we can really take a big step when it come to the next-generation chipset.

When it comes to the smartphones, as you rightfully said, we have launched all the iconic 5G phones so far this year. We see an exciting take up on that because many of our customers are taking the phones. And even if you have not launched all cities, they are preparing. So we are paving the way for them because many of these phones are also extremely good 4G phones, and as soon as we come with 5G for that city, they will also have that. So that we see on us Brian Higgins that is leading our device organization has said basically all phones coming out next year will be 5G capable. So we will have a range of phones coming out next year. There's one brand that we don't know, and we haven't talked about them, and again, they need to talk about when they will have a 5G phone. But all others will basically have their phones coming out.

So I feel good about it, the performance has gone up dramatically. I mean if I look at the Galaxy coming out, the Samsung Galaxy, which is one of the first phones where in the beginning, we tune up to 500, 600 megabits per second, which we thought was great. That's doing 2 gig right now constantly in the ultra wideband. So we see also a clear improvement on the software tuning between the network and the handsets. And as we deploy more and more, we're just getting better and better and giving a better and better experience for our customers.

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Operator

Your next question comes from Michael Rollins of Citi.

Michael Rollins - Citigroup Inc, Research Division - MD and U.S. Telecoms Analyst

How do you see the pricing model evolving with 5G in terms of the opportunity to charge by rate of speed instead of by the current model, which are unlimited per gigabytes or a certain quantum of gigabytes?

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Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Thank you. Of course, as we get into 5G, you get a fair amount of new potential ways of charging. I still think that our model for unlimited is really both helping us and our consumers to go to actually move up in the value chain from getting into the, let's say, the lower tier of unlimited coming up to the sort of the highest. It's a wide range and, of course, the highest is including 5G. Today, we're waiving that, but all time we see that if you're going to get that ubiquitous sort of coverage and capacity, and -- that will give us an opportunity.

At the same time, we started adding our flexibility in our business model, having Apple Music, having Disney+ and all of that in the same time. So I think that we have a lot of tools in our portfolio to continue to drive this forward. And I think that as I always say, I have a lot of confidence in the Consumer team. And as they have come together today, you see clearly new potentials. I mean remember we have 5G Home coming, we have 5G Mobility at the same time. There's a lot of things that can be done for us to continue to this journey. And I think that one of the proof points of the whole new structure is, of course, also that Disney+ is not only for mobility, it's for our Fios customers, and it's for our 5G Home customers. And suddenly, we think about Consumer as a full segment, which I think it was the whole idea with the new structure we have.

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Operator

The next question comes from Tim Horan of Oppenheimer.

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Tim Horan - Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst

Hans, can you give us maybe some more thoughts what you think people are going to do with gigabit speeds instead of megabits? When we rolled out 4G, we had a lot of new innovative kind of applications. Just any thoughts on that as you're talking to the Fortune 500 companies. And are
there ways for you maybe to participate in some of the revenue from some of these new applications with lower -- also maybe lower latency? Just any more thoughts what you’re seeing on use cases.

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

Yes. I think that is an excellent question. I mean the first, which is a totally new business model, is 5G Home. That’s a totally new way how we use the technology, which we have never been able to do before because a stand-alone fixed wireless access can never be sustainable financially. In this case, it is.

Then of course when you think about the 8 currencies coming out from 5G, I think that our conversation with the large enterprises today is a lot about the latency and the mobile edge compute. Because suddenly, you can transform your factory with robotics by having a low latency. You don’t need a wired factory, so the future digital factory will have 5G. We see also much bigger 5G private networks, where you get security much higher because it’s going to be your network. You define your network, you have a compute and storage for your enterprise. This is a new way of charging and actually interacting with our customer. And sometimes, there’s going to be a software in between that come from a software company, so we need to work with them as well.

So -- and as I said earlier, I mean this quarter, we’re going to launch our first 5G mobile edge compute center. So we are on the path of doing this, which actually will add more opportunity. Then on the Consumer side, which usually question starts with, which are now end with because I see so many other opportunities, is of course AR/VR. We see now quite a lot of money coming into the venture side when it comes to 5G innovation. And I think that as we move into 2020, we’re going to see much more. We have our 5G challenge, which we announced at CES where we had a lot of companies participate what they’re going to do with 5G. It ranged from everything what they can do with 5G.

I think we’re at the moment of 4G, but way bigger. When 4G came, I didn’t know what type of application and new service companies would show up. I think this is far bigger that we’re standing in front of right now, and we have much more insights to it as well.

**Operator**

The next question comes from Colby Synesael of Cowen and Company.

**Colby Synesael - Cowen and Company, LLC, Research Division - MD & Senior Research Analyst**

Two questions, if I may. Number one, can you talk about the revenue impact of the step-up in the insurance fee on a full year basis and the amount you expect to reinvest in things like promos and marketing and things like Disney+, so we can get a better sense of the net benefit to the company? And then secondly, given the slower deployment for small cells, not fiber, but for small cells that’s being seen really across the industry, are you considering shifting more of your investment dollars back to the macro network as we shift into 2020?

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

I can start with the second question. I’m not sure where you say is slow. The definition what is a small cell is, number one, I mean I’m not sure there is a good definition on that. Of course we deploy a lot of urban cells right now. In my book, that’s actually small cell, so I don’t think you’re referring to us when you talk about less deployment because we are in the midst of our 5G deployment right now, which is very focused on the dense urban places where there’s no macros, it’s small cells. But it depends on what you define as a small cell. They’re everything from micro to medium-sized hybrids to the macros. And -- but in our case, it’s not that we’re slowing down anything here.
Yes. So Colby, on the question on the revenue impact of the step-up in our insurance products, Total Mobile Protection, from a geography standpoint, that’s in the other revenue line, so that the contribution from that step-up is not in the service revenue line. But as you say, it’s -- you saw a good increase in that line in the quarter. We continue to add value to our customers. It’s an example of how we think about the Consumer offering holistically, whether that be the core service and having it on the best network; whether it be bringing value like we have this year, first with Apple Music and now with Disney+; and how we bring other services, such as Total Mobile Protection, cloud storage, et cetera, et cetera. So we continue to look for those opportunities to add value for our customers. And as we do that, you see the impact on revenue, and you see the impact on volume. So coming out of the third quarter, very strong volumes, great momentum coming out of the quarter, and we’ve seen that continued strong momentum here in October as we start the fourth quarter and head into the holiday season.

So all of those things that we’re doing around the customer proposition are really driving a lot of positive trajectory for the business right now. We have good line of sight for that continuing as we go forward.

Operator

The next question comes from Doug Mitchelson of Crédit Suisse.

Douglas Mitchelson - Credit Suisse AG, Research Division - MD

So for Disney+, you’re the national partner for Disney, and the impact for both of you is highly dependent upon getting Verizon customers to sign up and use Disney+. What would you consider a good conversion rate for unlimited customers to Disney+ customers? And should we benchmark it to Apple Music usage? And any sort of go-to-market strategy commentary around that would be interesting. But also, you’re proving that you could partner with great content, and I do -- I’m interested in your comments on the benefit of owning media and then particularly the Verizon Media Group.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Thank you very much. No, I think that it’s a little bit different, of course, Apple Music from Disney+ given that the Disney+ is, of course, a heavy streaming and Apple Music is a fairly light audio. So of course, it also -- when you think about the conversion rate, you need also to understand you need to be on unlimited when you come up to this one and moving up in unlimited. So of course, it might be a little bit lower conversion rate. But I still think that our team knows this very well right now. We do the co-marketing. It’s great for our customers. It creates loyalty, but not only that, we give something more for our customers. So I think that we have a good -- we’re not giving away the conversion rates right now, and I think that will put more pressure on Disney than us. So I think that that’s a -- but I think we have a good grip on it.

When it comes to our view on content, I think that first of all, when it comes to streamed content or linear content and then all of that, I think that we are -- we like the model we have. We have a lot of flexibility. We partner with the best. We offer our asset so you’re going to see us doing that in the right places. But anyhow, Verizon Media Group fits very well into our because what we see they are doing is of course over-the-top sort of Yahoo! Finance, Yahoo! Sports, Yahoo! Entertainment, Yahoo! News, all of that is over-the-top services. Where we get engagement, we learn how content is working. And of course, then we have our advertising platform then that is getting then owned and operated content that drives the flywheel of our advertising platform. So it all sinks in.

And then you -- we also need to have that a lot of the content that we now are trialing out for 5G is coming from our Verizon Media Group because one of the first 5G labs we have actually inside Verizon Media Group for them to be innovating on the next-generation content, with animation, and holograms and whatever you can think about. So we have good synergy between Verizon Media Group and our network business, which is extremely crucial for our success going forward.
Your last question comes from Mike McCormack of Guggenheim Partners.

Michael McCormack - Guggenheim Securities, LLC, Research Division - MD & Telecommunications Senior Analyst

Hans, maybe just a quick comment on the wireless side. Obviously, very strong phone adds in the quarter. Just from a competitive landscape, are you seeing a share-taking opportunity here with, I guess, potentially Sprint and T-Mobile -- I don't want to call it distracted, but obviously quite busy. And how that situation might change as you go through 2020?

Then secondly, I guess for Hans also, on the wireline side, are there any opportunities to carve out some of those assets? I know we've been talking about this for years. But anything that you can see out there that might make sense? And then maybe just one last one for Matt on the legacy pricing pressure within wireline. What exactly are seeing? Maybe just elaborate on what you're seeing as far as pricing pressures go.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

So when it comes to the wireless, and the -- first of all, we think the third quarter was very similar in -- the competitive landscape in the third quarter was very similar to the second quarter. I mean there were some iconic launches there. So first of all, it is a competitive market. We need to remember that. It's just that we are having -- we are on the forefront right now, as Matt said. We have a good chance to continue to monetize on that, then I think we have a good, compelling network and customer offerings. So I think that's what's important for us.

Of course, as I've said before, the landscape will change in the future here when it comes to competition. Our strategy will not change. How we are executing right now will be the same. We'll continue to go hard on the network, seeing that the customer-centric organization that we have is really making the right decision for our customer, creating the products they want. So I think that that's what we're going to do, and we're going to have the flexibility to see market opportunities that we saw in the third quarter. We move on them, and we are preparing our structure, our products and our organization for doing that.

Matt Ellis - Verizon Communications Inc. - EVP & CFO

Yes, Mike. On the wireline side, the legacy pricing pressures that you questioned about. I mean obviously, we're seeing the pressure, both from volume and a pricing standpoint. It's not really dissimilar to what we've seen in the past few quarters, but that's going to continue as customers continue to transition to fiber-based services. That's why we have been doing -- rolling out more fiber, as you know in our One Fiber initiative that's going to give us more opportunities to sell into those customers as they move off of legacy products. And our fiber build has continued to gain momentum, increased a little bit in third quarter of over 1,500 route miles a month on average in the quarter. So we're getting to a good momentum there, and that will open up additional opportunities for us as we go forward to replace those legacy volumes.

Michael McCormack - Guggenheim Securities, LLC, Research Division - MD & Telecommunications Senior Analyst

Hey, Matt, any comment just on the wireline assets? Anything out there that might be interesting?

Matt Ellis - Verizon Communications Inc. - EVP & CFO

No. I think we've done a good job over the years. And when you look at the assets we have now, they fit within the portfolio. Obviously, if anything comes up, we continue to look but nothing major that we see immediately in front of us there.
Hey, look that's all the time we have for questions today. Before we end the call, I want to hand it back over to Hans for a few closing comments.

So a quick summary. I mean as I said in the beginning, I mean, I'm satisfied how the team have executed on our strategy in this quarter. We continue to execute well on our network, 4G and 5G, and One Fiber, as Matt talked about. Our customer-centric model is starting to pay off big time with the concerted offerings in the market, both for Verizon Business Group, Verizon Media Group and Verizon Consumer Group. You continue to see us hammering on the leadership in 5G, very important for us. A lot of headway or a lot of progress in this quarter especially, and now 15 markets up, 13 NFL stadiums, a couple of arenas that host both hockey and basketball as well. So -- and 5G Home coming out. So continued progress there. We have more to do in the fourth quarter, which is exciting. And then, of course, we continue with the discipline in the financial environment that we're all in and executing very carefully but also taking opportunities when we see them in the marketplace. So all in all, I'm pleased with the quarter, and we are happy with the momentum that we're creating going into the fourth quarter. So thank you very much for being on the call today.

Yes. Thanks, everyone.

Thank you.

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.

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