OVERVIEW:
Co. reported 3Q21 consolidated total of $32.9b and GAAP EPS of $1.55. Expects 2021 adjusted EPS to be $5.35-5.40.
CORPORATE PARTICIPANTS

Brady Connor  Verizon Communications Inc. - SVP of IR
Hans Vestberg  Verizon Communications Inc. - Chairman & CEO
Matt Ellis  Verizon Communications Inc. - Executive VP & 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
Craig Moffett  MoffettNathanson LLC - Co-Founder, Founding Partner
David Barden  BofA Securities, Research Division - MD
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John Hodulik  UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst
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Michael Rollins  Citigroup Inc., Research Division - MD & U.S. Telecoms Analyst
Philip Cusick  JPMorgan Chase & Co, Research Division - MD and Senior Analyst
Simon Flannery  Morgan Stanley, Research Division - MD

PRESENTATION

Operator

Good morning, and welcome to the Verizon Third Quarter 2021 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 our Chairman and Chief Executive Officer, Hans Vestberg; 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 we get started, I'd like to draw your attention to our safe harbor statement on Slide 2. Information in this presentation contains statements about expected future events and financial results that are forward-looking and subject to risks and uncertainties. Discussion of factors that may affect future results is contained in Verizon's filings with the SEC, which are available on our website.

This presentation contains certain non-GAAP financial measures. Reconciliations of these non-GAAP measures to the most directly comparable GAAP measures are included in the financial materials posted on our website.

As a reminder, we've entered the quiet period for the 3.45 gigahertz spectrum auction, so we will not be able to comment on our spectrum holdings or strategy.
Now let's take a look at the consolidated earnings for the third quarter. In the third quarter, we reported earnings of $1.55 per share on a GAAP basis. Reported results include a net pretax gain on the sale of Verizon Media of $706 million and a net pretax charge of approximately $247 million, which includes a net charge of $144 million related to a mark-to-market adjustment for pension liabilities and $103 million related to a severance charge for voluntary separations under our existing plan. Excluding the effect of these special items, adjusted earnings per share was $1.41 in the third quarter compared to $1.25 a year ago. Please note, our results include 2 months of Verizon Media as the sale to Apollo Funds closed on September 1.

With that, I'll now turn the call over to Hans to take us through a recap of the third quarter.

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

Thank you, Brady, and thank you all for joining our third quarter earnings call. We had a solid performance in the third quarter, growing total wireless service revenue by 3.9% year-over-year with earnings growth. This was supported by strong net additions in wireless and broadband, which are both translated to bottom line growth. This definitely confirms our strategy to grow our business with high-quality offerings.

As I said throughout the year, we have all the assets we need to extend our #1 position in the market. Our strategy remains unchanged, and we're delivering on everything we promised. And we're gaining momentum on all 5 vectors of growth.

We have more paths to grow than anybody else, and we're confident with our growth targets for outer years based on our third quarter and continued momentum into the fourth quarter. As an evidence, we're updating financial guidance for the full year. We now expect total wireless service revenue growth of around 4%, which is on the high end of our prior guidance and adjusted EPS of $5.35 to $5.40, up from $5.25 to $5.35. We remain on track to achieve our targeted CapEx levels in 2021, assuming no further disruption in the supply chain.

Our team is working diligently and doing a fantastic work with vendors and suppliers to ensure we have adequate equipment to meet our C-Band build and that we have devices that our customers want.

Our operational excellence and our partnership strategy is the best in the industry, which I have been so impressed by since I joined Verizon. And in times like this, it matters.

Let’s talk about business. We continue to provide the best-in-class experience across the board. On the network front, third parties continue to recognize us as the best network experience. This includes RootMetrics for the 16th consecutive time and J.D. Power for the 27th consecutive time. Our network team is doing a great job.

On the commercial front, we've got great momentum in the 5G adoption, with over 25% of our consumer phone base using a 5G-capable device. This is tracking well ahead of the 4G adoption, as I’ve said before.

For context, 12 months after 4G launch, 10% of the devices were on 4G. Less than 12 months after 5G DSS launched, more than the double were on 5G devices, and it's growing at a rapid pace. This, combined with our mmWave strategy, is an important combination, and that is paying off. In the third quarter, the total mmWave users more than doubled sequentially. We're doing more gigabit of users in a month now than we did in all of the first quarter. In some of our more established build-outs, we're seeing more than 20% of users on mmWave. And we are on track to have 5% to 10% of all traffic in the urban mmWave polygons by year-end.

For our Business segment, we continue to add wireless subscribers and take broadband share in our ILEC footprint with Fios. And finally, we delivered significant value creation and strategy refinement with the sale of the Verizon Media Group in September, the pending TracFone acquisition and also the issuance of our third green bond, which is a vital step towards our net zero goal in 2035. All this was accomplished in tandem with a strong quarter results.

When it comes to the financials, we're on track to meet and exceed all our 2021 guidance. We expect to have a strong finish of the year as we approach the launch of C-Band.
We continue to deliver excellent revenue performance in wireless service and within Fios. We have a diversified path to revenue growth with all 5 vectors contributing.

EBITDA was up 3.3% year-over-year. And on an adjusted basis, EPS was up 12.8%. Our capital allocation stands firm. We invest in our business to create shareholder value. We continue to increase our dividend, which we did for the 15th consecutive year. And Matt and team are working diligently on our debt reduction. As we said last quarter, our guidance raise is broad-based and across all our 5 vectors of growth.

Consumer segment EBITDA increased by 2% driven by positive trends in customer acquisition, premium plan adoption, product and services and content as well as prepaid and reseller growth. The service revenue momentum in the third quarter was driven by continued execution of our migration strategy to higher-valued price plans as well as high-quality net adds.

But our growth is more than that. Much of our long-term growth is in fixed wireless access and mobile edge compute. Our strategy is becoming a national broadband provider with the best access to the tech for our customers including Fios, fixed wireless access on 5G, 4G, mmWave and C-Band.

When it comes to the mobile edge compute, we are the mobile edge compute leader, both in public and private, thanks to great partnerships. And we just announced a private mobile edge compute partnership with Amazon that we’re pleased with. And this just scratches the surface on how we’ll continue to utilize our assets. We’re confident in our growth opportunities as we move into the investment cycle with C-Band.

Before I hand it over to Matt, I want to briefly touch on our broadband expansion. We are on track to meet our fixed wireless access household coverage targets with an expected 15 million homes passed by the end of the year between 4G and 5G. To date, 5G Home is in 57 markets, and the 4G LTE home in over 200 markets across all 50 states.

In addition to fixed wireless access, we’re pleased with the great performance of Fios and continue to grow the open for sales volumes within our footprint. We’re on track on exceeding all the commitments for 2021 and on track for long-term growth expectations outlined in our Investor Day earlier this year. You can expect us to provide 2022 guidance during our Q4 ’21 earnings call.

And now Matt, over to you.
Adjusted EBITDA in the third quarter was $12.3 billion, up 3.3% from prior year. Top line growth and a reduction in non-equipment-related expenses contributed to the year-over-year EBITDA growth. And net EBITDA growth is helping us drive EPS growth. For the quarter, adjusted EPS was $1.41, up year-over-year by 12.8%.

Now let’s take a look at our consolidated metrics. Throughout the quarter, we remained focused on bringing in high-quality net adds, a key component in helping us continue to deliver strong quarter-over-quarter revenue growth.

We are seeing strong demand for connectivity across our Consumer and Business units. Our Mix & Match value propositions, network quality and unique partnerships are resonating with both new and existing customers.

For the quarter, we delivered 429,000 wireless retail postpaid phone net adds, up more than 50% from prior year and in line with 2019 levels. We’re seeing growth in new accounts as well as high retention levels, allowing us to grow our base with high-quality net adds.

Phone churn for the quarter was 0.74%, well below pre-pandemic levels. Churn continues to benefit from a number of sustainable factors, including our best-in-class network with unmatched reliability and coverage and overall value propositions within our Consumer and Business unlimited plans. Additionally, consumer payment patterns continue to be better than pre-pandemic norms.

Total broadband net adds, defined here as Fios, DSL and fixed wireless, were 129,000. Fios Internet net adds were 104,000 compared to 144,000 last year. As a reminder, last year’s 3Q Fios results included a benefit from a higher backlog entering the quarter as we had largely paused in stores in Q2 2020 due to COVID. Fios has continued momentum driven by our best-in-class value proposition, built on network quality and our Mix and Match pricing structure. This combination is helping us to take share and deliver historically low churn rates.

For the first time, we are providing fixed wireless net adds, which include both Consumer and Business fixed wireless products. We are building momentum and our pre-C-Band success in Q3 demonstrates there is demand for the product from consumers and businesses.

Both our 5G and LTE fixed wireless products are performing very well. We’re pleased with what we’re seeing around the install process as well as the quality and reliability of the product.

Now let’s turn to our Consumer Group results. Our Consumer Group had another strong quarter, continuing the momentum that we’ve been seeing in wireless and Fios. Total revenue was $23.3 billion, up 7.3% year-over-year. Service and other revenue was $18.8 billion, an improvement of 2.5% versus prior year. These results include strong wireless revenue as well as growth in Fios.

Fios revenue was $2.9 billion, up 4.3% year-over-year mainly driven by growth in our Internet base of approximately 400,000 or 6.2% over the past year and migration to higher speeds. Our actions around Mix and Match, which included broadband-first approach, is helping us to grow Fios revenue and consumer EBITDA. We still see plenty of room for additional growth within Fios as we continue to increase our share, Mix and Match penetration rates and our open-for-sale locations.

Wireless service revenue was $14 billion, up 4% from the prior year. We have been driving access gains, both in growing accounts and phone net adds as well as by continuing to execute on our migration strategy. As a result of migrations and step-ups, over 30% of our account base is now on premium unlimited plans.

Our growth in access is being complemented by product revenue, which includes items such as protection plans, content and others. Our wide range of product offerings helps us to not only grow revenue but provides differentiated experiences and more value to our customers.

For the quarter, EBITDA was $10.5 billion, up 2% year-over-year or more than $200 million driven by our high-quality service and other revenue gains coming from multiple growth vectors. These results show the impact of our strategy to enhance the value of each connection, which we believe will drive continued growth into the future.
The Mix and Match pricing structure for both wireless and Fios provides tremendous opportunity to migrate customers to higher-value tiers and bring in customers on higher-value plans. We are very pleased with how this strategy is working to help us increase value from our base and from new customers. You can see the impact of this strategy throughout our results.

Postpaid phone net adds were 267,000, above our Q3 performance in 2019 and 2020. The performance was consistent during the period as we were able to grow accounts and deliver sustainably low churn throughout the quarter.

Most importantly, we continue to be very pleased with the quality of customers we’re adding, with approximately 66% of new accounts taking a premium unlimited plan. And Q3 was another quarter in which we saw a strong acceleration in our 5G penetration, exiting the quarter with over 25% of our phone base now equipped with a 5G-capable device, which is great progress in advance of our launch of 5G service on C-Band spectrum in the coming months.

Fios Internet net adds were 98,000 for the quarter, up slightly from the prior quarter. We continue to be pleased with the results we’re seeing, especially on retention.

Now let’s move to Slide 11 to review the Business Group results. Our Business segment continues to see strong demand for wireless services across multiple verticals. We are continuing to focus on what we believe will be the highest growth portions of the Business segment: our small and medium business unit, private wireless and the MEC space for enterprise customers as well as building momentum for fixed wireless access to serve multiple customer groups.

Total revenue for the Business segment was $7.7 billion. We continue to see growth in wireless revenue being offset by ongoing legacy wireline declines. Wireless service revenue was $3.1 billion, up 3.6% year-over-year. We saw quarter-over-quarter expansion driven by small and medium business, which was partially offset by distance learning pressures in public sector.

Wireline revenues continue to be pressured by secular trends, while also facing elevated year-over-year comps due to 2020 COVID spending.

Consistent with our focus on driving high-value business, in the wholesale space, we continue to rationalize our international voice traffic, which is contributing to the revenue decline shown on the slide.

Business segment EBITDA was $1.9 billion, down 2.4% from the same quarter last year, and Business segment EBITDA margin was 24.8% in the quarter.

While secular trends within wireline will continue to put pressure on margins in the near term, we’re encouraged by the growth opportunities associated with our business transformation efforts as they start to gain traction.

Our market leadership in wireless across all customer groups and our continued investment in primary growth areas for Verizon Business Group will position us to take advantage of the growth opportunities in the future. We are encouraged by the results we delivered for the highest-value portions of the segment in 3Q.

Phone gross add volumes were above pre-pandemic levels, up 11.4% year-over-year and up 3% versus the same quarter in 2019. Total postpaid net adds for the quarter were 276,000.

To better highlight some of the trends, on this slide, we’ve broken out the net adds by public sector and our higher-growth commercial businesses, which include small and medium business and enterprise. During 3Q 2020, the commercial space primarily within small and medium business was depressed, while public sector buoyed by distance learning programs saw elevated net adds.

In 3Q ’21, we’ve seen a rebound in the commercial space, while distance learning disconnects have driven public sector volumes to lower levels. We expect these trends to continue into the fourth quarter. A portion of distance learning disconnects also impacted our phone churn and net add performance. Despite this, we delivered postpaid phone net adds of 162,000.
Now let’s move to our consolidated cash flow summary. The business continues to generate strong cash flow. Year-to-date cash flow from operating activities totaled $31.2 billion. The year-over-year change was primarily driven by lower cash taxes last year from a onetime benefit and higher working capital requirements this year due to greater volumes.

Year-to-date capital spending totaled $13.9 billion as we continue to support traffic growth on our 4G LTE network while expanding the reach and capacity of our 5G Ultra Wideband network. C-Band CapEx was more than $1 billion through the third quarter. And we have placed orders for approximately $2 billion of related equipment year-to-date, giving us confidence that we will be within the previously guided incremental CapEx range of $2 billion to $3 billion for the year as we accelerate our C-Band deployment.

The net result of cash flow from operations and capital spending is $17.3 billion of free cash flow for the 9-month period. Net unsecured debt at quarter end was $131.6 billion, a $5.2 billion decrease versus the prior quarter. In addition to our third green bond issuance, we extended over $4.6 billion of near-term debt into a new 2032 maturity as we continue to optimize borrowing costs and our debt profile. Our net unsecured debt to adjusted EBITDA ratio was approximately 2.7x.

Our cash balance at the end of the quarter was $9.9 billion, which included the proceeds associated with our sale of Verizon Media Group. We expect lower levels of cash on hand as we progress through the fourth quarter and approach the close of the TracFone acquisition, while continuing to execute our business strategy within our capital allocation framework.

Let’s move on to Slide 14 for an update on guidance for the remainder of the year. We continued our strong first half performance and momentum in the third quarter. Hans and I are very pleased with the hard work our team is putting forth, and we are excited about the opportunities that lie ahead as we prepare for the C-Band launch.

Our strong year-to-date results and momentum heading into the fourth quarter are allowing us to update guidance on both wireless service revenue growth and EPS. Wireless service revenue growth is now expected to be around 4.0%, the high end of the prior guidance.

Adjusted EPS guidance is being increased from $5.35 to $5.40, up from the prior range of $5.25 to $5.35. Our guidance for the effective tax rate is unchanged. CapEx guidance is also unchanged, though I’d note that our assumption for our BAU spend of $17.5 billion to $18.5 billion is dependent upon no material changes in the current state of our supply chain.

Our team continues to execute on our strategy and deliver strong operational and financial results. We are attracting high-quality customers that see value in our products and services, evidenced by growth in accounts, migrations and step-ups. I look forward to continued momentum as we wrap up the year and position our base to take full advantage of all the things 5G Built Right has to offer.

With that, I will hand it over to Hans to wrap up our prepared remarks.

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

Thank you, Matt. As you heard, we delivered solid third quarter results, and we are on track to meet or exceed all our 2021 commitment to the investment community. Our strategy is working. And I’m confident in the strategy we have to deliver both strong results and premium experiences going forward.

As we look ahead, we’ll continue to focus on expanding our 5G leadership, capitalizing on wireless momentum and work towards our C-Band launch, deploying differentiating experiences for our customers and execute our Network-as-a-Service strategy, delivering all 5 vectors of growth. And we look forward to delivering on all fronts and sharing our results in the coming months.

With that, I hand it back to Brady.
Brady Connor - Verizon Communications Inc. - SVP of IR

Thank you, Hans. Brad, we’re ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Phil Cusick of JPMorgan.

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

Hans, you discussed continued momentum into the fourth quarter, and I see you recently pulled back on the more aggressive retention plans. Can you talk about what competition looks like in Consumer right now? And any shift in underlying demand?

And then second for Matt. Given the strong performance in the recurring revenue businesses, does it make sense to be less aggressive on reducing leverage and maybe allocate some free cash flow to buybacks, given the low multiple on the stock?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Thank you, Phil. Let me start with the competitive landscape. Yes, there is, of course, a little bit more competitive landscape right now. But let me remind you on a couple of things.

First of all, as we have learned from the history, broadband and mobilities, 2 of the most important infrastructure for any person in this country and in the world. So it’s not strange that there is competition here.

Secondly, we are in a moment where 5G is scaling, the economy is strong. So of course, that’s the moment where we see a lot of competition. But anyhow, if you look at our numbers, we are competing extremely effectively. We’re gaining the high-quality customers regardless of the type of competition we have.

And not only that, I mean, if you look at our growth of 3.9%, we feel really good about that as well when it comes to our service revenue. And we have been going back and forth on our promos. And the reason is that Ronan and his team on the Consumer side, they look at long-term profitability, high-quality customers when they come in and doing a promo. And right now, we feel very good about how we compete in the market. So we’re always going to have promos when we think it’s the right timing of it. So we feel really good about it.

And as you also saw that Matt talked about our increased guidance as well. So all in all, we feel good how we compete in this environment. And if you look at the track record the last couple of quarters, been really strong in Consumer. And Ronan and the whole team are doing a great job. So I feel good about that.

When it comes to the capital allocation, I’ll let -- I can just say that we -- our capital allocation is clear. I mean, we focus #1 on investing in business, and we are investing in the business this year and both in CapEx, the spectrum and all of that. So that’s #1.

But we also have, as I said, our 15th consecutive year of dividend increase. And Matt and I, we constantly see that we have a position for the Board so they can continue to do that, and we will continue to do that. And then we have our debt reduction, which Matt will talk about.

And finally, we have buybacks that we can do all the time. What I can tell you is that we constantly have a conversation with the Board which is the best way of doing capital allocation, the priorities. And we’ll continue to do so to see that our shareholders get the best out of Verizon. Matt?
Matt Ellis - Verizon Communications Inc. - Executive VP & CFO

Yes, Hans, I think you hit on the key points there. Look, we're always going to look at the pillars of our capital allocation policy. And right now, we continue to see a lot of opportunities to invest in our business.

You see what we're doing there around the C-Band investment, for example, not just for spectrum but also the CapEx associated with that. Obviously, we said long term, we do believe deleveraging is the right priority. But we're also focused on returning capital to shareholders, and you saw that with the dividend. So Phil, you should expect us to continue to be thoughtful about capital allocation as we go forward.

Operator
The next question is from Simon Flannery of Morgan Stanley.

Simon Flannery - Morgan Stanley, Research Division - MD

Great. Thanks so much for the disclosure on fixed wireless. That's great to see. Perhaps you could just give us a little bit more color on the economics of the product. Is this a similar ARPU to a smartphone? Are we looking at mostly LTE? Or is this a mix of LTE and mmWave?

And then perhaps just coming back to the C-Band. I think you said before, 7,000 to 8,000 towers this year, getting to 100 million covered POPs by the first quarter. Perhaps you'd just update us on that? And then how quickly do you really turn that into an expansion of your fixed wireless footprint? Does the marketing really start coincident with that? Or is that a steady ramp during the year?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Thank you, Simon. On the fixed wireless access, yes, you're right, it's a similar ARPU on fixed wireless access as on our mobility. And also when it comes to the numbers we have, as you said, it's a mix of 4G. It's mmWave in the fixed wireless access right now. And as I said before, when we talk about our 5G fixed wireless access, the usage on the network is very similar as of Fios. So they are even using more gigabytes on the fixed wireless access on 5G than they do on Fios.

So -- and we have a very, very good performance and quality. And remember, on the fixed wireless access, we are also doing a, I would say, a different model with the self-install and all of that, making optionality for our customers.

And ultimately, the vision is clear for Verizon. We're going to be a nationwide broadband provider. We're going to have different accesses in different places depending on what is right for the customers and how quickly we can deploy.

So -- and we are investing in the Fios and you saw the numbers this month. I mean, we're adding 130,000 in this quarter when it -- or 129,000, to be exact, net adds in broadband. So this is a great business for us, and we're just ramping fixed wireless access.

And then coming back to C-Band, as soon as we turn on C-Band, we're also going to augment the footprint that we can offer fixed wireless access. So -- and as we said in the opening remarks, we're on track for that to deliver the -- after 1 year, having 100 million POPs covered by the C-Band.

As I said, there are some challenges in supply chain, but I can only say the team is just doing an enormous work. And just to be clear on it, the long-term planning we have with our vendors, the projection of forecasting we have done for all our equipment vendors over 2 years before we start deploying, of course, it's paying off right now that we work very differently with our vendors and how we plan. We have also pooled resources and inventory higher in the network so we can easily see that we have access to it. So we have done a lot of things in the last 2 years, 3 years in supply chain, so we can be in a situation to mitigate challenges we have right now. So all in all, that's where we are. Matt?
Matt Ellis - Verizon Communications Inc. - Executive VP & CFO

Yes. No, Simon, I think Hans has summed it up well there. We've got good momentum in the fixed wireless business there. You saw the 55,000 net adds in the quarter. That means we're approximately 150,000 total subscribers on fixed wireless access at the end of the quarter. Good momentum being built there. And as Hans said, as soon as we turn on C-Band, immediately be adding that to the technologies that we're selling on fixed wireless access. So good momentum buildup and then we've got that extra turbo boost to come here in the next few weeks.

Operator

The next question comes from Brett Feldman of Goldman Sachs.

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

Just actually a follow-up here on your broadband business. You mentioned you're getting a mix of both LTE and 5G subscribers. I'm curious who are these customers? Specifically, are you upselling into existing accounts? Or are these primarily new relationships for Verizon?

And then it's also notable that you are continuing to expand the Fios footprint. It looks like you're going to add over 400,000 locations open for sale this year, and it seems like you would expect to be at or above that pace going forward. You really hadn't edged out that footprint for a long time. Why have you decided to do that now? How big could the Fios footprint be? And is all of this happening in your region? Or are you actually doing some of this out of region?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Okay. On the customers on fixed wireless access, I would say there are probably roughly half and half. Half, meaning coming from our existing base and half were taken from other suppliers. That's basically how they come in right now. And let's see how the mix going forward.

But here, we have the optionality that we've talked about before. And we have the owners' economics to work with convergence if that's what our customers want to have. We basically have all of those optionalities right now. And I feel really good about that.

And then the second question on the Fios footprint. We have constantly, of course, deployed Fios, and in this -- in our ILEC to be honest. And what we see right now is very strong demand, and we're winning the business we're deploying. The team is deploying. And as I said, we are heading towards 400,000 open for sale this year. And we will continue with that because we see a great demand, and our win share is extremely strong in the Fios footprint.

Matt Ellis - Verizon Communications Inc. - Executive VP & CFO

Yes. So just a couple of things I'd add there, Brett. On the mixture of the customers, as Hans mentioned, a good mix of 50-50 kind of split there between new and existing customers. But also, I'd comment that a good mix, a good split between not just it being in rural areas and so on, but also seeing good traction in suburban and urban areas, too, for those products.

And when you think about those customers in the first 46 C-Band markets that will come online, the customers taking the LTE product there are getting a router that also has C-Band in so they can immediately step-up to those speeds when -- as soon as we turn C-Band on there soon.

And the Fios expansion, it's -- there's a couple of pieces. We see great opportunity, as Hans mentioned. The other piece, it's a great cost opportunity as well as we continue to upgrade the network technology in that footprint as well.
So we’ve been investing in that for a number of years. Maybe haven’t spoken about it quite as much, but it continues to be a very good growth driver for the business. And we see a very strong line of sight for it to continue to do so. 4.7% growth in Fios revenues this quarter, certainly something we can continue to build on.

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

If you don’t mind as a quick follow-up there around the cost point. Those of us who live in regions that have Fios know that sometimes you can get Fios or maybe down the street, you can’t. Are you kind of completing the communities? In other words, are you going to be at the point where you can finally rip out all this legacy infrastructure? Is that what you meant by the cost savings?

**Matt Ellis - Verizon Communications Inc. - Executive VP & CFO**

Well, that’s absolutely part of it. Now we’re going to be all the way there. That’s a long-term goal for us. But certainly, as you replace in a certain location copper with fiber, there’s a good benefit from a cost standpoint. In addition to the revenue step-up opportunities you get with that customer base. So it’s a win-win on both sides of the P&L there.

**Operator**

The 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**

Just a couple of follow-ups on the -- again, on the C-Band deployment. First of all, are you seeing any supply chain or labor shortage issues with the -- and that may affect the timing of that rollout?

And then beyond that, thanks for the 15 million sort of home passed with fixed wireless by year-end. Can you give us a sense of what the C-Band deployment, the sort of first phase of that, what that will do to that number? Do you -- as that gets launched, you turn on a number of more homes?

And then lastly, can you give us a sense of how your sort of go-to-market strategy will change? And do you expect the C-Band deployment to change the trajectory of your net adds, both on a fixed and mobile basis when we see that early next year?

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

On the C-Band, as I said before, there are, of course, challenges in supply chain, but our team has -- I think our team is the most outstanding operational excellence team in the world, and they are getting around all of it. On all major equipment, radios, et cetera, that are already secured. This is in a warehouse, and that's how we work.

I mean, we do long-term planning with our suppliers years back. So we feel really good about that. There’s been some challenges in the material. The team is working around them every day, finding new solutions in order for us to deploy, and they will continue to do so.

When it comes to resources, again, we secured our resources years ahead to be prepared for these type of deployments we have. And we're doing more deployment than we've ever done before.

You talk about C-Band. We do mmWave, 14,000 this year. We do fiber. We do augmentations on the 4G. We do Fios. The team -- so it’s many things they’re doing, and we have never done more than this. And I can tell you the team with supply chain and deployment are doing a great job.
When it comes to the 15 million households passed by year-end this year, that includes all the technologies we have. And of course, the second part that we guided for when we had our Investor Day was to get to 50 million households passed later on. So that includes all the technologies, including C-Band, of course, and also how we deal with different type of devices, having all the different technology in them.

So the team has been planning this, creating opportunities for us. And of course, without coming into '22 -- 2022 yet, but with the opening of the C-Band, we see great new opportunities. And as I said also at the Investor Day, that means we can accelerate and amplify our business cases on 5G. That was the whole thing with the C-Band, and the team is geared up for that and very focused.

Matt Ellis - Verizon Communications Inc. - Executive VP & CFO

So just following up on the bit about the open, the households covered. As you saw in the prepared remarks, we're at 11.6 million at the end of the third quarter. Obviously, we'll continue to add some mmWave and 4G for the rest of the year, but C-Band certainly will get us well over the 15 million as we turn that on.

Operator

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

David Barden - BofA Securities, Research Division - MD

I just wanted to return, Hans, to the competitive landscape. I guess, year-over-year, I think most observers would say that the promotions kind of look very similar as they did a year ago. And if anything, the wireless landscape is probably less competitive now than it's ever been in terms of postpaid phone net add availability. And as we look ahead, I think the things that people wonder about what's going to change are as the EBB and the PPP and the renovated programs all go away, the super normal kind of sport for the postpaid market might ebb.

And second, you've got the cable companies coming in with new pricing plans.

And then third, we've got the DISH launch coming up. Could you kind of give us your perspective on how comfortable people should be about how the landscape is going to evolve as these things change?

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Yes. No, there's a lot of moving parts here, as you talked about again. I mean, I think that what we have -- and now as we start with Consumer because remember also our strong position on wireless on the Business side. And basically, we are leading in every segment. So sometimes we forget to talk about how strong we're there.

But let me start with Consumer because I think your question is a little bit more geared to Consumer. Remember how we have built our [possibility]. First of all, we have the best network. We have kept the best network. We augmented, and we are, of course, adding more spectrum to it right now with C-Band. So that's very important.

The second part is that the value we are doing besides having the best network, of course, with all the offerings we have created over time with Discovery, Disney+, which all of them are giving us profitability and retention. And you see the share numbers in this quarter.

I think we have found a model with Mix and Match, and the things that we are offering our customers on the wireless side has really paid off with both the loyalty but also the step-ups. And remember, when Matt talked about that we are now 1/3 of all the unlimited, be on unlimited premium, but we still have, let's say, 1/3 on metered plan as well.
So we have so many steps to continue to move our customers upwards. And that has been a strategy from the beginning. And it's clearly different than anybody else in the market how we can do that and both offer the best network and the experiences that we have as well as the Mix and Match that we have in the network.

So I feel good about regardless of what type of competition is there and how it changes. We have owners' economics of everything we're doing. That was very clear from the beginning. We build our own fiber. We have the full network, and that's why we can have MVNOs on the network, which we also are benefiting from.

So the whole idea with the strategy we laid out is just playing straight into what's happening in the market where mobility and broadband is the essential infrastructure for every individual in the world at the moment. And hey, everybody wants to be here. We have the best assets. That's basically how it looks.

Matt Ellis - Verizon Communications Inc. - Executive VP & CFO

Yes. A couple of other points, Dave, if I can. So you mentioned the EBB impact on the marketplace. And certainly, we're supportive of all efforts to make digital connectivity available and accessible to everyone in the country, and we're participating in those programs.

I would, though, say that in terms of our gross adds and new customers coming in, it's a very small portion of that. The majority of our EBB participation is with existing customers rather than new customers. So it's not a driver of gross adds for us.

And you also kind of mentioned it. Obviously, in the marketplace, there's been new plans that have come to the market in the past 6 to 9 months. And what I would say is just look at the volumes we've had, especially in the last 2 quarters with those new plans in place. You see the high-quality volumes that we've put on in that environment. So you have to work across both the service revenue and the handset components of the offering to customers. You add in the other values and products and services that we bring to customers, too.

This is the strategy that we've been working on for 2 to 3 years now. Obviously, it was a bit of a dip when we hit the pandemic, but the strategy was driving revenue growth before the pandemic. And you see it driving revenue growth now as we continue to focus on high-quality customers and increasing the value of our base, and it shows in the results.

David Barden - BofA Securities, Research Division - MD

And if I could just quick follow-up, Matt. As we look at the implied performance in business wireline, is a portion of that related to Verizon's willingness to be more aggressive on price and throw more elbows to hang on to customers knowing that enterprise relationships are the groundwork for potential new wireless relationships as we think about enterprise 5G?

Matt Ellis - Verizon Communications Inc. - Executive VP & CFO

Yes. No, I think there's a couple of items when you look at the wireline part of the business revenue results for the quarter that are not related to what you mentioned. One, last year, during COVID, we saw a little bit of a step-up in some of the core voice data revenue that we hadn't seen in quite a while. We're now lapping that, and those volumes are returning to their pre-pandemic trends.

The other thing is we've stepped out of some of the wholesale international voice business that had revenue but not significant margins associated with it. So we wanted to focus on value-driving activities. We continue to compete effectively in the enterprise space in wireline. But on the quality and reliability of the service we provide, obviously, we aim to be competitive there. But I'm not -- I've not seen us do anything out of the ordinary of what we were doing previously.

And as you mentioned, those relationships are very important to us as we go into the 5G era. And we're really seeing those relationships pay off with the work being done, working through those opportunities in MEC with a broad array of enterprise customers.
The next question comes from Michael Rollins of Citi.

Two questions if I could. First, I'm curious if you're seeing any impacts of inflation on your cost structure. And related to that, what are the opportunities and the specific products where Verizon could try to pass through any increase in input costs and get better pricing?

Second question, just taking the reaffirmation today that Verizon wants to be a national broadband provider for homes, businesses and on the go, how are you evaluating that build-versus-buy decision of using your spectrum and 5G technology to introduce fixed wireless broadband services versus the possibility of acquiring cable and fiber assets in the future?

I can start with the second question. Matt will answer on the inflation. When it comes to our rollout of nationwide broadband and playing with that, of course, remember, we are doing a lot of fiber already right now. I mean, we’re doing -- remember, we have been reporting on our One Fiber project, which is still ongoing. In the most metropolitan areas, we are building on fiber. And of course, that is setting us up to have owner’s economics on the broadband.

And then at the access point, we will do a different type of 4G accesses. That's what new. The reason we do that because they're so much faster when it comes to coming out to the customer. And we want to be innovative as well and having a self-install and all of that combined with it.

Then we're always on our fiber when it comes from outside our ILEC, we have looked into buy versus build all the time. We have come to the conclusion we want to build. We built our One Fiber network because we wanted the owner’s economics on fiber. So that work is already done. So we feel really good about it.

We’re going to have owner's economics nationwide on broadband over time here. And we can work with our wireless offering, our broadband offering. We created the 2 go-to-market Verizon Consumer and Business Group thinking about our customers, how they do products, how to do platforms, the user experience. This all comes into play right now. I mean, I couldn’t be more excited than I am right now because the momentum for mobility and broadband is happening.

We have prepared and worked now for 3 years to get where we are. And yes, we -- I feel really good about what we have. And the strategy is really working. And we look at the last couple of quarters here, when we talk about our net additions, talking about the revenue growth.

And as I also said when we spoke earlier, I mean, if you look at the second quarter, when everybody has reported, we also take the larger share of industry service and other revenue growth in the market. I mean, that’s really what we’re focusing on. We’re focusing on getting the revenue growth.

And that’s a little bit of the answer to your question on inflation as well that Matt is going to soon take over. Of course, we still have a lot on the wireless side where we can migrate customers up to higher plans. And that’s, of course, the best way to see that we are getting incremental revenues from our customers but also give them more value and experiences.

Yes. Thanks, Hans. So Mike, certainly, we are seeing inflation in our business here. How long that lasts? Obviously, we're going to have to wait and see, and we're monitoring that closely.
But we're seeing that come across in certainly in labor rates. We're seeing it in commodities, driving utilities and whatnot. So -- but that's why the things we've done on the cost side over the past few years and continue to do are so important because it gives us the opportunity to be able to handle those -- any of those pressures coming in and continue to produce good margins. So we will continue to be focused there.

And then as Hans said, our opportunity on the pricing side is really to step customers up. If you've got direct costs out there that we can pass through that we certainly will always look for the opportunities to do that. That's why you see kind of the changes in our content model from the legacy linear model where there wasn't clear transparency to the consumer between the increase in the cost from the producer there to what they were paying. What you see and what we're doing in the wireless space with content gives a lot more transparency there. So as costs go up, it's much easier for those to flow through to the end user.

Operator
The next question is from Colby Synesael of Cowen.

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

Two if I may. First, you're starting to talk more about -- as they disclosed more on fixed wireless, which we appreciate. But you've also talked about the other 5G growth opportunity being mobile edge compute or MEC. When will we start to see that show up in the numbers and actually start positively contributing to growth? And where -- what line items would you point to where we'll be able to see that?

And then secondly, Hans, you mentioned that next quarter, we should expect to see 2022 guidance. Just curious if your views on the metrics that you're focusing on might change. You're going to be seeing incremental headwinds, particularly to EPS, tied to some accounting, I believe, on the spectrum. Just curious if you believe guiding to EBITDA and/or free cash flow is something that might become more important when we see that guidance for next year.

Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Okay. Great question, Colby. First, on the mobile edge compute, we are -- first of all, we're doing great progress in mobile edge compute. And you have seen that we have made announcements in the quarter with the biggest cloud providers in the market, both on the private 5G mobile edge compute.

And as you remember, there are basically 3 use cases. One is the public mobile edge compute and then it's a private mobile age compute and then it's private 5G networks. All of them sort of are in execution right now.

We're working with customers. We have announced a couple of commercial contracts already like Corning, the British Ports, et cetera. So that's already happening. And of course, it takes some time because we are actually creating a totally new market, and we are actually alone in this market. Nobody else in the world has launched mobile edge compute at this moment. So of course, we feel really good about that.

And the team is working through the funnel, all the way from proof of context to new applications. And that's how it works when you create new markets, et cetera. So we will come back as soon as we feel it's time to start reporting it as we have done with 5G fixed wireless access.

But I'm even more sort of excited automobile edge compute, what I've seen in the last year here with the technology solutions we have and also the customer interaction we have, together with the main partners. I mean, we have the biggest partners you can ever think about in this that are equally much vested as us because that was part of the strategy to bring different partners together.

So we will continue with that, and we will come back and report. And we will give you new deals and how it is progressing with partners over time. And ultimately, of course, it's going to be financials, and that's going to show up.
Initially, of course, it’s going to be on Verizon Business Group that’s going to have that as revenue. There is a B2B2C opportunity longer term, which can end up in Consumer, but predominantly in the beginning is a Verizon Business Group opportunity.

Matt, on guidance, have you thought through what you’re going to do next year? He hasn’t told me yet.

**Matt Ellis** - Verizon Communications Inc. - Executive VP & CFO

So Colby, great question. So obviously, we’ll get into guidance at the next call. But as you mentioned, we always look at what year-over-year pressures may be in there, especially things that are accounting-related rather than cash flow-related. We’ll make sure we have the appropriate level of transparency around that.

The important thing for us to be able to demonstrate in that guidance is how our strategy is working, and it’s going to show up in revenue growth and cash flow growth. And you see that this year, and we’ll find a way to make sure that we could communicate clearly that we’re continuing to grow the top line of the business, and that’s flowing through into the cash generation of the business as well, which is ultimately what it’s all about.

**Operator**

The next question comes from Craig Moffett of MoffettNathanson.

**Craig Moffett** - MoffettNathanson LLC - Co-Founder, Founding Partner

Two questions if I could, both sort of at the strategic level, Hans. First, maybe you could just update us on your expectations for what exactly do you do differently when you get the TracFone asset? How do you think about the go-to-market strategy in the prepaid market in particular?

And then second, you’ve started to see some of the -- whether it's open signal or other reports suggesting that T-Mobile’s network for 5G is faster and broader coverage. How do you think about maintaining the sort of best network advantage that you've had? And what gives you confidence that you can convey that in the business and consumer markets?

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

Yes, I can start with the second one. I mean, first of all, I mean, we rely on the RootMetrics because that’s the most sophisticated and scientific way of measuring the network. And it’s -- we’re undoubtedly the leader there. And without going into my competition because I never talk about them, but clearly, one has always lost.

So if we then talk about the TracFone, which is, of course, an exciting opportunity for us, we're still to be closed. We're not -- we're going to have the go-to-market and the brands that TracFone have. They are so good on prepaid, and they've shown that.

What we will, of course, support them with this all the back-end support all the way from supply chain, IT support, UX, customer care and all of that. But clearly, we want to keep the point of sales. We want to keep the offerings, and we want to serve the value market. So that’s where we are. I cannot go further into that because we still have the pending sort of approval of it. But we will give you even more color, Craig, as soon as we have closed this one.

**Operator**

The next question comes from Kannan Venkateshwar of Barclays.
Kannan Venkateshwar - Barclays Bank PLC, Research Division - Director & Senior Research Analyst

So maybe a little bit of a longer-term question, Hans. When we look at your growth algorithm on the Consumer side, you have essentially an ARPU and ARPA growth trend line as well as with revenue trend line, which is trailing in the (inaudible). They probably continue as you deploy C-Band. And then (inaudible) increases, your G&A should also pick up as we head into next year. And then there is a competitive backdrop, which potentially capture (inaudible). If you think about this growth algorithm, how do you keep margins intact when your revenue growth is essentially trailing?

Brady Connor - Verizon Communications Inc. - SVP of IR

Yes. Kannan, you broke up there, but I think what you're trying to ask is how do we think about margin profile as ARPA trails the service revenue growth. Matt, your thoughts?

Matt Ellis - Verizon Communications Inc. - Executive VP & CFO

So we have tremendous opportunities, and you see it come through in the results we've delivered now for a few quarters of the ability to bring high-quality customers in and then step them up. So the step-ups give us the increase in ARPA. And then the service revenue is, obviously, a combination of the increase in revenue within the base and then also the impact of the new customers coming in.

So as you do that, we're very, very confident that you continue to add scale to our business, which is already the best in class from a scale standpoint. And that will show up in the margin profile of the business going forward. So I expect us to continue to have a very strong margin profile going forward.

It's built on executing the strategy. You see that in the results this year. You compare the Consumer margin in 3Q this year to 2 years ago, you see that strategy is working and delivering results at both at the top line and the margin line.

Kannan Venkateshwar - Barclays Bank PLC, Research Division - Director & Senior Research Analyst

Perfect. I have...

Brady Connor - Verizon Communications Inc. - SVP of IR

Kannan, we're having technical difficulties with you. We'll have to catch up later.

Kannan Venkateshwar - Barclays Bank PLC, Research Division - Director & Senior Research Analyst

No problem.

Operator

Your last question comes from Frank Louthan of Raymond James.

Frank Louthan - Raymond James & Associates, Inc., Research Division - MD of Equity Research

Can you give us a little more color? You mentioned there was a split in the fixed wireless between the Consumer and Business. How is that shaking out? And then on the Business side, still a little bit weaker there. Is that just continued pricing pressure in the market? Or is it a share issue? Or walk us through how you're looking at the enterprise space going forward.
Hans Vestberg - Verizon Communications Inc. - Chairman & CEO

Yes. If I talk about the fixed wireless access on the Business side, it’s called business Internet on that side, the offering we have. And of course, we started off with our fixed wireless access on the Consumer side, and we later on added in our Business side to actually have access to it as well because that’s what — how we wanted it to start.

I would say we have really good traction on the Business side on fixed wireless access, small and medium businesses, clearly, where we have our stronghold and being the clear leader. So we see this as a great opportunity for our Verizon Business Group as well. And again, we are now adding products and solutions for Verizon Business Group that over time should offset the wireline decline that we have, that Matt talked about.

When we talk about the Verizon Business Group, we haven’t talked enough about them, but the momentum on wireless there is really good. I mean, look at the small and medium businesses are coming back. They’re doing a great job. On the enterprise side, the wireless business is doing well as well.

The only area is a public sector is coming a little bit back. But that’s a very natural thing because the sort of the increased demand of home education and et cetera, during the COVID, of course, had a spike in wireless connections, which is just naturally coming down a little bit right now. But the momentum on the wireless side on the Verizon Business Group and then you add the new opportunities, everything from application on top of the network, the mobile edge compute, the fixed wireless access and over time, also opportunities outside the ILEC on Fios or at least on fiber.

So that’s a great opportunity for us, and that’s what we outlined already in 2019 when we decided to transform that business to see that we are really well prepared for capturing those opportunities and those transformations that all the enterprise, small and medium companies will do to digitalize over time. So I think we’re in a good place. Simon and the team are doing a great job.

Brady Connor - Verizon Communications Inc. - SVP of IR

Yes. Thanks, Frank. Now that’s all the time we have today for questions. Thanks for joining the call, and everybody, be safe.

Operator

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