

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

VZ.N - Verizon Communications Inc. at UBS Global TMT Conference
(Virtual)

EVENT DATE/TIME: DECEMBER 08, 2020 / 1:25PM GMT

CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

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

PRESENTATION

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

Good morning, everyone. I'm John Hodulik, the telecom, media and communications infrastructure analyst here at UBS. I'm very pleased to announce the next speaker this morning is Hans Vestberg, the Chairman and CEO of Verizon. Hans, thanks for being here.

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

Great to be here, John. Thank you for having me.

QUESTIONS AND ANSWERS

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

So obviously, finishing up what has really been an unprecedented year here. But as we sit here today, can you outline for us the priorities for the company as you see them for the next 12 to 24 months? And maybe how they've changed over the course of the last year?

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

Thank you, John. Yes, let me just first remind you all of the safe harbor statement. I might say forward-looking statements during these 40 minutes, 45 minutes we're going to talk. So I'll start with that.

But we started with the Verizon 2.0, which is our internal name for our transformation some 2 years ago. We started with a huge transformation on the network, the go-to-market, the brand, the unified. We did a process change in the company where we do the -- did a big sort of voluntary sort of package, and we worked with the culture. All that was do a base, what we call is the Network as a Service that we now are executing on.

And that Network as a Service have 5 growth vectors. And those growth vectors, we will probably come back to them later on, but I just want to quickly go over them. The first one is the 5G adoption. We are now in the sweet spot where we have been building for a long time. We have the 5G Ultra Wideband, which is an unparalleled sort of technology and performance layer. We have the 5G Nationwide, we have the 5G Home, which is our home solution. All that will lead to our 5G adoption and our possibility to move our customer or migrate our customer from unlimited to a premium unlimited. And I guess you're going to ask me about that later on.

The network monetization is the second vector of growth that we have. Here, we work with the cable partners that we have today as partners. They are growing on the network. For us, it's a return on investment, seeing that we have the best network and as many as possible using it. The third vector is the next-generation business, the business application. And I guess we'll come back to that later on. But here, we talk about the 5G mobile edge compute, either for the private use case or the public use case. That is the third vector of growth.

Then we have the customer differentiation. That was what we started on with unlimited some 2.5 years ago. And then we migrated our customers from metered plan to unlimited plans. We included sort of content and partnerships that are unique for us like Disney+, like Apple and, most

recently, the Discovery Plus. All that creates a retention and a migration path for our customers and, of course, a very good possibility for us to grow.

And ultimately, it's a new market. I mean we have launched Visible, an all digital platform for subscribers. We have Yahoo! Mobile, and we are in the process to acquiring TracFone, adding another market segment as well. So that, all in all, is our growth vectors. And that, together with our Network as a Service is, of course, supporting our GDP-plus sort of target that we have on ourselves to grow GDP-plus and have a strong earnings and cash flow over time. So that is the priority we have, hasn't changed much with COVID-19. Even though it's been an unprecedented year, so many changes, but clearly, this has reinforced what we're doing with everything happening. I mean the mobility broadband infrastructure is even more important, and that's our sweet spot.

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

That's great, Hans. That's a great framework. Before we dig into each one of these and look at the more strategic issues, maybe let's focus on the current market as we see it today. Can you give us a sense on how you see the competitive environment? And obviously, Black Friday is one of the biggest days of the year for the wireless industry. How was Verizon positioned for Black Friday?

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

No, I think that you're right. First of all, I mean, we are very pleased with the way we have set up our business, right? And we've worked since the unlimited was launched with the way we're actually migrate our customer from meters all the way to unlimited and to the premium unlimited. And that we have seen going through this season as well. We have good traction with our customer and engagement with our customers to take advantage of the new offerings we have, including, of course, the 5G phone coming from Apple. All that has been a great success for us.

Then we have to realize there are a couple of things going a little bit against that tide. I would say the switcher pool is a little bit smaller. Two reasons. One, COVID-19 is still present in the retail. We actually have, I would say, 150 to 200 stores closed because of COVID and our employees have been impacted. So that is an impact. And the other is that we have seen offerings in the market that is protecting the base more, mostly. But I have to say, we are very happy with the engagement and the traction and the quality of our customers and the quality we have, now moving them up in the -- in this migration that we sort of have designed some 2 years ago and just adding new things. And as you probably will talk about, I mean, this is also the quarter where the Disney+ is clifffing off because that was one year ago. So many customers are now coming in and continue with us. So we have a lot of good things ongoing for us.

And the service revenue is, of course -- the wireless service revenue is something we've been focusing on. We have been growing that for quite a while except in the second quarter. And we are on the track to do the 2% that Matt outlined in the third quarter, so even though with those headwinds.

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

Yes. So let's dig into that part. As you said, you laid out the better-than-2% service revenue growth, which is a nice move, again, from where you came from earlier in the year. Can you lay out the -- unpack it, what is actually driving that acceleration? And then we laid it out here for the fourth quarter. Can that continue? Are the pieces in place to have that continue into 2021?

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

First of all, we came with a good trajectory into the fourth quarter because our third quarter at the end there was good. And for some, that remember, we had 0.2% growth on the wireless service revenue, which was small. But of course, the month of September was encouraging as we were bringing back stores and sort of our customers were seeing the offerings. Then we have launched a 5G phone with Apple, which I think has been a very important piece. And we see our customers taking the offerings going into the premium unlimited. So those 2 are 2 really important pillars. Then

on the business side, we also need to be clear that the public sector has been great for us when it comes to our wireless growth on the service revenue. So it's both business side and consumer side adding up to all this.

Then as I said, I mean, we have some headwinds coming from -- here coming into the fourth quarter that we didn't know about at least. That was the resurgence of the COVID-19. And some that were known. I mean, the roaming is sort of down. I mean it will be down as long as people are not traveling. Anyhow, we feel good about what Matt talked about in his guidance for the fourth quarter. And of course, that builds into next year as a strong sort of area for our focus, continue to grow our base when it comes to migrations.

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

So it seems to us that there's -- and the 2 are related, what's driving it. One is the media apps. And then two is the migration of customers into these higher plans. So maybe let's start with the media relationships you have. You started out with Apple, you added Disney, now Discovery Plus. Maybe how did you go about assembling this group of partners? Why did you pick these 3 partners? Are you done? Or is there more to go? And maybe what's the contribution to ARPU we're seeing? Is that going to grow over time?

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

Now, we have been extremely disciplined since we outlined our strategy that in some cases, we're going to work with partners instead of doing it ourselves. And we also decided which we wanted to work with. I mean I would say, if you start with Apple Music, that on the consumer side, that was the first time we really start seeing that we have a model where we can bring in customers and being with us, so we create retention and also migration path for our customers. And then after the time is expiring on the free, we also know that we can convert them into paying customer for a partner, which means that we can make a bounty on that. That was the model we outlined with Apple Music. We brought that to Disney+. And I think without me disclosing any numbers, I think Disney is extremely happy with that partnership.

Now we're bringing that to Discovery that is actually bringing a totally new sort of library of content to streaming, probably one of the biggest after Netflix. We have been talking to them for 1.5 years. So this is a give and get, how the streaming should look like, and we're going to be the exclusive partner. And again, the same model, we know how to do this. We're not just putting up sort of content on top of our network and not making money on it. We are actually doing this as a model. So I'm really happy with that. But don't forget on the business side as well, we have made deals with Amazon on 5G mobile edge compute because we're not planning to do cloud software.

We have done it with Microsoft as well and many more. So it has been a very disciplined way, where we believe that our assets, the network, the best network in the nation by far, the distribution we have, which is the biggest distribution in the country, and the strong brand we have, which is the strongest brand in industry, that is attracting these partners to work with us and see that we have a win-win.

And I think we're proven right now that it is a win-win. We actually make money, both of us. We are supporting them to get more subscribers. We are making money and retention on it, both on the consumer side and the business side. So all in all, we are very happy with the models we have done, and that's why we brought in Discovery. We're not going to bring in 100 companies here. We have many people knocking on our doors and want to be part of that transformation. We're going to pick the ones that we see alignment with and have size enough and counterweight to Verizon.

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

Right. We talked to David Zaslav yesterday, and he was very positive on networking with you guys and was very happy with the relationship and how that's getting off to a good start. Maybe digging into a couple of these. Disney+. You reached a point where some of these customers are coming off of the free promotion. It might be too early to talk about this, but do you have any sense for how many of those customers are sticking with the service on a sort of pay-as-you-go basis?

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

You're right. It's a little bit early because it was just in this timeframe Disney+ was announced. First of all, we saw a good sort of traction when they came in with a sort of migration to higher plan. We also see very early signs, and again, early signs that the customer likes and they want to stay with it. Remember, we also expanded the Disney+ offering in August, I think, when we added ESPN and Hulu. So we have that ongoing as well. So I think that we -- all in all, we get a really good retention, we get good quality for our customers in the migration, both from the metered plans to the unlimited and then from the unlimited to the unlimited premium. And many of the customers were, I think, right now are going from unlimited to unlimited premium, which is including both 5G and these type of contents that you're talking about.

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

Got you. Now given the attractiveness of your -- the size and the attractiveness, the quality of your customer base, you would think that there will be a number of companies, both media and others, potentially lining up to partner with you. Is it -- should we expect you guys to branch out outside of entertainment because you've got music, you've got scripted, you've got unscripted. Are there other areas that you could use that distribution might that you have to add value to your own product than somebody else's?

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

Yes, there might be some other areas as well. But I'm not here to make any announcement. But clearly, first of all, we will not pick hundreds of different offerings. We don't want to confuse our customers. We want to give them the absolute best quality with the best network. And that's what we're doing with Apple, Disney, Discovery. There might be other sort of segments of entertainment that is in interest of consumers that we will look into. So yes, there might be more, but it will not be intense on new partnerships. It will be in low single digits, new and different segments. And I have all the confidence that my team that has been elaborating from one unlimited plan to all these unlimited plans with a migration path of that, that will continue with that mix and match that we have, we are unique in the market with. So I have to say, I have all the confidence that the team will continue to elaborate on that and see that our customers and new customers joining us will get the superior experience.

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

Great. Up until now, we've been talking about services that add value on the consumer side. Maybe a little bit on the business side. Obviously, some impact from COVID. I can't imagine you're seeing much of an improvement, as you said, given the second wave we're seeing. Is that a potential driver of growth as we look into '21?

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

I think that, first of all, we -- it's a huge transformation we're doing in the business side. And remember, we were distributed before, wireline, wireless. Basically no back offices and solutions were really catered for going to the market with a business solution for large enterprises, small, medium, public sector and wholesale.

Now we are, I would say, midst of that transformation, and we start to see a really good traction with customers, especially on the enterprise side. And there -- of course, there are some enterprises, which we all know, which are in industries that are super impacted by the COVID-19. All others, they are accelerating their digitalization. So if that means that they are transforming the network to be much more agile, much more faster, et cetera, or adding new capabilities in the cloud or something like that, that's happening at the moment.

I think that will continue to happen on the enterprise side. We're going to have some investing more and some less. On small and medium business, I think that's the hardest to predict because they are the hardest hit in a COVID-19. And we have not seen any stimulus checks for them lately. So they are probably very worried. We have kept up pretty good up to the third quarter with it, but it's a little bit wait and see.

Public sector has been great with all the investments that we needed to get the infrastructure right. So we have been doing great there. So it's a little bit different there, but over time, when I think about what we're investing in, 5G mobile edge compute, which is a total new area for us; the fiber we're investing in that will come into play in the latter years here for the business side as well. Of course, we are investing in areas that will give us growth with some headwinds coming from our legacy networks, which will continue to go down, as we have said. But over time, we should supersede that with our new investment in 5G mobile edge compute, which we expect have some meaningful revenues in 2022.

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

Got you. Now all this work that you guys have done have driven the unlimited mix steadily upward, you've now reached 60%. Can you talk about how high that could go over time? And is it just the media apps? Or is it access to the millimeter wave network as well? And does the iPhone, does that accelerate that migration?

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

Yes. That accelerates that possibility. And of course, we hope that all our customers want to be on unlimited premium over time, but that probably is not the case. But clearly, we see a good quality on our subscribers coming in right now because of the reasons you say. We have the Ultra Wideband. We have the iPhone. We have the content that nobody else has. That is attracting our customer to move up. But we also have a journey for our value segment or for our metered segments, to say, to migrate up to unlimited. And I would say that going from metered to unlimited is high single-digit (corrected by company after the call) ARPU dollar increase for us. So it's -- in all these steps, it is a couple of bucks per customer. And that's very important for our service revenue over time. And as you rightfully mentioned, now we're almost up to 60% of -- on unlimited. We have the high take rate on premium in that segment. And then we still have 40% that we can move in.

So I have to say, we have a good model. And I see a lot of things coming out from our innovation team to see that our customers want to continue that migration and get more value for it because ultimately, they need to get more value if they're going to migrate, but I think we have it more than anybody else in this market.

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

Got it. Maybe let's shift and talk to sort of the other end of the market, the prepaid market. For years, Verizon sort of pursued that market on a wholesale basis, rather than on a retail basis. And obviously, with the TracFone acquisition, that strategy has changed. Has the prepaid market gotten more attractive? Why did you guys decide to sort of change course?

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

I think it comes back to our strategy, the Network as a Service. We want to get the best return on investment on our network. And our engineers are the best in the industry when it comes to putting on capacity, still having a lot of headrooms in the network. This is an ideal situation for us to even have more customers. We have not been really successful in prepaid. The Verizon prepaid is a very small business for us. TracFone, of course, very successful, the most successful in the market. We want to keep that brand. We want to keep those customers to stay and be able to enjoy that value segment. But what we want to do is, of course, using our scale behind, if that's the customer interaction or if it's the system or if it's the IT system or it's -- and the network. That's going to help ultimately, those customers also is going to getting much more performance out of the network. And there's, of course, some cost synergies in the back end that I'm talking about.

As I said, we're going to keep those brands for those customers and see that they continue because, I mean, the Verizon prepaid is not really where I want to be. I want to be with this value segment with the brand that attracts them, which apparently is TracFone and a couple of others. So yes, we see both the opportunity of growth, and we see an opportunity for cost efficiency. So it's straight up in our network as a strategy.

DECEMBER 08, 2020 / 1:25PM, VZ.N - Verizon Communications Inc. at UBS Global TMT Conference (Virtual)

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

Got you. Now TracFone has been growing service revenue in the 1% to 2% range for the past year 1 year, 1.5 years. I mean, is this something that you expect to lean into or you have some strategies to be more aggressive and accelerate the growth in that segment?

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

Remember, we are in the process to get this approved. But of course, we always have ambitions to do better and support them. And I think the scale we have behind it, all the way from marketing to design to product to innovation to network to IT, should help them to actually be on a stronger foot when they're going to execute towards their customer base.

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

Got you. On the wholesale side, you -- cable has taken about 2% of the postpaid market thus far and is capturing a even larger percentage of the flow share. So is that relationship turning out as expected? Is it -- obviously, it's positive for you guys from a financial standpoint, but there's obviously a competitive downside. Sort of how do you think of that? Is it more of an opportunity? Is it more cause for concern?

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

I would say we are capturing together. This is, of course, part of the strategy. And I think that we have a very healthy relationship with these cable companies, which are investing in this area. And that was the outset from the beginning. We're going to support them in their footprint when they go wireless. And we do that. And there was a lot of talk from all the competitors that they will now run this and all of that, and that was the main questions that I got for a long while.

We have a long-term sort of relationship with these guys, and they are an important enterprise customer for us and part of our strategy. So if they take share, ultimately, we take share because for us, it's a profitable business, and it's a straight up in the Network as a Service strategy again. I mean, we get the best return on the network because we have the most users on the network, and we have the best engineer building it. So for me, it hangs together everything we're doing. And we are happy for the relationship, and we're going to continue to treat them as a very important and serious relationship with these cable companies that aspire in this area.

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

Got you. Does the equation change at all as they begin to build out CBRS and maybe C-band, as they become more facilities based? Does it shift from less sort of opportunity and more to concern for Verizon?

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

I think, ultimately, you need to ask them. But I usually say it's fairly difficult to build a network on one frequency. That's -- I haven't seen in my life. But of course...

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

That's true.

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

It depends on the aspiration and what they're going to do. But that's the hard thing because ultimately, phones are built on multiple frequencies and they don't have all of the frequencies. So that's a little bit of a challenge. But I guess you should ask them what the plans are.

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

Right. Okay. Maybe let's pivot to the network. Obviously, last year, you laid out a goal of deploying 5x the number of small cells that you did to support 5G than you did last year. And you guys have showed some charts where you really see that ramping through the year. So you guys can hold the run rate, next year should be sort of even bigger, right? I mean, sort of well above the 5x level than you were looking at 2019. Can you talk about, are you hitting those goals? And how should we think of the expansion of the millimeter wave and the Ultra Wideband footprint?

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

Yes, yes, you're right. We put out some really bold goals in the middle of February. And we had no idea what would happen just weeks after with the pandemic and all of that. We are on target for all of them. Some of them we have already hit. We said we're going to do 5x more Ultra Wideband radios this year, which we're going to hit. And the guys are doing a flawless execution, even though we had to pivot many times because of the COVID, et cetera. That enabled us to do 60 cities of -- at least this year. I think we're on 57 or -- so we have 3 left. So the guys are still working. And we have expanded the cities we had already as well. So the footprint has continued to grow on the Ultra Wideband.

And remember, we're talking about the capacity and experience network on the Ultra Wideband. It's unparalleled experience. Nobody can even come up to those 2 gig or up to 4 gig on the phones that we can do as well as it's a capacity because where we build it is where we have the majority of all the network capacity today. And we are now seeing all the phones coming out with Ultra Wideband together with our partners like Apple, Samsung, et cetera, all are building it in. So this is a long-term play that is so -- I have to say, so strategically right for us and for our customers. So we will continue that.

Then we said we're going to do 5G Home 10 cities. We got the new Ultra Wideband sort of the CPE early in this quarter. I think we're already on 12. So I think we hit that. And then we said we're going to have 10 mobile edge compute centers with Amazon for the public mobile edge compute by year-end. If I count right, right now, we're on 8 and the team together with Amazon are working on the 2 last ones. So we're hitting all that. At the same time, we're building fiber between 1,000, 1,500, 1,700 route miles a month, a little bit depending on where we build right now. But clearly, all this execution is ongoing for us to see that we continue to lead this market when it comes to the network performance.

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

Right. And with the launch of the iPhone, you rolled out DSS to give yourself some coverage on the 5G side. How has that played out? Is it as expected? Is the quality of the 5G signal and the speed you're getting there match what you expected? And I think that there was some sort of overhead penalty from the signaling layer. Has that played out how you expected it would?

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

Yes. As you said, I mean, we had also the goal to launch nationwide this year, and everybody asked me all the year. And I said I'm going to do it at the right commercial moment. And some might have seen that we may -- we did that at the right commercial moment together with Apple when they launched. And that was a long-term work. It's not the launch. The launch was sort of the tip of the iceberg. We worked on technology, marketing, go to market. We had also a business-to-business launch together with Apple also on the Ultra Wideband and 5G. So that was much wider. But in that moment, we also launched our nationwide based on DSS, more than 200 million POPs, 1,800 cities. That is performing as we expected, on par or better than our 4G. And remember something, technology evolves, we're just in the beginning. And yes, there are some losses when it comes to utilization.

But the important thing, that's nothing that the customer feels. We have already built even more capacity in the network at the same time. So that's nothing that our customer -- and what is most important is, of course, the customer experience. And the experience on our 5G DSS nationwide is great. So that is the most important. And you're going to see more the weeks and the months to come that we're going to cover more and more with our DSS. So we feel good about it together with Ultra Wideband. I think we have an unparalleled sort of offering to the market together with everything else we're doing.

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

Got you. Investors, I would say, are trying to sort of size the magnitude of new revenue streams that come from 5G, especially in the business market. I mean, obviously, there's questions on the consumer side, but really on the business side. And DISH, for instance, talks a lot about network slicing and private 5G networks. Are you having conversations with business customers about 5G services now?

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

Oh, absolutely. We have had it for almost, I think, a year. We recently announced partnership with GE, Corning, Honeywell, IBM. We are already working with all these companies on 5G in order to transform their operation with 5G. So yes. And here, we just need to make a distinction because we're so early on, and I understand that the market wants to understand the totality. So there are 2 different offerings when you bring the 5G mobile edge compute to the market. One is the public one. That's what we have announced and launched with Amazon. That means that if you're a developer, you develop into the 5G mobile edge compute, where we have our radio together with the cloud based -- cloud software from Amazon that they have built specifically for this. And that's on 8 sites today, covering a big area. It's going to be 10 by year-end. And with the iPhones coming up, now they have devices that can take that innovation as well.

In the Verizon case, we get a revenue cut every time you use the mobile edge compute. As you use the data centers of Amazon when you're on the big data centers, where you pay per minute or per hour or whatever, you do the same when you are on the mobile edge compute, but we take a revenue share. That's the model how we make money there. So that's, of course, the more people developing application on 5G mobile edge compute for latency, speed, throughput, security, they need to have their loads on that edge. And that's where we're going to be a partner and have already 8. We're going to have 10 of those sites by year-end, and we will continue after that, of course.

That's one use case, and only revenue that we've never seen before in Verizon in a great collaboration with Amazon that is in the forefront, and we are the only one in the world that has launched this even.

The second is the private 5G mobile edge compute. That's where we build a private 5G network for a confined area. It might be a factory. It could be a distribution center. It could be a big retail store, where you want to keep the data and all the traffic and have super great capacity and security there. That's where we work with all these companies that I talked about earlier. That's much more like an enterprise solution. You're great partners, software, applications and you solve it.

And that's where we are now developing that with Microsoft, for example. So it's a little bit different model. One is more an enterprise solution model where you build and digitalize and transform, which is the private. And the public, it's just the copy and paste from the normal cloud business that Amazon has, but you do it in the edge. So I'm excited, you can hear that because, for us, this is new revenue, both of them. We're not near to be there today. We are going beyond connectivity again. In certain parts, we're bringing partners. We're not planning to build cloud softwares ourselves. So we bring the best partners. And again, it shows, again, the network, the distribution and the brand that we have attracting best partners who can ever believe in order to delight our customers.

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

Yes, that makes sense. And it puts the reorganization you guys did into perspective because now you have wireline and wireless working together to go after that business market. So that makes sense. How big is that opportunity, that private network? Is it multibillions? I mean -- and then -- and is it -- does it take a number of years for that to materialize?

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

It takes years to do, but it has to be -- it is multbillions, of course. But it takes a couple of years to develop because an enterprise solution, there are solutions for these companies today. They're operating. This is the next step for them when they transform the factory or the retailer or the warehouse. When they do that by having 5G and substitute for WiFi, for example, that takes some time, but they're going to be more agile, more secure and having much better performance on their private 5G network or the 5G mobile edge compute network.

So I think that's what we see in front of us. I don't think there's any hesitation. We will work with the leading enterprises in every industry right now, if it's health care, if it's retail, if it's banking, we are working with them right now on the 5G mobile edge compute to find their use cases. Because ultimately, I need a thought leader on the business side, and we are the thought leader on technology side. And together, we are making this happening.

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

Got you. And back on the mobile edge compute and your partnership with Amazon. Talk about the developer activity for sort of public apps. I think you were referring to sort of what you're seeing on the corporate side. But is there much activity that's going into apps that customers can use and will have a better experience if they switch to Verizon. Because that -- you talked about a couple of new revenue streams. But do you think at the end of the day, this is an opportunity or a way for Verizon to actually take share as customers migrate to get the better experience from the mobile edge compute?

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

Yes and yes. I think that, first of all, I mean, it's a reason why I said 5G just got real for a month ago because that we have built everything we have done for so long time with the Ultra Wideband, the millimeter wave and the mobile edge compute. Ultimate need is to find its way to devices. Of course, we have had devices on the Android on 5G. But U.S. is a very strong iOS market. And Verizon has many of those customers. I think that what we have seen, we have seen hundreds of innovators or app developers doing gaming, doing sports, live entertainment, A/R, V/R are using this. But I think now we're going to see it even more because now they see the opportunity with so many devices coming into the market, and they can do it and get that low latency or that throughput that they want to have.

So definitely, I think that this is something we're going to see growing from now on as we now have the full suite of products having Ultra Wideband in their phones of all the manufacturers. So this is an important piece. So that's why it was an important launch with Apple because they have such a big share in the market. So I think definitely, we're going to see much more of that right now. But clearly, we already have gaming, sports, et cetera, live entertainment, health apps starting being developed based on that mobile edge compute on 5G.

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

Got it. Maybe shifting to one more topic before we talk, I do have a couple of finance questions. But 5G Home. Is there still as much excitement as there was at the company about this opportunity when we first talked about it a couple of years ago? And is -- what's the sort of early read on the new CPEs? Are the installations and the connectivity as strong as you thought that they would, as it would be?

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

One thing we learned about Verizon, all of us, is, of course, the longevity and the long-term planning that we have on technology. I mean we started with the millimeter wave 5 years ago, we did our own. We brought in partners all the way from the ecosystem suppliers like the Qualcomms, the Ericssons, the Samsung and Nokias. Then we brought in all the device manufacturers. So this is a long plan as with the 5G Home. So we are very pleased with what we have seen with the new CPE. It's just adding how many subscribers we can have. More important, the self-install is much easier right now because it's easy to get the signal. So all that is going in the right direction.

Still, as I said before, our focus on the millimeter wave initially is in the urban areas because that's the capacity. That's where we have the experience layer. So -- and we have less residents. So it's going to take some time. But at the same time, we've now launched our 4G or LTE home in certain states where we see opportunity for us. So we will -- we believe in the wireless home or fixed wireless access to use our network for it. But -- so we're excited about it. As we have said before, it will take a little bit longer time with our targets we've set up to reach some 30 million households because of the way we're building the network. But we're excited, and we're equally much committed to it.

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

Okay. So that 30 million homes passing and 20% penetration still seem like they're in the right neighborhood once this effort and all the partners in the equipment gets going, okay?

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

Yes. And as I said, it will take us some time, as we outlined in our Investor Day some 1.5 years ago that we believe it can take some 5 to 8 years depending on the rollout.

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

Got it. All right. I really think we have time for one more question. Just -- could you guys -- could you just remind us of the company's leverage target? And after the upcoming spectrum auctions, how should investors think about Verizon returning capital to shareholders?

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

Yes. So first of all, we need to say that. But of course, I cannot comment on any ongoing auctions for violation of rules. If not, I'm going to have my lawyer over me immediately after this conference. So -- but when it comes to our capital allocation, I think we've been extremely stringent on that one. First of all, is to invest in our business.

Our CapEx has been very important. Some M&As. Haven't been any large one. Of course, TracFone that we are now in the process with is, I would say, at least a mid size, but mainly, we have been buying tucks and things that is fortifying our strategy on the network. BlueJeans was another one, but not of a major size neither. So that's where I see #1 for us in priority. And as I said before, and Matt, my CFO, has said as well, if we see opportunity to actually invest even more in our business, CapEx or something else, we will do that, but we will probably be very clear on why we would do it like with TracFone or with BlueJeans or something. It just fits very nicely for the strategy. Not that we're looking at any major M&As at the moment.

Secondly, we want to see that we continue to get our Board in a position to continue to pay out a good dividend. I think we have increased our dividend 14 consecutive years. And we think that's an important piece. Even though we want to be growth, but we also want to see that we continue to do that. And I think we are healthy enough to do that.

And thirdly, we want to get down to the leverage targets we had or the metrics we had before Vodafone, pre-Vodafone. We are very close there. We -- I think in the -- when we closed the third quarter, we were at 2-point something. And we said 2. So we are very close to those metrics right now. So I feel really good about the work we have done with the balance sheet during these 9 months of the pandemic to see that we're actually good -- in a good situation.

Ultimately, as I've said before, as this auction passes, we will look into buyback as well, but that's not on the schedule at the moment, but that's our fourth priority. So that's how we prioritize our capital, and we have been very consistent on that for quite a while.

DECEMBER 08, 2020 / 1:25PM, VZ.N - Verizon Communications Inc. at UBS Global TMT Conference (Virtual)

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

Great. Well, I guess, that's all we have time for. Hans, thanks for joining us. I think it's been a very helpful session. Appreciate your time.

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

Thank you very much, John.

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

Okay. Thanks.

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2020, Refinitiv. All Rights Reserved.