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EDITED TRANSCRIPT

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PRESENTATION

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

Hi. Thanks for joining us. My name is Phil Cusick. I follow the comm services and infrastructure space, as well as media here at J.P. Morgan. I want to welcome Matt Ellis, EVP and CFO of Verizon since 2016.

Matt, thanks for joining us today.

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

Thanks, Phil. Good to be here.

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

I believe you have some starting words for us.

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

Yes. So, obviously, we'll probably make some -- I'm assuming, some forward-looking commentary here. So, I just want to remind everyone about our safe harbor, which is in our SEC filings and on our investor website.

QUESTIONS AND ANSWERS

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

And this is the part where you can update guidance or not? Just in case. All right.

Just let's start with -- on the earnings call, you called out a weakening in the economy starting in March and that really hasn't been repeated by your peers. And so can you help us talk about the slowdown in the first quarter, split between the economy and what you see in terms of competition, and then what you've seen over the last few weeks?

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

Yes. So as we looked at the volumes in the first quarter, I mean, first of all, I'll just remind everyone, we saw very good volumes on the business wireless side, really good momentum on the fixed wireless access side. But as you say, we also then talked about the consumer wireless side, where starting in March, we saw a reduction in the volumes coming through our channels. And as we've unpacked that a little bit more, I think a couple of major things. One, we did see an uptick in the competitive intensity, which is something that ebbs and flows throughout the industry all the

time. But we did see an uptick there. And then we did see an impact on consumer behavior from higher prices at the pump, higher prices in the grocery store and so on. And that certainly continued in April and the first part of May.

So as we think about the impact there, we did see an impact on gross adds and some of our port ratios. Retention continues to be good across the business, which is another important part of the story. But as you think about what we're seeing there on the gross add side, it does temper our expectations for consumer volumes in the current quarter. I think there's still tremendous opportunities out there and for us, have the opportunities to compete and be effective in the marketplace as we find the right proposition for the consumer there overall. And then certainly, we're spending a lot of time on that right now and value-added activity, not just bringing customers on the platform that don't bring much value associated with it. So, we'll be disciplined in the marketplace. But obviously, the macro environment is part of that, as well as competitive intensity.

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

Can you sort of bring us up to date on that macro environment, competitive intensity in April and then May?

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

Yes. Look, I think on the competitive intensity side, we continue to see a lot of activity around handset subsidies and we'll see how that plays out as we go forward here. That certainly continues. And you see us, as you would normally expect. As you think about the calendar of the year, there's different times of the year and the quarter, where we see typically more opportunity in the marketplace. Mother's Day is an example as we think about dads and grads coming up here in the rest of the quarter.

So, you should expect to see us lean in, in moments like that. But the competitive intensity, I think, is definitely something that's out there. But again, it's been a competitive industry for many, many years now, and it's a very good industry to be in. It's why one of the reasons you see the levels of competition that we do. So, I'd expect that to continue and I'd expect us to find ways to compete effectively in that environment.

And in the macroeconomic environment, look, we're all waiting to see exactly how that will play out. Certainly expect that to potentially have more of an impact as you go through the year as some of those things build. But we're seeing very good flow from the customer side, from a payment standpoint, still at very, very strong levels there and would expect that to continue as well.

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

Whether it's the macro or the promotions you've been running, have you seen more store traffic picking up in the last month or so?

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

Yes. I think, typically, we would, from a seasonality standpoint, expect to see that, and we started to see some things as we've tweaked our approach to the marketplace as well. So obviously, more of the quarter still left to go, and we'll see what happens as we get through that. But we'll look to build momentum through that channel through the rest of the year here, irrespective of how the macroeconomic environment plays out.

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

Okay. You recently raised consumer and business fees. Can you talk about the progression through the year of the thinking there? You started the year with some fairly aggressive guidance. First quarter is a little slower than we expected. You've raised these fees. Were those contemplated early in the year? Or were those sort of the result of the higher inflation happening out there?

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

Yes. Not explicitly contemplated when we've spoken about guidance previously. Certainly, as we think about those fees that the team put in place, both in consumer and business last week, we would expect those to bring in above \$100 million per month for the second half of the year. So that will certainly be a tailwind as you think about the back half of the year. And then the volume impacts will also show up in the financials for the back half of the year when you think about, obviously, the strong business wireless results, a strong fixed wireless volumes and then the offset, obviously, what we've seen on the consumer side. So, those will be factors that play in, as I think about the financials for the full year.

And then on the cost side, we'll be -- have activity around that. We've spoken numerous times over the past few years about the ongoing activity to drive efficiencies in the business. We achieved the \$10 billion goal ahead of schedule last year that we had in place that we spoke about previously. You should assume that we will be amplifying those efforts, just given the environment we're in. So, I think we have a path to growing revenue, growing operating income and then having the cash flow to continue to invest in the business and drive the great long-term opportunities that we see ahead of us.

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

You mentioned consumer. So let's stick with that for a minute. And retention has still been strong. Have you seen bad debt sort of picking back up from COVID lows?

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

A very small amount, but still at levels that are very, very strong payment levels against historical levels. So nothing significant and feel very, very good about the payment activity that we're seeing.

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

Is it important for you to grow subscribers in consumer over time?

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

Yes, but in a balanced fashion. So, look, as we drive -- when we look at the opportunities ahead of us as we move into the 5G era, we think it gives us the opportunity to deepen the relationship with customers as we deliver new products and services. And we think as part of getting to our revenue targets, we get to increase the relationship with existing customers, but also bring in new customers as part of that as well.

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

And what about adding devices and other things sort of deepening that relationship? Are there tablets and things like that that you want to push deeper into those?

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

Well, we can push deeper into that. But I think one other thing that you've seen us add over the past few quarters now is fixed wireless access. That is a wireless gross add and allows us to deepen that relationship with the customer the way the tablets have, other wearables have. So, I think there's a number of different ways that we add devices to a wireless customers account as we go forward, which deepens the relationship with existing customers. And typically, as existing customers see value in what we're doing, we also have the opportunity to bring new customers on as well. So...

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

Let's sort of go down that fixed wireless path since you bring it up. Help us think about where or how broadly that's being distributed today and where that goes over the next couple of years? Yes. So just start there.

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

Yes. So, we really started leaning in. So, we launched obviously fixed wireless on millimeter wave. That's in dense urban areas. Then we also looked at areas where we had capacity on our 4G network where we could bring in LTE Home. And we've done that over a year now. Initially started that in rural areas, but then as we identified pockets where there was network capacity in suburban areas and even in some urban areas as well, that was underway. And then of course, we've supplemented that with the launch of C-Band in January of this year.

And every day, we add cell sites on C-Band and open up more and more access in the 46 markets where we have the C-Band available today. We'll add 30 more markets ahead of schedule in the fourth quarter of this year and then across all 48 states by December of next year. So the C-Band footprint is expanding. Obviously, the C-Band footprint is focused right now on urban, suburban areas. And so that's where the C-Band open for sale is and where the gross adds we're getting on that technology are coming from.

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

And how wide -- how many homes across is it being marketed today and where does that go in the next few years?

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

Yes. So right now, we're -- you've got over 10 million homes of access on the 5G side, more than that on the 4G side. And we expect to get to by 2025 over 50 million locations that we're marketing C-Band fixed wireless to.

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

Any reason that doesn't go nationwide essentially, except for the Fios market?

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

Well, I think we're going to focus it on -- I mean, nationwide, yes, as we build the network out, as we have -- make sure we have the right mix of services in the market between mobility and fixed wireless. But certainly, I think there's an opportunity for that number to become even larger, yes.

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

That add rate has accelerated the last few quarters.

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

Right.

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

And as you've expanded the market, I would think can accelerate even further.

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

Yes. So we did 194,000 net adds in the first quarter, which was almost 2.5x what we did in the fourth quarter. So significant sequential uptick and 4Q was almost double the 3Q. So, you really see a momentum build there. I remember that first quarter didn't have a full quarter of C-Band in it, where we turned C-Band on January 19. So -- and then, of course, is -- there is that building up of the sales motion as well. So 2Q will be the first full quarter of having C-Band in there, in addition to adding the number of sites, as I said, on a daily basis. So, I would absolutely expect that number to increase as we go through the year from the first quarter number, which was good in and of itself.

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

Put your CFO hat on for a second and help me think about the returns as if it ever comes off, right? Help me think about the returns of that product, whether it's the \$50 or \$35 or even \$25 products.

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

Yes.

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

What's the other value that you're getting from that?

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

So as I think about it, really, a couple of things. One, it allows us -- what's exciting to us about 5G is it allows us to monetize the network in more than one way. I mean, in prior generations of the technology, we essentially sold the wireless connectivity, which has been a really good business and will continue to be a really good business. But in addition to that, we can now sell fixed wireless access and then get into some of the B2B activity as well. I'm sure we'll touch on. So that ability to drive new revenue streams off of the same network investment with my CFO hat on is something that I think about gives us the opportunity to produce good returns.

From a pricing standpoint, certainly, we think if you are an existing wireless customer, especially a premium unlimited customer, the ability to have a price point there that's attractive to bring that in, we know when we have more devices on an account, we know when we have customers on premium unlimited. When you bundle home broadband with wireless, we see significant churn benefit. Manon spent some time at Investor Day talking about the size of those benefits. And so as we think about the pricing, we think about it, holistically, from the relationship standpoint. And then if you're just a stand-alone fixed wireless access customer, very happy to have those as well, you see the higher price point there that reflects that.

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

So what's the incremental cost of selling a device, a product like that at \$25? Is incremental margin just massive on that \$25?

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

There's a significant uptick. I mean, it comes down to -- we have a very significant amount of spectrum already deployed, and then we've got obviously an increase in that coming next year when you get the full amount to kick in, in those first markets as we go from 60 megahertz to 160 megahertz of C-Band. So in terms of the incremental cost of operating, at this point, is not large. So, we think the benefit of the incremental revenue without bringing a lot of costs associated and then the increase in the longevity of the relationship with that customer brings significant upside.

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

There's a thesis out there that this is a sort of a short-term product for customers. And that as demand for speed and usage goes up, that you can't keep up. How do you think about the speed that you're giving customers today on that C-Band product, for example?

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

Yes.

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

As you put more spectrum to work in that band, can it keep going higher?

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

We absolutely think there is a path to continue to add. You say, we bring more spectrum there. We have the opportunity in different areas to add millimeter wave as part of that as well. But absolutely that -- this is a product that we think will be part of our relationship with customers for many years to come into the future. Look, we're seeing great performance on it today. You've got north of 300 megabits a second coming through on C-Band, and we certainly think we sustain and have the opportunities to add to that and provide a service that meets and exceeds the needs of the vast majority of consumers and even business customers as well.

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

Where do those customers come from, the consumer side in particular?

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

Yes. I think we see it coming from all places today. These are largely customers who have broadband today, who are deciding to try our product now. Some of those may be coming from a DSL experience, but some of them are coming, obviously, from other broadband solutions as well. So -- and we see that because we see the usage on our product as well. So, we know consumers are using the fixed wireless access very similarly to what we see on the Fios side. So those customers are coming from, as I say, where they have existing broadband and they're choosing to try out our product and they're seeing a good experience on it.

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

Do you poll your customer base and ask them where they're coming from?

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

We have a good sense of the different places they're coming from, and they're certainly coming from where you would expect them to be coming from, which is across the full spectrum of their previous opportunities.

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

Okay. Okay. Let's sort of take that and shift over to business, which has been also a big driver of fixed wireless access. Are those customers -- how much of that is sort of growing the market? And we've talked about food trucks and things like that. And how much of it is coming from existing potential customers that are of someone else?

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

Yes. It's a mixture of both. And certainly, there are opportunities that are enabled by having a mobile broadband solution. You mentioned like food trucks, construction sites, et cetera, et cetera. And so there's significant opportunity there. But we're also seeing it from a more long-term stationary application where we're going in. And look, the value there is the adoption, the ability to roll it out quickly, not relying on it, you're requiring to run a fiber strand into somebody's business location, digging up a parking lot or whatever else, we can deploy very quickly. Customers are seeing the -- not just the speed of rollout, but also the quality of the service on there as well, and we see continued opportunity. So it's coming from both sides of that existing users of a broadband product and also those use cases where they maybe weren't using it in the past.

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

How does this sort of tie into your overall small and medium business effort? Is this the sort of an expansion of more services that you can sell nationwide in sort of SMB?

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

Yes, very much so. And you shouldn't just think of it as, okay, so we've been a provider of mobility solution to that customer. And obviously, for business customers where connectivity can be mission-critical, the reliability of the service that they get is critically important, which is why we have such a large market share across the business space. So it's been a very strong part of the business. Now, we get to add fixed wireless access. We think that's a tremendous opportunity with SMB customers. But then also, as we start talking to them about other solutions as we get into -- falling into the 5G world and how they use 5G across their business as well. So -- but certainly, it's another step in the relationship we have with those customers. But yes, absolutely, SMB, we think is a very strong opportunity for fixed wireless.

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

To some extent, are you seeding the market for when your fiber rings are done? You built fiber across 60-something markets outside of your traditional footprint. How does that tie in?

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

It ties in because we get -- as we're providing that fixed wireless service, that cell site that's providing that service is running off our own backhaul, which creates quality of service benefits for us and also cost benefits. But do I see us ultimately replacing the fixed wireless in those SMB customers with fiber? No. We think that fixed wireless is a very good product, and we don't need to run fiber into all of those locations to be the broadband provider of choice for our business customers.

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

Okay. Let's go sort of back into mobility for business. We've seen not just you doing well in business, but AT&T talks about FirstNet a lot. T-Mobile talks about how successful they are in business. Cable is talking it up. Are you seeing a booming of mobility in business overall? Or is there somebody who's losing share on a fixed or a mobile basis?

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

Yes. Well, I know if there's somebody losing share, I know it's not us. We continue to have a very strong, north of 40% market share in the space. We've grown gross adds across each of the customer segments for every quarter in the last year now as the business environment really started picking up about 12 months ago now, right, as we came through the initial part of COVID. And we participated very strongly in that, both in SMB and enterprise, in public sector space and getting more than our fair share in those spaces. So, I think it comes back down to -- as consumers, we obviously value the quality of the experience, but for businesses, as I say, it can be mission-critical, the quality of that experience.

In that case, you're going to go to the people with the best network experience, both in terms of overall speed and some, but also from a reliability standpoint. And certainly, that puts us in a great position to continue to do very, very well with our business customers and you're seeing that in the results. First quarter was a record for phone net adds within our business segment. That wasn't a one-off that built off the momentum that you saw building in the second half of last year. So, we've certainly seen very good commercial activity in that space.

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

Any sign that, that business could accelerate or that you're starting to see sort of someone picking away at the margins of your business?

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

I think we expect to continue to do very well and be the market share leader in the B2B area as we go forward here. And I'm not surprised that other people are targeting it. It's a good business for us. We've shown, as somebody with over 40% market share, it's not surprising that other people say they would like to get a piece of that. But as you can see from the way we're competing there, we're not ceding a foot of ground on that at all.

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

Private networking is something that we hear about for businesses. I know you have a trial with -- I won't say the name. Some big trials announced. Can you give us an example of what you're going to do for them? And also -- so what's the revenue tie-in for Verizon? How big could this be?

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

Yes. So, I think one of the customers we talked about that we're actually in not a trial but a commercial application is -- we talked about Associated British Ports as an example, one of the first 5G networks we deployed. The great thing about that and you've heard Tami and the business team talk more about that over the past few months is we had the initial deployment with them. They saw the use cases. Now they're coming back and saying, we can see other opportunities that weren't in our original business case as we've got into this. So, we're really moving from doing trials to actually starting to get into commercial deployments with customers there. There's the value of the initial deployment, but then also a monthly revenue stream as we help manage the running of that private network as well on behalf of those customers.

So, I think there's a tremendous opportunity there. I think they'll all be, at least with larger customers, unique in their particular rollout as we work. But that's what we've done with large enterprise customers for many years is have a bespoke approach to their adoption of technology. And as we get into private networks and then the mobile edge compute opportunities that come with that, we think that gives us similar opportunities.

So, there'll be the initial upfront installation and the revenue associated with that, but we think there's ongoing managed services that will be part of that revenue stream as well, an important part of it.

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

So, we've been hearing about edge compute and private networks for years. Why is it now that we're starting to get to that point and you're relying on that to drive a decent upside in revenue growth over the next few years?

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

Yes.

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

What gives you confidence that we're almost there?

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

Yes. Well -- so we've been able to envision what could be possible. Well, you have to wait for the actual technology we rolled out, right? And so the network is part of that, having the right amount of spectrum, having the functionality that comes with the 5G technology. It now creates the opportunity to do mobile edge compute. People could envision that previously, but now we're kind of -- as I say, the technology is here. And so we're now seeing the real applications that come with that.

So that gives us a path. We talked at the Investor Day about the different ways that we grow revenue from where we were at the end of last year through '25. We said \$2 billion of that revenue growth in '25 over '21 should come from our B2B activities. And as you think about getting to that level and then, I think it continued to grow significantly beyond that as we go past that point. So, I think there is a great opportunity there. Very much like the progress the team is making with customers and think there's a tremendous long-term opportunity in the B2B space.

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

I'm still having a hard time getting from -- yes, there's a tremendous opportunity to -- here are the dollars and here's how many customers I need, and here's where I make money. So can you help me with some -- like a -- maybe the British Ports? How big a dollar number order of magnitude is something like that, both on an upfront services basis and then long-term recurring revenue?

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

Yes. So we -- we're obviously not going to discuss how much we might...

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

....something like that.

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

But I think as you look at it, our existing business today, you think on the enterprise side and the relationships we've had with customers for many, many years now, it gives us the opportunity to have significant revenue streams. So I said, we expect that to be, when you combine those revenue streams and other IoT applications, \$2 billion of growth by '25. But it's going to be by adding a significant number of those types of relationships and engagements. And it will be a mix of the upfront building out of that private network for a customer and then the ongoing managed services, and we believe it drives those types of revenue streams as we go forward here.

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

Do you imagine -- envision them using your spectrum in their facilities, around their facilities? Do they want to use CBRS sort of private spectrum? What's the view there?

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

I think what we have is the ability to work with a customer depending on different ways they want to do it. So, we can work with spectrum they have. Obviously, we're working outside the U.S. We aren't working with our spectrum, right? And so we've demonstrated the ability to do that. But no, obviously, we bring a significant amount of spectrum to the table. So -- and when you think about the way the customers -- you're going to have your -- a private network, but then you're going to have usage on the public 5G network as well that interacts with that, whether that be because we leave the campus that you might be working on or your assets do, like a truck or whatever else and you want to be able to track them both through the public network and your on-campus private network. And so we bring that ability for those things to stay connected in that fashion. So, we'll work with customers in different ways, whether it's licensed spectrum, unlicensed spectrum, customers happen to own some spectrum. I think we have the ability to work across solutions in all of those scenarios.

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

Okay. Sort of go back to where we started. We started with the price increase, and you had guided to 9% to 10% growth this year. And that price increase was not contemplated in that guidance, right? So how should we think about where that revenue growth goes this year as you sort of roll that \$100 million per month in the back half? And then do you think about other price increases that sort of are more likely now with inflation coming higher?

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

Yes. I think we're looking at all the opportunities. There's certainly -- we'll stick with our normal policy of providing our updated views on guidance on our earnings calls. And -- but as I think about the opportunities out there, yes, I'm excited about as we start to bring those incremental revenue streams on latter part of the quarter here but really on a full quarter basis starting in Q3. But yes, we look at the marketplace. I think it's the first time we've really as an industry had the opportunity to look and say, what are opportunities on pricing in that direction? And so we'll continue to look for where we strike the right balance between what we can do on the pricing side, what that does on the volume side because ultimately, it's about driving the most revenue growth and that's where we'll find the right balance there. But certainly, if there's additional opportunities above what we did last week, you should assume we're looking at those as we go forward here as well.

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

Okay. I believe this fee increase puts you sort of in line with T-Mobile and AT&T on...

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

On the consumer side, yes, it moves us closer there on that piece. And then the business side, we went with a different approach there. But on the consumer piece, it does get some of those fees more in line with where others in the industry are.

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

Do you think your headline prices are in the right place? You're somewhat higher than AT&T, substantially higher than T-Mobile. Is that the right place to be?

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

Yes. Look, I think we've historically had the same type of percentage premium. I think the value of the service we provide justifies that premium. Part of what we have to do is make sure we communicate to customers the right way that while, yes, we have a premium there, it's also an affordable premium. And I think we have the opportunity to lean in there a little harder. But I don't think our overall price points are materially off from where they need to be for us to be effective in the marketplace. And we wouldn't have the retention that we see right now if we had a significant disconnect there. So, that helps reinforce the fact that we're not that far off. Now, are there opportunities for us to look at different parts of the market and think about how we do that? Absolutely. But I think we are competitive where we're positioned today, and we just need to make sure we're finding the right way to message that in front of the consumer.

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

Okay. We haven't talked about prepaid. You acquired TracFone about six months ago, and it seems to be sort of struggling to get going. Do you think that it's the -- any sort of transition into Verizon issues there? Or is the prepaid market just a little bit different than it was before?

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

No, I don't think so. I think, look, 2021 was a little odd year in the prepaid market in general because, especially, the first part of the year because we had a lot of stimulus money out there, right? So, we saw that. But if you look at the results we're seeing in the business versus pre-pandemic levels, it's very much in line with what we would expect. TracFone had begun the process prior to us even closing of really looking at their base and saying, which part of that base drives value, which one maybe doesn't drive as much value. And so you saw that show up in the volume side, but it also meant that they were driving revenue growth as well. And so that process continues. This year, you've got the -- there was some number of their customers that were still on 3G networks. And as we have 3G network shut down, you've got that noise in the volumes. So, that will obviously be with us here for a little while longer. But we look forward -- the integration is going exactly on plan with what we expected to see.

And as -- we think there's tremendous upside in that space. We like being in control of our own destiny in the value segment and not relying on others as much as we historically did. And as we complete the integration, we get all those customers onto our network over the next year or two, that it will be a continued upside there. But the performance we've seen this year is really reflects the 3G network shutdowns going on. But also that ongoing effort the TracFone team was already doing around maximizing the value of the base and you saw that from a revenue standpoint.

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

You mentioned getting those customers on to your network. What is the process now? I think it sounds like you're on sort of a timed release of customers off of AT&T and T-Mobile and on to you.

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

Yes. Over the next 12 months to 24 months, that will be complete.

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

Do they need new handsets to do that?

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

To some degree, it depends. If they're a 3G customer, they absolutely will need to get them with the right handset in their hands. So -- but I think you've got the normal evolution of customers' ownership of handsets over that time period where we can manage through that in a cost-effective manner.

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

Do you think that that's a growing customer base within the year?

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

Absolutely.

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

Yes. Okay. Finishing up, leverage intended to go from 2.8x at the end of the year to, I think, 2x to 2.5x -- I'm sorry, 1.75x to 2x is the target. As rates have bounced up a little bit, but are still historically not abnormally low. Why below 2x? Why is that the right range?

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

Yes. We think that gives us the right balance between the leverage on the balance sheet and the flexibility it provides us when we look at opportunities. We got down to that 2.0x level prior to the C-Band auction. That put us in a position where we could participate in that auction in the way we did and get what I think was a fantastic outcome and sets us up for years to come. We were able to pursue the auction that way because we put the balance sheet where we had. So, we think that's the right thing to do, is to bring the balance sheet back down to those types of levels. And as we do that, we laid out the path to doing that, right? We said this year we'll be relatively flat because of the C-Band investment, but then start to really accelerate down after that. And we don't have to wait all the way down to 2.0x before we would consider buybacks. We -- at the Investor Day, one of the new things we added, we said we'd consider buybacks at 2.25x. So that was kind of an update to our thinking on that. So it's that right balance between -- given the -- making sure we have the optionality when opportunities come up, but also putting ourselves in a position to provide returns to shareholders, which I'll say -- by the way, we do pay out almost \$11 billion a year in dividends. So, we are returning money to shareholders on a pretty consistent basis there as well.

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

Good. That's a good place to leave it. Thanks, Matt.

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

Thanks, Phil.

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

Thanks, everybody.

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