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# EDITED TRANSCRIPT

VZ.N - Verizon Communications Inc at Morgan Stanley TMT Conference

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## CORPORATE PARTICIPANTS

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

## CONFERENCE CALL PARTICIPANTS

**Simon Flannery** *Morgan Stanley, Research Division - MD*

## PRESENTATION

**Simon Flannery** - *Morgan Stanley, Research Division - MD*

Welcome to all of you, it's great to be back here in Barcelona and see so many familiar faces again. Good luck, enjoy the upcoming conference and Matt Ellis from Verizon, thanks so much for joining us again, it's great to have you here. Before we get started, please note that any disclosures can be found at [morganstanley.com/researchdisclosures](https://morganstanley.com/researchdisclosures). So Matt, Emmett has teed up some of the key issues here. Perhaps from a Verizon perspective, what are your key priorities as we close out 2022, and thinking into 2023 and beyond?

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

Thank you. So before I get started, obviously just refer everyone to our safe harbor statement that could be found on our IR website and in our SEC filings. So as I think about the rest of this year, not too many weeks left and obviously, we're deep into '23 planning. Major priorities are really around building on the areas where we have good momentum. And then obviously driving the change in trajectory in the areas we'd like to see that as well. So as you think about our priorities, what we're focused on. It starts with the continuation of the network build, especially around C-band. The team has done a phenomenal job building that out since we started a little over 1.5 years ago. At the end of 3Q, already at 160 million POPs and we say we'll be at 200 million in first quarter.

So that is opening up all of the opportunities that we expected to see. So moving then to the commercial side and some of those opportunities already seeing that playing out in fixed wireless access had sequential growth in each of the first 3 quarters this year and seeing some very good volumes play out there. So continuing that, continuing the strong volumes we've seen in our B2B business on the wireless side with 5 consecutive quarters above 150,000 net adds.

And then obviously, we took some actions in the consumer postpaid side around the mid part of the year. And we saw the benefit of those in the gross add side of the equation in 3Q. So, we need to continue that gross add momentum that started there in 3Q and also continue to work on the disconnect side of the equation there to drive the outcomes we want in that piece.

So there's a number of areas of the business with strong momentum. We want to keep that moving forward as we go here.

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## QUESTIONS AND ANSWERS

**Simon Flannery** - *Morgan Stanley, Research Division - MD*

Great. So if we start at a broader level in the wireless industry, it looks like we've had another pretty healthy quarter for the industry, 2.3 million postpaid phone adds something like that despite fears of an industry slowdown. So how do you think about the drivers of that and the sustainability of that, and then Verizon's ability to take a higher share of those customers?

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

Yes. So obviously, population growth is in there. But on top of that, we've seen children getting phones at younger age. We continue to see pre to postpaid migration. On the B2B side, we see a lot of employers going back to providing devices to their employees rather than the BYOD model as it's obviously cyber concerns.

And then just on the B2B side, good business formation, good employment numbers as well, helping to drive that volume. So it gives us a good environment in which to be thinking about volumes on the B2B side. We've obviously played very strongly, and that's -- you've seen that in the numbers.

And then on the consumer side, it's about continuing to segment the offerings we have in the marketplace to drive traffic into the stores and conversion from there. And we think we started down that path. And we've got a lot of opportunity ahead of us to continue to do that.

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**Simon Flannery** - Morgan Stanley, Research Division - MD

I think you noted on the third quarter call, you're starting to see the store traffic numbers pick up again?

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

Yes, yes. And you saw our gross adds on the consumer side went from negative 11% in 2Q to a low single-digit positive number in 3Q. So we're focused on adding volumes in a way that positively impacts the financials. Free lines for the sake of a net add number isn't something that we're really interested in. So we'll continue to add the value in the base as well. And you see that in the quality of the base. When you look at the FICO score of our base versus others, you see the underlying quality of our base of customers and that leads to longevity of the relationships, which helps drive obviously, good financial outcomes.

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**Simon Flannery** - Morgan Stanley, Research Division - MD

And any perspective on the sustainability of the industry growth?

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

Look, I think it's a great industry to be in. The utility that customers get from our products and services has never been higher. And as we move into a 5G world, we'll see additional functionality provided for both consumers and businesses. So I think there continues to be a lot of opportunity for us to play an even bigger role in our customers' lives.

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**Simon Flannery** - Morgan Stanley, Research Division - MD

Great. So Emmett was talking about some of the macro challenges. So what's your latest read on the consumer on the business demand? You mentioned the business formation, but how do you see that currently and prospectively?

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

Yes. So businesses are largely in good shape right now. I mean, obviously, there's some sectors impacted more so than others. But in total, we still see very good employment numbers in the U.S., and we still see good business formation numbers. We're obviously watching those closely. And there's obviously, a possibility of that changing in the -- as we go forward here.

But right now, we see good levels of customer demand for wireless service in the B2B space because of the employment numbers and the business formation.

On the consumer side, the consumer, you think about the consumer maybe in two different pieces. You've got, obviously, we have higher inflation than we've had in 40 years in the U.S. We've got rising interest rates, but we've also got strong employment numbers, which kind of feels like an odd set of data points, right?

And so there's a large number of consumers that are still doing very well, right? Because of the employment numbers, they've still got some of the COVID subsidy money left over. Obviously, there's part of the consumer base, which is more heavily impacted by the inflationary environment and the impact of the grocery store and at the gas pump. But all-in-all, we're seeing the vast majority of consumers still spending at decent levels. Obviously, we're watching that as we go forward.

We see it in our payment patterns, which continue to be as strong or stronger than they were pre-COVID, at or above average level. So right now, we're still optimistic about what we see from a demand side. We're obviously going to watch that closely as we go forward. But the consumers in a good space. And I come back to when I think about our base of customers, which we think is the highest quality in the industry, and we see that reflected in the payment patterns from our customer base continue to be very strong.

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**Simon Flannery** - Morgan Stanley, Research Division - MD

And maybe give us a bit of a history lesson that, I seem to recall, during the global financial crisis, the wireless industry came out of that pretty, pretty much unscathed. The churn impact, demand impact was pretty limited.

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

Yes. And we've seen it when we've had the small downturn since then as well, we see it, too. On average, customers will prioritize their phone bill over other bills they have to pay, including car loans and mortgages. Now that doesn't mean we're complacent about, look, monitoring consumer behavior, but we know history has shown us that customers will prioritize their phone bill. So that puts us in a unique position going forward.

So obviously, we continue to monitor it closely, but -- as I think about that, it makes me feel, gives me a degree of, a high degree of optimism than maybe others as I think about next year.

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**Simon Flannery** - Morgan Stanley, Research Division - MD

Great. Well, you started off talking about the network. And for those of you who are here in 2019, some of the breaking news at the conference was the FCC's decision on how they were going to finally allocate the C-band proceeds. And now you're talking about building out almost 200 million POPs already. So tell us about where that -- where you were, where you are, where you're going and what this really does for your network and for your customers?

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

Yes. Yes, a lot has happened in those 3 years from a spectrum standpoint, isn't it? So you're right, the FCC took over that process. We had the auction that kicked off in late 2020, concluded in March of last year. And we won 161 megahertz of the 280 megahertz available. So obviously, a successful outcome.

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**Simon Flannery** - Morgan Stanley, Research Division - MD

So you've gone from, call it, 110-115 up to 300?

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

Yes, I think when you add, when we got CBS, we were closer to 130, but we more than doubled our low- and mid-band spectrum holdings with the outcome of the C-band spectrum because we got it as rather than having spectrum across many, many bands and the engineering technicalities that come with managing that, having it in just 1 band like that creates a lot of efficiency. So the team has been hard at work since March of '21, deploying that. And they've done a fantastic job building that out. Remember, we're only in a small number of the markets. It represents a sizable part of the population. We don't get all of the spectrum until early December next year, about 54 weeks from now.

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**Simon Flannery** - Morgan Stanley, Research Division - MD

But you're going to clear a little bit ahead of that?

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

And then yes, so we got 30 additional markets. We're in the process of clearing this year on top of the initial 46. So that's how we're able to continue to expand the POPs covered. As I say, we're at 160 million, so close to half of the country already, and it will be at 200 million in the first quarter next year. Just 2 years after starting the build.

So the team has done a phenomenal job bringing in a huge amount of capacity. Those markets that we've deployed already with the initial 60 megahertz, when we get the other 100 megahertz of spectrum, it's just -- there's no additional cell site work that needs to be done. The radios were deploying handle the full 160 megahertz, handle up to 200 megahertz. So it's just a case of as soon as we get it, flipping the switch, as you say, and creating a significant amount of incremental capacity. So customers are seeing a great experience on the C-band today, whether it's mobility or fixed wireless access. We'll more than double the spectrum from the 60 they have today getting to 160, and that will give us significant runway as we go forward here.

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**Simon Flannery** - Morgan Stanley, Research Division - MD

And so you allocated \$10 billion to the C-band build?

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

Yes.

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**Simon Flannery** - Morgan Stanley, Research Division - MD

Can you just take us through where you're going to end up this year and then what's the trajectory from here for building out the rest of the country?

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

So we're obviously very excited about the outcome of the auction that we did. One of the fun things about our industry, when you think about spending \$53 billion, and you liken it to M&A, if you spend \$53 billion in M&A, you typically buy an asset, it's got a revenue stream up and running. In our industry, you get the right to use that spectrum, but it does nothing on day 1 until you go spend more money to deploy it.

So we were, of course, very excited with the outcome. We wanted to deploy it as quickly as possible. So rather than doing that in our BAU CapEx level, we said we were going to spend an incremental \$10 billion over 3 years, 2021 through '23.

And the way that's shaping up, we spent just over \$2 billion last year, which was really a 9- to 10-month window of work rather than a full year, but also as we were scaling the activity.

This year, we said it would be \$5 billion to \$6 billion. We're certainly well on track to be well within that range. So that leaves kind of, call it, \$2 billion to \$3 billion number next year to finish out.

So, team -- I said at the start that unlike most projects, where the team has to come and ask permission to spend money, the team had to come and ask permission to slow down spending and they've not needed to do that. They have deployed it incredibly quickly and couldn't have been more proud of them.

So we get a nice step down in CapEx next year as a result of the \$5 billion to \$6 billion this year going to \$2 billion to \$3 billion next year. And you get a step down the year after in '24 versus '23 as well.

And then we'll be at the underlying BAU spend at about \$17 billion. We'll still be deploying C-band in that BAU spend. But we'll have less spend on our LTE network because more and more customers are using, their data usage is on the new network. So less money is needed to spend to add capacity to the 4G network. So that creates space in the regular \$17 billion envelope that we have to continue to build it out.

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**Simon Flannery** - Morgan Stanley, Research Division - MD

Great. So will you ultimately put C-band on all of your towers?

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

You should expect us to have C-band pretty much everywhere we have the 4G network today. And so obviously, a lot of the initial deployment is on existing towers. And if we need to add in between, we can.

One of the great things about as we've deployed LTE over the past number of years, we've also densified that network to add capacity. And so that means we have a large number of sites that we can just go to put C-band radios up but already have backhaul and power in place and a relatively low number of new towers as part of that deployment.

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**Simon Flannery** - Morgan Stanley, Research Division - MD

And now you've what, 50% of your base has a 5G device at this point?

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

A little over 50% of our base now has a 5G device in their hands. And so that number will obviously continue to expand as we go forward here. But it's already a significant portion of our total data usage that's already showing up on the C-band network, and that number will expand from here. So it's one of the nice things as well about 5G versus other technologies in prior technology launches, we've often built the network before the new band has gone in the handset devices. So we started selling iPhones, for example, 2 years ago with C-band in them. So the base is already being seeded with customers with the devices in their hands as we're turning the network on. So there's -- it's progressing very nicely.

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**Simon Flannery** - Morgan Stanley, Research Division - MD

It's nice to hear a network deployment story going smoothly, given all of the supply chain issues we hear about, any updates on that side?

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

Yes, it continues to operate that way. I mean it's a testament to the combination of our network team and our supply chain team and how we work with our suppliers. We're talking to our suppliers significantly ahead about where we see our demand, so they can build that into their planning. And we see the outcome of that in the fact we -- as we're deploying the network, we're not talking about supply chain-related delays. So that the way we planned for many years, the way we work with our key vendors for many years kind of pays off, especially when you end up in an environment like we have the last 2 or 3 years where supply chains have become a little more complicated.

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**Simon Flannery** - Morgan Stanley, Research Division - MD

So I think perhaps the biggest concern we get from investors is around the wireless competitive environment. And we've got a pretty mature penetration level. We've got cable starting to do these aggressive bundles, we've got DISH potentially launching in early next year. So how do you get comfortable that you can continue to grow ARPA and hopefully, subscribers as well over the next few years?

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

Yes, it's a great question. We've built the largest and best base of customers in the U.S. industry in what has been a competitive market every single year. So this isn't something new at a macro level.

Now the specifics of who the players are, how the competitive activity is showing up from a pricing standpoint has obviously evolved over time, but it's been a competitive market because it's an attractive market and continues to be so. But we're obviously very confident that we can continue to operate successfully within that.

Obviously, one of the leading priorities is when you've got the largest base of customers is making sure we take care of them. And I think we continue to do a good job there. I expect it will continue to be competitive going forward, but that doesn't mean we can't be successful. We've seen good increases in ARPU this year, both on the consumer side and the B2B side. And the teams are constantly working on how we add to that each year. The Welcome plan that we introduced is an example of actually a lower-priced postpaid plan, but it helps us bring more customers into the door, and then we have the opportunity to upsell them once we've got them in the store.

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**Simon Flannery** - Morgan Stanley, Research Division - MD

You don't think it's really diluting ARPU?

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

No, I do not believe it's diluting ARPU. I mean we're certainly bringing some customers on at that price point, but we're also bringing more volumes in and you've got the opportunity to step customers up. And even if you bring the customer in at that price point, we have a great history of, as that relationship with that customer extends, of stepping them up over time. So happy to bring the customers on at any of the price points that we have in our plans.

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**Simon Flannery** - Morgan Stanley, Research Division - MD

And on the business side that you referenced in your initial comments, the momentum has been very strong. And I think people are scratching their heads a little bit because it seems like everybody says they're winning in business. So you've obviously got some sector expansion. But how do you feel about defending your sort of leadership position there?

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

Incredibly good. We've got the 40% to 45% market share in B2B, and we certainly believe that we're winning our fair share of gross adds and net adds in the industry as well. I mentioned earlier some of the things that are driving volumes in the industry. But I think what ultimately comes down to.

If you are buying a wireless network for your business activities, the quality of that network, the reliability of that network, obviously matters can be business critical. And therefore, why wouldn't you buy the best network, the one that's obviously got the long history of being the best network, and we see that in our business customers.

We've obviously got long relationships with a lot of business customers because of the wireline side of the business, and they know they can rely on us and have for many years.

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**Simon Flannery** - Morgan Stanley, Research Division - MD

If we look at the CPI for the last few months, you have 7%, 8% CPI, but then you have wireless basically flat. But one of the things that we did see this year was some modest price increases on the legacy plans from yourselves and AT&T. Can you tell us how that's gone? And is this something we can -- maybe not at the full CPI level, but given your inflationary cost pressures? Is there the ability for the industry to do that? And how is that trade-off with churn and competitive flow share?

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

Yes. So as you think about CPI, let's stop there for a second. So obviously, we're not immune to the impacts of inflation. The pressures we're seeing from an energy standpoint are less in the U.S. than as we heard from the opening remarks. Maybe here that European carriers are dealing with. But kind of the two major areas we've seen inflationary pressures. One is on the energy and utility side, although we're seeing that abate a little bit here in the past 2, 3 months in the U.S. with certainly, gas prices coming down from the summer highs.

And then labor rates. But even as I think about the rate of increase in labor rates, it's kind of below that CPI number. So the opportunities for us are to continue to work on the cost reduction side. And also, as you mentioned, the ability to increase prices. So not something the industry has historically done a huge amount of but you saw us earlier in the year. We took some actions in the second quarter that really only showed up in our customer billing in 3Q.

One was around a couple of our fees. And then the other was around we took a -- there's still a subset of our base that's on our metered plans. We don't sell metered plans for customers -- new customers coming in, but obviously, those who are grandfathered and still have those. So we took some rate increases in that segment.

So what we said was the impact of those actions would be that about \$1 billion increase in second half revenues over first half revenues and we saw that come through in our 3Q results, and we'd expect that to continue into 4Q results and into next year.

So now with that, we saw an uptick in churn as expected as customers saw those increases in their bills, a few of them decided to do something different. But that was certainly within our business case. And the net result is that higher revenue. And obviously, that's how we view the business is that volumes are always good to look at, but ultimately, does it show up in the financials and very significant increase sequentially in revenue because of the actions we took. So we'll continue to see whether there's opportunities to do things with pricing, and whether it's directly with pricing or there is other activities that drive revenue. We'll see as we go forward here. There's obviously other opportunities there and then offset that on the cost side as well as we go forward, too.



**Simon Flannery** - Morgan Stanley, Research Division - MD

Great. And you've got a new cost program that you announced with earnings, take out another couple to \$3 billion?

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

Yes. So we said we had a new cost program that would reduce our cost on an annual basis by \$2 billion to \$3 billion by 2025. And the way I would think about it is it's in addition to our regular BAU work. I mean every year, the teams are working on business transformation activities. We're in our planning cycle right now. Every year, each of the groups gets a target letter from me that they always appreciate when they see the cost reductions that we're asking them to find. But we saw some opportunities to accelerate some of that work.

Whether that is continuing to automate and digitize throughout our business processes or whether it's the -- we looked at -- we have similar work taking place across different business units and different shared services, bringing that together in a global services platform organization. So we're staying in the process of standing it up.

And also on the sourcing side, we've done some very good things around sourcing, but there's still areas where we probably don't bring the full scale of Verizon to that process, and there's another step change that we have ahead of us there. So that gave us the belief that wasn't -- you think about it as a new cost program. It's really accelerating some of the work already underway. But obviously, when you're in an inflationary environment, very different than we imagined when the year started, the importance of that work has increased. So that's why that was one of the other reasons for accelerating it.

But I feel very, very good about the opportunities there to further increase the operational leverage of the business.

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**Simon Flannery** - Morgan Stanley, Research Division - MD

Great. Well, one of the highlights of Q3 was your fixed wireless performance. You had another record quarter and fixed wireless basically dominated the broadband adds industry-wide for another quarter despite all the fiber builds and so forth out there. So perhaps you can start with where are these customers coming from? Who are you attracting working in business side, consumer side?

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

Yes. So obviously, fixed wireless has been a great story this year. I'd be remiss not to mention that our Fios business also did 61,000 net adds in the quarter. Now, we've got 7 million Internet customers on the Fios platform. So that continues to be an important part of our broadband story.

But you're right, 2022 really has been the year of fixed wireless access coming up at scale. So we've grown sequentially throughout the year. We did 194,000 net adds in Q1; 256,000 in Q2; and 342,000 in 3Q. So we said our expectation was to grow that volume sequentially throughout the year, and we've done that so far.

So those adds, they're split across the consumer and the business side. The other side of the business story, we talked about the strong phone net adds there, but also bringing FWA into our business customers.

And then on the consumer side, obviously, these are customers who largely had a home broadband connection, but one that they weren't happy with. And so we brought a significant number of people on and we're seeing very good results there. Seeing usage patterns not dissimilar to what we see from a Fios customer. And it's obviously, we've got that experience with Fios, both in terms of knowing how customers use it, but also the selling motion there as well. So that's helped us.

And then on the B2B side, a majority -- vast majority of those lines are primary lines. And it's a combination of there's some businesses in there that maybe didn't get a broadband connection previously, but there's certainly a lot of businesses in there that are seeing the value of the product

versus what they were using previously as well. So we think there's a lot of runway to go. We're glad to have passed the 1 million subscriber number in our FWA base. And as we said at our Investor Day earlier this year, we expect to have 4 million to 5 million customers by 2025. And certainly, good start out of the gate this year on our way there.

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**Simon Flannery** - Morgan Stanley, Research Division - MD

And I think you've said the NPS scores are pretty encouraging as well?

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

Yes. We're certainly seeing NPS scores. They're not quite as high as Fios yet, but we obviously aspire to have something similar and certainly significantly higher than a lot of the incumbents in the space.

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**Simon Flannery** - Morgan Stanley, Research Division - MD

So you're doing this on 60 megahertz of C-band, I guess, some LTE as well? But how concerned should we be about your ability to handle that 4 million, 5 million or even beyond? I guess you're only doing this in what, 30 million households right now?

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

Well, so you've got really 3 technologies you're doing it across today. You've got obviously some on LTE. What we did there is as we said, there are certain areas where our LTE network has capacity, and we can offer that. So that's a location-by-location decision, where we think the LTE network has capacity that we can monetize it with FWA in addition to mobility. We've been obviously doing millimeter wave for a couple of years now in dense urban areas primarily. And that's a very good product. But obviously, the pace of their millimeter wave deployment has slowed a little bit as we focus on C-band and then C-band has kicked in this year. As you say, it's only available in the markets right now where we've turned on C-band and that will expand.

In terms of the usage on the network, as we look at the usage is coming in as expected. And when we talked about being about 4 million to 5 million subscribers by '25. Still have significant headroom above that number in the network to expand based off the spectrum we have.

So the team is very confident in the strategy right now that we can support postpaid mobility on 5G, FWA on 5G, on C-band, the B2B applications in there and have the type of network experience customers have known to expect from Verizon.

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**Simon Flannery** - Morgan Stanley, Research Division - MD

Great. When we come to Europe, the converged bundle seems to have been much more popular here than it had been in the U.S. But we are seeing, it seems like this wireless plus broadband bundle gain a lot of traction. Can you talk about how you see that evolving with your fiber and your fixed wireless products?

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

Yes. We certainly see that the longevity of the relationship with the customer extends when you have that relationship that includes both mobility and fixed. So there's value there that we will see. I like the economics of being able to deliver that bundled service to the customer when it's on FWA through one network. We're not building additional cell sites to deliver FWA over mobility. We're building the same number of sites and delivering both products on the same network.

We see tremendous value there as we go forward. It's exciting to be entering this next generation of wireless technology where you can talk about multiple revenue streams off of the investment rather than just the mobility stream. So I think there's a lot of upside to us as we go forward here, where we can offer a consumer that converged bundle.

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**Simon Flannery** - Morgan Stanley, Research Division - MD

And do you think the fixed wireless is maybe bringing new customers in who you can help drive wireless gross adds or phone gross adds?

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

Yes. Yes, absolutely. A little over 2/3 of our consumer fixed wireless customers are already a wireless customer. But that means those other fixed wireless adds that we have now become a wireless sales opportunity as well or mobility opportunity. So certainly, we see that both products being part of the customer acquisition equation.

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**Simon Flannery** - Morgan Stanley, Research Division - MD

Great. We're going to have time for a couple of questions in a minute, but maybe just turn to the balance sheet, if I could, for a second. And you talked about the CapEx coming down, the cash flow inflecting. Talk about your capital allocation priorities.

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

Yes. Our capital allocation priorities have been consistent for a number of years now. Firstly, it's always about making sure we invest in the business to support the future growth. Customers use more data every year, and we have to make sure that they get the same experience that they would expect. So obviously, that's CapEx, which largely goes to the network. It also means spectrum. And I think we're through a large amount of the auctions that we've been on over the past few years. But we had activity there and then any bolt-on, tuck-in M&A that we may think is necessary.

Second priority is around the dividend. We've increased the dividend for 16 years in a row now and look forward to continuing that trend as we go forward.

The third priority is around strengthening the balance sheet. We've said we expect or we target to be an A- credit rating profile over the long term. That equates to about 1.75 to 2.0 unsecured debt-to-EBITDA ratio. And so that's where we want to get to. We obviously have shown multiple times after doing large acquisitions, whether it's Alltel 14 years ago. Vodafone back in 2014, that we'll increase debt to do a large and then you bring it back down to that level. We were back down at 2.0 before the C-band auction. Obviously, we're up at 2.7 today, but we're in the focus now on bringing that down.

We also said that we would consider buybacks at 2.25, not getting all the way down to 2.0. Obviously, there's way to go from 2.7 to 2.25 before we start having that conversation, but we put that out there this year as well.

So think of 2022 as our peak CapEx year because you've got that \$5 billion to \$6 billion of C-band spend which will come down next year and come down the year after as well.

So given the underlying strong cash flow of the business and then the reductions we'll see in CapEx over the next couple of years, I feel good about the cash flow generation within the business and being able to be focused on all of the priorities and the capital allocation model.

**Simon Flannery** - Morgan Stanley, Research Division - MD

Great. And maybe just talk about your philosophy on your balance sheet management in terms of maturity profile, liquidity, the fixed versus floating?

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

Yes. So we obviously look at the -- when we see the size of the balance sheet we have, we've been very focused on not just managing the total amount of debt but also the maturity profile. We've done significant liability management on an ongoing basis to keep the 18- to 24-month window ahead of us fairly light in terms of maturity, because you don't know what's going to happen in the marketplace, whether it's a pandemic that initially causes markets to become -- to shut down for a couple of weeks or so or you get into more of a macroeconomic environment like we find now. So we've been a little quieter this year in the market because we created that cushion for ourselves in the initial window.

So we've got a little over \$1 billion of maturities next year, which isn't a large number. And then in '24 and beyond, there are some larger towers that the team will start to attack. But that's been a constant activity, but it gives us the -- puts us in a position if markets aren't favorable at any point in time, we're not immediately on top of a maturity tower.

And then from a fixed floating standpoint, a number of years ago, we looked at what we thought was the most cost-effective way to manage that debt profile, and we said something in the 20% to 30% range floating versus fixed, and that served us well for a number of years. Obviously, this year, that's meant we had some increases come in to the interest expense line. But certainly, over the course of the economic cycle, we think that having that right balance between fixed and floating gives us an overall lower cost of capital.

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**Simon Flannery** - Morgan Stanley, Research Division - MD

Great. I think we have somebody with mics. So if any -- there's a question here from Frank.

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**Unidentified Analyst**

My question is on capital allocation. On a 3- to 5-year view, what is the risk that you have to allocate more to fiber, either M&A or higher capex, if we go to more convergence in the U.S.?

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

Yes. Look, we've been spending money on fiber for a number of years now. We have our Fios business, we're at about 17 million homes and businesses that we pass. And we've said that we expect to expand that by approximately 0.5 million a year for the next few years within the ILEC footprint.

We also have our One Fiber program in large urban areas outside of our ILEC footprint that we've been spending on for the last 4, 5 years now. That program is actually reducing. We've already completed the core metro build in over half of those markets. And by the end of next year, we'll have substantially all of the core metro builds done in those markets and then it just becomes success-based builds, whether that's for enterprise locations or new cell sites or whatever.

So we've been deploying fiber for many years, and I look forward to continuing to deploy fiber, but I don't see a massive change in the rate at which we'll be doing that. I mean I know a lot of people are getting into deploying fiber to the home. We started Fios over 15 years ago now. So we couldn't agree more that it's a great product. That's why we have 7 million customers on it today.

**Simon Flannery** - Morgan Stanley, Research Division - MD

Right. Probably got time for one more. Okay. Maybe we'll just wrap up with another thing that sort of you've done over the last year is close your TracFone acquisition on the prepaid side. So perhaps just update us on how the integration is going. And I think one of the things you mentioned in your opening remarks was that whole prepaid to postpaid engine. So where do we stand on that?

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

Yes. So it's -- we're very happy to be -- I think, a year on from closing that transaction in November of last year. And historically, we have not played significantly in the prepaid space in the U.S. market in an owned fashion. We've relied on wholesale partners such as TracFone, which actually has the largest base of prepaid customers in the U.S. So we now are much more in control of our own destiny in that marketplace.

Integration is going well. Obviously, a significant number of synergies, about 1/3 of the customers weren't on the Verizon network. So we'll be migrating those. We're partway through that. It's a larger effort actually next year, which will bring obviously a good number of savings. And then there's a lot of back office work going on so that we can seamlessly migrate customers between prepaid and postpaid and even postpaid to prepaid as well depending on the direction the customer wishes to travel.

So happy with what we've seen in the first year, very much in line with our expectations, a good amount of work to do in year 2 as well, and the team is well on track for that.

**Simon Flannery** - Morgan Stanley, Research Division - MD

Great. Matt, thanks so much for taking the time to come to Barcelona. I enjoyed the conversation.

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

Glad to be here. Thank you, Simon.

**Simon Flannery** - Morgan Stanley, Research Division - MD

Great.

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