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# EDITED TRANSCRIPT

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

EVENT DATE/TIME: DECEMBER 05, 2022 / 1:20PM 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, telecom media analyst here at UBS. I'm very pleased to announce our keynote speaker this morning is Hans Vestberg, the Chairman and CEO of Verizon. Hans, thanks for being here.

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

Thank you. Great to be here. And I have to say before we start, we have a safe harbor statement somewhere. It's a small font. I guess you have read it before, but it might be some forward-looking statements, please be cautious. Okay. Now we have that behind us.

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

Right.

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

Yes.

## 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, you guys broke some news today and there's some management changes at Verizon with Manon, who is running the Consumer Group is leaving the company. Maybe if you could just give us a sense for the reasons for the change, why now? I guess is there any impact we should be thinking about in terms of the fourth quarter? And any potential change in strategy that comes with it?

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

Yes. First of all, there is nothing to read into the fourth quarter nor to the strategy. It's just that sometimes you make adjustments in order to keep -- increase the pace of execution and things like that. And we wanted to get into 2023 strong. I think we have proven through the year in the Consumer Group that we had just a bad second quarter came from the first -- I would say March of this year wasn't really strong. And then we did a lot of changes that we have seen good improvements on. We already saw it in the third quarter, the Welcome plan. The gross adds was growing double digits from coming down negatively. So we had a good traction and we did some price adjustments there, and we continue with that through the holiday season right now.

And just to be clear, I mean, we had a good Black Friday. We had a good holiday season on the Consumer Group. Of course, there's some time left there, but sort of we are tracking towards our expectation for the quarter to have a positive net adds in the Consumer Group. The only sort of caveat

anyone would have and I guess that this is very versatile and that there are some choppiness in supply. So far, we have been handling that good, very good relationship with the OEMs, that there are some supply challenges. But I don't know what's going to happen from here and on, but that is only a small thing.

But other than that, I think we've seen the programs we have launched in this quarter, the Welcome, the One Unlimited, which is our combination with Apple and then the stacking of promos that we did has been working very well for us in the quarter. So good. So that's where we are. And the reason is more that, yes, we want to accelerate it, coming in strong in 2023 and have sort of full focus on the execution and do an even stronger 2023 than '22 in the Consumer Group.

Then I just need to remind you about our Business Group, on the wireless side, continue very strong. Five quarters, more than 150,000 net adds, continued strong this quarter as well. So I think that we are doubling down on the strength that we have and seeing that we're taking even more action in the consumer wireless where we have seen good progress.

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

Yes. I mean you mentioned the progress in the third quarter. I mean third quarter was meaningfully better than the second quarter. And I guess what you're saying today is that you're going to return to growth in the consumer quarter -- in the Consumer business in the fourth quarter. First of all, what are the changes that have driven the improvement? I think you mentioned some of them. And how -- do you feel confident that what we saw, I guess, in the first half of '22 is sort of the bottom that if we look out to '23, things will improve versus what we saw in '22?

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

Yes. So on the consumer wireless, I think that what we have seen over time is that now we range all the way from sort of the value segment's lowest offerings to the premium plans, the highest. So the segmentation and the surgical way we're approaching the segment becomes even more important and that are more agile. We have a great movement up in the high tier of our premium plans where we have good step-ups of our customers moving to higher plans constantly.

So we actually have been very much focused on, let's call it, the lower end or premium where we had challenges in the second quarter. That's where we launched a Welcome plan. So what you're going to see from us is we continue to be very surgical, very financial disciplined and we're going to address hard in the areas where we see we actually don't have the right traction. But it's not like across the board or something like that. I mean the same goes for prepaid. We bought TracFone last year. We're in the midst of the integration. What we needed there was a high-end value proposition, and that's why we launched Total Wireless somewhere in the third quarter, time is flying here. I think it was at the -- or maybe it was even after the quarter in October. But anyhow, that is the reason.

So our work is really to continue to be very, very focused on segmentation, being -- addressing the different type of segments in the right way with the right proposition for our customers so the customers get the right value in the segment or into. And that we have seen working through the year. We just need even more AI, more agility in the decision-making and have the right proposition. And we have seen that been working so far. And that, of course, is all focused on continue to generate growth on the service revenue and on EBITDA in order to create the cash flow that we think are so important for our industry, and that we have been clearly the strongest in the industry, generating cash. We want to preserve that.

I think it's super important in order to see that we can have the freedom to invest in the network, continue to pay our dividend to our customers, which we, I think, last week announced our dividend and continue, of course, to pay down our debt. That's sort of the clear priority of capital. All comes down how we work in this segmentation, how we address it. But clearly, I've been positively viewing how we're improving. We have more to be done, as I said, over the third quarter. But clearly, the things we have been doing in consumer wireless has gone in the right direction.

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

Now you mentioned Black Friday, obviously, it's a big day for sales in the wireless world. How would you say -- first of all, just your view of the competitive environment. How did your promotions stack up versus competitors? And do you think you took share?

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

I think, first of all, I mean, as I said in the beginning, we had a good Black Friday. We see that we have good traction in our stores. We have even better conversion rate. Interesting is that consumer seems to be very much focused on what they want today rather than just going around and shopping in store. So the traffic in the store is probably a little bit lower than last year. But the execution of the consumers in the store is higher because they're actually having an intent when they come in.

There's less of coming in and shopping around in the stores, which is a little bit, I think, what's happening in the consumer market at the moment. Consumers are a little bit nervous, but they're much more direct, what they want. And that has been good for us. I think that's what we saw during this holiday season. There's still plenty of weeks left of the holiday, but so far, we have seen a good traction on what we're doing. And so -- and then on the competitive landscape, I mean, it's been competitive since the beginning of the year, so that's not a big difference. I think our offerings is equal to last year or a little bit lower. We're not more aggressive than previous years in the holiday season. So we continue to be prudent doing the right things for the right segments, to see that we continue to grow our top line and bottom line. That's really the focus we have in the group, and we have the best product, we have the best network and we have the largest base of consumers that we're addressing in this way to see that they get the right things.

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

Now the other side of the coin is churn and churn obviously picked up for everybody in the industry.

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

Yes, yes.

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

So partially a result of the price increases that have come through. Just can you talk about your strategy to get churn back down? And first of all, can it get back down to those low levels that we saw after the pandemic? And what are you guys doing to put pressure on?

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

Yes. The pandemic, of course, was probably a bit lower than normal because we didn't disconnect anyone. That was sort of the commitment we have to the market. We saw our churn picking up in the end of the second quarter and the third quarter. And the main, main reason was the price increase we did in starting -- telling our customers in May. But of course, before it hit the bill was until September, I would say. So we saw that spike coming up. We saw it also a little bit into October, as we said, when we had the earnings call because that's when the cycle is over.

After that, we believe that churn will come back to normal, then we need to remember that the fourth quarter also has seasonality on churn. But other than that, we think we're coming back to lower levels on the churn. So that's an important piece of the work we're doing right now, but we also had a very deliberate strategy of our price adjustments that we did in May and we did a trade-off. We thought the trade-off was right. Basically, this year, it creates \$1 billion bottom line. And of course, our run rate is almost a double. So -- and that trade-off was very deliberate and very strategic for us.

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst  
Got you. And then getting back to competition, obviously, in the last couple of years, cable has been making more inroads.

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

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst  
I mean are you seeing that continue? And obviously, they're at a certain level, but then there's been some recent price adjustments. So they've seem to be leaning in from a service pricing standpoint. Is that having an impact?

**Hans Vestberg** - Verizon Communications Inc. - Chairman & CEO  
Yes. I think that they have been the stronger in that lower premium segment, bring your own device, and that's why we addressed it with Welcome. And as you have seen in the third quarter, that was starting to resonating with our customers. So clearly, we understand how we're going to compete, then we all need to understand that all those cable subscribers are ending up on the network that is Verizon.

So it just ended up on 2 different lines in our P&L. So -- but clearly, they have found a model where they are more aggressive. I think that the convergence is happening in the market, how far it will go. If it will go equally far as in Europe, I cannot say. But the good thing for me is that or for Verizon is that we have owner's economics on broadband and on wireless. So if the market is going there, we're definitely going to be very good in the competitive landscape with that because we build one network. It's one network, and the more revenues and the more connections you own that, the better return on capital that you have. So if convergence continue as is, where we see a lower churn, of course, where we have convergence, I mean in the Fios footprint or the fixed wireless access footprint together with mobility, we see it lower. So if the market and the customers really want that, I'm really, really bullish on our success in that area, much stronger than anybody else.

**John Hodulik** - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst  
Yes. And you've seen a lot of success in fixed wireless, which we'll get to in a minute. But sticking with the Consumer business, the -- one of the bright spots has been ARPA and ARPA growth has been solid. There's a number of different drivers. One of the biggest ones is the shift to premium unlimited plan. Can you talk about sort of where you are? And can you continue to sort of move people up to these higher tiers at the current pace, even in an environment that's sort of unsettled from a macro state?

**Hans Vestberg** - Verizon Communications Inc. - Chairman & CEO  
Yes. And this has been our strategy since the beginning. I mean clearly, to see that our customers are getting more value and they're stepping up the ARPA and the ARPA has been growing. And if you even look at the third quarter, our wireless service revenue was growing more than 3%, if you take away TracFone. With TracFone, it was more than 10%, but that was inorganic. So we continue to grow even though we have been slow on net adds on Consumer, not on business in the quarter. And that's really the focus we have.

So right now, roughly 80% of our consumers on an unlimited plan and 42% of our consumers on Unlimited Premium. And we constantly have step-ups in between. And the way we're doing it is, of course, giving our customers value and incentives to move up because that is, of course, one of the strongest expansion we can do. We do expansion of wallet, and that's super important. And it's not only that we have an offering of unlimited. We have the insurance. We have the credit cards. We have the bundles with the Disney+, et cetera. So we have a lot of things that we're

building on to bring it up. So still a lot to do here. I mean 42%, it means that it's quite -- 58% still to go there, and that's for us a goal to constantly move up our customers.

And then, of course, we have still consumers on metered plan, roughly 20%, that we're moving up constantly as well. So there are a lot of that type of ARPA expansion that we can do. And over time, of course, we also see a step-up from the prepaid or the value segment to the premium segment. Right now, we don't have the technology in between TracFone and the Verizon brand because we are still in the middle of the integration. But over time, we're going to have that possibility with almost 20 million prepaid subscribers that also can be able to step up.

So I see several different ways on the consumer mobility where we can move our customers up. And of course, we need to take new customers as well. But there are many, many more absolute revenue dollars that can be accretive if you do the work all the way from the premium -- from the prepaid segment all the way up to the premium segment.

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

So that 42%, I mean, how high can that go? I mean what -- I mean...

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

In my view, you can go to 100% if you have enough good value offering, but probably should be a little bit cautious on that statement. But clearly, there's a lot more to do. Right now, we have been stepping up 1%, 1.5% per quarter, up to 2%. That's sort of the increase. And then you remember, between unlimited and Unlimited Premium is \$5 to \$10. So it's quite a lot if you put it in an NPV if the customer stays there with the churn levels we have. So it's a very important -- and remember, the network is the same. I mean the capacity is there all the time. So it's not like the increase the cost for the network is the same, but the revenue is going up. So it's very accretive when you move them up to Unlimited Premium and even unlimited from metered.

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

Right. You've also increased prices on some legacy plans, which was definitely helpful to ARPU, increased churn a little bit. As we look out into '23, is there room for more of those types of actions?

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

We will be deliberate. If we do something, it has to be for the right reason. It will be opportunistic. I think that we will -- first of all, we all need to look into what's going to happen to inflation next year and how it will hit us and how it will hit the consumers and the business customers. We did our adjustments this year, both on the legacy plans and some metered plan adjustments and some device adjustments. But I would say, I will be a little bit more cautious into '23.

But looking into what's happening in the market, there might be segments that make sense to increase prices. And -- but there also might be areas where it makes sense to be more aggressive. So again, very much being surgical in the different segments rather than being a blanket over everything, either with price increases or price reductions. That's what's going to be the most important, especially when you have a market on the consumer side which is a little bit sensitive, because I think that we all think about what's happening with inflation, what's happening with my interest rate.

People are a little bit more cautious or mindful of what's happening in the markets. And then you need to be deliberate in your segmentations on consumers rather than just opening up that everybody wants to be on the premium and they -- or everybody wants to have this. Try to be more surgical in it.

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

Yes. Makes sense. So fixed wireless has obviously been a bright spot, and we talked about network quality. I mean you guys are seeing some nice growth. You continue to see improvements in sequential net adds on the fixed wireless side. How long can that continue? And do you worry -- or do we get to a point where -- and this is a question we get all the time, where you start to see issues with the mobile network from a quality standpoint, given all the traffic you're seeing in fixed wireless.

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

Not worried. First of all, we're building one network, where we have no separate (inaudible) mobility and fixed wireless access. It's one network. And that's, of course, a beauty because then you can -- you get more connections, more revenue on the same capital investment. So remember, the numbers we have talked about: 2025, more than 50 million households covered with fixed wireless access. Our target is 4 to 5 million consumers buy that on fixed wireless access. That's what we have.

There's no sort of challenges for us with capacity in the network to reach that we can reach much further on. That's not a problem at all. And remember, on the consumer side, the users are using equally much broadband as a FiOS user. There's no difference. So there it's real broadband users. Right now, we are taking the majority of our fixed wireless access consumers in urban and suburban for a simple reason, that's why we build a network. We build a C-Band right now on urban and suburban. So there we've not even started the rural.

Of course, we have 4G in the rural areas where we're taking some, but mainly the growth is right now in urban and suburban. So there will be a time when you and I are not here, I can tell you, 10, a decade away where maybe we will come so far on fixed wireless access subscribers. So we're going to decide, do we want to split the cell in order to get more subscribers? I think that's going to be a great conversation. It's basically a success-based fixed wireless access, meaning one radio base station here have 40 households that are fixed wireless access and mobility. And suddenly, I can actually get 80.

Okay, then I can split the cell and put another tower. Then you build sort of success based on your fixed wireless access, but that's way in the future. It's going to be a great conversation because suddenly, you see the traction of fixed wireless access. But so far, in the plans we have, there are no worries for capacity. And remember also, we're selling this solution to the business side called Business Internet there to small and medium business with a great success as well. Just started there as well.

Remember, we passed 1 million fixed wireless subscribers somewhere this year in the third quarter. And basically, that's in 1 year. So that you see the attraction of a product that basically you have a setup time below 5 minutes from you get the box at home and you have broadband at home. And normally, the longest time in that setup is finding a WiFi password. That's how seamless it is to get broadband compared to -- I love our Fios and we probably have the best clock in the industry.

You come between 4 hours, but it's 2-week window, you need to be home. This is you get the device yourself at home, turn it on, 5 minutes later, you have broadband at home. Multiple devices, TV screens and everything working. So I think it's just a new way of thinking of the next generation of broadband. On top of that, you stack whatever application you want on top of it, home security, streaming services, TV service, whatever you want. So it's a very different way you're thinking about your future broadband.

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

Is there room to go faster? I mean you're saying it sounds like the installation process is streamlined in terms of like by increasing the addressable market faster. You've got a lot of the C-Band rolled out, you get another big chunk in the next couple of years. I mean it's growing nicely now, but can you do -- can you push it fast?

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

Yes. So we need all to remind ourselves that we started to deploy the C-Band this year. We actually started in, I think it was February. And in 1 year, we're going to have 200 million POPs covered. But of the 402 markets that we won C-Band in with an average of 160 megahertz, we're only acting in 76 today because the spectrum is given out staggered. And by year-end '23, we will have all spectrum, the average 160 megahertz nationwide.

So of course, it's a lot more that we can address as we're getting the spectrum. And we just started with the [30] extra we had. We've got [46] (corrected by company after the call) in the first chunk and now we're doing some extra. So in total, I think we're addressing 76 markets. And we're only deploying, I would say, 60 megahertz of the 160. So we have much more capacity. And the good thing for us, always good craftsmanship. We already deployed and prepared, every cycle, 200 megahertz. So we don't need to go back to the sites when we get the spectrum. We just need to turn it up. That's why we took the \$10 billion extra in CapEx over 3 years in order to see that we're ready when we get the spectrum and we don't have extra visits to the sites, et cetera.

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

Got it. So from a -- sticking with fixed wireless. So from a consumer experience, what kind of speeds are they getting? Do you think these are competitive?

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

So right now, we have 3 speed tiers. On the millimeter wave, we have 1 gig. On the C-band, which is 5G ultrawide band, we're 300 megabits per second. And on LTE, we're at 50. That seems to resonate with the consumer demand. We can probably do more tiers in the future, but we try to keep it simple, those, all the 3. And the majority of our customers, they are getting way higher. These are sort of the minimums.

I think that more important has been historically that customers are giving consistent, reliable. Usually, speed is important, but clearly, that's not the most important. It's actually how much capacity you can handle multiple device and all of that. And we have really good both on Fios and on fixed wireless access, very high customer satisfaction, really high. And that tells me that the product is really hitting the spot.

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

And as you guys bring more spectrum on or the technology improves, can speeds improve from what you're seeing now? Or there's...

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

Yes. So in every technology, wireless technology so-called wave, you have the first when you just deploy the technology on the spectrum. The second is sort of the advanced stage when you start combining spectrum, when you add spectrum and have new software features. We're you just going into 5G-Advanced right now. So the speeds that we -- today on this beautiful phone, you can have 3, 4 gig, you will have 10 very soon. And when you talk about the capacity of 10 gig on the phone, you can actually split that in order to get more users on more usage.

So clearly, there's so much more on the 5G-Advanced. And then I will not go too deep in technology, but the next step is, of course, that we do the stand-alone core. So we actually don't route all the traffic to the 4G, 5G core network, we do it only with 5G network. You can do much quicker services. You can get higher speeds and new services. So that's coming right now in the 5G-Advanced. So very -- right now, we're very much focused on the capacity and performance enhancement because this is the phase of you have deployed, you actually are focused on.



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

And you touched on fixed wireless convergence. I mean is this how you see the sort of future bundle with a fixed product and a mobile product? And remind us again what percentage of your fixed customers are mobile customers? And are you seeing sort of improvements as you look across the segments in terms of churn and ARPU and stickiness?

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

Yes. Clearly, the churn is lower when they have both our services, both the broadband and the mobility. In the Fios footprint, we have a higher degree of that, of course. In the fixed wireless access, we're actually gaining new customers on fixed wireless access that are not mobile customers, which is a great opportunity. We can offer the mobility to them. So there's a lot to go there. If the market goes, as I said in the beginning, I think we're greatly positioned. That will improve our churn and the loyalty from our customers, and we have owners economics on the convergence.

In Europe, convergence has come way above 50% in certain countries, 50%, 60% of all the consumers are converged customers. Here, we still are on the low single digits in the overall market. So I think if the market goes there, which would be great news for us, I cannot predict. It looks like it's going that way. That's going to be great for us.

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

Maybe shifting to the business market. You mentioned some strength there, yes, and the wireless subscriber trends have been excellent. There's been a slight uptick in churn recently. Just how would you characterize competition in the business market? What's driving the growth? And how is Verizon positioned?

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

So when we talk about the business market, there's basically 3 segments: government, small and medium enterprises and large enterprises. That's what is there. So they're all different as well, how they're acting in this time, in this economic backdrop. But clearly, we have been very strong. We have been, 5 quarters, more than 150,000 new net adds. There are differences. I mean large enterprises, they are continuing sort of investing. I would say, 1/3 of them are very aggressive on digitalization, 1/3 very normal, 1/3 always in challenge, so they are cutting costs. When they're cutting costs, they can go from 100 lines with us to 98. That's how -- and that's the pruning we see there.

Small and medium is the same. We have seen a very strong growth in small and medium businesses. I think we almost serve every second small and medium enterprise in the country. And what we have seen here is that if you are not digital and you're a small and medium company, you cannot exist. And that was sort of the backdrop of the COVID, that every small and medium has to be digital. They need to have a digital storefront. They need to be able to interact digitally and wireless is the way to do it. So there we have seen good growth as well. And government, that's a little bit different. They come in and out with big RFPs and sort of decide a little bit longer a little bit longer, I would say, RFP times, they're a little bit more cautious. But in general, good growth. We have more than 45% market share in this area on wireless.

We are gaining share. So I think the reliability and our network quality and our go-to-market is unparalleled to anybody else in the market. That's why we're doing so well. I mean almost 6% growth in wireless revenue on the wireless business side in the third quarter, 5.7%, if I remember exactly. So good momentum here. Of course, a little bit offset in the business segment on the wireline business that is declining, but overall growth in the whole Verizon Business Group.

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

Before we just sort of explore the wire -- the...

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

The holidays? Change the questions? So I was...

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

No. No, that's good. I mean one of the things I was going to ask is the weakness in the wireline business. Just sort of what are the drivers there? I mean is it -- is some of it some pressure on the macro side? Or is it just the secular issues that we have known about?

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

On the business wireline for enterprises, I would say it's a secular decline. It's a change from sort of the old PSTN sort of copper going to the more software-defined network, SD band. And there's a price difference between them and the cost difference in between them as well, of course. So that's what we see, and that will not go away. Customers want to digitalize. They want them more in the cloud. They want the application in the cloud rather than having a copper line. Now it might be different. But just as describing it, a copper line straight into their central office. So that will continue.

Our work is to take out cost at the same time. Many times, the cost is fairly fixed for us even though the revenue comes down because the central office that we have is sort of the same regardless if you have 100 lines or 50 lines. So we need to constantly take out cost. We had quite a lot of cost initiatives in this fourth quarter from Verizon Business Group. We have a new leader there, Sampath. Came in after Tami in the summer, doing great inroads both on revenue, but also being very focused on seeing that we continue to grow our EBITDA in that business.

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

You guys have been focused on selling new services into the enterprise market, especially 5G based. Private 5G is a big focus. Has that market developed at the speed that you had hoped or that the industry has expected? We've been reading stories about private 5G for 5 years now.

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

Nothing lives up to my expectation how fast things should go, I can tell you. So no, it has not gone as fast as I wanted. But what we see right now is that the market in the beginning was a lot about mobile edge compute on the private network -- on the public network. That has now pivoted to build a private network for enterprises, logistics center, manufacturing, venues. That is actually happening as we speak, and we have more and more. But the first small deals you do, they are like WiFi substitution. And in the next step, you start building them much more, and then you put in the cloud infrastructure. Very much natural B2B enterprise cycle. We see a funnel that is growing very fast, and we start to get many, many smaller orders that ultimately will build up to the revenue expectation we have for '24 and '25 in that area. So it's going away.

And remember, we build the network once and we have different use cases on it and different business plans on them, which is a great thing. So we have the fixed wireless access, we have the mobility and we have the private 5G networks. They're all built on the same network from the Verizon Intelligent Network, from the data center to the access is one seamless network with fiber in between, all the routers and everything. And then at the edge, we decide what type of access point it is for the customer. Fiber, 5G, fixed wireless access, whatever it might be.

So that's sort of now we're really getting the leverage on that because the leverage is that we're getting more and more services. The other leverage is that our CapEx is coming down now. Going into '23 and '24, then we will be back to BAU, which is lower than early in the 2010s. You will probably come to that question, but I was trying to help you.

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

We were getting to it. Good. That's a good story. Just lastly on the -- just sort of putting it all together from a revenue standpoint. You talked about the consumer market, fixed wireless business, touched a little bit on public and private 5G and MEC services. Just you guys have guidance out there for growing service revenue growth to over 4% from about 2% today.

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

Yes. A little above 2%. Yes.

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

Yes. So just do you -- just talk about maybe the risks to that. Or where do you think the strength is going to come from, just because I think we get a fair amount of pushback from investors that you guys can get to these levels. But just if you can give us a sense of your confidence...

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

No. I'm not planning to guide for '23 yet here that we have, to be clear. But what I see is, of course, that we start to have all these engines going at the same time. The mobility in consumer mobility in business, fixed wireless access together with Fios and national broadband and then the sort of private 5G networks, those are the engines that we have. And when all of them are running on the full speed, definitely, we should have the opportunity for doing that.

Then, of course, this year has been a little bit slower for us. And it's been -- we were disappointed, as I said before, in the second quarter, which is, of course, held us a little bit back. But it doesn't change the strategy. It doesn't change the opportunity we see in all this. It's just that we need to be quicker. We need to take adjustments. And the adjustments we're taking right now, we're taking them through the third quarter. We took adjustments today. We will continue to do that. So that's why I feel good about our strategy, and we have the best product in the market and we're just going to leverage that.

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

Great. Maybe a couple of questions on the cost side. Obviously, inflation is one of the themes we've all had to live with this year. I mean has it been worse than expected from -- for your business? And are those inflationary pressures sort of built into the run rate at this point?

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

I think that Matt, our CFO, spoke in the second quarter that we had pressure of roughly \$0.5 billion this year. I would say, mainly from energy prices and consumption, smaller consumption parts. On our overall CapEx buying technology, there's much less there. It's more the other things. We haven't seen that changing so much, so we keep that. Partly, we're offsetting that with efficiency work and with some price adjustment we did earlier in the year. So -- but we're going to see how it's going to work out in '23. It's a little bit too early to say. But this year is a pressure of \$0.5 billion on the -- gas prices, of course, we have a big fleet that, of course, impacting as well, so yes.

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

You also recently highlighted a multiyear cost-cutting program. Can you talk about the buckets of where the savings should come from and when you should start to see the impact from these savings kick in?

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

Yes. We constantly take out cost. I mean you need to do that in an organization like this because you have sort of embedded sort of price increases in many -- in certain areas, some in salaries, et cetera, you constantly do it. We just now, after 4 years in our current model, we found that we have even more to do on top of it, especially cross-functional units, working even more with our suppliers. We said that we're addressing \$2 billion to \$3 billion by 2025 in cost out. So we are running that program on top of everything we are doing at the moment because the -- we need to offset the \$500 million in inflation. That we're doing in a normal program. So constantly, we're doing that. This is on top of all of that. That should be giving us opportunity to bring it to the bottom line or compete better, depending on how we decide to do it, but we will come back on that. But the program is well defined. Teams are 100% in execution. We are focused on doing it as soon as possible.

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

Got you. So putting it all together, can you provide some general outlook on sort of top and bottom line growth going forward? You've got some headwinds, some higher inflation. Below the line, there's higher interest costs. But on a sort of net basis, can we expect profitability for the company to grow as we look out into '23.

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

So a little bit early to guide for '23. I know they are trying. It was the second time we tried it, if you didn't see it. I think, again, our fundamentals is there. We feel good about the priority with a network that is -- which is the best in the market, it's only getting better in '23. So that is a big leverage for us. The surgical way we're working consumer segmentation will give us opportunity to step up and address the right consumer segments we want to bring along with us.

On top of that, good traction on fixed wireless access and business wireless. Both of them will continue for us. And then we take out costs at the same time. The only high priority or ambition we have with all that is, of course, continued expansion on top line, on service revenue and on EBITDA. That's because we want to generate that cash flow, that is very important for us. So we will be disciplined. We will be structured. We will be surgical. I use these words all the time, but that's how we're going to work.

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

And then on the cash flow, that's very much a good story. I mean CapEx will be coming down this year -- or I'm sorry, in '23 and then again, in '24. Can you just remind us sort of where the savings comes from and whether that flows sort of through to free cash flow? Because the outlook for free cash flow growth over the next couple of years should be very strong. And maybe finishing up the usage of that.

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

Yes. So think about that, we were on somewhat \$16 billion, \$17 billion when I started. We increased to \$18 billion, \$19 billion because we needed to fiberize the whole network and put in multiservice routers across the network. And we said it will come down. Then we added \$10 billion CapEx only for the C-Band over 3 years. So this year, we're going to be some \$22 billion, \$23 billion, we said in October, but somewhere there we're guiding on. What's going to happen after that is we're going to exhaust the \$10 billion. It's going to be a little bit left or a bit left going into next year. And then we're going to establish ourselves on a BAU around \$17 billion, which is lower than we were basically 2015. So that's a lot of free cash flow coming in there, but that was a plan from all the time.

And remember, 4G capacity is coming down. We're going to do less on millimeter wave because we have basically covered all the urban places with millimeter wave. We're going to continue with millimeter wave, but the first coverage lap is over. The fiber has come to an end. We only do success-based fiber. We're almost in 80 markets with our fiber. And then we're going to ramp up 5G capacity on C-Band. That is all that mix is bringing us up to a BAU around \$17 billion in 2024. Next year is going to be lower than this year, but depends on how much is left on the \$10 billion. So when it comes to the usage of it, number 1 is in the network, and as I've told you, 2024, BAU around \$17 billion. Number two, continue

to see that our shareholders or our Board is in a position to continue to do good dividend payments to our shareholders, which we have done for 16 consecutive years, I think, we have increased our dividend. And finally, we're going to pay down debt.

And ultimately, when we are done with paying down debt to a level which we think is reasonable, we're going to do buyback shares. I don't see in the big picture right now anything large. I want to acquire something, but I always cautious you, you never know. But clearly, I don't see anything big you can buy or we should buy. I think we have all the assets we need. We've got the C-Band, we've got TracFone. We divested Verizon Media Group. We have a clear charter, we have geared organization, execute, execute, execute in all these segments. That's what we're doing right now.

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

Hey, great wrap-up. Thanks for being here, Hans.

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

Thank you.

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

Thank you all.

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