

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

VZ.N - Verizon Communications Inc at MoffettNathanson Technology, Media, and Telecom Conference

EVENT DATE/TIME: MAY 16, 2023 / 12:00PM GMT

CORPORATE PARTICIPANTS

Sowmyanarayan Sampath *Verizon Communications Inc - EVP & CEO of Verizon Consumer*

CONFERENCE CALL PARTICIPANTS

Craig Moffett *MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst*

PRESENTATION

Craig Moffett - *MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst*

Thank you to those of you in the room and everyone who is listening via webcast, and welcome to the first annual MoffettNathanson TMT Conference. This would be the 10th MoffettNathanson Media & Communications Conference. And I think I'm correct in saying that Verizon has been with us every year for the past 10 years. And I am really delighted this morning to be joined by my good friend, Sampath, who, full disclosure, is not just representing Verizon but also is a personal friend for close to 20 years, it's been a long time. So Sampath, welcome and this is, I think, particularly exciting because we had some news this morning that I think it is now passed or will shortly be embargoed until 08:00.

QUESTIONS AND ANSWERS

Craig Moffett - *MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst*

Why don't you quickly just share with everyone the news from this morning and the sort of strategic relaunch of your plans.

Sowmyanarayan Sampath - *Verizon Communications Inc - EVP & CEO of Verizon Consumer*

Craig, good morning. So good to be here. Everything I say will be covered by the safe harbor statement. For those who can't find it, it's in our Investor Relations site. We'll be saying things that are forward-looking, so there are risks associated with, but the safe harbor covers all of it. Okay. We got that out of the way. I am so excited today to be launching what we call myPlan. It is a next-generation plan that fundamentally changes how wireless is bought in this country today. 5 years ago, we set the market with mix and match, which is a concept, and everyone followed us after that. We went back to our fundamental root and says, what irritates customers the most.

And we found 3 things. They want flexibility, they want control and they want more value. And we said, you know what, we're going to give them 100% of all 3 of them and came up with myPlan. So myPlan essentially does is you go in, and first, you decide what 2 network options you have. We have 2 network options. What of course, one is called welcome, one is Plus; 2 network options. And that is the core. That's the main actor and actress of the whole plan, is the network.

So you first choose the network. If you want to be on a basic plan, you take the basic. If you want to be in an advanced network with all the bells and whistles, which is because we have the best network on earth, go and choose that. Then after that, you can decide for both the plans what perks you want. And these perks are exclusive, they're only available with Verizon and tremendous value for customers. So the combination of that is pretty intense because it's flexible. A customer can decide for one line to do one thing for the other line to do one thing. And then second, they can change it. I don't need contracts. They can change whenever they want. It's pretty unique. And I think...

Craig Moffett - *MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst*

And by the way, just -- so those perks are things like Apple Music or Apple or the Disney+ packages or those sorts of things, right?

Sowmyanarayan Sampath - Verizon Communications Inc - EVP & CEO of Verizon Consumer

Exactly. And it's at a price point that you can -- it's \$10 per perk. And invariably, you'll end up saving an average of \$5 to \$6 per month. So a typical family will end up saving \$50 every single month just on a mix of perks that we have.

Craig Moffett - MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst

So if I were to add 5 of them or.

Sowmyanarayan Sampath - Verizon Communications Inc - EVP & CEO of Verizon Consumer

4 or 5 of them.

Craig Moffett - MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst

and you have 9 of them total to choose from.

Sowmyanarayan Sampath - Verizon Communications Inc - EVP & CEO of Verizon Consumer

Yes.

Craig Moffett - MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst

Is that right? Okay.

Sowmyanarayan Sampath - Verizon Communications Inc - EVP & CEO of Verizon Consumer

And then further, if you want, hey, you know what, I don't like the perks. I want HBO. I want Peloton, I want Masterclass, -- we give you credit and +play. So you get \$10 per but you get a \$15 credit that you can redeem there. And then that has 30 different partners already. So it's a unique collection of assets, partner assets who decided to work with us at price points that are not available elsewhere. But the star of the show is the 2 networks. It fundamentally simplifies our offering.

Craig Moffett - MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst

It is 2 plans you mean...

Sowmyanarayan Sampath - Verizon Communications Inc - EVP & CEO of Verizon Consumer

2 plans, Welcome and +. We have 6 of them. 6 was too many unless we are going for an Indian buffet. So we came down to 2 and we love those 2 plans because it shows who we are. It shows the value of our network, which is kind of the star of this year.

Craig Moffett - MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst

So any customer that is either a new customer or as I understand you're not going to force migrate anyone, but this will be available to any customer starting Thursday and all new customers will be brought in on one of these 2 plans.

Sowmyanarayan Sampath - Verizon Communications Inc - EVP & CEO of Verizon Consumer

Exactly. There's no force migration. Customers can choose when they get on it. But more importantly, like some of our competitors, we don't need the whole family to get in on this as well. The kids may say we want this, the parents may say they don't want this. So you can stay between older plans as well as new plans, and that's unique. It's about flexibility. People talk about flexibility, but don't give flexibility. Here, it's 100% flexibility, 100% control. It's truly a next-gen plan.

Craig Moffett - MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst

And just to dig in a little bit more for the numbers geeks in here. The plans that you offer, when you're offering -- I don't want to name any specific name, but on balance, if I'm offering what is essentially a \$15 perk for \$10 you're still making a positive gross margin? Or is it roughly a pass-through?

Sowmyanarayan Sampath - Verizon Communications Inc - EVP & CEO of Verizon Consumer

No, 2 things. Overall, these plans were contemplated when we did the guidance. So it's kind of baked into the guidance from a service revenue, EBITDA and a free cash flow perspective. So that's one. Second is these perks are across the board on average, 30% gross margin for us. So they are hugely accretive to us even at the price points that we have on average across all the plans.

Craig Moffett - MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst

So you've obviously got good wholesale rates from the suppliers -- and in a lot of cases, you're now the largest distributor of some of these services. Is that right?

Sowmyanarayan Sampath - Verizon Communications Inc - EVP & CEO of Verizon Consumer

On most of them, we have the largest -- probably the single largest distributor of content today in the industry. And that gives us a very unique point. Another thing is also around churn mitigation. We've been doing churn management, churn mitigation since -- well, literally, I was in my shorts. So we've built that capability in the company and some of our partners like that. They see low churn, they see a lot of engagement, which is why they give us the rates they do, but also the exclusive partnerships we have.

Craig Moffett - MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst

So let's zoom out for a little bit on this plan. As you said, this was fully contemplated in guidance. The planning for this obviously started even before you wore your new hat. But you've now won a lot of hats in the company. You've -- everything from strategy to most recently, the business segment, now the consumer segment when you stepped in and started thinking about these plans and the sort of reset of the strategy of the consumer business, talk to me about what these plan -- what problem it is these plans are trying to address and how that's going to work.

Sowmyanarayan Sampath - Verizon Communications Inc - EVP & CEO of Verizon Consumer

Yes. If you look at our service revenue growth, it's been primarily price-driven. If price and quantity make up service revenue for the last couple of quarters, more than a couple of quarters, we've been 100% relying on price and literally 0% on quantity. While that works well for us, given the quality of our base and a high FICO score of our base, to have a sustainable medium-term business, we need a better balance between P&Q. I would like it to be in the 80-20 range, 80% price, 20% quantity. So that's the overall mission that we're going to go to create a sustainable business. This creates an opportunity that's fresh in the market. It's unique. It's massively differentiated, and we think that will further help us get momentum back in our business. So that's the core thesis of why we did the plans when we did it.

Craig Moffett - *MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst*

So this is clearly -- you're expecting then that this accelerates your net adds, presumably postpaid net adds, but you know I always think about starting with the industry total phone net adds. So let's drill down on that a little bit because you can't be the only one in this industry thinking I want to get either my share or accelerate my share of net adds. But at the same time, industry growth rate of net adds seems to be decelerating and cable is taking more. So first, let's drill down on the industry growth rate question. How do you see the subscriber growth challenge for the industry is we've -- I think we've been writing for a couple of years now, far in excess of population growth. What do you think is sustainable?

Sowmyanarayan Sampath - *Verizon Communications Inc - EVP & CEO of Verizon Consumer*

Look, historically, in the last -- historically, it's Covid times, the industry grew between 9 million and 9.5 million phone postpaid net adds every single year. We think the sustainable level is closer to 5 million or 6 million. Now why did it grow north of 9 million. There were a bunch of reasons. One is people tended to have 2 phones, kids, younger kids had phone, older people kept more phones, there was migration on the business side because of regulation, people ended up carrying 2 phones. So that was a bulk of the reason. And the last is the pre to post migration up to 1/3 of all the industry phone nets actually come from pre to post migration.

We see the whole category as a whole coming back to a 5 million or 6 million growth per year growth category, which we think is sustainable. It's around 2.5, 3x population growth, including for immigration and things like that, which we think is a sustainable long-term growth rate of the industry. And that's good for us. Look, if the market does slow down to 5 million or 6 million, given our large base, it's actually better for an incumbent like us to continue driving more pricing power in the market.

Craig Moffett - *MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst*

But so -- but let me drill down on that because Charter is now growing at something like on your network, obviously, but is growing at more than a couple of million per year. Comcast is -- seems to be accelerating into well over 1 million per year and arguably, so call cable -- to 3 million to 4 million of the 5 million. How does the math work for you and T-Mobile and AT&T to fight over what's left, which might only be a couple of million, which is less than T-Mobile's guidance.

Sowmyanarayan Sampath - *Verizon Communications Inc - EVP & CEO of Verizon Consumer*

Look, I don't know -- look, cable is a great partner to us. I don't know if that run rate is sustainable in the medium term, long term. Look, free is an easy thing to do, giving out free lines is definitely an easy thing to do, but that's not how we want to build our business. So look, we think at 5 million or 6 million, that gives us the opportunity to have some net add growth, but strong p growth, price growth with ARPU accretion with our new myPlan, and that makes for a pretty healthy business for us.

Craig Moffett - *MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst*

So I want to turn back to something that, as you know, I've been really focused on, which is -- for years, the value proposition for the consumer group for all of Verizon really, but let's keep your consumer hat on for a second. I was really simple. It was we've got the best network. And customers paid extra for the fact that you had the best network. And your target customer flowed from that, your target customer was somebody who obviously cared deeply about network superiority. They tended to be affluent, as you said, very high FICO scores. And there was, I think, a certain cache in having Verizon service for people who sort of self-identified as I need the best network. I think I can probably speak for a lot of investors in saying that the value proposition is less clear now.

It's harder to make the case at least for a lot of us in this room that there is clear network superiority anymore. So first, I guess, is network superiority still possible -- and if so, make the case for why Verizon still has it.

Sowmyanarayan Sampath - Verizon Communications Inc - EVP & CEO of Verizon Consumer

Yes, the 2 questions on that. A, is it possible? And b, why Verizon has the best network. Let me answer the first one. For a country this large with such a diverse geographical place with such different local zoning rules and others, there will always be a better operator. Historically, Verizon has been that better operator. We had the least amount of spectrum, and we were the best operator. Forever. Now we have the most amount of spectrum will be the even better operator. And a couple of reasons why I think the first one is our coverage of spectrum. I mean we have the millimeter wave.

Everyone's talking more about millimeter wave than ever before. We got into that early because it gives us capacity in stadiums and venues and dense urban corridors. So that's a big one for us. Second is our C-band. I mean think about it. Right now, we've only deployed 60 megahertz of all the C-band spectrum we bought. We paid \$53 billion for it. So roughly only \$15 billion, \$17 billion, \$18 billion of that spectrum has been deployed.

We have another 100 megahertz of that spectrum coming back end of the year, first thing next year. And then last is the way we run our network. We like to build our own fiber. More than half our sites have our own fiber. And when people talk about planning in the network, RAN is not the only thing that is congested. It's also the backhaul. We don't worry about that because we have our own fiber. Most of our sites are concrete. Most of our sites have generators. We densified the network a lot more. So once we finish or get close to finishing our C-band build with the millimeter wave and some of the other capabilities we have, we do have the best network.

I mean the RootMetrics is the one we track. It's scientific. If you guys haven't seen RootMetrics, it's a truck, they put 30, 40 phones and they ride nonstop a couple of million miles a year, and then they tell you who's the best network. 96 of the top 100 cities, we were the #1 network. So you don't get scores like that by not having the best network. So we are consistently confident that we have the best network. And once we roll out to finish the C-band, we'll have the even best network. And we'll always be a better network operator in the country, just given the size and scale of this.

Craig Moffett - MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst

So what do you do to better communicate that to sort of regain that psychic high ground in the consumer's mind of, yes, these guys are the best.

Sowmyanarayan Sampath - Verizon Communications Inc - EVP & CEO of Verizon Consumer

Look, I think the first is it's marketing. We have been very consistent around network marketing. And this whole price plan that we've launched, the center, the Star character is the network. You come in and you choose to network options, A and B creatively call -- welcome and Plus, and those are the 2 options you choose. And we have to keep reinforcing that at every single touch point that we see in the customer.

Craig Moffett - MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst

And by the way -- and just to be clear, so the plus is ultra wideband unlimited, the intro plan is nationwide, which is low frequency, not the same speeds as the C-band.

Sowmyanarayan Sampath - Verizon Communications Inc - EVP & CEO of Verizon Consumer

Yes, but it also has coverage. I'll tell you another interesting thing sitting this morning, we have 200,000 square miles more coverage than T-Mobile does. And on 200,000 square miles, that's almost the size of Texas. We have more coverage than T-Mobile. So look, we have very good coverage on our LTE plus as we build out 5G.

Craig Moffett - *MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst*

I want to be a little more tactical here because AT&T has spent the last couple of years competing on device promotions with lots of free handsets. T-Mobile is now go 5G is now free handsets every 2 years. Talk about how the new plans and how you're thinking has evolved about handsets and the handset promotion wars. How do you keep from getting dragged into just constantly subsidizing handsets in a way that gives away the customer lifetime value of the relationship.

Sowmyanarayan Sampath - *Verizon Communications Inc - EVP & CEO of Verizon Consumer*

Handset -- giving away handsets is a great tool for us to retaining customer as well as enhancing the value that they see in a network because they get a new device, that gets access to all the new spectrum and it tends -- you get a better network experience. But we -- today, we don't feel the need to give a free handset to every single one of them. Which is why in our welcome plan, our lower end plan. There are no free -- there are no handsets mostly bring own device. We're very comfortable with it. On a high-end plan, we do that. But the second is our base -- if we have a base as large as our 75 million line base that we have on that base, we can surgically go and decide who should get a new handset and who does not get a new handset.

And we have these complex models we go and we're able to target customers very tactically. So it's a great tool for us. The math plays out very well. Look, a lot of the headline prices you see on promotions, In reality it doesn't cost us that much because you get a trade in back, we are able to monetize that trade in quite well. So it's a very accretive deal for us when we give out promotions on handsets, but we don't feel the need to give out handsets on every single line base in new...

Craig Moffett - *MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst*

So -- but it has worked to shrink the gross add pool considerably because it's taken particularly AT&T's churn rate down -- your churn rate has actually risen a bit. Is there a strong pull though to say, do you think that the new plans and the handset subsidies that you'll do for -- particularly for the high-end customers. Is that going to reduce churn finally and you get through this churn bubble as you've described it from the pricing?

Sowmyanarayan Sampath - *Verizon Communications Inc - EVP & CEO of Verizon Consumer*

Look, our churn has gone up a little sequentially in the first quarter, but it is predictable churn. I mean last year, we drove \$2 billion in incremental revenue driven by pricing actions. I mean there are not too many companies on earth that can drive \$2 billion incremental from the base almost on an ARPA basis. That's kind of what we did last year in that. For that, we saw a slight jump in bubble. We are in the back end of that bubble right now. There are a few remnant small tiny bubbles that we are working through right now. But our overall base is really healthy. They like us. They like the value prop they have. And we think with the current MyPlan, a lot of customers will see value in moving to one of our 2 network options, and we do see it certain stabilizing over a period of time.

Craig Moffett - *MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst*

So you -- I think it's fair to say that the -- you expect the new plans, particularly because of the packages that you can add on top of the base will be accretive to ARPA for average revenue per account. I still am stuck in the old thought of ARPU and individual lines. Is it right to think that these are going to be sort of roughly ARPU neutral but ARPA accretive or?

Sowmyanarayan Sampath - *Verizon Communications Inc - EVP & CEO of Verizon Consumer*

These will end up being ARPA accretive for the period of time. And typically, in first year, we'll see some accretion, second year, even more, third year, even more. Because typically, what we'll see is customers will bring in 1 of the 2 options, take perks, keep increasing the perks as they go along the network. So this is ARPA accretive definitely for us as we think about it.

Craig Moffett - *MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst*

And again, you think this is going to be net add accretive also.

Sowmyanarayan Sampath - *Verizon Communications Inc - EVP & CEO of Verizon Consumer*

Over a period of time, as we work through our churn bubble back end of it, it is going to be net add accretive for us. Look, we see more momentum coming into our business. I mean in the first quarter, we saw 11% gross add improvement in it. Momentum continues in our business. So this is the right time for launching something fresh. When we have momentum, we are taking the market well, and customers are reacting well to what we've put in front of them.

Craig Moffett - *MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst*

I want to pivot a little bit to the cost side of the equation for a second. You've seen some cost inflation. That's actually what triggered some of the price increases, at least in the narrative that you gave last year. Talk about what the status of that is today. Are you seeing those cost pressures accelerate, decelerate? What's the latest that you're seeing with the...

Sowmyanarayan Sampath - *Verizon Communications Inc - EVP & CEO of Verizon Consumer*

We saw \$0.5 billion cost pressure last year, primarily out of 2 bucket, wages and energy. Those were the 2 hot topics for us last year. Most of them we've kind of lapped the results on and things have stabilized a fair bit. So there may be some pockets of inflation that we see in the business. But overall, it has stabilized quite well and we are comfortable with the position we are in right now.

Craig Moffett - *MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst*

Is it fair to say that the cost inflation that you've seen roughly offsets the price increases that you took that you've already taken or on the old plans? Or is there still some margin expansion to be had out of those price increases?

Sowmyanarayan Sampath - *Verizon Communications Inc - EVP & CEO of Verizon Consumer*

Most of our -- we are now moving to the myPlan, the new plan structure we have. So that will be the source of most of our work right now. A, do we migrate certain pools of our customers? Do we ask them to migrate? Do we incentivize to migrate over? That's where the bulk of activity is going to go.

And that's the reason why we got this myPlan structure in place. I mean think about it, it's a segment of one. People have been talking on a segment of one for ages, 20, 30 years. We finally have it. Every customer can go and choose her plan the way she wants it in exactly the format she wants with the price constructs with the perks. So it's a pretty cool option, and it gives us huge functionality and flexibility on how we want to manage the base.

Craig Moffett - *MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst*

I want to pivot to the prepaid side of the business and TracFone. You articulated a strategy originally with TracFone of being able to address the whole market. There's clearly a part of the market for whom prepaid is still the right answer.

But it's just been a constant struggle. Talk about what you're seeing in the prepaid market. And is this just a matter of having a horse in the race for when the -- when a recession ultimately comes you're positioned for it? Or is there something fundamentally that you can do now to make TracFone start to gain better traction...

Sowmyanarayan Sampath - Verizon Communications Inc - EVP & CEO of Verizon Consumer

We have a little more work to do in TracFone. Step one is finish the integration. -- when 2 families come together, there's usual fair amount of work that needs to happen. So we're going to finish the integration work. Second is network migration. We still have 10% to 20% of our customers still on other networks. We got to bring them on to the Verizon network. With that, you get churn, you got to kind of work through that. The third piece is we are building out our exclusive distribution by total by Verizon. It's a fresh brand. We have a couple of hundred stores. We're going to expand that massively. But overall, the thesis is we want to be the #1 player in the value market.

And we have brands -- we have 6 brands that directional brands that cut across. We have Total by Verizon, which is our flanker brand, exclusive sold and Total by Verizon stores only as well as some national retailers. Then we have Straight Talk, which is a Walmart exclusive brand, which is one of the largest prepaid brands around just given the Walmart intensity. Then we have our Verizon. We have Visible. They say it's for singles, I don't know. I have it too, but so different segments are well covered in the prepaid space.

Craig Moffett - MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst

And how do -- does the new welcome plan fit with what you're going to be doing in prepaid? Is it your expectation that there'll be a fair amount of crossover and you'll actually see a lot more migration from prepaid to postpaid? Or how does that work?

Sowmyanarayan Sampath - Verizon Communications Inc - EVP & CEO of Verizon Consumer

Look, historically, the last couple of years, 1/3 of the industry net adds have actually come from pre to postpaid, we still have work to do before we can take advantage of that. Some of has to do with system, technology stacks, how we integrate the 2 things. The migration of a customer from prepaid to postpaid has to be seamless. It cannot be complicated. It cannot be intense. So we've got some work to do, which is why none of that is baked into our immediate forecast right now.

Craig Moffett - MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst

I want to talk about another one of the really interesting parts of the Verizon story and that's your relationship with cable. You've got a strong business relationship. I think a lot of people scratch their heads over the -- whether or not that's a double-edged sword and whether cable potentially does more harm than good. Talk about that, if you would. And talk about where you think their customers are coming from?

Sowmyanarayan Sampath - Verizon Communications Inc - EVP & CEO of Verizon Consumer

Look, it's a good relationship. We -- it creates more monetization for the best network. It's margin accretive and it is service revenue accretive for us. So overall, it's a very good business for us. And look, it's like any frenemy relationship. We go and we compete in the retail market aggressively. And then in the wholesale market, we want to be the -- we want to be the best supplier and best partner. So it's kind of a pretty straightforward relationship.

On the wireline side, we've done that for decades, and we know how to do that. Look, they are bundling aggressively. There's a lot of prepaid as well that ends up converting there. But from third-party results, we see that we lose disproportionately less to cable than some of the others. And that's the core of a thesis. When we lose less, it tends to be more accretive to all of us.

Craig Moffett - *MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst*

So I think most people get the math, let's say, roughly you make about half as much on a wholesale customer as you do on a retail customer. But for every 3 customers that cable gets only one of them comes from you. So let's say, net-net, you're up 1.5 for everyone that you lose. So the math works as long as cable is not deflationary, but isn't cable sort of self-evidently deflationary?

Sowmyanarayan Sampath - *Verizon Communications Inc - EVP & CEO of Verizon Consumer*

Look, look, they are using it as a way to bundle with their broadband and look, that's a prerogative they should do that. What we see is people will always -- there will always be a lower-cost option in any market, and this market is no exception to that rule. But what we want to do is our value prop remains the same, best network, best value prop, best promotions and then a good marketing to go after that. So that's literally our plan, and we're not changing it.

Craig Moffett - *MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst*

So you talked about convergence in the cable offers. It's interesting to me that your new offers don't put convergence first. Talk about the thinking behind that, that FWA is not a big part of what you introduced this morning.

Sowmyanarayan Sampath - *Verizon Communications Inc - EVP & CEO of Verizon Consumer*

Yes. Look, FWA is the core to -- it's one of our biggest pillars of growth right now. I mean, we are -- it's such a good business for us. And unlike other people's convergence, I don't have to cut a check to anyone else. It's 100% is hugely margin accretive. The cost of goods sold is very low for that. We get owner's economics on our fixed wireless bundle. Look, we've guided to close to 5 million customers. We've definitely built more network capacity than that. We definitely have more network capacity than that.

And what we are finding on our fixed wireless business is once you get through the first 90 days, our churn is not that materially different from Fios. So once you get through the 90-day churn, our churn is not that materially different from Fios. So it's a really sticky product, high NPS. I think our NPS is 36 Net Promoter Score on fixed wireless access compared to negative 19% or negative 20% for the cable company.

So it's a great product that we are seeing good runway there. And then when we get the next tranche of spectrum another 100 megahertz that drops the end of this year, early next year, that just opens up a lot more offered for sale. I mean, as of this morning, we are the #1 broadband company in the country today. We can offer broadband to more homes and businesses than anyone else can. And that's a pretty unique place for us to be in. And if you see the MyPlan, you get discounts when you take the premium tier, you get a discount, a massive bundle discount that customers will take as part of the piece.

Craig Moffett - *MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst*

Yes. But still, I'm going to keep pressing on this because you -- the cable guys have increasingly said, this is the centerpiece of what we're offering, and we're going to lead with a converged offering. Your decision was that, to some extent, it's -- FWA is a bit of a stand-alone product still. Is your view -- you must have seen customer research that said the customer doesn't necessarily want to buy them both together, right? Or else you would have said we're going to lead with that. What is it that you saw that's presumably different than what they saw that said, do you think it's a mistake to think that the customer wants to buy fixed and mobile together...

Sowmyanarayan Sampath - *Verizon Communications Inc - EVP & CEO of Verizon Consumer*

10% of our base average across the country today have a converged offer. We think that will continue to grow at a certain pace, and we want to take part in that growth and be that. But what I don't want to do is give away the product free. Free is a great way to drive convergence. It's a very

easy way to drive convergence. It's a very lazy way to drive convergence as well. We don't see the need to do that at all. Look, our fixed wireless product has a high value, high NPS score, and I want to accrete more revenue ARPU to that piece.

We want to build a FWA business that is sustainable over a period of time that has low churn, ARPU that is growing consistently year after year, and that's exactly what we are doing. We are playing for the long term on the FWA piece, and we don't want any sugar highs as we work through the product.

Craig Moffett - *MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst*

So it's -- but it is a very low marginal cost product if you're going to do it on your existing capacity. And as you said, you think your runway for existing capacity is very long. So you have about 2 million subscribers now. I think you've said that from -- at least for the consumer segment, 75% of gross adds come from urban and suburban, 50% to 60% come from cable. If you look towards the medium-term target of 5 million subscribers, where do the next 3 million come from? Is it -- in terms of the mix that I was just describing from cable, from urban, suburban and rural...

Sowmyanarayan Sampath - *Verizon Communications Inc - EVP & CEO of Verizon Consumer*

Look, we see a pretty similar mix. Historically, because where a C-band spectrum build out, it tends to be urban, suburban areas. Once a new tranche comes in end of this year, next year, it's going to be the semi rural, the rural areas. So we're going to go after that space very aggressively on FWA and so we're going to continue to see a similar trend. The urban rural mix may change a little, but this continued share that we take from cable will remain the same, if not grow.

Craig Moffett - *MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst*

T-Mobile on their last earnings call, where their target is 7 million to 8 million. But they were pretty explicit in saying when we gave the 7 million to 8 million guidance, it was because that was based on what we have capacity to do. And then they at least opened the door to maybe beyond that, we start to invest in the network to support additional capacity. Your -- what you've said is that I don't need to invest more in additional capacity. I've got all the capacity I need. But they have more mid-band spectrum than you do and at least more macro cell density than you do. Why is it that they see capacity constraints that you don't see...

Sowmyanarayan Sampath - *Verizon Communications Inc - EVP & CEO of Verizon Consumer*

Look, we've -- the way our OFS-- the way we bring open for sale or OFS has been much more slowly and more consistently paced out that gives us time to build out capacity. Second is capacity is a combination of many things. One is just spectrum. We have a lot of spectrum, but we also have millimeter wave spectrum. Suddenly, it's going to be the hot thing right now because everyone is going to need a lot of millimeter wave spectrum, especially in really dense urban corridors and things like that.

So one is that. Second is densification. Over the last 7, 8 years, we've really densified our network in places where people live, people play, people do interesting things. So we've got a densified the network. Third is our fiber portfolio. Greater than half of our sites today have our own fiber. As I said, a lot of times, the constraint is actually on the backhaul as opposed to on the RAN side, we have capability to do that. Fourth is virtualize, we virtualize a huge portion of our network. So ability for us to add capacity quickly is quite easy.

So because of all those things, we feel very comfortable about the capacity, the runway that we have for FWA right now. And I want to build a sustainable long-term business that has low churn, growing ARPU and NPS definitely greater than negative 20. I want to be significantly north of...

Craig Moffett - *MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst*

What percentage of your customers do you think you can use the millimeter wave network? Is that -- today, that's a pretty small number, and it's going to take a lot more densification. Is that a reasonable expectation to say I'm going to densify a lot more? And is that exclusively for the purposes of FWA?

Sowmyanarayan Sampath - *Verizon Communications Inc - EVP & CEO of Verizon Consumer*

Look, we -- today, we don't have any FWA exclusive builds in the network. We just don't do that. At some point, we will when we get to that point, and that will be a clean ROI decision, whether we build capacity for FWA and we don't have that today. Look, millimeter wave is on 40,000 sites already today right now. So a lot of people use it. It's available on almost all the handsets that we sell except for some of our prepaid handsets. So people use it more than people think they use it. It's a great experience. And invariably, people over a period of time will end up using it more. So...

Craig Moffett - *MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst*

In addition to operating your FWA network, you still also operate a pretty large fiber network, even in the consumer segment, not just in the backbone. But you're increasing your fiber open for sale at about 550,000 homes a year. But some of your peers are taking a really aggressive approach. Talk about the economics of fiber expansion. And given how large your fiber network already is, do you think that you already know something that your peers still need to learn about fiber deployment?

Sowmyanarayan Sampath - *Verizon Communications Inc - EVP & CEO of Verizon Consumer*

Look, we are the OG fiber players. In 2004, when people are still figuring out about fiber was, we were up in Keller, Texas, laying out fiber. I mean it's pretty unfair to compare us who've been doing fiber for almost 20 years with some of the others who are doing it for the last 3 or 4 years and feel like they found something new. Look, fiber for us, over the period, we've completely optimized our supply chain, our network operations, our fault rate, our customer acquisition. It's a well-honed machine. I mean there are parts of the country, including kind of where we are, where we have share north of 60%.

So we know how to compete with cable very well as we build out fiber. The builds that we do are incremental 500,000 more roughly every year. And a lot of it is around 2 areas. One is edge-outs. When you get to the edge of the network, there's a little more, there's a new development. There's a new subdivision, -- let's go and build it out. But second is also our copper to fiber migration. We have a very ambitious network transformation plan that we started 6 or 7 years ago. That was when I got my first real job on how to move that business over to fiber. So we've got some of those capabilities on how to transfer our copper lines into fiber. So it's a fair amount of learning, but we are a very mature company as far as fiber goes today.

Craig Moffett - *MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst*

And the Northeast is distinct in that it is much more aerial. And so the economics here were better and much denser than any other part of the country. And so arguably, you had the best set up back in 2004 by a really wide margin to say, of course, it made sense to do fiber in the northeast where it's aerial and dense. Is your expectation that once the BEAD money starts to flow, that there's going to be a lot of cost inflation and coupled with the fact that more of it is going to be buried and a lot of it is going to be lower density that there's -- it's going to be harder to make a return on all of those investments that are being made?

Sowmyanarayan Sampath - *Verizon Communications Inc - EVP & CEO of Verizon Consumer*

Definitely, there will be inflation in fiber build. I mean we have really long-term contracts on labor, on supply chain, materials. So we are kind of -- we are probably the most insulated of any of our peers when it comes to long-term costs on our fiber build program because we've been doing it

for a long time. Look, the BEAD money definitely will add to the tension. But more importantly, it's also the infrastructure money that's going to come because someone who can trench can also go and do other things. So there's a lot more competition. So folks who are getting started on fiber or a slightly expanding fiber. They have a lot to kind of grapple through right now. But with our build plan of 500,000 homes home/ businesses, additional every year plus a one fiber plan, we feel very confident we have the supply chain runway and long-term contracts to keep us at a great price point.

Craig Moffett - *MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst*

And you mentioned a couple of minutes ago, copper retirement. Talk to me about copper retirement. How realistic is that really? Regulators have historically been so reluctant to approve copper decommissioning. So is it just a question of replace as much as you can and reduce the cost as much as you can? Or is there a real plan of saying, let's try to take some copper wire centers fully out of service.

Sowmyanarayan Sampath - *Verizon Communications Inc - EVP & CEO of Verizon Consumer*

Look, we -- of all the carriers, literally in the world, we are one of the very few who've actually gone and converted wire centers or central offices to 100% fiber. It's pretty cool when you go into these buildings. These are large buildings that had a ton of copper equipment, frame in it. And right now, you don't need all of that because the fiber sits in a much smaller profile and we're able to take a lot of cost, mostly energy saving, maintenance cost out of the network, but it's a long-term program to do that. It takes time. You have to migrate. But more importantly, we have to provide customers with choice.

Business customers as well as home customers with choice on the new product, what we call catch products. So there's a fair amount of work to do that. It's a sustained program that will keep going incremental. A lot of that 500,000 OFS that we offer on fiber is because of the copper migration that we end up doing.

Craig Moffett - *MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst*

Until recently, when you were running the business group, you had a lot of success in contrast to what has been a more difficult environment historically in the consumer side.

Talk about the underlying trends in the business side of the business that you sort of leave behind and what you were seeing there...

Sowmyanarayan Sampath - *Verizon Communications Inc - EVP & CEO of Verizon Consumer*

Look, it's a very healthy business. On the wireless side, we have 45% market share. And every single quarter, we get more than 40% of industry growth in terms of nets into our business. It's a very healthy business that's run very well, and we see continued traction in that space. Look, there are some spots, especially around tech companies, doing layoffs. We have a large exposure to them. There's some short-term pressure. But the overall thesis continues to hold in that business. It's healthy, and it's going to continue to grow very well.

And it's driven by a couple of things. One is we are able to offer distribution to every segment. If someone goes and opens a new company today, the bank will definitely call you, but in 3 days, Verizon will call you because we want you to have your first phone line with us. So just deep distribution with best network that's designed for the business in places as well as that. And then account services. I mean we have customer account teams and some of our large public sector and enterprise accounts that are almost impossible for others to replicate. And that gives us strength in that business.

Craig Moffett - *MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst*

So we're -- when T-Mobile and even now cable are talking about the inroads that they are making in business. Some of that has to be coming from you just given how large your share is. How are you seeing them compete? And what's different in the way they compete versus the way you try to retain...

Sowmyanarayan Sampath - *Verizon Communications Inc - EVP & CEO of Verizon Consumer*

Look, we continue to win -- we own 45% of the base, and we continue to win well north of 40% of industry net adds. So it's coming from someone. I don't know whether it's coming from me or not just given the numbers, it doesn't make sense. Look, where they tend to do very well is the low end of the SMB segment, typically the 1 to 4 line segment. You see good traction there. But when it comes to medium business, public sector, global enterprise, our moat is deep and wide and you don't want to step into that moat. So...

Craig Moffett - *MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst*

You have so many relationships. You've got a really unique perch to see the macro economy. So I don't want to miss the opportunity to ask what your perspective is on the inflation -- or the recession that we've now all been waiting for, for 18 months, and it always seems to be 6 months around the corner.

Sowmyanarayan Sampath - *Verizon Communications Inc - EVP & CEO of Verizon Consumer*

Yes. I think economists have predicted 8 of the last 5 recessions. So I'll leave that to them to do. But look, from our vantage point, look, we have a billing relationship with almost every second household in the country, all the Fortune 500 companies and 1 in 2 small businesses. So it's a pretty interesting vantage point from us. What we tend to see is customers are trading up to trade down.

There are some categories where they want to trade up. Wireless is one of them. That's where they want the better network, they'll continue to trade up, and they'll trade down in certain categories. They may buy store brands cereal, so they get the best network so they can do things. So that piece continues to happen. But the customer is relatively healthy right now. Most of our payment and other trends are going back to the pre-covid levels. So COVID was a rush. There was \$4 trillion of liquidity extra in the business, people work through that. But most of our trends are pre-Covid, which continues to be healthy right now, we see a healthy piece.

There are some hotspots like tech companies where we see a number of layoffs and they're managing through their cost position a little carefully. But by and large, we see a pretty healthy economy right now.

Craig Moffett - *MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst*

I don't want to miss the opportunity also to talk about some of the fun stuff of 5G, which was admittedly more on the business side than the consumer side. But mobile edge compute, private networks and enterprise solutions. I think it's fair to say that those have either been slower to materialize or look smaller than we once thought. Is that right? Is it -- what's your house view in Verizon about the monetization efforts? I mean you spent so much money on C-band. It can't be that the real monetization of C-band is only fixed wireless. Where does the monetization of C-band come from with respect to all the 5G opportunities that we were talking about a couple of years ago?

Sowmyanarayan Sampath - *Verizon Communications Inc - EVP & CEO of Verizon Consumer*

Look, first is fixed wireless access. I mean think about it, we have an \$80 billion TAM that we did not have access to. \$80 billion TAM and we are growing last quarter, we were almost 40% of all industry net adds on broadband came from Verizon fixed wireless. That's how strong our fixed wireless franchise is and could not have been possible if we didn't have 5G, both from a capacity and a speed perspective.

And I'll tell you, look, today, on the current C-band that we have, we can read speeds of 900 to 1 gig speed. When we get the new band, we can go up to 2.4 gigs in terms of speed. So speed and capacity, definitely FWA. It's a great business, and we made the right call and C-band to grow that space. Jumping on to the other pieces on the business side. Look, the MEC, the mobile edge compute has been a little slower to develop.

But what we are seeing in private networks is doing incredibly well. By second, third quarter last year, we went from -- we have one installation to now we have tens of installations, new installations every single quarter. That business is growing very fast. And that almost becomes the control point for our corporate liable business, if you see more broadly. So the private networks is doing well. Once that happens, it will drag the mobile edge compute business use case along with it. We started some interesting use cases, warehouses, logistics, supply chain, venues. Those are 4 or 5 places where we have seen traction. -- government, health care, we've seen work a little slower to materialize than what it is. But a little slower, but in the last, I would say, 3 or 4 quarters, we are seeing good traction in this space, led by private networks primarily.

Craig Moffett - *MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst*

And what role do you play in the private network? Because typically in a private network instantiation, there is a systems integrator. There are software companies, there's a Palo Alto Networks or security companies. And so there's a lot of people with their fingers in the pie. And so it's always puzzled me how much of the economics is Verizon going to be able to get out of those relationships...

Sowmyanarayan Sampath - *Verizon Communications Inc - EVP & CEO of Verizon Consumer*

It's not dissimilar from a macro network, like we go into a large company like Associated British Ports or BlackRock or one of the companies that we've actually rolled out 5G, we go and we install the network similar to what we do in our macro sites. We run the network on a managed services basis. We troubleshoot it when things go bad, and we charge the users for it.

So it's a pretty accretive business for us because we own the licensed spectrum it runs on. See, that's the key to it. A system integrator cannot run and manage things that are in licensed spectrum. And if you're going to put a private network, by and large, you want it on licensed spectrum, otherwise, why would you put a private network in place because the value is so much more accretive on licensed versus unlicensed spectrum.

So there will always be players. It's a reasonably crowded market, but very few do it on licensed spectrum. It's us and probably a couple of the other carriers to do that. So that gives us an advantage point. Second is the services that we can sell on top of it. Of course, the day one network, where you have managed services that sit on security that goes on top of it. And then further, the MEC to do that, we need a private network. So there's a good layering of the cake that happens on that piece.

Craig Moffett - *MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst*

So now I want to sort of zoom back out again. We started this morning with the new plans. How confident are you that the new plans get not just the consumer segment, but all of Verizon back on the path to being a growth company again.

Sowmyanarayan Sampath - *Verizon Communications Inc - EVP & CEO of Verizon Consumer*

Yes. Look, we stay true to our guidance. We want to grow between 2.5% and 4.5% service revenue growth. That's a healthy piece for us to grow. But let me tell you a couple of other things that are in place for us to see momentum in our business. The cornerstone of that is the MyPlan piece. We wanted a fresh offering that is completely differentiated that puts the customer back at the center of everything. People ask me, is it the price up, it's a price down. It's neither it's ultimate flexibility and ultimate freedom and that resonates very well with customers. We've tested it. This is one of the largest researched projects we've ever done. -- tens of thousands of people we've spoken to, and they resonated well when we say ultimate freedom.

Craig Moffett - *MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst*

And I assume a big marketing push behind it, starting today. Is that right starting tomorrow?

Sowmyanarayan Sampath - *Verizon Communications Inc - EVP & CEO of Verizon Consumer*

Yes, starting tomorrow, you're going to see it. If you don't see it, you're living under a rock. So we are really confident about the promotions there. The second thing for us has been around our market structure. Look, for us, over the last couple of years, we've become a very national AK centralized company.

A lot of our decisions get taken center in Basking Ridge. We're going to start going back to a more regional market-driven model right now because I want to reduce the time and the fidelity of information between the field and where I am right now. So you're going to see us get back to a much more defined aggressive market structure with leaders who can take decisions in the field and get closer to a customer in a meaningful way.

Craig Moffett - *MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst*

No, it's interesting that, that would be geographic because if I think about -- you and I have talked a little bit about sort of the coming of AI and how AI can change the way you think about segmentation and marketing, but that's not probably not primarily geographic. It's probably with incredibly detailed psychographic and demographic segmentation. Talk about that as maybe a closing way to think about where Verizon goes next?

Sowmyanarayan Sampath - *Verizon Communications Inc - EVP & CEO of Verizon Consumer*

Yes. We've built some incredible models. People talk of AI. We've been doing it for a while. We built incredible models where we can target a segment of one. We can go to a single customer and predict what she is likely going to use. That's why even in our myPlan structure, a vast majority of our customers are going to take the recommended plans that we offer them because we know what they like, what they're likely to take.

So we've gone to the segment of one marketing. For us to get feel why we need these markets in the field is to drive field performance. Look, Verizon historically has been a phenomenal company on execution. When we say something, we do something. So this is our step towards going back to that culture of just strong execution in the field. We're going to bring back more aggressive sales incentive for our salespeople to do that and just get the rigor and mojo back to where the piece. The myPlan is a big element for it, but getting to a market structure, local marketing, local community activation and this execution rigor. When you put all 4 of that with an underlying framework of AI-driven segmentation of one, it creates a pretty compelling value prop for us to go and win in this space.

Craig Moffett - *MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst*

I can't tell you how excited I am for you in the new role. And I can sort of feel how energized you are about sort of putting Verizon on this new path. So I wish you great success, and I want to thank you for being with us this morning, and I look forward to next year to getting a progress report and seeing how it's all going. So Thank you.

Sowmyanarayan Sampath - *Verizon Communications Inc - EVP & CEO of Verizon Consumer*

Thank you..

DISCLAIMER

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

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

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

©2023, Refinitiv. All Rights Reserved.