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PRESENTATION

David William Barden - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

All right. Well, thanks, everybody. Good morning, and welcome to Day 1 Session 1 of our 2023 Telco Media Conference here at Bank of America. I'm David Barden, I head up telecommunications and communications infrastructure research for the bank based here in New York for the U.S. and Canada.

And we're really pleased to have with us today, Verizon, and Sampath, the CEO of the Consumer business, the largest business in Verizon; and Tony Skiadas, the full-time CFO of Verizon.

Before we begin, I'd like to ask Tony if you have some safe harbor remarks you'd like to make?

Anthony T. Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Sure. Thanks, Dave. Good morning. So I'll just draw your attention to Verizon's safe harbor statement. So things that we might say are in the future in nature, are subject to risks and uncertainties. And our information is on our Verizon website, including our SEC filings as well.

David William Barden - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

Perfect. Thank you so much. I just realized that Sampath, you're like the Beyonce of telecom now. You're the one name that everyone knows.

Sowmyanarayan Sampath - *Chief Executive Officer, Consumer Group*

Either Prince, Beyonce or Cher. I don't know which one.

David William Barden - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

I think Beyonce is probably bigger now.

QUESTIONS AND ANSWERS

David William Barden - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

So before we kind of get into the core business, I'd like to kind of talk about a little bit of the headlines that have been coming up of late that I think people are interested in learning a little bit more about, I guess the first one would be the iPhone launch, pretty big industry event yesterday.

I think that the press has a short memory. And when they report about what's happening, they kind of highlight the promotions that are going on. And I think all of us kind of would love to kind of get a perspective on how you feel this launch has gone. Are we seeing signs that the industry is more competitive, the same competitive or less competitive than maybe a year ago?

Sowmyanarayan Sampath - *Chief Executive Officer, Consumer Group*

This is a big time of the year for us. Everyone is excited about it. Upgrade rates have been slow. You saw that last quarter. They continue to be soft. The next couple of weeks makes the quarter for us in terms of upgrade rates depending on how customers pick it up.

In terms of competitive intensity, kind of similar to the last couple of years. Look, on acquisition, we're not going to be second. We think we have the most compelling value prop with the best network that sets us up really well for the season on acquisition. We're not going to cede share, we're going to continue to push out on that.

On base, we don't feel the need to match our competitors dollar for dollar. We have a slightly different value prop. And we have the ability to customize and kind of segment the base of one with a lot more personalization. So it will always be a little different on base. But on acquisition, we're going to win this quarter.

David William Barden - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

And so with respect to being more conservative on the promotions regarding your base, based on your belief that you've got the stronger value proposition, do you look across the landscape and feel comfortable that you won't have to make adjustments as we go through the period, based on what you're seeing out there right now?

Sowmyanarayan Sampath - *Chief Executive Officer, Consumer Group*

Yes. It's slightly different, our value prop, because we have the app, people use the app to upgrade. We're able to target people exactly where they are on their cycle, their usage, their propensity to buy. So we're able to target that.

Second is the value prop is different. We have the ability to trade in any device in any condition. That's something our competitors have kind of always struggled to do. We have the operational muscle to get that through. And that's going to be, I would say, a competitive edge that we'll have even for the base going in.

David William Barden - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

Got it. Okay. I think the second one that just -- I think it was yesterday that came out, was T-Mobile and Comcast has struck a deal for T-Mobile to acquire 600 megahertz spectrum. It looks like 2028. Is this a piece of spectrum that you got a look at? Is this something that you wish you had acquired?

Anthony T. Skiadas - Verizon Communications Inc. - Executive VP & CFO

I mean, we just saw the news last night as well, Dave, so don't have a lot to say about it right now. But clearly, T-Mobile felt like they needed more depth there. But you can ask them.

David William Barden - BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst

Well, T-Mobile has a 600 megahertz footprint, but Verizon do not, correct?

Anthony T. Skiadas - Verizon Communications Inc. - Executive VP & CFO

That's right.

David William Barden - BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst

So that would have been kind of novel to add that.

Sowmyanarayan Sampath - - Chief Executive Officer, Consumer Group

And it's the handset, what percentage of handsets, seeding new spectrum bands at handset is a long movie. I don't know how much support there really is for 600 at this moment right now.

David William Barden - BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst

Okay. I guess, and the third kind of big one is the lead issue that came up from the Wall Street Journal in July. I think people have been hopeful that we would kind of see the telco industry kind of bring more information to light and kind of try to put, as much as possible, this issue to bed. What can you share with us, where we stand right now in this issue in discovery?

Anthony T. Skiadas - Verizon Communications Inc. - Executive VP & CFO

Sure, Dave. So maybe I can pick up where we left off at earnings, which was we said we take this matter very seriously. We're doing a very fact-based and science-based approach, prioritizing the health and safety of our employees and the communities that we serve.

We also shared some stats. And we said that we had 540,000 [copper] (added by company after the call) route miles in the network, about half of which is aerial and a small percentage is lead. We said we're still doing a review of the old MCI-Western Union network. That work is still ongoing, but it hasn't changed those facts.

In terms of some updates, what I would say is I think you might have seen last month, that New York State did their own testing. New York State Health Department did their own testing at Wappingers Falls, New York, which is one of our sites that was identified by the media. And they found no evidence of elevated lead levels and since reopened the park. More recently, last week, the EPA did their own testing in New Jersey at one of our sites and similarly found that there was no public health risk.

And then on our side, we did our own testing at each of those 3 sites. And the average soil lead levels are below the remediation levels established by each of the applicable states. So therefore, the results are very consistent with what we saw and what the regulators have seen. We're working very proactively with the EPA on it and the other regulators. And as we said before, as we have more to share, we'll certainly do so.

David William Barden - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

Okay. Great. Okay. Encouraging. So let's kind of go back and zoom out a little bit. Maybe to start. So Sampath, you've been about 5 months in the role as the CEO of the Consumer unit. Talk to us a little bit about how you're trying to transform your slice of the business and trying to maybe generate more momentum in that unit.

Sowmyanarayan Sampath - *Chief Executive Officer, Consumer Group*

I've been very happy with the progress in the last couple of months. The transition has gone very smoothly, partly because I've worked in different elements of the Consumer business in my last a little south of a decade in the business, whether it's product, whether it's network, whether it's pricing and things like that. So it's been -- it's a very familiar business for me.

We've done an incredible amount of transformation in the first couple of months. The first is myPlan, which I think is probably one of the first in the world, which is completely customizable, it's transparent, flexible, gives the customer full control, and we changed how customers think about and buy it. So I think that's a big win for us.

Second is the market structure. We got nationalized in the sense we had a central structure running all of sales and marketing for us. We've gone to a much more local structure with 6 markets, a lot of autonomy in the field as well as local marketing and activation. So that's been another big win for us.

The third one is sales incentives. We have a large sales team and we had moved to group compensation primarily because of COVID, and there were some consequences because of that. We moved back to an individual sales compensation, something Verizon is very good at.

And last is we executed very well on our price-ups. The recent one has been on a fixed wireless access product where we priced up \$10 across the board and very little churn from almost all our price ups.

So we've done a lot of transformation work over the last 100-odd days. And going forward, what we see is more momentum in our business. Core operating metrics are looking better, and that's the foundation from which we want to build and get into 2024.

David William Barden - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

And then Tony, you've been kind of in the seat since, I think, March. How about you? Have you tried to bring anything new to the game? I know that when we kind of came into the year, we started with a large amount of variable rate debt, for instance. Kind of what is your kind of philosophy that you're bringing to the table?

Anthony T. Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Yes. So look, Dave, no change in the philosophy. I've been with the company for 27 years. So I was the controller for 10 years prior to this, so I've been around for a while and worked closely with Matt previously. So a very smooth transition there.

And then very focused and I'm very aligned with Sampath, Kyle and Hans on driving service revenue growth, EBITDA and free cash flow, and the team is very aligned on that, and we stay very close on that. And then within that framework, focusing on mobility, broadband and private networks. And that's where the team is really focused.

Sampath touched on a little bit of the things he's doing on the mobility side in Consumer in terms of improving the business, the market structure, which I'm a huge proponent of, and strongly supportive and couldn't wait to get that going, along with some of the other pricing changes that I know we'll get into with Sampath in driving the business forward.

And then on the B2B side, Kyle is doing a great job in terms of continuing to grow the wireless part of the B2B space. Customers continue to prefer the Verizon network, and we've seen great growth, 8 straight quarters of 125,000 phone net adds, so great momentum there.

On the broadband side, we have a steady rhythm at 400,000 broadband net adds, both Fios and fixed wireless access. Fios is growing, fixed wireless access is growing. We have over 2.3 million FWA subs in our base right now and well on our way to the 4 million to 5 million target, so we're very pleased with the progress there. And that's both consumer and business are growing. So both of those segments see great progress on FWA.

And then on private networks, early wins in private 5G with the Cleveland Clinic. And now that we're in football season with the NFL and the coach-to-coach communication, so we're very proud about that, too, and our leadership there.

And then lastly on capital allocation. No change in philosophy there. You saw we raised the dividend for the 17th straight year last week. So we're very proud of that as well.

David William Barden - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

Great. I think I'd like to talk about a little bit is the industry, in 2021, 2022, had its best-ever postpaid phone net adds for the last 18 months. Prices in the industry have gone nowhere but up. CapEx cycle is coming to an end, cash flow is expanding. Everything seems to be going really well in the industry and everybody hates it because everybody is convinced that something is going to go really wrong. And I want to start with where all these things are supposed to be going wrong.

And the first thing that's supposed to be going wrong is that 2023 is going to see -- some of your peers have called it a normalization of the postpaid phone net add marketplace. Now year-to-date, year-over-year, we have seen a slowdown, but Verizon hasn't seemed to suffer any kind of year-over-year effect of that. Could you talk a little bit about why that might be, and what you see the normalization of postpaid phone net adds in the industry looking like on a go-forward basis, and how you're planning for it?

Sowmyanarayan Sampath - *Chief Executive Officer, Consumer Group*

Look, because of COVID, we saw some pull-forward of demand, which is typical for this category from almost every other category out there. The market moved to 9 million postpaid net add growth. Some of it was -- a lot of it was pre-to-postpaid migration because of government money and subsidy money that was coming into the system.

I suspect we are going to get into a 7 million year, and then normalization is going to be between 5 million and 6 million a year. 5 million and 6 million year, plus the broadband growth that we have in the business, as Tony said, 400,000, makes it very healthy...

Anthony T. Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Per quarter.

Sowmyanarayan Sampath -- *Chief Executive Officer, Consumer Group*

Per quarter, exactly. It makes for a very healthy business where we have growth opportunities on the fixed wireless side, in non-connected services. And think about it, our ARPA grew 6% last quarter, which is an incredibly strong number for us to have.

So look, we have a healthy customer base. But if you look at our FICO score, it's 723, that's our average FICO score of our customer base. So we have a very healthy customer base that likes the network, that likes the premium nature of the network, the value prop and the customer experience that we give. So that makes for a very healthy business and a very strong franchise.

David William Barden - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

So if that's the case, we're going from 9 million to a 5 million to 6 million in a normalized world. If Verizon is not adding postpaid phone net adds in a 7 million per year market, does that mean that Verizon net adds go negative in a 5 million to 6 million net add world?

Sowmyanarayan Sampath -- *Chief Executive Officer, Consumer Group*

We've historically, last couple of quarters, relied extensively on price to get to our service revenue number. Tony and I talk a lot about it. We want to get to a more balanced 80-20 approach to price and quantity. So we are going to grow our quantity number on phone net adds in an equal way.

Two ways of doing that. The first one is sales momentum. we've put in myPlan, and some of the work we've done in the field give us the momentum that we need. And second is churn. As we go through and finish the back end of our price ups and more personalization, we get better churn.

So we know how to play in this market. We've historically taken our fair share of phone net adds. I don't see that any different. We're just going to have to go through a transition period when we get back to it.

David William Barden - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

5 million to 6 million normalized postpaid phone net add world, what is Verizon's fair share?

Sowmyanarayan Sampath -- *Chief Executive Officer, Consumer Group*

Step one for us is to get to positive phone net adds in the consumer business. Once we do that, we'll get to our fair share. Look, our overall market share is around 35%. But we're going to have to work up through it. Step one is to get to positive for our net adds, which we are working hard on.

David William Barden - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

And I think in that 5 million to 6 million postpaid phone net add world, the definition of what a postpaid phone net has evolved. I think, and the pie seems to have grown. What of that 5 million to 6 million in that world is addressable for Verizon, as opposed to kind of free stuff that's just being added to the pie?

Sowmyanarayan Sampath -- *Chief Executive Officer, Consumer Group*

Almost all of that is addressable because if you look at our business, we have a postpaid business and we have a value business. So essentially, every segment of the market, Verizon has a killer value prop. We start with the premium segment, we have the best network, which we go and we

sell in that. On the mid-end, we have Total by Verizon. We are scaling that to almost 750 stores on a path to 2,000 stores. So that's a good flanker brand that's growing incredibly well. Then we have Straight Talk at every Walmart. You can't miss if you ever shop at Walmart. And then we have Visible, which is our digital-only brand that is doing incredibly well. So at every single price point we have -- and then we have SafeLink for our ACP customers that we serve.

So we have a compelling value prop at every segment, every different price point. So essentially, the whole market is addressable for us. The question is which ones are profitable for us, which ones make sense and which ones Tony and I feel comfortable writing business.

David William Barden - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

So another concern is that, okay, in this 5 million to 6 million world, it's not just the telco's sandbox anymore. The cable companies have come in, they've been very aggressive. And the theory is that they're going to continue to cram the telcos into a smaller and smaller corner. How do you see that telco versus cable dynamic evolving?

Sowmyanarayan Sampath - *Chief Executive Officer, Consumer Group*

We think our value prop of offering large unlimited plans with the best network, and when we use the word offload, it's different for us, very great value prop for us. Customers like it. Customers come to us every single day.

The cable relationship is a strategic relationship for us. They're a strategic partner. But we only want to do deals that are accretive to us. The current deal that we have is accretive to us, and we like the way it is shaping now.

David William Barden - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

So if I'm a cable bull, I'm optimistic that my mobile strategy is profitable, it will remain profitable for the foreseeable future. It will always may be profitable forever because of my relationship with Verizon. I think everyone knows that I've maybe been trying to coax some incremental color from Verizon.

So number one is that your peers believe that the cable relationship with Verizon has a variable cost nature to it. And that as data grows, the profit margins in the cable wholesale wireless business will shrink smaller and smaller and possibly go negative. Is that a true statement or a false statement?

Sowmyanarayan Sampath - *Chief Executive Officer, Consumer Group*

We're not going to comment on commercial relationships with cable. All I'll say is they're a strategic partner. We do deals that are financially disciplined. Tony and I will not write any business that's not financially disciplined...

Anthony T. Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Yes. Look, it's a growing business. It's a very profitable business for us. But we're not going to get into the commercial terms, Dave.

David William Barden - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

I'll ask one more because everyone expects me to, which is obviously, under the original spectrum deal that you did with the cable industry, which was a good deal for you guys, you committed to the DOJ that you would always have a wholesale relationship with the cable industry. It's clear

that relationship has evolved at least one time over the years. And if I'm a cable bull, I want to believe that the way that this deal is structured will last forever.

The sense of it, however, is that while a deal has to exist, it doesn't necessarily have to be this particular deal. That you could come back to it and recut it if you felt it was in your financial best interest to do so. Is that a true statement or a false statement?

Sowmyanarayan Sampath - - *Chief Executive Officer, Consumer Group*

We don't talk about commercial arrangements. All I'll say is we've invested a lot in the network. Between spectrum and network, we invested a lot. Our retail customers are paying more for it, as you can see from our price ups and very low churn impact. And we want our partners to get access to the best network at the right price.

David William Barden - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

Well said, Sampath. Okay. So another thing would be that another kind of element of the optimism on cable as opposed to telco would be that, in addition to my forever profitable, disruptive mobile capabilities without a network, the fixed wireless access is kind of a flash in the pan, that while it's had a negative effect on the ability of the cable industry to grow broadband for now.

We heard last week that Mike Sievert believes that, in fact, fixed wireless access won't really disrupt the broadband industry. AT&T has always been a little skeptical of fixed wireless access, more of a niche product versus fiber. Where do you land on the long-term opportunity that fixed wireless access represents?

Anthony T. Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

As I said earlier, we have a steady pace of over 400,000 net adds a quarter, which 383,000 were fixed wireless access. So there's clearly demand for the product. The network team is building way beyond, and engineers in network, way beyond the 4 million to 5 million target that we have. So we have a lot of ambition there. We got the additional spectrum recently, so we have full access to the complement of C-band, so we'll continue to build that out.

But we see a lot of opportunity. Sampath sees demand, and he's going after it right now as we see demand in certain markets. And you may want to talk about some of the things you're seeing from a customer standpoint.

Sowmyanarayan Sampath - - *Chief Executive Officer, Consumer Group*

Customers value the product a lot, to a point where we passed on a \$10 price increase [for new customers] (corrected by company after the call), and we continue to see continued momentum in the product. Second is also our Fios franchise. I mean, we've put north of 50,000 net adds in a quarter in a while.

So we have strong growth on the fiber on one side and fixed wireless access on one side. 400,000 is a good run rate number for us. We are turning our attention towards taking churn down, better equipment, we launched some new equipment in the market, better accretion and selling more services on top.

Look, it's a long-term sustainable business for us, and we like the pace we are growing.

David William Barden - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

So along with that point about you're happy with the pace of growth. So the C-band was obviously divided into 2 parts. You got Phase one, you guys built a fixed wireless access business on Phase one that's delivering 383,000 quarterly net adds. Now you've got basically twice as much spectrum across the entire country. Is there a reason to believe that, that 383,000 won't go to 483,000 and then 583,000? Or will you throttle it by raising prices to kind of squeeze more dollars out of kind of a more deliberate cadence of net adds?

Anthony T. Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Yes, Dave. Look, we think we're at a good pace here. And the network team still has to build out the network. Just because we've got the spectrum a few weeks ago, it doesn't mean it's all built out yet. There's still a couple of years of work that Joe and the network team have to do to continue to build out the C-band network.

But we're at a healthy pace. As Sampath mentioned, we made a pricing change a few weeks ago. And we're also, as Sampath said, trying to build a sustainable business. We built this business from scratch that has over 2.3 million subs in the base in a very, very short period of time. So we see a lot of runway ahead.

David William Barden - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

So if I go back to my original theory, we've got a large number of postpaid phone nets that's shrinking. We've got cable that's taking a healthy percentage of that. Presuming that percentage stays relatively stable, in order for you to get your fair share, you've got to then, within the universe of AT&T, T-Mobile, Verizon, you've got to take something from somebody else. Who is it? And how?

Sowmyanarayan Sampath - *Chief Executive Officer, Consumer Group*

I don't think the current, where cable is between 60% and 70% of industry net adds, is going to continue forever. Because we have an incredibly strong value prop in terms of once the C-band network gets built out, a really good network with myPlan and a great customer experience to go with it. Between that and the fact that we have an offering at every segment, we're going to be very competitive in the space. We've got work to do in terms of continuing to build gross add momentum that I spoke about earlier, but I don't think the current share positions on net adds that we see are going to continue forever.

David William Barden - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

Who will you win from, and how?

Sowmyanarayan Sampath - *Chief Executive Officer, Consumer Group*

The answers still remains the same. We're going to have to get better on gross adds, and some of that has to do with execution in the field. We've put in what we need, which we think we need to do to win. We've had that model. That's a model Tony and I grew up with. We know how that model works. So we're going to continue to see more gross adds momentum.

Second is our value prop. I think we have a very strong value prop with myPlan, where we can bring customers at different price points. And the fact that we were the first to unbundle inclusions from the network has been a great thing for us because we can vary device promotions based on ARPU and price plan, which historically, people have struggled to do, and we are able to do that.

So careful segmentation of the market, good gross adds momentum and continuing to bring exclusive things to the market, like Sunday Ticket. Hope you got your Sunday Ticket from us this quarter. It's been a good start this Sunday.

David William Barden - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

Well, now that Rogers is out, like what's the point? There's no point anymore. So I want to talk a little bit about that, price. Because I think when it all boils down, the negativity, the concern about the industry really boils down to that this shrinking pie of net adds and the rising prominence of cable will compress the telco industry into a smaller and smaller box, and that someone is going to have to react on price to address whatever it is, whatever perceived injustice has befallen them.

So first of all, prices in this industry for the last 18 months have just gone up. It started off with kind of saying, inflation and that. But the broadband, the cable broadband, the broadband industry in general, you see this in Canada, you see us in the U.S., they just drive prices up all the time because they can.

Is the wireless business misperceived? Are we misperceiving the fact that maybe the wireless industry is in a position where it has become such a basic utility to our daily life, that the wireless industry should be able to and we should expect that this is just the new normal, prices are just going to go up?

Sowmyanarayan Sampath - *Chief Executive Officer, Consumer Group*

Our ARPA was up 6%. I think that answers almost all your questions. We think a better network with a better value prop and a better customer experience, people will pay more for it. Good enough is good enough for many things. We don't think you need to settle for a good-enough network, which is why our value prop stands out and we are committed to it.

And customers see value in it. I mean, almost every customer in our base has been priced up in the last 6 quarters. We've seen very little churn impact from it. We've modelled things, and it's always come below our model and our expectations. So that shows a very strong franchise, but more importantly, the value that we're able to bring to the table every day.

David William Barden - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

And I want to keep exploring this a little bit. But one of the theories would be that, we on Wall Street, the investor community, we've boiled the entire industry down to one number, which is postpaid phone net adds. And if your postpaid phone net adds aren't growing, obviously, you're failing irrespective of your cash flow and all the rest of it.

So because of this sense, because Verizon is not growing at least at this moment in time, the volumes, there's a sense that Verizon, from the top down, the Board is telling Hans, Hans is telling you: "Grow those volumes. And if you don't grow -- and I don't care what it takes, do what it takes." Can you tell me a little bit about how Verizon views that view, of the Wall Street view, of how the business might be working?

Anthony T. Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Sure. And Sampath touched on it. We've said before, volumes are important to the business, but we're going to be very disciplined and segment. Sampath went to a regional model. We can be very, very segmented now. We're not going to do this peanut butter spread approach of offers and things like that. You're not going to see us chasing it.

But we're very comfortable. We're very comfortable. Sampath and I talk about the price and quantity mix and what the right mix is there. We're very aligned on that. Some of the price-ups that we've done have given us a nice tailwind in service revenue for the back half of the year and sets us up nicely for the first part of next year. We still have more work to do with improving volumes, but we're going to be very disciplined about it.

And Sampath, you may want to add.

Sowmyanarayan Sampath -- *Chief Executive Officer, Consumer Group*

Yes. And look, the price-up is up. We, of course, have passive price-ups for existing services, we charge more. But there's also what I call active price-ups, whether it's fixed wireless access business, step-ups, step-ups to premium plan, selling more non-connected services, selling connected services to existing customers.

So there are many flavors of price, if you will, and we're doing incredibly well across all of them. That's why I feel we have a good runway that we've built on price that gives us time to dig deep, get the right momentum we have on quantity. And we'll fix that over a period of time.

David William Barden - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

So I think another element of where the industry is, just by the nature of its maturity, that a lot of the new adds that we're talking about, that 5 million to 6 million, is probably the concentration of those is at the lower end of the market. I think that it's not in Verizon's best interest to kind of cut prices to go get those customers, but you guys have done a few things to try to go make your brand and make the product more appealing to that segment. Could you talk a little bit about that? And then maybe fold the TracFone merger into that as well.

Sowmyanarayan Sampath -- *Chief Executive Officer, Consumer Group*

Step one for us was the reason we got excited about TracFone is we have a product in every segment of the market. At the low end, we have the ACP customers, we work with the government to subsidize. And at the premium end, it's folks who buy Ultimate plan, which we think is the best offering in the market. And almost everything in the middle, we have an offering that goes after it. Our peers don't have one for every single segment that we have, so I think that's one important thing for us.

Second, we are not going to write business that doesn't make financial sense for us. We are incredibly disciplined. You will not see us chase business that does not make financial sense.

The third piece is the price ladder. myPlan, the way it is constructed, lets people come in at different price points and then upgrade over a period of time. And you could come in at a Welcome price point without any perks. And then over a period of time, move to the Plus and move to the Ultimate and then keep adding more perks and building your book of business. That's an incredibly strong price ladder framework that we've built. So that's how we think we're going to be attractive to people on the low end as well as people who want the Ultimate, which is the best, as the name suggests, the ultimate offering.

David William Barden - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

Cecily Strong and Paul Giamatti have been telling me how affordable you are, too. So I see that a lot.

So all right. So we talked a lot about top line, price, industry structure. Tony, underneath that has been a big initiative to kind of streamline the cost structure and take costs out of the business. Can you kind of give us an update on kind of where you sit there and your comfort level that we can kind of take \$2 billion to \$3 billion of costs out of the business by '25?

Anthony T. Skiadas - Verizon Communications Inc. - Executive VP & CFO

Sure. So you mentioned that the \$2 billion to \$3 billion is by 2025. We're well on our way there. We said this year \$200 million to \$300 million, and that's a combination of a few things. We're doing a lot of work on our Verizon Global Services around sourcing and IT platform consolidation. Sampath and his team are doing a lot of transformation work with customer care that's already been launched. And then you may have seen recently that Kyle and the business team signed a deal with HCL to do managed services transformation as well. So there's a lot of projects well underway, and we feel very comfortable with the pace of cost cutting, and that's something that we're going to continue to focus on.

David William Barden - BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst

I mean, as long as you mentioned the Verizon Global Services, the business side of Verizon, just out of curiosity. So the Sprint fiber business was recently bought by Cogent, a very famous kind of price discounter. It wants to get into the enterprise services market, [lit] services market, [wavelength] market, dark fiber market. Do you sense any potential for disruption to that business at the margin? Or is it more of like a rounding error?

Anthony T. Skiadas - Verizon Communications Inc. - Executive VP & CFO

Look, we're being very disciplined in the wireline side of the business. And Kyle and the team will look at deals. If they're not accretive, we're not going to do them. So we're employing a lot more disciplined than we have in the past.

David William Barden - BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst

And so one of the things I think that is also happening on the kind of cash flow side is that there's been a kind of a stepping down of the capital intensity of the business in 2023. There's an intention to kind of, I think, take that down again in 2024.

I think some people would be kind of questioning that just because the bubble of CapEx was intended to kind of go towards the C-band deployment, you mentioned that we've got a lot of new C-band, there's a multiyear incremental build that has to take place. So can you achieve the C-band deployment within an even smaller capital envelope than you've got in 2023?

Anthony T. Skiadas - Verizon Communications Inc. - Executive VP & CFO

Sure. So a couple of things there, Dave. So we said that we had the back end of the \$10 billion accelerated C-band program that finished in the first quarter. And then we said we would stair-step down to a BAU level of CapEx which we said was somewhere around \$17 billion to \$17.5 billion.

The second quarter, we did \$4.1 billion. So that was right kind of where we expected, and we expect the balance of this year to be in that \$17 billion to \$17.5 billion [run-rate] (added by company after the call) range. And then when we look out for next year, Hans and I have said publicly that's probably a good run rate to think about for next year. We haven't given guidance yet, but that's how we're thinking about it.

Our engineers have a long track record of finding efficiencies in building networks and are the best in the business, so they know how to do this. So I would expect that the \$17 billion to \$17.5 billion next year is an all-in number. And the team knows how to build networks in a very efficient way, so I'm very comfortable with the pace of CapEx for next year.

David William Barden - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

And just to kind of tie that together with Sampath. So right now, the Verizon network is a little bit of a have and have-not situation where you've got C-band deployed in roughly half the country and not in the other half. And so could you kind of talk a little bit about what is the experiential difference? What's the monetization opportunity as those incremental CapEx dollars go to the C-band deployment at the margin?

Sowmyanarayan Sampath - *Chief Executive Officer, Consumer Group*

We are very happy with the deployment of C-band. But more importantly, the customer experience that comes with it. Important metrics that I track on a weekly basis is churn in C-band versus non C-band markets. We tend to do much better, lower churn in C-band markets. So that's a good win for us. The second is premium mix. We get almost a 10% better premium mix in C-band markets. So more revenue, less churn, makes for a very happy business case.

David William Barden - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

And so going back to you, Tony. On where we are on the CapEx level. So I think you've given some insight into where you think cash flow is going to land in 2023, in the \$17 billion ZIP code. So if I think about going from \$19-plus billion in CapEx this year to \$17-plus billion, \$2 billion tailwind to that cash flow number. So that lands us in the \$19-plus billion free cash flow for 2024 versus a \$10 billion, \$11 billion dividend. A much better coverage, a lot more cash flow.

Kind of a couple of questions on that. Number one is, what other moving parts might influence my Dave Barden \$19 billion number for 2024? I'm giving the guidance for 2024 for Verizon right now.

Anthony T. Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Yes, thank you. So we're not going to give guidance. But let me start back with the \$17 billion. And we said, look, in the second quarter, we said we saw a good line of sight to \$17 billion-plus of free cash flow, \$17 billion-plus.

So when you think about the piece parts, we don't have any unsecured maturities on the table this year. I think as you saw with a strong cash position in the second quarter, we took down debt. We did a \$2.6 billion debt tender right after earnings. So we continue to take the debt stack down, so that's extremely important to us.

And then as we think about going out in terms of some of the piece parts. If you think about an improving EBITDA profile that the team is focused on day in and day out, that's the first place to start. CapEx, as you mentioned, back down to a BAU level of spend. We said \$17 billion to \$17.5 billion. We have to see where the interest rate environment is and where the tax situation is. We still have this year the remaining C-band clearing payments that are due and payable in the fourth quarter. So that's about \$4 billion. So we have to take care of that. But you start to see a path where we can continue to make meaningful progress on deleveraging, and that will be a focus for us.

David William Barden - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

And so that was kind of a follow-up question on that. So with this, round numbers, let's call it \$8 billion, \$9 billion delta between potential cash flow generation run rate and the dividend. Is it all going to leverage? And for how long into the future do we devote all the excess free cash flow to the deleveraging plan?

Anthony T. Skiadas - Verizon Communications Inc. - Executive VP & CFO

So look, we're not going to give guidance. Our capital allocation priorities haven't changed. The 4 priorities that we have out there, we said we would invest in the business, and you see us doing that with C-band. The second priority is the dividend, as that I mentioned upfront that the Board approved the dividend for the 17th straight year. The third priority is deleveraging, and you see us doing that very actively right now. And we said once we get down to our stated leverage target of 1.75 to 2x net debt to adjusted EBITDA, that's the target we've been focused on.

And then once we satisfy those 3 priorities, then we would consider share buybacks, and that's how we're executing against that. And you see us making progress. Our dividend payout ratio continues to come down.

David William Barden - BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst

Within that envelope, once you get to that point, another element on the table is always M&A. Acquisitions, obviously, US Cellular has kind of put itself up for grabs. Appetite at Verizon to look at those assets for one reason or another?

Anthony T. Skiadas - Verizon Communications Inc. - Executive VP & CFO

Yes, we saw the same news you did on US Cellular, and it wouldn't be appropriate for us to comment on it one way or the other.

David William Barden - BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst

Oh, you could go ahead with just a little bit of comment.

Anthony T. Skiadas - Verizon Communications Inc. - Executive VP & CFO

We don't comment on it. That's that. Thank you.

David William Barden - BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst

All right. So as we kind of wrap it up. So Sampath, overall, optimism among the new team, that you're kind of on the right track to get where you want to go, and that the industry is in a place where everyone can win enough, that disruptive behavior and bad behavior is probably not the base case. Convince us that we can feel okay about the wireless industry.

Sowmyanarayan Sampath - Chief Executive Officer, Consumer Group

Everything is converging towards what you just said. Let me start with the first is our C-band build. We are towards the part of our C-band build with very strong operating metrics from customer experience. We feel more comfortable about what all we've spent than we did when we actually started the project, which is always helpful. So I think that's the C-band build is exactly as planned, the customer experience is a good thing.

The second is all the transformation work we've done over the last, I would say, 100-odd days. The new market structures, like new value proposition, new promotions that are differentiated, and continue to see momentum in our business.

The third is our strong ability to drive ARPA operation. We saw 6% ARPA growth, different levers on price, a passive price increase, active price increase, earning the right to raise prices and seeing very little impact of churn is fine.

The fourth piece is our fixed wireless momentum. At 400,000 run rate between me and Kyle, it makes for a very healthy growth business.

So when you put all of this together, plus some of the things that on cash and capital that Tony spoke about, it's a healthy business, it's a great neighborhood, and one in which I want to build my house on.

David William Barden - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

I think that's a great place to leave it. Thank you so much for joining us today. I really appreciate you guys. I hope you guys have a great conference.

Next up in this room will be Interpublic, and then we will have T-Mobile in about an hour. So thank you, guys.

Anthony T. Skiadas - *Verizon Communications Inc. - Executive VP & CFO*

Thank you.

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