

REFINITIV STREETEVENTS

# EDITED TRANSCRIPT

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

EVENT DATE/TIME: NOVEMBER 15, 2023 / 7:05AM GMT

## OVERVIEW:

Company Summary

## CORPORATE PARTICIPANTS

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

## CONFERENCE CALL PARTICIPANTS

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

## PRESENTATION

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

And let me join Emmet in welcoming you all to Barcelona. It's great to have you here, and there's plenty of coffee outside for those coming from the U.S. It will, yes, make us through the day.

It's my great pleasure to welcome to Barcelona Tony Skiadas. Tony, congratulations on recently being named the CFO of Verizon.

---

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

Thank you.

---

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

We're delighted to have you here. I know you have some safe harbor comments just to get out of the way.

---

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

Sure. So just some quick housekeeping. So I just want to draw your attention to Verizon's safe harbor statement and SEC filings, which are located on Verizon's website, and we may make future comments that are subject to risks and uncertainties.

So with that, we can get going.

---

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

Great. Thank you. And for Morgan Stanley disclosures, please see the Morgan Stanley research website, backlash disclosures.

## QUESTIONS AND ANSWERS

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

So Tony, it's been a busy year at Verizon. You've had a lot of management changes in the springtime. So perhaps for those who haven't been following this closely, could you just talk us through the reshuffle that happened in the spring? And where are we today? And what are the kind of the early signposts or results from that?

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

Sure. So back in March, Hans made a bunch of changes. He was running the Consumer business at the time and he decided to bring Sampath into the Consumer role. He was running our Verizon Business Group previously. And behind him, he picked Kyle Malady, who has been running the network for many years, in our Business team. And then Joe Russo came behind him to run the network. And then I came behind Matt Ellis as the CFO back in May. So I've been in the role about 6 months now.

And the focus of the team is very much aligned around growing service revenue, wireless service revenue, EBITDA and free cash flow growth. And within that framework, driving growth in mobility, broadband and private networks.

And I think you've seen the progress so far, particularly on the mobility side with Sampath driving improvements in the Consumer business and a lot of the changes he's made in recent months.

And then Kyle's had a very steady performance in our Verizon Business Group on mobility.

On broadband, we said we're comfortable with the 400,000-plus pace on broadband net adds. So that's continuing on. And we have great momentum there, particularly on fixed wireless access.

And then on private networks. We have early leadership there and we've signed some big logos and see further opportunity down the road.

And then in terms of my priorities for the team, clearly, supporting the leadership team and making sure we're narrowing the focus on operational performance and execution, that's extremely important to us and you see that come through in our results the last couple of quarters.

Secondly, executing and delivering on the guidance that we gave out this year and we're on track with our guidance for 2023, including raising our free cash flow guide in the third quarter for the full year of 2023.

And then, lastly, executing on our capital allocation priorities and those 4 priorities remain unchanged.

So good progress thus far, I'm very encouraged by what I see. Obviously, we have more work to do.

---

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

Great. That's a great summary. Maybe I come back to one of the things you were saying that you were talking about Sampath came into the Consumer organization having run Business, and he made a number of changes. It seems like there was a lot of kind of decentralization driving accountability. Can you help us lift up the cover there a little bit?

---

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

Sure. So when Sampath came in, one of the things he wanted to do was go back to a regional model. We were running the Consumer business centrally and we thought the best way -- he thought the best way to do it was running it in a regional model.

So we moved to a regional model back in the middle of the year, and that's a model that is a lot closer to the customer. It's something we know how to execute. We ran Verizon Wireless that way for many, many years and we're very successful. So it's a model that gets us a lot closer to the customer. It gives us local execution as well.

Some of the other changes he made most recently are around the sales compensation as well and moving the sales compensation to individualized sales comp. We previously had a team concept. So that was extremely important to incentivize the sales team the right way and ensuring that we pay for sales performance there. So those were 2 big changes.

And the other big one in the middle of all that was the introduction of myPlan, which is a big pricing go-to-market refresh for us. And it's a great plan. It gives customers a lot of flexibility to choose their network and their perks and that was a big deal for us, and that was launched in May as well. So a lot of great changes and good momentum thus far.

---

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

Great. And maybe for those who are less familiar, if you could just explain the myPlan concept, how it differed from the Mix & Match that you had before?

---

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

Sure, sure. So myPlan allows you to choose your network options, and there's 3 different network options there. So it gives the customer a lot of flexibility to choose the network and the level of service they want out of the network. And then also gives the customer options to choose their perks as well. So perks could be Walmart, Netflix and hotspots and things like that, that -- or Disney+ that give customers great value and choice and at attractive rates that they can't get elsewhere. So -- and it gives customers a lot of flexibility to choose the network they want and the perks that they want and pay for what they want. So it's very flexible.

It also gave us flexibility as well as we've evolved the platform. We added a third tier, the Ultimate Unlimited tier as well, and we were able to do that very quickly.

So the plan is very, very flexible. We can swap perks in and out very easily. So there's a lot of flexibility in the plan and consumers get a lot of choice, which is extremely important for us.

---

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

And there's a new perk, which has just come out, I guess, \$10 for Netflix plus Max. And the question I've been getting is what -- does Verizon get a margin out of that? How do you think about pricing these?

---

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

Sure. So the perks are \$10 each and we do make margin on them. So great value for customers. Obviously, you can't get a perk like that or any other perk for the rates that stand-alone in the marketplace, but we do make margin on those perks.

---

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

Great. So you talked about the changes that Sampath made, a lot of momentum you were noting. But presumably, it's going to take some time for this flywheel to get them through, to get to that sort of sustained positive consumer net adds. Can you just talk us through how you're thinking about that?

---

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

Sure. So with the regional structure, clearly, it enhances our decision-making and speed to market and we're able to make decisions a lot quicker and pivot if we need to. The goal with Consumer has continued to be -- to show improvements in the profile. I think you've seen in the last couple of quarters we've shown improvements both in the second quarter and in the third quarter.

On volumes, for the fourth quarter, we said we would see improvements year-over-year. Last year, we did 41,000 postpaid phone net adds in the fourth quarter last year. We said we would see improvements this year, year-over-year. So you can do the math there.

But we're not going to specifically guide on 2024 volumes, but rest assured, Sampath's goal is to get to flat and to get to positive. So he's got good momentum.

Our offers coming out of the third quarter are resonating in the market. We had good gross add momentum coming out of the third quarter, that's continued into the early part of the fourth quarter. We'll see where that goes. Obviously, we have the holiday season in front of us. And as you know, a lot of the volumes come towards the last 4 or 5 weeks here in the quarter. So we'll see where we end up, but we like the momentum we have at this point.

---

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

Is it more of a gross add kind of -- are you solving for gross adds, solving for churn or a bit of both?

---

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

A bit of both. So we have good gross add momentum. We were positive gross adds coming out of the third quarter. But Sampath is also very focused -- laser-focused on keeping churn in check as well.

---

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

And can you characterize the competitive environment and the switching environment right now? We're always seeing these big headline promos around the iPhone launch around Black Friday. But how does this compare to prior years?

---

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

I think from our standpoint, we said we're going to be very disciplined in the marketplace and I think you've seen that, the level of promotions that we've done has been pretty stable. In fact, the promo amortization that hits against revenue has flattened out throughout the year, which is a good sign for us. And like I said, we've been very disciplined. And we see others doing things, but -- we think volumes are very important, but we're going to do it in a very disciplined way and we're not going to chase it.

---

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

Okay. That makes sense. So you touched on it earlier, but one of the things that was nice to see was the increase in the free cash guidance?

---

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

Yes.

---

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

And Emmet referenced the falling CapEx. So can you just talk about what was driving your confidence in raising the guidance? And historically, Verizon hasn't necessarily been focused on sharing a free cash flow target with us. So you seem to have a lot of confidence.

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

That was -- yes, that was the first and that was one of the resistors in the past. But yes, we had a good couple of quarters and we had a strong third quarter on free cash flow, given the performance of the business. Obviously, a lower upgrade rate that we saw over the last few quarters. The upgrades were down in the Consumer business in the high 30% range in the second quarter and the high 20s in the third quarter. We continue to see that in the fourth quarter. So obviously, that's a tailwind for cash flow.

But given the discipline also that we've had in the marketplace with promotions and retention and the operations of the business, we had strong EBITDA in the third quarter as well, we felt very comfortable raising the guide. And we were comfortable raising the guide despite having higher interest costs coming through as well as our CapEx we mentioned that we'd be at the upper end of the range. So despite all of that, we were comfortable raising the guide by \$1 billion to \$18 billion-plus for 2023.

---

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

And I think you said you have some price tailwinds coming into the fourth quarter?

---

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

Yes. So we've made a number of pricing changes throughout the year, whether it was the legacy Unlimited plans, the Mix & Match cohorts or the insurance program or even the bundled on fixed wireless access. The most recent one was the legacy Mix & Match that we did in September and that will provide a tailwind. All these will provide a tailwind heading into the fourth quarter and into next year. And the legacy Mix & Match that we did in September provided about \$100 million of incremental revenue in the fourth quarter and then a tailwind into next year as well.

So we feel good about the shape of service revenue heading into next year.

---

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

Do you think the industry has got to a new normal here where there is some ability to pass price along that, I think, 18 months ago there was a concern about sort of stirring up the hornet's nest or something that churn might be a spike, but it seems like the industry is a little bit -- and maybe the consumer is a little bit more accepting?

---

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

Yes. We've done a lot of pricing changes in the last 2 years. So in 2022, we did about \$2 billion worth of price changes; in 2023, about \$1 billion worth. And we've been able this year to keep the churn very much in check. And some of that's to do with also the myPlan construct as well and customers -- that resonating with customers and the offers in the marketplace.

So yes, I think, we've had good traction there. We'll look at opportunities next year. Obviously, I'm not going to tell everyone what we're going to do, but if there's opportunities to take further actions, you'll see us do that.

---

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

Great. You talked about the low upgrade rate and we've seen that across the industry. What do you think is going on here? I think 70%-ish of your base now has a 5G phone. These phones aren't cheap, and maybe if they're paid off, if you just keep them for a little while. But is this something that you expect to be sustained? And what do you think is driving it?

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

Yes. So a couple of things, Simon. I would say customers are hanging on to their phones longer, that's something we're seeing 3, 4 years. And the refresh cycle has elongated just by customer choice. So that's maybe the first thing that we're seeing.

The second thing we're seeing is we have 36-month device payment plans now in the market. So customers will wait until the 36 months and maybe then some before they decide to upgrade and then their bill drops at the end of the 36 months as well. So -- and then there's the handset side of it, too, and the innovation around that. So there's a few factors there that we see.

We've seen lower upgrades throughout the year, both second quarter, third quarter and even into the fourth quarter year-over-year. We'll see where we go next year, but it's definitely come down quite a bit from where we were.

---

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

Yes. And that comes despite the industry growing at another healthy clip in 2023. Any sense of how sustainable this is? And why is it remaining so strong when a lot of -- there was a lot of concern that we were going to be much lower this year, a couple of million below where we are?

---

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

Yes. We've seen good growth across the space, and our goal is to continue to punch our own weight and I think we haven't been doing that the last couple of years. We're doing more of that now. And with the changes we've made, we feel like we can continue to compete and get volumes at the right rate and be very disciplined about growing volumes.

---

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

And are you seeing anything in how many people taking multiple devices or different age cohorts, anything changed there?

---

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

Nothing significant, Simon. I mean, I think we see the same family plans and things like that, but nothing significantly that we're seeing.

---

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

Great. Anything you're picking up on the macro front? Any change in consumer payment patterns or enterprise demand?

---

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

Yes. The payment patterns have been very stable across both Business and Consumer, and I would say the payment patterns are very much in line with pre-pandemic levels. Our accounts receivable agings continue to be strong. As you know, we have a high-quality customer base and you see that in some of our ABS filings. So those been very resilient.

Certainly, we're not immune to any of the business pressures, tech pressures, et cetera, with layoffs and things so we're not immune to any of that. But we're -- what we see right now is a very stable environment and we'll continue to keep an eye on it, but nothing significant at this point.

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

Great. I'd like to come on to fixed wireless, if I could, and perhaps just tie that into your spectrum position. So update us on the rollout of mid-band 5G?

---

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

Sure. So we got the remaining spectrum recently. So we have the full complement of spectrum now. Our C-Band is rolled out to about half -- a little more than half of our cell sites, so we still have a bit of work to do. So just because we have all the spectrum doesn't mean the network is completely finished. So we still have a couple of years of build to go. We're very pleased with the progress thus far.

The customer experience on C-Band has been great as well as the churn benefits we've seen as well. So we're very pleased with the progress thus far on the build, but we still have more to do.

---

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

And your average depth is 160 megahertz, which is one of the biggest globally, I would...

---

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

Yes. 161. Yes. So we're putting a lot of capacity to use right now. And the bandwidth is tremendous and that's both for mobility and for fixed wireless access. We see great -- we've had great momentum with fixed wireless access. We did 384,000 fixed wireless access net adds in the third quarter.

We have over 2.7 million now subs in our base. And we said that we would see about 4 million to 5 million by 2025. If you do the math, we're probably a little in front of that. We're not ready to give a new target yet, but...

---

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

A great place to do it.

---

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

Yes, we're not going to guide on '24 right now. So -- but we're very pleased with the progress. And our engineering team is way out in front of the demand. So our internal targets are obviously much higher. But we're very pleased with the progress thus far. And we see -- the goal here is to build a long-term sustainable business with fixed wireless access.

---

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

And why do you think it's resonated so much because I think you and T-Mo will talk about Net Promoter Scores that are some of the best of any product pretty competitive with fiber. What is it that people love so much about it?

---

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

It's very simple. You plug it in and go. There is no install. So it's simply plug it in, connect to the network and you have it in the house. So it's very simple. It resonates with customers, and it's very simple to use. And that's been the goal with this, is making sure that the customer experience is very easy for them. And customers love it. And we have great NPS scores from what we've seen thus far. And like I said earlier, the churn rates are really good as well.

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

And it's fast enough, it seems like. It's -- not everybody needs that gigabit circuit.

---

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

It's fast enough and customers -- it works for customers to stream multiple devices and gaming and whatnot. There's plenty of bandwidth there for a multi-device use in the home.

---

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

So your, I think, footprint target had been about 50 million households. Is that still the right number to think about? And where are we today?

---

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

Yes. So we continue to build out the network and we're a little over 40 million right now. We'll continue to drive towards that number. Obviously, we talked about the POPs covered, which was goal was [250 million plus] (corrected by company after the call) and we're well ahead of schedule there as well. We'll see where we end up ultimately, but the goal is to have the vast majority of the network covered with C-Band.

---

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

And the big kind of pushback, particularly from your good friends on the cable side is that you're going to face congestion as you have hundreds of gigs per month on these fixed wireless users. Any kind of answer to that?

---

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

Sure. So there are a lot of ways to design a network. We have the best network engineering team in the business and they know how to design networks. And we ensure that when we roll this out, the quality is there for the customer. The experience they expect, they get from us. So -- and as I said earlier, the network team is way out in front of the demand curve here in terms of what we see -- in terms of growth.

And if we have more demand for fixed wireless access, that's a good problem. And we have plenty of ways to take pressure off the network, whether it's cell splitting or using millimeter wave, but there's options for us there. And that would be a good problem to have if that happens. And the team is building where we see demand.

---

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

I think one of the surprises, certainly for us, but perhaps for you as well, was how well it's played in the business.

---

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

Yes.

---

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

And not just SMB, but also in enterprise. Can you just expand on that? I think it's about 35% of your adds or...

---

---

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

Yes, yes. I mean Kyle and the team were doing a steady 100,000, 135,000 fixed wireless adds and those are both on LTE and 5G. And customers -- it resonates with customers. It's very simple for businesses as well. You don't have to run wires.

So customers like the product. They like the security and the reliability of the Verizon network, and that's something that's very important for Business customers. And that's both on LTE, which has been very good and also on C-Band. And even if it's for backup, it's still -- it's low usage, high margin.

So customers -- the Business customers, it definitely resonates with them and it keeps things very simple for them as well, no wires.

---

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

And you can give them a nationwide solution.

---

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

Absolutely, absolutely. We're able to do this nationwide for them. Whether you think of branches or stores, we're starting to see adoption there as well as we roll it out.

---

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

One of the topics in Barcelona all -- every year, I think, has been convergence. And it always -- I found it was much more of a feature here than perhaps in the U.S. But it does seem like certainly this wireless plus broadband bundle is pretty powerful.

So perhaps just talk about what you're seeing in terms of selling either with Fios or with fixed wireless, what's that doing to your wireless business?

---

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

Sure. We're not seeing a ton of demand for converged products. Only about 10% of our subscribers have a converged bundle today.

---

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

10% of your wireless?

---

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

10% of our wireless have a converged bundle today. So it's not -- we're not seeing that huge demand that others have seen elsewhere.

We've completed -- our goal is to compete on the strength of our products, and we feel no one gives better options than we do. From our standpoint, we've competed on broadband for a long time with Fios. So we have almost 20 years of history with Fios, so we know what that looks like as well. We have great assets and we have owner's economics with fiber at scale, both for wireless and for broadband.

Service has no limitations. When we say unlimited, it's truly unlimited. And we don't provide free lines or surprises to customers. So -- but when convergence happens, we're ready, we'll be ready to go.

---

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

And you're seeing churn benefits when you do have people in the bundle?

---

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

Yes. The churn benefits are significant. We see about 30 basis points churn and we have a convert -- betterment of churn with a converged bundle. So that's a -- we're very happy with those results.

---

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

Yes. And you'd recently lowered the discount on FWA that you haven't seen much of an impact from that?

---

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

Not at all. We lowered the discount by \$10 back in July, and we had another strong quarter on fixed wireless access. So the demand is still there and we feel very comfortable with the value proposition, and we have -- we've also created a couple of tiers as well for pricing and speed as well. So we're very pleased with the momentum of fixed wireless access even despite the pricing change.

---

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

Great. Maybe you can give us an update on the TracFone integration in the prepaid market. I think it continues to be a drag on subscribers, although I think your messaging is we're hopefully past the worst. But where do we go from here?

---

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

Yes. So the value segment is the right long-term play for us. As we said, we've seen a couple of shifts in the marketplace and things we've had to do there. From an integration standpoint, we still have more work to do on the integration and the brand rationalization.

We've said that we continue to invest in Visible, which is our digital-only brand. So that -- we see good progress there. We're also investing in distribution with our Total by Verizon brand, and we have more work to do in terms of opening doors there. And we've made some progress this year, we have more work to do next year.

We did say that the second quarter was the low point on with subscribers and we're slowly climbing out of that, but it will still be a bit of a drag on revenue for the next couple of quarters here. So we still have work to do on the integration -- in the integration and the brand rationalization.

---

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

And there was a hope that it could serve as a kind of a farm team, if you like, for your postpaid business. So are you starting to see any impact on that side yet?

---

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

Yes. Slowly, but we still have more work to bear in terms of pre-to-post migrations.

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

So the value segment was one. Wholesale was another in monetizing your network. So how's things with the cable companies?

---

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

Yes. So Simon, I know we've talked about this a lot and we have -- we don't talk about our commercial agreements and let alone the commercial agreements we have with the cable companies. As we said previously, we're very happy with the arrangements that we have. It's a very important business for us.

That base of business is consistent with our strategy, as you mentioned, to monetize the network. And that business is accretive, it's growing and it's very profitable for us. But that's about all I can say about the wholesale arrangements.

---

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

Okay. So Fios has been a strong feature of your wireline footprint for, what, 2005, something like that, pushing 20 years now and it looks pretty prescient at this point, although I know I and others were looking for the return with Doreen back in the day.

But where do you go from here? You see some of your peers going out of region. We've got the BEAD program coming up. You've been doing 500,000, 550,000 a year in terms of [hedging that]. But what's -- as the guy with the checkbook here, what are you going to allow the network folks to do?

---

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

Yes. So we're going to continue to do -- as we said, for this year in 2023, we're going to open up about 500,000 open for sale with Fios. And so we'll be at about 18 million total open for sale with Fios. We had another great quarter with 71,000 broadband net adds again with Fios.

So the product continues to be the gold standard, and we're very pleased. And as you said, it's 18 years and running. So we're very pleased with the progress there. You're not going to see us do fiber outside of the ILEC footprint. So that's something we've been very clear on. We think where we're deploying is where we can get a return, and we're very comfortable with the work we're doing. And you'll continue to see us do that as well next year.

In terms of funding and things like that, we'll participate, again, within the ILEC footprint where it makes sense and where it makes economic sense to do so. But you're not going to see us going outside the footprint with fiber. So we're very comfortable with the profile that we have with Fios.

---

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

And I'm guessing relative to, say, AT&T or some of the other ILECs, you probably don't have as big a beat kind of opportunity in the Northeast would be my guess.

---

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

Yes, I can't speak for them, but I would tell you that we'll work it inside of our footprint. And again, where it makes sense to do so.

---

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

Right. So business wireline, a lot of legacy product sets there. Can you just get us updated on the top line trends? Are we at any point -- any closer to getting that to sort of bottom and start moving in the right direction?

---

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

Yes. So we're still in the middle innings on the business wireline part of the equation. So as customers continue to transition their services off of legacy products. So still work to do there around the product portfolio. Obviously, we see customers stepping into more mobility and fixed wireless access and private 5G networks. So we hope that trend continues. But we're still seeing declines in the top line of business wireline.

In terms of the work we're doing to improve the margin profile, Kyle and the team just recently signed a deal with HCL to help us with our managed services portfolio. So that will give us some good savings and a good partnership over time on the managed services front.

And then on the deal front, the team continues to deemphasize low-margin deals and we have margin thresholds. And if we don't meet those thresholds, we walk away. And we've been a lot more disciplined with that as well.

But we're still fighting through. The wireless piece still hasn't overtaken yet the wireline side. So we still have work to do there.

---

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

So if we think about 5G use cases more broadly, we've talked about fixed wireless, you're mentioning private networks a couple of times. Are those sort of the biggest ones for Verizon right now that...

---

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

In terms of what we're seeing coming down the pipe, yes. We have good traction and a lot of customers interested. We've signed with the NFL. We've signed with the Cleveland Clinic and BlackRock. So we have the private 5G deals with all of them. And those customers are very satisfied with the services they have with the security, the bandwidth, the reliability of a private 5G network.

It starts out perhaps as a WiFi replacement and then we can add on to it with services like robotics and automation for factories and manufacturing and logistics and the like.

So the early returns are good. We still have -- it's still early days for private 5G, but we do see a growth opportunity there as customers continue to adopt those networks.

---

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

So you're going to see it in complex campuses like hospitals or stadiums or...

---

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

Yes. We do have -- yes, we do -- we use -- we have it in the NFL stadiums right now and the coach-to-coach communications so that we're very happy with that progress. And we would hope to see more.

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

Great. Emmet teed up AI. Can you help us talk about -- I think you've been using AI for a long time, but where do you see the opportunities for telcos and for Verizon?

---

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

Sure. So a few places that we see AI in our business. First, on the Consumer side, particularly in customer care, to continue to support our employees and serving customers and making it a lot easier for them to work with our customers day in and day out. We use AI to put the power in their hands so they don't have to use multiple screens and multiple logins to work with a customer.

If you think about the network, we use AI in the network to continue to optimize and look at billions of data points, to continue to optimize our network and improve our network.

So those are 2 use cases that we're very comfortable with as well as with myPlan. So myPlan, we use AI with myPlan in helping customers choose their network and give them some recommendations upfront.

So early use cases that are very promising, and we're looking at more as well to make us more efficient.

---

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

So we've seen a pretty decent improvement in your productivity in the past year or 2 here. Is that something that you still see plenty of potential going forward? You mentioned the HCL deal.

---

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

Yes. So we have a cost program to take \$2 billion to \$3 billion out by 2025 and we're on track with that program. And we said that approximately \$200 million to \$300 million would fall to EBITDA this year in 2023. And we're very much on track with that program.

As I mentioned earlier, we did the deal with HCL with managed services on the Business side. On the Consumer side, Sampath's done a number of things in customer care, and we're doing a big customer care transformation on the consumer side. And then in our Verizon Global Services team, a lot of work being done with IT platform transformations and the IT stack as well as work we're doing in supply chain and sourcing to get us more efficient.

So a lot of work there, but we're on track with the work that we're doing.

---

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

And what are you seeing on the cost pressure inflation side? Is that -- I mean the CPI came in better yesterday, but have you seen that subside a little bit?

---

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

It has subsided a bit. But obviously, we're not immune to it, but it has subsided a bit and it's not significant in our results.

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

Okay. So let's talk about the CapEx a little bit more. You mentioned the guidance you come down from last year, and you were very clear about this \$10 billion 5G envelope and it sort of played out pretty much as expected. So you still feel comfortable dropping another couple of billion next year?

---

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

Yes. So we said this year for 2023, we were at \$18.25 billion to \$19.25 billion, and we said we'd be at the upper end of the range, so if you want to call that \$19 billion for argument's sake. And then next year, we said our CapEx would be \$17 billion to \$17.5 billion for 2024 and that's an all-in number, and that includes the continued rollout of C-Band. So we continue to see the work continuing on C-Band and that's probably the biggest thing there.

We also, as we mentioned earlier, with Fios, we'll continue to deploy open for sale for Fios. In terms of what might come down inside of that envelope, so LTE spend, as traffic continues to move on to the 5G network, we won't need to spend as much on LTE. So you'll see that come down. As well as One Fiber, so our One Fiber program is coming to a conclusion, so that spend will also come down year-over-year. But as we said, the CapEx is moving back to a BAU level and historical levels of capital intensity for us.

---

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

I think that there's a lot of investors who kind of scarcely believe telcos is going to come down to a new base level and that it's going to stay there. But do you see anything in the horizon? It doesn't seem like there's a lot of spectrum auctions or any other kind of...

---

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

Yes, we're happy with the spectrum position we have. We did a generational investment in C-Band in the last couple of years, so we're very happy. We don't see anything right now on the horizon with Spectrum. But obviously, we still have work to do with our C-Band deployment.

---

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

And you're not ready to build 6G just yet?

---

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

No. Not at all.

---

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

Great. I know you're not going to give us '24 guidance, but perhaps just with the free cash flow, just give us the piece parts. What are the various levers that we should be thinking about?

---

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

Sure. As we said, we're not going to guide on '24. But in terms of qualitative aspects, I would say, on the tailwind side, we said we continue to drive the team towards an improving EBITDA profile. So that's the first thing I would point out.

The second thing I would point out is around we just talked about CapEx, and CapEx getting back down to BAU level of \$17 billion to \$17.5 billion. So that number is out there.

And then also, we continue to strive for improvements in working capital.

And then some of the headwinds that we would face next year on the interest side with the rising rate environment as well as the capitalized interest that ceases now that we have full access to the C-Band spectrum, so that's one aspect.

And then the other is on the tax front. And under current U.S. tax law, the bonus depreciation provisions continue to phase out and will phase out in a more meaningful way next year. So we see a headwind with that. And we'll see how that plays out.

And then, lastly, the one wildcard is the level of upgrades and what that might do. We'll see how that plays out as well.

---

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

Okay. Yes, that makes sense. On the interest, I guess, you've still maintained a fairly significant level of floating rate debt. And I know our economists are forecasting the Fed is going to start cutting rates next year. But so you should benefit from that if, indeed, we do start to see the Fed coming back in?

---

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

Hopefully, yes. Our fixed to floating structure has been in place for a while, we're very comfortable with it. You saw us do a \$2.6 billion debt tender over the summer in August and a good chunk of that, the vast majority, was floating rate debt. So the goal here is to continue to delever and that's probably the best defense against a rising rate environment.

---

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

And I think another thing that maybe isn't appreciated enough is that the tenure of your debt and your peers' debt that you -- over the years you've taken out a lot of long-term debt, so where do we stand on weighted average maturities right now?

---

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

Yes, weighted average maturity is about 14 years. And as we said, we've made good progress on delevering this year. And as we said on the earnings call, we don't see any obstacles to delevering next year. We continue to focus on generating strong cash flow, so we can delever in a meaningful way in 2024.

---

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

Okay. Yes. You won't have the C-Band kind of...

---

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

We don't have the spectrum clearing next year, so that's largely behind us as well as some of the other puts and takes I gave you.

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

So you highlighted the sort of 4 priorities for capital allocation. Perhaps just recap them and...

---

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

Sure. Sure, so our first priority is to invest in the business and you see us doing that with our C-Band investments.

Our second priority is our commitment to the dividend. And back in September, the Board approved a dividend increase for the 17th consecutive year and we're very, very proud of raising the dividend once again.

And then our third capital allocation priority is to continue to have a strong balance sheet. And as I just mentioned, we continue to make good progress on delevering and getting back to our stated goals of 1.75x to 2x leverage.

And once we satisfy those 3 priorities, we said we would consider buybacks when the leverage metric gets down to 2.25x. So we made good progress this year, and we continue to focus on delevering and making meaningful progress next year.

---

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

So we've got to wait a little while for buybacks to kick in?

---

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

We still have work to do.

---

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

Back to free cash yield?

---

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

We continue to generate strong free cash flow, and we continue to pay down debt. That's the goal.

---

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

Great. Well, we're almost out of time here. Perhaps just update us on lead-sheathed cables. It seems like a lot of the test results have come back showing a limited concern. But I would love to get your latest on that.

---

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

Sure. And just for background, I mean, we take -- as we said previously, we take the matter very seriously. We're going to -- we're doing a fact-based and a science-based approach. As you mentioned, between the Environmental Protection Agency, New York State and our own independent testing, all that testing of our sites concluded that the lead levels that were found were below the remediation levels that are required by each of the applicable states.

The other thing I would point out is we've done a review of our network, and that review suggested that we have approximately 280,000 route miles of aerial [copper] (added by company after the call) cable. And of that, about approximately 3% is lead-sheathed cable. So that's a very small percentage of our copper network.

We continue to work very proactively with the EPA and with other regulatory bodies on next steps. And as we said previously, we'll keep everybody updated as we learn more.

---

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

Great. Well, Tony, thanks so much for your time.

---

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

Thank you so much, Simon.

---

**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.