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EDITED TRANSCRIPT

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

EVENT DATE/TIME: MAY 14, 2024 / 1:00PM GMT

OVERVIEW:

Company Summary

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CONFERENCE CALL PARTICIPANTS

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

PRESENTATION

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

Welcome, everybody, and thank you for joining us. Hopefully, my mic has been fixed since the last session. So for those of you that are joining us on the webcast, this is the 11th Annual MoffettNathanson Conference. And I started the last session by pointing out my own gray hair and pointing out that I've been on the stage with somebody for 22 years. You and I have known each other that long. We're part of the BCG mafia of the telecom industry. And so it is delightful to welcome you back not only as a guest, but also as a friend. So thank you for being here.

QUESTIONS AND ANSWERS

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

Sampath, I want to talk about where we were a year ago because that was -- you were brand-new in the role of Consumer at the time. You actually broke news that morning of introducing myPlan. Talk about what you've learned in your role and talk about what you've learned in a year of myPlan.

Sowmyanarayan Sampath - *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

Craig, very good morning to you. I'm so excited to be here today. Before that, let's get the safe harbor statement. You can pick it up at the Verizon IR website, if you want to read it in more detail, okay?

Now that we've got that out of the way, it's been a very positive first year for me. The momentum is good in the business right now. My first order of priority was to stabilize and grow the postpaid business. We made a lot of progress on that. The first piece of progress was just operational execution. We moved to a regional market structure. We did a lot more local marketing. We changed our compensation for our local sales teams, and you can see the production that's created on that.

The second is the launch of myPlan. It's been extremely successful, and it has changed the way customers look and buy our service. The third is look at the momentum that's coming out of our business. In the first quarter, overall industry gross adds on the postpaid phone side was down 3%. We grew 5%. So our capture rate is growing in that space. Same with -- even on the net adds, most others had lower net adds than they had last year. We're the only ones who, I think, 105,000 better than we had last year. So we have good momentum come out of our business.

Lastly is our fixed wireless access business. It's maturing, it's growing in ARPU, churn is coming down. So overall, we've done a really nice job of that. But the work is not finished. I think there are two areas where I need to spend more time on, and you're going to continue to see progress on that.

The first one is our prepaid value business. You should expect good year-on-year improvement every single quarter on that. And the second is a better balance between price and quantity. I spoke about that last year. I think we still have more work to do to get to a better balance. And primarily, that means driving more quantity growth over the next couple of quarters.

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

I have to concede, I was a little bit skeptical when I first saw myPlan last year, but it's actually worked really well. What -- talk about the value proposition of myPlan and why you think it resonated so well with customers, whether it was what you saw in market research before you released it or what you've learned since it's been in the market?

Sowmyanarayan Sampath - *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

MyPlan is on plan. And one of the things we saw is we listen to our customers. We put aside all our preconceived notions, folks like us who've been in the industry decades and said, "What do customers really want?" And they've been very clear. They want transparency, they want control and they want flexibility. Exactly those three words come up. So we gave them a plan that has just that. You buy what you want to buy. There are no inclusions in it. There are not things thrown into it. So it's a very clean approach where you buy pick a network and then you pick perks on top of that. So customers have resonated quite well. 1/4 of our base is already on myPlan. By the end of the year, we see that it will double. So a good portion of our base is on myPlan.

Financially, it has worked well for us because our incoming ARPA is much higher than it was a year ago. So even though it has -- the price premium perception is lower because previously, we were at a 40% price premium, now we are at close to 15%, which is sustainable for us from a long-term basis. So we have a lower price premium. Our incoming ARPA is better. We have happier customers, and you see customers migrating on to it. So overall, I think it's worked really well for us.

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

One of the most interesting conversations we had last year was about the overall size and growth rate of the market. And I want to return to that question. It's a question I am always fascinated by. So market growth has been far in excess of population growth. And as you know, I tend to think of it as not just postpaid, but prepaid and postpaid together.

Talk about a year later, where you think we are, what's the sustainable growth rate of the market in units, maybe for including prepaid and then just for the postpaid phone market, which is the way so many other people look at it so that we can just get our sense around what's the pie that everybody is fighting over here?

Sowmyanarayan Sampath - *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

Craig, if you take the postpaid business, we think the market is around 7 million phone net adds on the Consumer side and between 1 million and 1.5 million on the Business side. So that's the total on the postpaid.

Let's break that up a bit. Pre to post migration is about 50% of that number. So a good portion of that on the postpaid side is prepaid customers migrating to postpaid. Then you have between 1.5 million to 2 million because of population growth and immigration. Then you have another 1 million, which is new use cases, second number, things like that. Kids getting phones as well as deaths kind of offset each other. So those are the big drivers of that piece. But prepaid to postpaid tends to be the largest driver of postpaid growth. Over a longer-term period, I do see that number settling at between 5 million and 6 million consumer postpaid phone net adds per year (added by company after the call). The pre to post will slow down a little bit, but 5 million to 6 million consumer postpaid phone net adds per year (corrected by company after the call) is where we think is a natural growth.

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

And that's very macro sensitive, I would assume, too, right?

Sowmyanarayan Sampath - *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

Exactly.

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

Pre to post slows down in recessions or reverses in recessions and then you've just been in this long period of expansion since COVID.

Sowmyanarayan Sampath - *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

Yes. Yes. And we've been very careful on how we manage our credit policy. A lot of the prepaid customers who come into postpaid may or may not have the right credit profile that we have in our base. Our average FICO score on a phone base is around 725. So it's a pretty robust number, and we would like to keep it that way.

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

And last quarter, you introduced second line on an individual device that counts as a phone line -- a subscriber. I mean I think there was initially some pushback about are those real and should we count them? I certainly think it's sort of an interesting model. Maybe you can just talk through that, where the demand for that is coming from, what the economics look like and make the case for why, in fact, that's actually a very real part of the market.

Sowmyanarayan Sampath - *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

Okay. It goes back to our Network as a Service strategy where we build the network once and we cap adding more connections to it. It is an eSIM connection, not different from a primary eSIM connection. We tend to get around $13 of ARPU in that base. But what's interesting is there is no handset subsidy or no handset promotion associated with it. So it's a very high margin-rich product for us. Even in the industry, what we call add a line from existing accounts, tends to have ARPU between $0 and $20 in any case. So at $13, it's pretty good business with very little cost of acquisition. So it goes to a long-term strategy.

The second thing is that TAM is reasonably limited in this space. You saw a small single-digit percentage of our gross adds there. I don't know exactly where the TAM tops out, but we think it's a pretty limited TAM. But most importantly, it's a use case that customers want. We are seeing very low churn in that space. and customers really like the use case that it offers.

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

And you and I talked last night about the, for example, the gig economy and why it makes every -- whether it's Uber drivers or what is actually a pretty big segment of the economy makes all the sense in the world.

Sowmyanarayan Sampath - *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

Yes. Gig economy, people who want to keep business and personal separate, people want a separate line to communicate. Like in my family, we have a second line that we use quite often. So I think there are many use cases that make sense. But more importantly, it's good business, high margin, and it goes back to our Network as a Service strategy.

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

So I pay probably more attention to prepaid than a lot of people do, and I've used some choice adjectives about your prepaid business. You're just seeing ACP funding run out, so that makes kind of the prepaid business noisy.

First, I guess, as we think about ACP, I know we're super early days because it's literally running out of money this week, and we got our head fake that maybe we get refunded and now maybe not. Have you learned anything about ACP that's new? And how do we think about the impact that might have on TracFone?

Sowmyanarayan Sampath - *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

For us, our largely ACP impact is on our prepaid business. We have 1.1 million customers who are on ACP today. We have some exposure on the Fios and FWA side. It's very, very small. The vast majority of it is on the prepaid side of the business. What's interesting for us is we have options when and if ACP expires. A majority of our ACP customers today are Lifeline acceptable, in other words, they have qualified for the Lifeline plan. So they will continue that service.

Second, we have a new service, VZ Forward, for $20, you get broadband. So we expect our customers to migrate on to that. There's a whole process for doing that. The third is there could be an opportunity for us to get on the offensive and take some share as there's disruption in the market for some of the other players. I will be careful on credit policy here. I don't think we'll lower our credit policy substantial to pick up that space. But we have the largest collection of prepaid assets today, ranging from the discount to the mid-market, to the premium end of prepaid. So we will have a service at every single price point. So we think it's a good asset to have at this point right now.

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

And I think you said if fixing the postpaid business was job 1, now your attention turns to fixing the prepaid business. Is that fair?

Sowmyanarayan Sampath - *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

Exactly. And starting earlier this year, we started spending a lot of time on the prepaid business. And you should expect year-on-year performance across most metrics in the prepaid business for us. Structurally, there are two important things. One is our national retailer network. We have one of the best relationships with Walmart, which -- where a vast majority of our services are sold. We'll continue to reinvest in that relationship. The second is scaling our own brands, which is Total by Verizon and Visible. Both those brands are doing incredibly well there. So you should expect significantly better performance from us over the next couple of quarters.

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

What was the vision that made you make such a big investment? And part of it is just financial, right? Putting TracFone onto your network made a lot of sense financially. But what was the strategic vision for saying we want to have actually a big part of the prepaid market that wasn't really a focus before? Was it thinking about macroeconomic cycles and saying there's going to be a time when this is really important, even if it may not be at the moment?

Sowmyanarayan Sampath - *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

Historically, we've had a very strong presence in the premium end of the market. Postpaid customers and even that in the premium end, we've had a very strong presence there. Our lower-end presence pre-TracFone was limited to our prepaid brand, Verizon prepaid, which had a reasonably small share position. By going after TracFone, we now have an offering in every single segment of the market, ranging from discount all the way to premium. So we're able to cover the market better.

Second is, like any fixed cost network business, we build the network once and we want to load as many connections on it. The third is in the event there is a recession and customers may move back to prepaid or prepaid gets more strengthened, we'll have an incredibly strong asset play there. So it covers the market, it covers segment and goes back to a Network as a Service strategy.

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

There's a third piece of the story, and that's your wholesale business. Your wholesale contract with Comcast and Charter is virtually pure margin. But it's also contributed significantly to -- and by the way, it accounts for a lot of your service revenue growth and EBITDA growth. But it's also taking a lot of market share, and it's arguably put downward pressure on industry ARPU and pricing. How do you think through the trade-offs of the good versus the bad associated with having a competitor like cable riding on your network?

Sowmyanarayan Sampath - *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

The cable partners are very important strategic partners for us. They are a long-term customer of ours and a very important customer for us. Having said that, we lose less than our fair share of customers to them. So it is net accretive to us, both on margin as well as on revenue to do that.

Part of it is the segment of market they go after is not the segment we primarily serve with our postpaid business. It tends to be slightly watered-down plans, limited cap plans, typically second, third line, a lot of pre-to-postpaid migration. That's not a segment we typically play in with our postpaid business. So it is accretive to us, and we are adding more customers onto our network, which makes most long-term sense. At the end of the day, it's a commercial agreement. And you've seen us have price increases across many of our other customer bases. We expect that from all our partners over time.

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

You talked about them being more down-market. But is there a fear they go upmarket and that threat eventually becomes more direct? And just where is their market share coming from? Because it seems to me that, you're right, historically, it's been more prepaid, but they seem to be aiming more at the premium market or at least a mass market, mid-tier market.

Sowmyanarayan Sampath - *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

Half of the postpaid market growth has been pre to post migration. I expect cable to have a similar share of pre to post migration. Second is, from our customer research, our customers want large uncapped plans on the Ultra Wideband network all the time. They have a slightly different segment, as I said, more watered-down plans, more capped, more limited. So it goes for a different segment of customers that they go for.

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

And their strategy is obviously to try to offload traffic from your network to make their own economics better. Do you worry about that? Do you worry that you won't capture the growth that they get out of their business because they just offload more and more traffic over time?

Sowmyanarayan Sampath - *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

I'll let them answer details on how they do the whole network offloading piece. What I know from running the best wireless network is transitions are tough. For a customer who is in Grand Central Station at 6:00 p.m., I'm going to put you on WiFi. It's a very difficult transition.

Similar, for example, one of them has 23 megahertz of spectrum, of CBRS spectrum in Philadelphia. That's not how we would build a network. We have 294 megahertz of spectrum in the Philly market plus another 1,700 megahertz of millimeter wave. We like deep large swaths of spectrum because our customers want that full uncapped, unlimited version of the network. So it's a very different network philosophy, but it goes back to the segmentation. We are going after a very different segment of the customers.

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

Bottom line on that contract, if you had to do it all over again, would you?

Sowmyanarayan Sampath - *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

Yes.

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

Okay. Clear. So I was going to ask some questions about convergence at the end of our conversation, but T-Mobile's acquisition of the rest of Lumos sort of pushes that issue back to the top of the pile. So talk to me about your view of the criticality of a converged, fixed and mobile offer. Is that something you're going to have to have to compete in the future?

Sowmyanarayan Sampath - *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

Craig, around 15% of our mobility base has broadband with us. We think over a period of time for the market, that number will probably double a little beyond double. But we're never going to see it at the European levels of 50%, 60% convergence because the market structure is fundamentally different and the regulatory environment is very different there.

We have a really good asset base to do exactly that. We have a fixed wireless access where we offer it to 50 million homes. We have our Fios network in the Northeast, which we offer to 17 million. When you two put those two together, we actually have one of the largest broadband footprints in the country today broadly to do that.

And our strategy in broadband and convergence is one of segmentation. We have fixed wireless access that goes after the price value-conscious customers. It's a high NPS product, high customer satisfaction that plays to the price value equation that does very well there. On the other end of the spectrum, we have fiber, which is just high performance and high reliability. So we are literally segmenting the market for both ends. It's going to be very difficult for our competitors to -- they're going to have to choose 1 of the 2 areas to compete. So we have a really strong hand in convergence, and we'll keep growing our footprints, both in FWA as well as in fiber where we add between 400,000 and 500,000 homes every single year.

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

I'm always sort of fascinated by the dynamic of having a different offer because you talked about segmenting the market, but it's a different offer geographically, right? You have 14% of the country where as you described it, it's a premium broadband product. And maybe you can grow that by a few single digits, but it's not going to be 25% of the market. It's certainly not going to be 90% of the market. So how do you think about it geographically? And how you compete differently in 86% of the country versus competing in 14% of the country?

Sowmyanarayan Sampath - *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

It goes back to segmentation. Customers have different needs, and we want to meet those needs. The FWA product does incredibly well. I mean look at the NPS scores on that are in the mid-30s. Churn is coming down. Customers are really happy with the product.

And we continue to put on strong, between 350,000 and 375,000 net adds every single quarter on FWA. So that machine continues really well. And on the fiber, it's just a high-performance product for the most part. So it's a very segmented use of the market, and we'll keep evolving that and serving our customers that way.

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

I'm going to come back to FWA in a second, but I just -- I want to focus on the competitive environment a little bit and then maybe transition into ARPU for your mobility business. So on the one hand, you've pushed through some price increases, which is a clearly positive sign about competition. On the other hand, we've seen lots of sort of at least temporary escalations in the promotionality and giving away free 65-inch TVs and things like that.

How would you characterize the competitive environment at the moment? Is it our imagination that promotional offers are getting more lucrative? Or is it just that there's just constant experimentation with things that are splashy and catchy headlines?

Sowmyanarayan Sampath - *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

The market has always been competitive. It's not new to us. We go back to our playbook of winning, and it starts with being financially disciplined for us. So we are very financially disciplined. And if you see in 2023, our promotional budget was lower than in 2022.

In '24, we think it's kind of at the same level there. So we are very careful where we invest. We are not going to go after growth where it doesn't make financial sense for us. That's our overall construct. Because at the end of the day, it's about service revenue, driving to EBITDA accretion, driving to free cash flow accretion. So we'll always stay within financially disciplined limits.

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

Let's drill down on that for a second. How do you make money? If you're giving away a $1,000 device every 3 years, at least 40 months or something like that, let's call it 3 years for a minute. So let's call it $300 a year subsidy or even more than that, it's about $25 a month or something just for the handset. How do you make money if you're bringing in customers with an ARPU even if it's $50 a month, where half of it goes to the subsidy and in a lot of cases, where it's a second line or a third line and it's virtually all going to the subsidy? So talk about just kind of is there any meat on the bone for making money in a customer lifetime value sense when subsidies are this high?

Sowmyanarayan Sampath - *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

Look, giving a free $1,000 handset for any plan for base and new is not something we do. You're going to have to ask my peers how they make the math work. For us, we link all our promotions to our ARPU and revenue. So the premium plans get the really good promotions, our middle-end plans get somewhere in the middle and our low-end plans get the least. So we have a direct correlation between promotion and the service revenue we bring in there.

The second is, a lot of it is personalization. We are able to focus our promotions where we think we're going to get the max ROI for it because of personalization engines that we've built over time. The third is some of these promotions actually cost us less than the headline value because we have credits that we get from OEMs, there's a trade-in involved in it that has a value in the market as well as a mix of devices. So at the end of the day, we are very financially disciplined, and we link all our promotions to our service revenue, and you should expect that from us.

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

So let's talk about ARPU growth. I know a lot of the industry and you like to talk about ARPA instead. I'm maybe showing my gray hair that I still think in terms of revenue per individual unit. You've taken some price increases. You've raised your insurance prices, that a lot of that flows through for the next -- you're actually starting to see those increases flowing through now. So you grew ARPU by 1.4% in the first quarter by our numbers. But how long did that last? Because I think there's a sense that after this year and you start to lap some of those things, it gets a lot tougher next year. Can you sustainably grow ARPU? Even if it's only 1.5% or so, can you sustain that kind of growth rate?

Sowmyanarayan Sampath - *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

Look, our franchise is really strong. It goes in the back of the #1 network in the country, and customers are willing to pay more to have a better product. a combination of a better product, a disruptive value prop in myPlan and superior customer experience gives us the confidence that customers will be willing to pay more for it.

And we've been very careful in how we manage our price up. If you look at that in the first quarter, we saw only 2 basis points of churn in a pretty large price increase. And it goes back to how we orchestrate some of this. With personalization, we are able to give offers that are targeted at customers. Some customers get an upgrade, some customers are told to migrate to myPlan because it makes sense for them.

So we know how to do this really well for us. I don't know what competitors will do. I don't know what the industry will do. But for us, it goes back to the value we are exhibiting to the customer every single day.

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

So bottom line is, if I think about the unit growth story you described in ARPU, you sound pretty confident that there is service revenue growth in the low single digits going forward.

Sowmyanarayan Sampath - *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

Yes. Because we've gone back to our service revenue is going to come from price and quantity. We think it's an 80-20 mix over a period of time...

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

And growth in wholesale.

Sowmyanarayan Sampath - *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

And growth in wholesale, but 80-20 mix is how we want the price and quantity to work. But there's also something called earned price increase. There's some price increase where we charge more for the same service. And there is some where we sell them more services, like perks, step-ups, taking the next level of plan, taking another feature. And we're getting really good at that, both digitally and in our stores and how to do that. So you're going to see price or fee increase come from both pure price-up, but also earned price-ups that we do. And the mix between both of them is something in the 50-50 range is what we would like to keep it at.

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

So let's go back to fixed wireless that you started talking about. You're now at about 3.5 million subscribers. So pretty far along toward what your original goals were. But it's been interesting that your consumer FWA numbers have actually started to slow a little bit. Business has grown. What's behind that? And should we expect the Consumer side of FWA to reaccelerate?

Sowmyanarayan Sampath - *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

Look, we've always committed to between 350,000 and 375,000 broadband net adds between the Consumer and the B2B side of our business, and we see that continued momentum of that. Look, the first quarter was a seasonally soft quarter for moves. And because we are financially disciplined, we decided not to go after that last 20,000 units of growth because just the market wasn't there for us.

But we had good momentum coming out of March, and we'll continue to see good momentum into the business in the second and third quarter in that pace. At the end of the day, it's a really compelling value prop for us and our customers there. And that, coupled with the Fios business, gets us to 400,000 broadband net adds, which is a really healthy place for us to be.

On the B2B side, we're seeing new business use cases every single day, POTS line conversions, low-bandwidth products. But even branch offices like banks and quick-service restaurants and others are using our FWA product for primary connectivity because it's secure, it's reliable and it's easy to set up. So it's new use cases they are bringing in on the B2B side, coupled with just the high NPS on the Consumer, which gives us good momentum in the business.

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

What's the use case for the Consumer side? Is it -- you described your Fios as kind of a premium offer. And I think you've used the phrase cheap and cheerful for FWA. Is it sort of the individual apartment dweller, not a lot of devices connected to the network and it's quick to set up and that sort of thing? What's the sweet spot of the market for FWA?

Sowmyanarayan Sampath - *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

Look, a vast majority of it is single-family units. It's actually not multi-dwelling unit. It's single-family units. That's a vast majority. And a majority of our customers actually come from cable and other wired solutions. And if you look at the usage on fixed wireless access, it's not that different from our Fios. So it's not like we are going after users who use it less or have lower requirements.

It's very similar requirements, folks who want to stream, folks who want to game, hopefully do a little bit of homework somewhere along the way. So it's a pretty similar use case. What customers like is the convenience. It's the convenience you get a box, you set it up and it's up and running.

And two, it comes at a really economic price point as well for them when we bundle it together with our mobility services as well. Though I'll say that over the last year, our incoming ARPU for consumer fixed wireless access has actually gone up by $12 because we took away the initial discount we had and our premium mix is way better than what we had last year. So it's actually a good business for us, good volume growth, but good ARPU growth as well. So overall, we're building a long-term sustainable business in broadband that's going to be tough for people to match.

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

So the perennial debate around FWA is still a capacity debate. It's about T-Mobile, for example, has acknowledged that you have to be very careful about where you put it in which sectors. You've said that Verizon doesn't really face those kind of capacity constraints. And so maybe a multipart question.

You want to make some news for us here and say after -- because you're getting closer to your 5 million target that you'd originally sort of as a soft target you laid out. How high does that eventually get? And is there a point when you start to deploy facilities specifically to support growth in FWA?

Sowmyanarayan Sampath - *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

Look, we are committed to getting to 4 million to 5 million FWA customers, and then we'll come back and explain how we grow beyond that. But definitely, we've built up more capacity than the 4 million to 5 million we need. And because of some of our assets, we have a really large spectrum bank. We also have a lot of our own transport and fiber, which helps. And we've built enough capacity in our network to support that growth over a period of time. But what we'll say is once we finish our 4 million to 5 million customers, which will be some time this year, we're going to have to come back and explain where we want to grow that business longer term.

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

I want to switch to consumer wireline because you've talked about Fios a couple of times. So you're growing your open-for-sale units by about 0.5 million a year. What are the economics of that?

It's something I've always been -- you and I have both done fiber ROI calculations since we were children, I think. What does that look like today for you? And what do you think is going on in the industry with respect to the ROIC of fiber builds? And how does speed affect that? I've always expected that it's going to do a lot to drive up labor costs.

Sowmyanarayan Sampath - *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

We've -- a lot of folks are discovering fiber right now. We've been in the fiber business for 20-odd years. So we have a really good understanding of how to deploy fiber, the right price points, how do you get the right ROIC profitability. We've started that equation out really well. And one of the interesting things is every new cohort of fiber we build seems to have better 1-year penetration than the cohort before. And part of that is we know how to build faster, we're able to market better to them. So that gives us comfort that we know how to deploy fiber at scale better than almost anyone in the business today.

Second is the way we price. Four years ago, we went into the Mix & Match approach where we unbundled our broadband and our video product. It's worked out really well for us. We have high NPS in the fiber business, really low churn. So it's a good long-term strategic business. And when you throw in a mobility connection with that, churn is really, really low. So it's a good business. We know how to build it in the ILEC footprint. We get -- keep getting better at it. And we keep adding, as you said, between 400,000 and 500,000 OFS every single year. But we will only build where the ROIC makes sense for us. So we've got models that suggest where -- what the right threshold is and where we won't exceed those thresholds.

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

And I think you've said try to do it out of region as a fool's errand.

Sowmyanarayan Sampath - *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

It's very difficult to do it out of region because we don't have some of the facilities we have in region like our central office, poles, conduits as well access to inter-office transport facility. But there may be certain conditions where out of footprint may make sense, but the vast majority is very difficult for us to do.

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

And to my question about BEAD, do you think -- do you see labor cost inflation coming with BEAD? You primarily use your own staff, but are you worried about retention of your installers, for example, and your fiber personnel just because there's going to be so much demand?

Sowmyanarayan Sampath - *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

Our employee base on the wireline side are really long tenure, super experienced employees and V Teamers as we call them, [building that] network. So we worry less about them migrating to other providers. Look, there could be some labor inflation. We haven't seen it because we largely focus on in-footprint, and we have a lot of our own workforce that does most of our work there.

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

Let's talk about the network a little bit. Your value proposition used to be so simple. It was Verizon has the best network and customers pay extra for it, full stop. And because of that, your target customer was really deeply concerned about network superiority, tended to be affluent. There was a certain cachet from -- of carrying Verizon. Is all that still possible and is it still true? Convince us that Verizon still has the best network and that you can communicate it in a way that customers believe it and care.

Sowmyanarayan Sampath - *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

I think if you look at our -- we still think network is the most important in our differentiator. We think -- we know we are the #1 network, and it keeps getting better. With the C-Band deployment we've seen is when we deploy C-Band, we see better churn, 4 basis point lower churn in C-Band markets and non-C-Band markets, with 7% better gross add momentum as well as 10% better premium mix when we have C-Band.

So that further reinforces that network really matters for us. If you look at the top 100 markets, we are #1 network in 97 of the top 100 markets. So we know that we have the best network. And because of our spectrum, our network operations and our fiber assets, it's very difficult to recreate what we've built our network over time.

In terms of price premium, look, we command a 15% price premium today in the market. A lot of that is a combination of network and our unique value prop with myPlan. We see that continuing. And you can see our gross add momentum in the business. Largely, it's on the back of just a better network. So we believe in our thesis that customers will always want better network; two, Verizon is the better network because of the assets we have, but also our core operations; and third is we'll always maintain that lead and keep investing to maintain that lead.

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

What is a better network to you? Because I think historically, especially in the voice days, it was really clear what better network was. It was coverage and dropped calls. Today, I think there are a lot of the third-party testing sites that will say that T-Mobile's network is the fastest and you may still have an advantage in coverage. How does the customer think about it as to what makes a network a better network that -- and again, how do you sort of cut through the noise to be able to communicate, no, ours is actually the best network?

Sowmyanarayan Sampath - *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

Can you hear me now? But if you go back to our -- the better network that we have, a lot of this comes down to better RF design that we have in the network. We also have a better set of assets there. So we're building a significantly better network. And if you look at all the tests we do in the network, it's a much better network. But at the end of the day, it comes down to reliability and coverage.

Those are the 2 most important metrics. When you want to make a call, is the network there? When you want to have a data session, is the network there? So foundationally, reliability and coverage tend to be the most important thing. And every time we talk to customers, they always tell us that. So on those 2 metrics, we are #1, and we'll keep maintaining our lead there.

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

I've always been fascinated by the propagation characteristics of C-Band. Is there -- how confident are you that the coverage of that mid-band layer for 5G will be sufficient with the density you have that there isn't a sort of big network classification requirement coming?

Sowmyanarayan Sampath - *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

Look, C-Band is ripe, it's beachfront property. It's the right mix of capacity and propagation. Those two work inversely to each other as the spectrum changes. C-Band is right in the middle. So it's the best of both worlds there. Look, we will continue to densify the network at our current rate, you'll see that piece. But we feel with the C-Band, together with our low-band spectrum as well as the millimeter wave spectrum, it creates the perfect set of spectrum assets we have for long-term growth in the network.

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

So I want to stay with this for just a second because if I -- you're growing usage per device at something like 35% compound annual growth rate in the mobile network. FWA customers use as much as 50x more and they're growing at about a 25% compound annual growth rate. So simple math says over a decade, you'll do about a 50-fold increase in traffic on your network, which coincidentally is about what you saw over the last decade.

How do you engineer long term for 50-fold increases? And how do you think about -- historically, that was done through a combination of network densification and spectrum plus spectral efficiency gains. The spectral efficiency gains aren't that big anymore. So as I think about 50-fold increases, it just seems to me there's a lot of CapEx required for either investing in densification or spectrum. And if you had to choose between those, which of the two would you say is going to play the bigger role?

Sowmyanarayan Sampath - *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

Craig, over the last 5 years, in our Consumer Connections Report, we published this, our traffic grew 129% over the last 5 years, less than 50x that you suggest there. We see a continued growth in that base. And for us, video has been a large driver of growth in traffic that we've seen over the past.

We've seen some of that slowing down right now. But we see new use cases, AI could be another use case that could just drive a lot more traffic onto the network. But we have long-term build plans for our network. I mean we are planning 2030 right now in terms of network capacity and network planning. It goes back to, number one, do we have the best spectrum position in the market? We do. With a low band, mid-band and 1,700 megahertz of millimeter wave spectrum, we have almost unlimited spectrum.

Two, we keep densifying the network that had capacity. And third is spectral efficiency. I don't think we had done on spectral efficiency new antenna design, new MIMO, new QAM, we'll continue to add more spectral efficiency. So we have all the tools available to us, and we are very confident we can meet that and more in our long-term design of the network.

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

If more spectrum became available, would you be interested?

Sowmyanarayan Sampath - *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

We like the assets we have right now.

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

As we wrap up, when I think about the network that you've built, a lot of it was built with the expectation of private networks and edge compute and a bunch of new monetization opportunities that at least so far haven't arrived. Are you still as confident that they're there? And what are the new monetization opportunities that you think the market doesn't see and appreciate for the network?

Sowmyanarayan Sampath - *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

Look, the first one is we have existence proof on FWA. It's a new use case. We had $450 million of revenue in the first quarter, growing at a really positive rate. So we have a use case in FWA. Second is our premium mix is so much better than it used to be earlier, largely driven by our 5G investments that we have.

In terms of new use cases, private networks. We were doing a couple of private networks a month. We are doing a lot more than that. And because of our spectrum bank, we are able to really have and make a market in that space. On mobile edge compute, I think a lot of that conversation has shifted to edge AI. As you have more AI workloads, a lot more inference that's going to happen, it's going to drive more traffic, you're going to need a lot of low-latency traffic available there. So that could definitely be a use case. We still remain bullish about it. I think the time lines have shifted a little bit. But overall, it's a really strong use case for us.

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

As we wrap up, what are investors missing about Verizon that makes you excited that you think they don't see?

Sowmyanarayan Sampath - *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

Craig, we are a really unique company right now. We have the best assets in the market, best spectrum, best value prop, best network, best distribution backed by the foundation of really strong execution there. You are seeing good performance improvements in us every single quarter as we bring back that muscle we've always had.

Second is we are very financially disciplined. Our foundation comes around service revenue growth translating to EBITDA growth, translating into free cash flow. Lastly is customer connections. It's supremely important to us. Almost everything we do, we do it for our customers, and customers have rewarded us. myPlan, fixed wireless access, Fios are all products at a similar place. And lastly is we offer a product in every segment of the market, whether it's broadband, whether it's fiber, whether it's mobility, whether it's prepaid, it's postpaid, we cover the whole market. So we are in a really unique asset and probably best assets for the industry right now.

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

I can't thank you enough for being here. It's great to see you again. And I wish you great congratulations on your first year. I know there's a lot more good stuff...

Sowmyanarayan Sampath - *Verizon Communications Inc. - Executive VP & CEO of Verizon Consumer Group*

Thank you so much, Craig.

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

Thank you.