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VZ.N - Verizon Communications Inc. at JPMorgan Global Technology, Media and Communications Conference

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OVERVIEW:

Company Summary

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PRESENTATION

Sebastiano Petti - *JPMorgan Chase & Co - Analyst*

Good morning, everyone. I'm Sebastiano Petti, and I cover the telecom, cable, satellite space for JPMorgan. I want to welcome Dan Schulman, CEO of Verizon. Dan, thanks for joining us.

Daniel Schulman - *Verizon Communications Inc - Chief Executive Officer, Director*

Thank you for having me, Sebastiano.

Sebastiano Petti - *JPMorgan Chase & Co - Analyst*

Of course. And I think you have a Safe Harbor to review?

Daniel Schulman - *Verizon Communications Inc - Chief Executive Officer, Director*

Yeah. So I would refer everybody to our Safe Harbor on our website. I'll be talking about things in the future, and so they're always subject to risk and uncertainty.

QUESTIONS AND ANSWERS

Sebastiano Petti - *JPMorgan Chase & Co - Analyst*

Great. Now with that out of the way. So Dan, you're now seven months into your role as Verizon CEO. And in that time, you've driven some meaningful change across the organization. But perhaps the most notable milestones so far has been returning Verizon to postpaid phone subscriber growth in the first quarter for the first time in 13 years.

And so I guess, where are we in the transformation story? What inning are we in? And looking ahead, what are the biggest near-term opportunities and priorities for you and your team?

Daniel Schulman - *Verizon Communications Inc - Chief Executive Officer, Director*

Well, first of all, thanks for having me; I appreciate it. And thanks, everyone, for being here.

I would say we're a bit further ahead than I expected in our transformation. It's a big company. It normally takes a lot of time to turn things around, but the company has responded quite quickly to the transformation efforts that we've had. So I'm pretty pleased with that. I think our turnaround is on track and probably gaining momentum right now.

I have four priorities for the year. The first inside the company was a shift to focusing on customers. Everyone talks about being customer-centric, but we were network-centric and engineering-centric inside Verizon. By the way, having the best network, I think, is massively important. I fully intend for us to continue to have the best network in the industry. But it can't be the only thing that you go to market. It needs to be -- the whole end-to-end customer experience needs to be revised.

And the best way for everyone here to measure our success on whether we are truly becoming customer-centric is our churn rate. If our churn rate is coming down, we're being successful. And if it's not, then we have more work to go and do. And churn is really the one metric that I think unleashes our entire business model. And so to me, that's probably one of the most important metrics to look at.

The second thing that I'm focused on is a shift in our culture. Verizon has a pride culture, but we are bureaucratic. We are hierarchical. We are process-oriented versus outcomes oriented. We love to show our work, but results come later, and that's not acceptable for me. We're risk averse and we move slowly, and all of those things have to change quite dramatically.

And what I say inside the company is if we're going to regain our market leadership, we need to play to win. And that is not a trade marketing statement, that is something that I have deep conviction around, and that is resonating inside the company, and that's why you see things like our net adds improving. You see us being able to execute against our cost initiatives. And that is the third priority for me. Let's make sure we are the most efficient telco in the world.

We are taking out \$5 billion in OpEx. We are well underway in that. I'd be surprised if we don't come in slightly more than that. We're taking out \$4 billion from our capital, from our CapEx, and we are on track on as well. But that is basically a means to an end. So you don't cost cut your way to greatness.

We are taking out costs to do two things. One, to reinvest back in the customer experience, and we're seeing already improvements as a result of that. And the second thing that you do with that is that you go into our fourth initiative, which is return value to shareholders.

And so my view is previously, most people saw us as kind of like a substitute for bond yield because we have a great dividend that we've been increased 20 years in a row. My view is we need to have a step function improvement in both our top line and our bottom-line performance. We need to show consistency in our revenue growth, continual productivity and efficiency in the middle, in our operating expenses, and therefore, drive bottom-line growth and equity growth for our investors.

And for the last five years, our free cash flow growth and our adjusted EPS growth rate have been negative 1%. This year, we guided to free cash flow growth of 7%, at least 7%, and we just raised our adjusted EPS growth to 5% to 6%. And so I think those are the four priorities that we're going to pay a lot of attention to. And they'll probably stay with us for the years to come.

Sebastiano Petti - *JPMorgan Chase & Co - Analyst*

So a lot of topics we'll circle back on during the conversation here. But one of the things I want to bring up, and you've been quite vocal about as well is your belief in AI and on the call recently, I think you drew a deliberate distinction between being an AI-first company and being an AI-native company.

So I guess with a preference for the latter, right? What does that actually take to get there? And I guess, where would you say Verizon is in that journey today?

Daniel Schulman - *Verizon Communications Inc - Chief Executive Officer, Director*

Well, we're moving rapidly towards being AI native, which means that AI is going to redefine every single part of our organization, our organizational structure, our productivity, the way we go to market, the way we defend ourselves from attacks.

AI is not a nice to have, it's existential. We are one of the first 40 companies to work with Anthropic with their Mythos model. And if you've worked with Mythos, you understand that the only way to defend is to defend through your use of AI models. It is no longer enough to have great humans in the loop, great processes. This is a whole different world, and it needs to evolve rapidly in the next 6 to 12 months.

[85% of our domain network issues are on track to eventually be autonomously fixed, that needs to move towards 100%](corrected by company after the call). If there's an element in our network that is not remotely patchable, that needs to come out of our network, and we need to replace it with things that we can automate rapidly and quickly.

When I look at our whole tech stack, we are putting into place a four-level tech stack on AI. The bottom is kind of our intelligence layer, how do we structure and format our data, whether it be or unstructured, that's where LLMs and SLMs come. On top of that is a kind of a development layer where we gin up our models, we gin up our agents. We watch how they run before we release them into the top level of our model, which is our run time or production level, which is where we put AI into our business functions.

And we surround all of that with control panels to look at safety guidelines, observability, identity management so that we have an entire stack. That stack will be mostly done by July and complete by November. That's a very rapid implementation for Verizon. But based on what I'm seeing in the world right now, that's the pace that we need to go at.

And it will have profound implications, it will have profound implications on our cost structure, it will have profound implications on our value proposition, what we can offer to customers. And hopefully, it will enable us to be the most reliable and safe and secure network as well.

Sebastiano Petti - *JPMorgan Chase & Co - Analyst*

Great. So you touched on churn, one of the key drivers behind the year-on-year improvement in your net adds in the first quarter was the churn improvement, churn reduction. And I think you said on the call that you expected that at least half, if not more, of your 2026 net adds would come from the churn improvement.

I guess we touched on a lot of this last night, but help us think about what are the business and process changes that are -- you're enabling today. And then, I guess, thinking about, I think you've thrown out a target of 5 basis points of churn improvement year on year. Is that still maybe the target we should be thinking about for the year?

Daniel Schulman - *Verizon Communications Inc - Chief Executive Officer, Director*

I think churn is a reflection of how our customers think about us, how well we're doing and satisfying their needs vis-a-vis our competitors. And so I think churn is one of the most important metrics that we have. Our churn has been going up over the last two or three years. And it's essential and it will be a reflection of how successful we are in our value proposition to watch the direction of churn.

We have reduced [consumer postpaid phone](added by company after the call) churn in the first quarter by 5 basis points from the [fourth quarter of last year](corrected by company after the call). And I would fully expect us to continue to reduce churn. We are incredibly focused on the drivers of churn. We have an initiative inside the company, which is called Every Customer Has a Name. It means that we treat every customer as an individual. We are massively sophisticated now inside the company in terms of what are the churn drivers and what can we do to satisfy customers and delight them. And I think churn is the best way to improve your business model.

My anticipation is that at least half of our [postpaid phone](added by company after the call) net add improvement, and we've just taken up our net add guidance for postpaid [phone](added by company after the call), will come from churn improvements, maybe more. We're making very good progress on that. We had 95 basis points of [postpaid phone](added by company after the call) churn in our Consumer division in Q4. We had 90 basis points in Q1, and we exited Q1 at [below 85-basis points, an improvement](corrected by company after the call). So we'll see where we come out in Q2, but that is a way of measuring whether or not we are satisfying our customers.

And when you have churn improvement, it means that your cost per gross add also comes down as well. And we have seen our cost per gross add. [Our retention costs in March came down by 35% from the height of Q4](corrected by company after the call). And so I would expect that would continue to be something that investors should focus on. We are clearly focused on it inside the company, and we're making good improvements, too.

Sebastiano Petti - *JPMorgan Chase & Co - Analyst*

And I guess one of the things we've discussed as well is given the dramatic improvement in the first quarter, 340,000 net add improvement in the first quarter on a total phone basis. I guess maybe why -- given the magnitude of that, why shouldn't investors view, I guess, the revised upper half or upper end of the net add guidance? Why is that conservative, given the momentum coming out of the first quarter?

Daniel Schulman - *Verizon Communications Inc - Chief Executive Officer, Director*

Because everything we talk about should be conservative. I feel if we say something, we have an obligation to meet it. And if you look at our adjusted earnings per share, if you look at our free cash flow, over the past five years for both of those metrics, we're negative 1%. For this year on free cash flow, we'll be at least 7% up.

On our adjusted EPS, we just raised our guidance to 5% to 6%, just took our guidance up for our [phone] net adds for postpaid to the upper half of the range. And our [mobility and broadband service](added by company after the call) revenue growth, and this will be a transitional year for revenue growth, and we should talk about that, we'll be between 2% to 3%, and will accelerate through the year.

So I feel like that's good, conservative guidance. It's a step function improvement from where we've been. But I think at the same time, we want to be as sure as we can be. And uncertain environments, things can change, as sure as we can be that that guidance is guidance that is prudent and it's something that investors can count on.

Sebastiano Petti - *JPMorgan Chase & Co - Analyst*

Okay. And I think still awaiting perhaps a value prop refresh. I think you talked about central pillar of the strategy is to redesign, to have an end-to-end redesign of the customer experience based around transparency, simplicity, genuine value delivery.

I guess, the question is, I guess -- I mean, can you bring that to life a little bit for us? I mean what does that actually look like in practice? I guess how do you -- how will customers feel that difference?

Daniel Schulman - *Verizon Communications Inc - Chief Executive Officer, Director*

Yeah. Well, we've been working on our value proposition since the -- well, since weeks before I went into the job because obviously, the way to measure whether or not we are satisfying customers is both the net adds that we had, our churn rate and their customer satisfaction levels.

We hit our highest customer satisfaction levels in our history last quarter for our customer service. Our churn is starting to come down. And that's because we are doing lots of small things right now. Our models are much more sophisticated. We're looking at hundreds of variables now as opposed to two or three. It's why our cost per acquisition is coming down, retention [cost](added by company after the call) is coming down because we're much more segmented, much more thoughtful about what the customers need.

It used to be, for every problem you had, we gave you a free phone. That was expensive. And if you are having a problem with connectivity at home, a free phone does not address that at all. A femtocell may address that. Femtocell is one-third the cost of a free phone, and it

actually addresses your problem as opposed to you have a new phone, and you still have bad service at home. And so we're just going to be much more sophisticated in the way that we think about this.

I think we can be much more fiscally responsible and much more customer obsessed by thinking about things on a micro segmentation basis. We will look at revamping our value proposition, but that value proposition it's not one big thing. It's tons of small things that make a difference. And so the way to measure us is does our churn rate come down and do we still continue to add net adds at an accelerating basis going forward?

Sebastiano Petti - *JPMorgan Chase & Co - Analyst*

And so talking about the -- going back to the efficiency efforts on the CapEx side as well as on the OpEx side. So you've announced the goal to cut \$5 billion of OpEx in 2026, maybe some upside there, but we also reduced pro forma CapEx by \$4 billion. So I guess one of the questions we get is how do investors get comfortable that this level of network spend will still allow Verizon to remain competitive?

Daniel Schulman - *Verizon Communications Inc - Chief Executive Officer, Director*

Well, we're still spending \$16 billion to \$16.5 billion in CapEx. Frankly, whether we need that amount is somewhat debatable in my mind. We have done most of our 5G implementation. We probably have 10% more to go. We're constantly fine-tuning our network. The fact of the matter is we can have what we consider to be the best network and what is measured by external benchmarks, seven of the eight of them, we lead.

I'm going to constantly make sure that we have the best network, that we invest the right way to make sure that that happens. But we've done a lot of the investment that we need. We'll constantly build out. I'm always measuring. And it's a very mathematical equation. How much more capacity do we need? Do we want to build incremental cell sites? Do we want to get more spectrum into our mix? But we have a pretty good view of all of that.

I think I will never compromise on the quality of our network. I want it to be the best in the industry. I'm quite focused on that. I don't feel network is the only thing that you can differentiate yourself on. I want to have the best network. And when I look at the metrics, we do and I'll continue to invest to make sure, \$16.5 billion is a lot of money, but we've done a lot of our investment. I actually think we can probably become more efficient from here, not less efficient and maintain our network lead that we have.

At the same time, I want to invest in other parts of our business. The whole experience to me is crucial from the time that you come into one of our stores, that you're online, that you have customer service from us. It all needs to be the best in the industry. And so we're investing a lot behind that, and I would never underinvest in any part of our business, but I'm making sure that everything we do is as efficient as possible.

Sebastiano Petti - *JPMorgan Chase & Co - Analyst*

I guess, how does that translate to the spectrum side? Is that in an area you believe -- not necessarily you're pulling back on, but an area that you want to make sure from a spectrum perspective, Verizon is well capable?

Daniel Schulman - *Verizon Communications Inc - Chief Executive Officer, Director*

Yeah. I mean, I look at -- I'm very math-oriented, so I look at everything from kind of what does the investment get us? So do we need more spectrum? Can we add more cell sites and densify what is the trade-off? What is the timing for that? And so I look at all these things as a sophisticated math problem, but I'm not going to lose our best network claims and where we need to add additional spectrum, we will.

But I look at everything kind of as a very sophisticated math equation, where are we, where do we want to be competitively, what's the time frame around that because you can either buy spectrum or you can add more densification in your network. They have different time frames and different costs associated with them. But I'm not going to lose best network claims for us. That's essential.

But best network alone is not enough. There needs to be surround around it. The value proposition needs to be right. Every touch point needs to be superior. And we're investing. I mean we did [discuss cutting](added by company after the call) \$5 billion of operating expenses, but I'm investing a lot back into the business to be sure that we have a superior value proposition and that our churn rate continues to come down because we have a superior value proposition.

Sebastiano Petti - *JPMorgan Chase & Co - Analyst*

Sticking with spectrum, you recently announced an agreement in principle to form a joint venture with AT&T and T-Mobile aimed at eliminating wireless dead zones. Given that a definitive agreement has yet to be reached, can you walk us through the strategic rationale? What does this joint venture accomplish that Verizon can achieve on its own? And how do you think about maybe the playing field? What does it mean?

Daniel Schulman - *Verizon Communications Inc - Chief Executive Officer, Director*

Yeah. So we, along with AT&T and T-Mobile, we'll be going into a joint venture to basically eliminate dead zones, partnering with satellite companies. We think that working together that we can create standards as opposed to being three sets of standards for all the different satellite players to work with us.

We'll have a common set of standards. We'll be able to leverage our volumes and create value propositions for consumers, and each of us will create our own unique value proposition. But we'll have a common set of standards that we can use across handsets, across the different satellite players. And we're all eager to provide the best communications to our customers, and we felt doing this together was a way that we could accelerate that and also make it simpler and easier for the industry and our customers.

So we're excited about the JV. We think will eliminate a lot of dead zones. It will create a lot of value for both the satellite companies and for the wireless providers together. And so we are eager to make it happen. And I think it's a big step forward for consumers.

Sebastiano Petti - *JPMorgan Chase & Co - Analyst*

Great. And then sticking with direct to device. How concerned is Verizon about direct to device providers eventually going direct to consumer, whether via a terrestrial network, MVNO agreement? And I guess, what are the -- I guess I want to ask you a follow up, what are the pros and cons of an MVNO for Verizon since you've shut that down recently. But how are you thinking about that threat?

Daniel Schulman - *Verizon Communications Inc - Chief Executive Officer, Director*

Look, I think over the foreseeable future like the, call it, the next 10 years that satellite is a complementary service to the carriers.

If you think about kind of our capacity in urban and suburban, where 100 times to maybe 1,000 times more efficient than satellite could ever be in those areas. There are probably 5 million homes in the US where satellite can be a more efficient alternative. But for us, the physics of satellite versus terrestrial are really kind of night and day difference and so forth, 95% plus of our customers, we see satellite as a complementary service and very, very hard to compete with terrestrial networks.

Sebastiano Petti - *JPMorgan Chase & Co - Analyst*

Okay. And then for a couple of minutes here we have remaining, you talked about perhaps maybe upside to the \$5 billion cost opportunity. But as we think about just Verizon's focus just on efficiencies.

As we look out to 2027 or we look out to down the road here, how meaningful or should we expect a similar magnitude of cost takeout kind of going forward into 2027? And just maybe, what are the efficiency efforts above and beyond, we talked about churn, but at a business level, maybe where do you see the lowest-hanging fruit down the road here?

Daniel Schulman - *Verizon Communications Inc - Chief Executive Officer, Director*

Well, I think my view of the whole model in general is that on revenues. There are five things that are probably going to happen that will start to accelerate our revenues going forward.

First of all, on -- we decided we were not going to take up pricing again. That's going to lap by the third quarter. And so that starts to be a tailwind for us as we go into the back half of the year and next year.

Also, our amortization, promo amortization, which is almost 190 basis points of headwind against us begins to turn as well. And that will start to turn probably maybe as soon as the third quarter of this year.

We also obviously are now putting on quite a number of net adds. Before, we were losing a lot of net adds. Now we say we're going to do at the upper half of our postpaid [phone](added by company after the call) that will be anywhere from 2 times to 3 times. What we did last year also, we have accelerating broadband penetration as well. And so that will continue to go.

And we also have talked about, we have \$1 billion to \$1.5 billion of negative margin programs for us, and we are either going to exit those programs or supplement them in different ways where that drag will not happen.

And finally, we have a huge opportunity right now working with AI providers. So there is maybe once in a lifetime opportunity now as AI continues to move where we can use our infrastructure to support that. We can use our central offices to support that. And so I see a real significant opportunity for us as we look forward on that.

On the cost side, we're just going to continue to take out costs year after year after year. And that's just going to be a continual effort for us. AI is going to redefine the way that we go to market, the way we think about our cost structure. We are already seeing where we've started to put AI into place in our, for instance, in our customer service locations where we've had a 1,280% improvement in customer satisfaction rates, and we're just beginning on that. [We saw this year-over-year improvement in customer SAT scores in March 2026](added by company after the call).

And so I think whether you look at the top line, the middle of our income statement, and then obviously, on our bottom line, I can see room for us to consistently improve year-over-year for the next several years. And at the same time, we obviously have a dividend that has gone up for [20 years](corrected by company after the call). We are now doing a share buyback. I expect close to \$55 billion of return of capital to shareholders over the next three years. And we feel very comfortable with that entire model.

Sebastiano Petti - *JPMorgan Chase & Co - Analyst*

Great. And on the AI infrastructure side, I mean, any KPIs or how meaningful could that be from a top line perspective?

Daniel Schulman - Verizon Communications Inc - Chief Executive Officer, Director

Well, we haven't talked about that specifically. But it's a multi, multibillion-dollar opportunity for us clearly, and possibly more.

Sebastiano Petti - JPMorgan Chase & Co - Analyst

And then before we conclude here, any final message you'd like to share with the investment community that we haven't maybe perhaps covered yet?

Daniel Schulman - Verizon Communications Inc - Chief Executive Officer, Director

I think we have what I think is a conservative plan in place. We know what we need to execute against. I'm really pleased with what the team has done. But we have a lot more to do, a lot more to prove, and you can be sure we're very focused on it.

Sebastiano Petti - JPMorgan Chase & Co - Analyst

Great. Well, Dan, thanks for joining us today, and thank you, everyone.

Daniel Schulman - Verizon Communications Inc - Chief Executive Officer, Director

Thank you, everyone.

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