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VZ.N - Verizon Communications Inc. at Moffettnathanson Media, Internet & Communications Conference

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OVERVIEW:

Company Summary

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PRESENTATION

Craig Moffett - *Moffettnathanson LLC - Analyst*

Hello, everybody, and welcome to MoffettNathanson's 13th Annual Media and Communications Conference. And for those of you on the web, welcome. I am really delighted this morning to kick off this year's conference with Dan Schulman, CEO of Verizon.

Dan and I go way back. We first crossed paths back at -- when he was at AT&T in the 1990s. He brings a remarkable resume to the CEO position at Verizon, serving as not just a business leader at AT&T, but also at Priceline, American Express, Virgin Mobile USA, and PayPal. And you took over as CEO in October of last year. So that's a good place to start, Dan.

QUESTIONS AND ANSWERS

Craig Moffett - *Moffettnathanson LLC - Analyst*

You've now been in the CEO chair for a little more than six months. Granted, you already knew the company well from your time on the board, but what have you learned in the first six months as CEO that you didn't know before you started? And what surprised you the most?

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

Well, first of all, thank you for having me, Craig. We do go way back and it's a pleasure. I always learn a lot from reading all of your reports, and they're always thoughtful and analytical and I appreciate them.

Craig Moffett - *Moffettnathanson LLC - Analyst*

I appreciate you saying that.

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

I don't think there were any huge surprises when I made the shift from Lead Director to CEO. It was evident we needed to make changes. Obviously, we have been losing market share for five years. We have gone from number one in market cap to last in market cap. Our forward P/E was the lowest in the industry, which was a reflection of how well you felt about our future growth prospects. And so we clearly needed to make a change.

And I had a lot of ideas about that coming in. I mean, obviously, any time you come into an organization, you find pockets of things that are better than you thought and pockets of things that were worse than you thought. But in general, it was as advertised.

Craig Moffett - *Moffettnathanson LLC - Analyst*

So what's the top priority item for 2026? And how do you judge the progress that you've made so far with the turnaround? Because you laid out some pretty clear and tough language about the turnaround that needed to happen.

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

Yeah. I've got four priorities coming into the year. The first is what I would just call a focus shift where we're shifting the organization from being sort of engineering network centric to being customer-centric, where everything we do is about putting the customer front and center. It is figuring out that end-to-end customer experience, how we delight customers, adjust their pain points, and do it in a way that no one else can do that. And that's no small task.

But the way to measure our success on that, by the way, would be to look at our churn rate. So if churn is coming down constantly, that means we're doing a good job at delighting our customers. And then from there, I would look at net adds. So that's how I'd look at how are we doing on that shift.

Second thing is a culture shift. When I got there, I feel like the organization was more prey than predator. And we were not playing to win. We were, as somebody put it, gently ceding market share to the other two carriers, and that just doesn't work for me.

The culture, I mean, there are good parts of the culture of Verizon, a lot of pride in what we do, but way too bureaucratic, way too risk averse, scared to make mistakes. Therefore, we move slow. We love to show our work as opposed to show outcome like process versus outcomes oriented.

When I came in, I read this article, like how is Dan going to get along inside Verizon when it's a company that files paperwork to do paperwork. And so busting through that cultural shift is a very important element for us, and I'm quite pleased with the progress there.

The third focus is I want to be the most efficient telco in the world. And that means we committed to $5 billion of OpEx cuts. That's the smallest number that I want to see, like we are well along.

Craig Moffett - *Moffettnathanson LLC - Analyst*

What's the yardstick for most efficient? Is it revenue per employee? Or is it just -- so net margin?

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

Yeah, on cost structure. Yeah, we cut out $4 billion from our CapEx, and I feel really, really comfortable with that number. But basically, being the most efficient telco is a means to an end. It is not about cost cutting. It's about investing back into the customer experience. It is about amassing a war chest for us to be able to respond to what is happening in the market.

And then obviously, it is about shareholder return, and that is the fourth focus area that I have, which is how do we drive shareholder returns. And there are a couple of ways that we do that, obviously. We're known for our dividend. That is an ironclad commitment that I have. It's almost a 6% return.

But I don't want to be known for like a bond return. That's not who we are as a company. This is about driving equity performance. This is about driving sustainable top line performance. I'm sure we'll talk about that. It is about being incredibly efficient and productive in the middle and therefore, driving adjusted EPS growth.

And if you look at kind of our adjusted EPS growth (corrected by company after the call) and our free cash flow growth for the last five years, our average for both of those metrics has been negative 1%. For this year, it's a step function improvement. Our adjusted EPS (corrected by company after the call), we just improved our guidance on that. For adjusted EPS, it's 5% to 6%. Our free cash flow at least 7%. We put into place buybacks, $25 billion over the next three years. In the first quarter alone, we returned $5.4 billion to shareholders (corrected by company after the call).

So those four things are the things that I'm focused on for this year, quite frankly, probably over the next several years.

Craig Moffett - *Moffettnathanson LLC - Analyst*

So there's a lot in there that we're going to unpack over the next half hour. I want to start, though, you and I spoke a couple of months ago about the need for competitive differentiation in this business. Can you talk about that a little bit?

And you mentioned in your remarks a minute ago that the organization was too network focused and not customer focused enough. Is network superiority though still in available position in this industry? And given how important it has been for Verizon historically, is that still important for you in your brand positioning?

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

Yes. Is that five questions, I think it was. Look, objectively speaking, Verizon still has the best network in the industry. If you look at most measures, like seven out of eight, we have the best network. Having network superiority is incredibly important to me. I want to compete on that. But that isn't the only thing.

What I tell the team is network superiority, network excellence is foundational, but it's not enough. I want to do more than that. And really, it is about the end-to-end customer experience. How are we defining that? How are we supporting that? Is there a friction in that process or not? And as you well know and everyone does that there was a lot of friction in that process.

The thing about competitive differentiation is -- and this is good and bad, that's exactly what I tell my team. There is no silver bullet. So if there was, that would be great, it'd be easy to go do. I would have done it already. And by the way, all my competitors would have done it as well if there's a silver bullet.

The thing about creating competitive differentiation is it is some cumulative total of hundreds of things that you have to do extraordinarily well. And I have the team focused on every single one of those metrics every single week, I expect to see every single month, every single quarter. I expect to see us improving on those. I have a mantra inside the company that everyday matters. I want to see what we did better today than we did yesterday.

And I know that's a bunch of intensity that I have inside the organization right now, but that is what we are driving right now. If we want to reclaim our market leadership across all elements, we need to be intense inside the company. We need to play to win.

We need to do all the small things extremely well because if we do that -- and by the way, just one proof point is last quarter, our customer satisfaction scores when people call into our customer care centers were at a record high. And to me, that's outstanding progress in that. And so to me, differentiation is not one thing. It's not a big bang. It is hundreds of things that you need to do extraordinarily well. That's why it's hard. But if you can do that, you have a lasting differential value.

Craig Moffett - *Moffettnathanson LLC - Analyst*

One of the basis of differentiation that I think the industry has been increasingly embracing, and it's one of the things I really want to pull out of this conference through all the discussions that I'm going to have with leaders over the next few days is the topic of convergence.

Now that you have closed the Frontier deal, is it fair to say that, that convergence is the cornerstone or at least a cornerstone of your go-to-market strategy?

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

I think it would be fair to say that convergence is a part of our growth story, but clearly not to say that it is the growth story for us. Convergence is really important. I mean we have a nationwide broadband offering in fixed wireless access. It's got extremely high NPS scores, higher than cable companies, for instance, the FWA. We have tons of capacity in our network to drive that. And we also have a large and growing fiber footprint; we'll be well over 32 million homes passed by the end of this year.

And with convergence, you get a number of things. First of all, only 20% of our wireless postpaid phone (corrected by company after the call) base has a broadband offering. So a lot of opportunity for penetration there. When somebody does have broadband, by the way, our connection rate of wireless is also industry leading. It's over 55% and take our wireless service as well.

Our churn in general is quite substantially less, about 30% less when somebody takes a converged offer, and that's across both fiber and FWA. And when our ARPA goes up. Some people say, convergence is another word for discounting. That is like --

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Craig Moffett - *Moffettnathanson LLC - Analyst*

I think it's me who said that.

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

Yeah. Well, I didn't want to say anything. (laughter) I was giving you a chance not to say that.

It's just not true. I mean it actually adds lifetime value. It adds to ARPA. You can charge like depending on what the speed is, you can upcharge for that. And so to me, convergence is a really nice cornerstone for growth. We have some really great assets that we can leverage.

But one of the things that we don't spend a lot of time talking about because you haven't seen it yet, and it probably isn't in your model, and I'm sure it's not in anybody's model right now, is we also have a gigantic opportunity in AI infrastructure. We are sitting on some amazing assets, whether they be dark fiber routes, lit fiber routes. We have hundreds if not thousands central offices that are data centers that we've decommissioned but have power, have permitting, are at the edge and for applications like remote surgery, autonomous driving, et cetera.

Craig Moffett - *Moffettnathanson LLC - Analyst*

So that's our -- this generation's version of mobile edge computing.

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

Exactly, and they're in huge demand. And so to me, you've got a massive incremental leg of revenue growth for us that will start to become apparent as we announce deals going forward. That is another leg of growth.

And then, of course, we'll have volumes that are picking up that will drive growth. And then we've got the fact that we're -- by the third quarter, we will have lapped our price increases. So now instead of having a 180-basis point headwind that turns as we go into the third quarter and promo amortization, which most people probably understand, but we were very promotionally intense last year and the previous years. That's how we were driving net adds, that puts pressure on your revenues because you need to amortize a promotional expense on your revenue line. That's about 200 basis points.

And my anticipation is based on what we're seeing right now and our ability to drive down promotional intensity, that will go from a headwind to a tailwind, maybe as early as third quarter. So a lot of a lot of legs of that stool of growth, and convergence being an important one. But you can emphasize it, but I wouldn't overemphasize it.

Craig Moffett - *Moffettnathanson LLC - Analyst*

I do want to go back to convergence one last time for a second though. You said a second ago that you're getting the 30% churn reduction in both fiber and FWA.

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

Mixed across those.

Craig Moffett - *Moffettnathanson LLC - Analyst*

So is FWA then a sufficient answer for the -- ultimately, I think you get to maybe 30% of the country covered with your target homes passed with fiber. In that other 70%, is FWA a sufficient solution? Or do you need to keep looking for wireline assets to grow the wireline footprint?

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

Yeah. I know that there are some, not necessarily you, but maybe you, who -- think about kind of what I would call like ILEC 2.0 or something like that. But that is not how I think about this at all. Like we have great fiber assets that will grow to 40 million to 50 million over the medium term. I feel very comfortable with that number.

We have an excellent product in FWA that has very high satisfaction rates. We bundle it easily. We have plenty of capacity in the network to continue to push that. We have 6 million customers on it. I think we have guidance out there of 8 million to 9 million by 2028, very comfortable with that. So that's going to be a growing part.

Fiber will be an increasing part of our mix of broadband. There are other things going on with spectrum. We have a lot of millimeter wave. We're thinking about ways how do we utilize that more effectively in a broadband fashion. And there are ways that we're thinking about utilizing that. So I think there's a lot of elements that we have.

But if you take your argument to its logical conclusion, you would say then, okay, AT&T, Verizon, you guys have a lot of fiber asset. T-Mobile has no fiber assets or very few, then they would be at a massive disadvantage.

Craig Moffett - *Moffettnathanson LLC - Analyst*

And you do get to that, what you call the ILEC 2.0, where your kind of fortress Northeast Verizon, fortress South and West for AT&T, and so on. But you don't believe that we're headed in that direction?

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

I don't. I think you're going to have really strong broadband offerings that will be increasingly powerful.

And remember, speed is an interesting concept like on your mobile phone, all of you on like -- it's doubtful that you ever use more than 25 mbps of speed on your mobile phone. Speed is really great for speed tests on your mobile phone, but it's good for very little else on that.

In the home, if you're at a 100 mbps, you're probably way more than satisfied on that. Will some people need a gig, maybe to show off to somebody or something like that, and we can do 7 gig on fiber, but you've got --

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Craig Moffett - *Moffettnathanson LLC - Analyst*

There are no applications for it?

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

No. It's just the speed test. And so do we have a really good solid nationwide broadband offer? Absolutely.

Craig Moffett - *Moffettnathanson LLC - Analyst*

Well, I'm going to come back to that, especially the FWA capacity questions and that sort of thing in a second. But I want to sort of dig into the individual businesses, at least as what I still think of as the individual businesses of wireless and so on.

And start with wireless. Tell us what's behind the turnaround that you've had in postpaid phone net adds because it really has been a remarkable turnaround in the last just two quarters.

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

Well, I think we have a lot of work to still do there, honestly. And I think we have work to do on both the account and line level on that as well.

But look, the first thing is to clearly define what your objectives are, clearly define to the company, like we are going to play to win, like it is not a marketing slogan. This is like, look into to my eyes, I fully mean that we're going to win.

Craig Moffett - *Moffettnathanson LLC - Analyst*

So this is predator, not prey, as you described earlier.

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

Yeah. Like I've been a mixed martial artist for 40 years. I also know the best way to win a fight is to not get into a fight like because any time you get into a fight, you're always going to be hit. But in the fourth quarter, basically, it's like we're getting into the ring, and we're not going to lose. It's as simple as that.

And we spent, and I have a huge war chest to spend, but that's not really my way that I want to compete. Like my way I want to compete is to be segmented financially and fiscally responsible. And I want to close the bottom of my funnel. That's like the best way to win. But in the fourth quarter, we got into the ring. And we said, like, if you're going to hit us, we're going to hit back hard, and we're going to win.

First quarter was very, very different than that. The first quarter was about, how do we think about segments of the market? How do we think about segmented offers into the market? How do we move away from free handset being the answer to everything? How do we stop giving away value from MNOs to OEMs by just giving away free handsets on everything that goes on? How do we lower cost of acquisition? And how do we drive a better customer experience? And because we're not raising prices without value anymore, are we going to get more customer loyalty?

And so in the first quarter, it was predominantly about shutting down the bottom of the funnel. We exited the quarter on the consumer side at 85 bps of postpaid phone churn (corrected by company after the call), which is a really good number. And so my view as we go forward is our cost of acquisition, our cost of retention was down 35% from Q4 levels exiting the quarter.

I see us being able to stay at those lower levels because we're just smarter about how we're talking to customers and offering like N, if N is the best model, N minus 1, which cost half that in an acquisition actually plays to like 80% of the base. They love that offer.

And so we're just -- we're so used to doing things the way we did them as opposed to being massively analytical, very sophisticated modeling, segmentation of not like four segments in the market, but hundreds and thousands and hundreds of thousands of segments. I mean that's the sophistication that we're driving towards. And I feel like we'll continue.

We took up our guidance for postpaid phone net adds (corrected by company after the call). But for me, like that will happen to me. It's now about how do we also drive account growth, how do we drive ARPU growth, how do we do all the things that are right for the business model. Start with churn reduction. Start with your cost of acquisition and your COR.

Start to measure people like not on -- like no more free lines, like I don't really want to measure a free line as a net add. It's low calorie. And so I told the team like that doesn't cut it anymore. No more free lines going forward. ARPA will naturally turn just because you have price -- lapping price increases, lapping promo amortization, volume growth, AI infrastructure growth, that will naturally turn as we go through the year.

And account versus line, now that I'm driving the company towards being obsessed with customers, customers are accounts. And so like both accounts and lines are important. You want to drive account growth, and you want to drive as many lines with that account as you can as long as they're like real lines.

Craig Moffett - *Moffettnathanson LLC - Analyst*

Yeah. How do we reconcile that difference? Because in the first quarter, you added 55,000 postpaid phone net adds. But you dropped 127,000 accounts. So you can't even calculate the number of lines per account in that. But you're obviously adding lines to accounts really quickly if you're shedding accounts and adding lines. What's going on there?

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

Both have to improve. Like our account growth did improve year-over-year, but it was still negative. It will continue to improve going forward, especially as we focus more and more on customer and less and less on lines per se. But I would say that account growth will continue to improve and ARPA absolutely will grow as the year goes on.

Craig Moffett - *Moffettnathanson LLC - Analyst*

So I'm going to come to ARPA in a second. So I, AT&T, I struggled with this when I was sort of trying to digest the last quarter's results across the industry. AT&T lost share of the subscriber growth market, but they actually gained share of the account growth market. Yours was the opposite.

You're -- so if you looked at market share between you and AT&T alone, you're gaining share of subscribers but losing share of accounts. That's obviously not sustainable. What's -- but how do we even analytically understand that?

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

I don't know. I can't really talk for others in the industry. I do know that we want to grow our accounts, grow our number of lines and drive our ARPA up. And I think that's how you should look at us. So like, to me, both accounts and lines are important. ARPA is important. And then just if you look at our top line revenue growth in that, that should guide you the right way, good enough.

Craig Moffett - *Moffettnathanson LLC - Analyst*

And the ARPA, you said a couple of minutes ago that you thought it would turn in the third quarter. It was down 1.9% year-over-year last quarter despite the fact that you had a big uptick in the number of lines per account because, again, you were losing accounts and adding lines. So is that all promotional amortization that's really weighing that much on?

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

No. Half of that was the network outage.

Craig Moffett - *Moffettnathanson LLC - Analyst*

But even with that, you were down [0.9%].

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

Yeah, 0.9%. And then a ton of that is promotional amortization, yeah.

Craig Moffett - *Moffettnathanson LLC - Analyst*

And that's the -- you've talked about changing and moving away from this industry addiction to giving away free phones. Talk more about that. What does that future look like as you move away from free phones? How do you get customers who have been trained for 20 years now to expect free phones every time they turn around to be weaned from that expectation?

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

No, it's not the customers that need to be weaned. That's the end user that needs to be weaned. That's just the way that the industry has done things.

Look, I can't speak for the other carriers. But what we've seen through our segmented offers, both on the retention side and the acquisition side is that you can be much more sophisticated in what you offer to a customer, listen to them, understand what they need.

20% of the market is latest edition free phone addicts. And we'll have offers for those. 80% of the market is not like that. And again, I don't know what the other carriers are doing, but I listen to them just like you listen to them on their phone calls.

I think everybody is coming to the conclusion that we can be -- that we're transferring too much value from MNOs to OEMs for no good reason. Like if it made sense, so be it. And will there be promotional times where people will be out there? I'm sure that will happen as well.

But in general, I think you're seeing it already with Verizon. We can be way more profitable, drive bottom line performance and top line performance and net adds in ways that we haven't done in a long time by being a lot more sophisticated, a lot more fiscally responsible and a lot more customer centric.

Craig Moffett - *Moffettnathanson LLC - Analyst*

We've talked mostly about the retail wireless business. I don't want to miss the opportunity to ask about the wholesale wireless business and in particular, the MVNO that you've got with cable. The question I get most often from investors in Verizon is, is cable a friend or foe?

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

To me, they are a friend. We have an extremely accretive arrangement with them. And I'm happy to be really close partners with them.

And I think my attitude is -- I ran an MVNO as well, so I know it inside and out. I understand the pressures that they have on them. I understand the opportunities that they have as well. It's great that they're on our network. But because we are thinking of each other as partners now and not as foes, there's a lot of opportunity that comes with that, too.

We want to really think carefully about how we think about our networks together and what can we do on that front to be helpful to each other. And so I see a lot of opportunity, and I'm good friends with Chris and Brian and Mike, and we're going to figure out opportunities to work closer together.

Craig Moffett - *Moffettnathanson LLC - Analyst*

Interesting. Okay. Let's go back to FWA for a second. You talked about the capacity you've got for FWA. But you've had now 10 straight quarters of lower year-over-year net adds. What's going on there? Is that just the introduction of new FWA competitors competing in each market? Is it the beginning of competition from LEO satellite? Or what is the reason why the FWA business seems to be decelerating?

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

No. I mean, one, we have 6 million people already on it. Again, we'll get to 8 million to 9 million by 2028. We also now have a lot more fiber than we have. And when we go and sell, you should expect our mix shift to move more towards fiber than FWA. But we're going to do a ton of broadband growth every single quarter.

We did 341,000, I think it was net adds. I don't really want to look at my team in case they're going to shake their heads to that strong number. But I think we did 341,000 net adds in broadband.

Look, when I look at our net adds across postpaid, across broadband and across prepaid, we're going to have quite a number of net adds by the end of the year across all those things, and that's going to drive a lot of revenue growth for us.

Craig Moffett - *Moffettnathanson LLC - Analyst*

So last year, we published -- I think it was probably before you took the CEO position, but we published some -- maybe back of the envelope math is the best way to describe it. But it would suggest that even by last year, FWA was roughly half of all the traffic on your network, but only about 4% of your revenues. Is that sustainable? And where is that mismatch a problem?

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

Well, first all, your math is wrong. So it's hard to argue against the wrong math equation. (laughter) So it's a minority of traffic, not 50%. So yes, we have a lot of room on the network for FWA to go forward.

Craig Moffett - *Moffettnathanson LLC - Analyst*

And one of the questions that I find really interesting, both as opportunity and it relates to this capacity question for FWA is, what do you expect AI is going to do to network traffic loads? You can imagine as we start to see whether it's delivery vehicles or driverless cars and drones and various types of robotics and meta glasses and you name it that you start to see much more significant loads on the wireless network than what -- the growth rate starts to reaccelerate to those old 35% compound annual growth rates that we used to see four or five years ago.

There's obviously opportunities in that traffic, but there's also network capacity challenges in that traffic. Can you talk about that a little bit as to what you think is going to happen with AI workloads on the network?

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

Well, first of all, it reinforces kind of this AI infrastructure point that I feel we might be best positioned to capitalize on. Obviously, the hyperscalers, alternative cloud providers, large enterprises that are moving rapidly into the AI age are keen to leverage our assets in that.

Second, from a consumer perspective, I think as more and more AI applications, as phones move from apps to kind of an agent-based interface, I think there's room for us to press to that value as well. So if we're offering more value, more things -- I think people hear me saying, like, I don't -- Dan doesn't want to take price. That's not true. I'm not going to price for no value.

But where there is value, it's irresponsible obviously not to price to that because if you don't price to it, then in effect, you start a different type of price war on that. And so I need to think very carefully about where are we adding value and making sure that we price to that and where we're not, making sure that we're not trying to gouge customers either.

So I think there's a bottom line on that. So I think there's a lot of opportunity, both in supplying infrastructure to those that are driving the AI type of things and then making sure that customers can avail themselves.

Craig Moffett - *Moffettnathanson LLC - Analyst*

But it sounds like you don't see any risk of crowding out FWA with AI workloads?

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

Not in the near to medium term.

Craig Moffett - *Moffettnathanson LLC - Analyst*

I want to talk about fiber. You know that I've been concerned about fiber, which is you know I've been concerned.

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

You need more of it in your diet. (laughter) I can see that in you.

Craig Moffett - *Moffettnathanson LLC - Analyst*

That as density falls and as you move into --

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

Your bone density?

Craig Moffett - *Moffettnathanson LLC - Analyst*

Yes, that's right. As bone density falls. That as density falls, the cost per home inevitably rise, right? It's just the nature of the math, more miles per home or fewer homes per mile. And that's before the cost pressures that are created on the supply chain by data center demand for fiber and for labor and all that sort of thing.

Do you share that concern as you look out over your sort of passings menu for the next two, three, four years? Those are inevitably going to be lower and lower density passings. How do you maintain the discipline of the ROI that you want to get out of those investments given that the cost necessarily has to rise and that we're starting to see pressure on broadband ARPU at the same time, which is the ROI goes down as ARPU goes down.

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

What are you, a big cynic? Cassandra of the industry? (laughter) No. Let me --

Craig Moffett - *Moffettnathanson LLC - Analyst*

I've been called that.

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

No, I think as I mentioned, you're thoughtful around your analysis on this, like that's why we came up with 40 million to 50 million passings on this. Like past that, it doesn't pencil out for me because then you start to get to more rural and there, it doesn't pencil out.

But in terms of the supply, we do most of it in-house. We just came to an agreement with our East unions as well (corrected by company after the call). So I know what that cost structure is going to look like, and that's how we came up with our number.

Craig Moffett - *Moffettnathanson LLC - Analyst*

Is there a risk that with so many different people chasing the same price that AT&T is mostly building in its own footprint, you're mostly building in your own footprint, but you've got all these kind of free radicals, as John Malone would have called them, the Brightspeed's and the Ziply and people that are building in all different markets. Is there a risk that somebody gets to a meaningful part of that 40 million to 50 million before you can?

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

There's always risk. But my view of that is quite small. And on the LEO side because you mentioned that. Look, I think satellite is a really good complementary service to our product, but they cannot compete in urban and suburban against the terrestrial network.

And that really comes down -- and by the way, that's where like 95% plus of the revenues are. And the reason for that are really simply comes down to densification and orbital physics when you have a low earth orbit satellite, it beamed, covers a much wider area than a cell tower.

Once you get congestion in there, you actually -- when we get congestion in our network, we add another cell site and it increases capacity 2 times to 4 times. In urban and suburban areas, terrestrial networks are 100 times to 1,000 times more efficient than low earth orbit. But is there a market for that? Of course, there is. I think over the next seven, 10 years, I think that's like maybe like 5 million households or so. It's a real market, but it's not our market.

Craig Moffett - *Moffettnathanson LLC - Analyst*

You said before that you really value your partnership with cable. Is there a scenario where you would enter into a similar partnership with a LEO satellite operator and give them an MVNO?

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

No.

Craig Moffett - *Moffettnathanson LLC - Analyst*

Clear. We've only got a time for a wrap up. So I want to go to your favorite topic and mine. And that is what you called to me a while back, your growth equation.

We don't get to see pro forma financials. But I think about this as organic versus inorganic. Absent Frontier, you're probably right now at sort of roughly flat revenue growth overall or service revenue growth. But you've talked about a picture where that starts to meaningfully accelerate. So talk about the growth equation and how you think you can grow organically going forward. What are the pieces?

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

Yeah. I think there are four areas where I want to assure we execute on to create sustainable and consistent revenue growth going forward. First is create volume growth on that. And I've seen that happen, and I expect that to continue.

Second, pricing turns around. So you have 180 basis points of headwind that turns into tailwind. Promo amortization, you have 200 basis points of headwind turns into tailwind. You've got AI infrastructure as well. And so all of that along with driving convergence and those kinds of things, I think I see a really good revenue story, and I think you'll see that very, very clearly as you go into the back half of the year and go into 2027.

In the middle, we want to be the most efficient telco in the world. And we are taking out a lot of costs. And we are at the beginning of those stages of being efficient. We are moving rapidly to be an AI-native company. We are the only global operator in the world that got early access to Mythos because we do critical infrastructure for the United States. Like moving to become AI native is not a nice to do, it is a must-do in this world. But man, can you drive efficiency, productivity, customer sat rates, redefine your value proposition.

And then as a result of that, like you're beginning to see increasing bottom line performance and free cash flow performance. And on top of that, obviously, we're driving quite a bit of capital return, whether that be through dividends and share buyback that will also help our adjusted EPS growth as well. So when I look at the overall growth equation over the next several years, I just see it continuing to compound.

Craig Moffett - *Moffettnathanson LLC - Analyst*

Well, I think I told you the last time we were together, my history with what is now called Verizon goes back to the days of NYNEX, and there's no company that I want to see succeed more. So I wish you great success in this transition. I really thank you for joining us this morning.

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

A pleasure. Thank you, everybody.